

**SOUTH CAROLINA  
DEPARTMENT OF TRANSPORTATION**

**COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2015**



*State of South Carolina*  
*Office of the State Auditor*

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October 15, 2015

The Honorable Nikki R. Haley, Governor  
and  
Members of the South Carolina Transportation Commission  
South Carolina Department of Transportation  
Columbia, South Carolina

This report on the audit of the basic financial statements of South Carolina Department of Transportation for the fiscal year ended June 30, 2015, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III, CPA  
State Auditor

GLKIII/trb

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

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Independent Auditor's Report

Mr. George L. Kennedy, III, CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Connector 2000 Association, Inc. (the "Association"), a discretely presented component unit of the Department. The financial statements of the Association as of and for the year ended December 31, 2014 were audited by other auditors whose report dated June 24, 2015, thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that component unit, are based solely on the report of the other auditors.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended, and the financial position of its component unit as of December 31, 2014, and the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note 2 to the financial statements, the Department has adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. These two GASB statements required that the Bank records its share of the State of South Carolina’s net pension liability and related deferred inflows and outflows of resources. Our opinion is not modified with respect to this matter.

## **Emphasis of Matter**

As described in Note 1 to the financial statements, the Department’s financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of South Carolina that is attributable to the transactions of the Department and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2015, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and pension information on pages 4 to 12, 71 to 74 and 75 to 77, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department’s basic financial statements. The combining statement of changes in assets and liabilities – all agency funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining statement of changes in assets and liabilities – all agency funds on pages 78 and 79 is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of changes in assets and liabilities – all agency funds is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 on our consideration of the Department’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters on pages 80 and 81. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department’s internal control over financial reporting and compliance.



Columbia, South Carolina  
October 15, 2015

## SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the South Carolina Department of Transportation's (the "Department") financial statements, we provide a narrative overview and analysis of the Department's financial performance for its accounting year (*fiscal year*) that ended June 30, 2015. We encourage readers to consider this information in conjunction with the Department's financial statements, which follow.

Included in these financial statements is the discretely reported information of one component unit, The *Connector 2000 Association, Inc. (the Association)*, which operates the Southern Connector toll road in Greenville County under a license agreement with the Department. Component units are legally separate organizations for which the elected/appointed officials of the primary entity are financially accountable. The Department's inclusion of the Association as a component unit is done for the purpose of communicating information about its component unit as required by generally accepted accounting principles. It is not intended to create the perception that the Department has a legal or financial responsibility for the Association. The Association's financial statements are independently audited and a separate annual report with the auditor's opinion is dated June 24, 2015. We refer readers to that report and our financial statements for more detailed information.

### FINANCIAL HIGHLIGHTS

#### PRIMARY ENTITY

*Net Position* - The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2015 by **\$13.2 billion** (presented as "Net Position"). Of this amount, **\$23.1 million** was reported as "unrestricted net position". Unrestricted net position represents the amount available to be used to meet the Department's ongoing obligations to citizens and creditors. The Department's component unit, Connector 2000 Association, Inc. reported a *net position deficit* of (**\$42.4 million**) as of December 31, 2014, the close of its fiscal year.

*Changes in Net Position* - The Department's total net position increased by **\$566.6 million**, or **4.5%** in fiscal year 2015. The increase in net position can be attributed to an increase in self-constructed infrastructure assets net of accumulated depreciation, a donation of infrastructure assets from the South Carolina Transportation Infrastructure Bank, and reimbursement from the Federal Emergency Management Agency for expenditures related to the ice storm that occurred during the prior fiscal year. The Department's component unit net position decreased by **\$11.4 million**.

*Capital Assets* - Capital Assets, net of depreciation, which include infrastructure, were approximately **\$13.7 billion** at June 30, 2015 for the Department. Capital additions for the year totaled **\$519.9 million**. The carrying value of capital assets removed from the records this year was **\$11.2 million**. Capital assets of the component unit, net of depreciation, were approximately **\$232.2 thousand** at December 31, 2014 which is comprised of equipment.

*Long-term Obligations* - The Department's total long-term obligations decreased by **\$71.0 million** (10.8%) during the current fiscal year to **\$587.0 million**. This change is attributable to paying off principal related to bonds payable of **\$47.4 million**, paying off principal due to the South Carolina State Transportation Infrastructure Bank of **\$22.7 million** and other decreases of **\$0.9 million**.

#### FUND ACTIVITY

*Governmental Funds - Fund Balances* - As of the close of fiscal year 2015, the Department's governmental funds reported a combined ending fund balance of **\$388.2 million**, an increase of **\$191.9 million** in comparison with the prior year. Revenues exceeded expenditures by **\$191.5 million**. Overall agency expenditures were down **8.2%** from the previous year. In the current fiscal year, highway maintenance expenditures increased **3.1%** over the previous year while capital expenditures decreased **26.5%**. Operating expenditures, excluding debt service increased **3.0%**, debt service decreased **0.2%**, and allocations increased **2.2%**. Overall revenues increased

**13.13%.** Federal revenues increased **15.74%** over last year; and motor fuel and fee revenues were up **3.5%** from the previous year. Of this total amount, **\$369.6** million represents the "committed fund balance" which has been committed for spending at the Department's discretion on future road and bridge construction and maintenance or other necessary activities.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements include three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These sections are described below:

### ***Government-Wide Financial Statements***

The *Government-Wide Financial Statements* provide a broad overview of the Department's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Position* presents all of the Department's assets and liabilities with the difference between the two reported as "net position". Over time, increases or decreases in the Department's net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Department.

Both of the above financial statements have separate columns for two different types of programs or activities. These two types of activities are:

*Governmental Activities* – The activities in this column are mostly supported by motor fuel taxes and intergovernmental revenues (federal grants). All services normally associated with the Department fall into this category.

*Component Unit* – The activities in this column are solely supported by the activities of the component unit. All services associated with the Component Unit fall into this category.

The government-wide financial statements can be found immediately following this discussion and analysis.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. The Department, like other state agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories, governmental fund and fiduciary funds. The discretely presented component unit, Connector 2000 Association, Inc., is considered a proprietary fund. It is important to note that these fund



categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

*Governmental Fund* – Most of the basic services provided by the Department are financed through the governmental fund, which is a special revenue fund. The governmental fund is used to account for essentially the same functions reported as governmental activities in the Government-wide financial statements. However, unlike the Government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Department's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Department.

Because the focus of the governmental fund is narrower than that of the Government-wide financial statements, it is useful to compare the information presented in governmental funds with similar information presented for governmental activities in the Government-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Departmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

*Proprietary Funds* These funds are used to account for a government's ongoing organizations and activities that are similar to businesses found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis. The Departments component unit is considered a proprietary fund.

*Fiduciary Funds* – These funds are used to account for resources held for the benefit of parties outside the Department. Fiduciary funds are not reflected in the Government-wide financial statements because the resources of these funds are not available to support the Department's own programs. Fiduciary funds financial statements use the accrual basis of accounting. The Department's fiduciary funds are the County Transportation Program Fund, the Right of Ways Fund, the Special Deposits Fund and the Local Tax Fund.

The fund financial statements can be found immediately following the governmental-wide financial statements.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the statement of fiduciary net position.

### ***Required Supplementary Information and Combining Statement***

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the *governmental fund*, which includes comparisons of original budget to final budget to actual outflow (expenditures) on a non-GAAP budgetary basis. This section also includes financial disclosures of the Department's proportionate share of SCRS and PORS pension liabilities and actual contributions to the these two retirement programs on behalf of current and former employees of the Department. Also included, but not required, is a combining statement of changes in assets and liabilities – agency funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. The Department's assets (all classified as governmental activities) exceeded liabilities by **\$13.2** billion at the close of business on June 30, 2015 (See **Table A-1** for a summary of net position for fiscal years 2014-2015 and 2013-2014). The largest portion of the Department's net position (**99.7%**) reflects its investment in infrastructure and other capital assets such as land, buildings, and equipment less any related debt used to acquire those assets that are still outstanding. The Department uses these capital assets to fulfill its primary mission to provide a safe and efficient transportation system for the State of South Carolina. Consequentially, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table A-1**

**SCDOT Net Position**  
(expressed in millions)

	Governmental Activities	
	2014	2015
	(RESTATED)*	
Current Assets	\$ 398.9	\$ 569.2
Capital Assets	13,373.4	13,682.7
Other Assets and Deferred Outflows of Resources	44.0	50.8
<b>Total Assets</b>	<b>\$ 13,816.3</b>	<b>\$ 14,302.7</b>
Current Liabilities	\$ 305.6	\$ 280.9
Non-current Liabilities	912.3	828.9
Deferred Inflows of Resources	-	27.8
<b>Total Liabilities</b>	<b>1,217.9</b>	<b>1,137.6</b>
Net Position:		
Net investments in capital assets	12,429.6	13,132.0
Restricted	10.0	10.0
Unrestricted	158.8	23.1
<b>Total Net Position</b>	<b>12,598.4</b>	<b>13,165.1</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 13,816.3</b>	<b>\$ 14,302.7</b>

\*The Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* in the year ended June 30, 2015. Net position as of July 1, 2014 has been restated in accordance with these provisions. Information required to determine the restatement to beginning net position for the year ended June 30, 2014 in Table A-2 was not available, and is therefore not restated. See Note 1 to the financial statements for further details regarding the restatement. See note 13 for additional explanation of these pronouncements.

At June 30, 2015, the Department's net position includes resources that are subject to external restrictions on how they may be used. The remaining or unrestricted balance of net position (**0.3% or \$23.1 million**) is unrestricted and may be used to meet the Department's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net position. At the end of the current fiscal year, the Department is able to report positive balances in all three categories of net position.

### Changes in Net Position

The Department's net position increased by **\$566.6 million, or 4.5%**. The balance of the increase in net position can be attributed to three factors. The first is an increase in self-constructed infrastructure assets net of accumulated depreciation. As stated earlier, the primary purpose of the Department is to maintain preserve road and bridge infrastructure assets. Secondly, the South Carolina Transportation Infrastructure Bank donated **\$130.1 million** in infrastructure assets to the Department. Finally, the Department was reimbursed **\$119.6 million** in the current fiscal year for expenditures made related to the prior fiscal year ice storm.

In 2015, the Department's program expenses exceeded program revenues by **\$149.5 million**. A breakdown of the **\$1.642 billion** in gross revenues reveals that motor fuel taxes of **\$559.2 million** represented **37.0%**, while federal highway, FEMA and transit allocations and grants of **\$740.6 million** represented **49.0%**. Other revenue sources representing **14.0%** of revenues came from various sources including toll revenues, motor vehicle fees, charges for services, and interest income. Increased miles driven resulted in a slight increase in the federal motor fuel revenues.

**Table A-2** presents a breakdown of these revenues and expenses for fiscal year 2014-2015 with comparative figures for the prior year.

**Table A-2**

**SCDOT Changes in Net Position  
(Expressed in Millions)**

Revenues:	Governmental Activities			
	2014	% of Revenue	2015	% of Revenue
Program Revenues:				
Capital Grants and Contributions	\$ 527.8	36%	\$ 622.2	38%
Operating Grants and Contributions	115.4	8%	248.5	15%
Charges for Services	67.0	5%	55.3	3%
General Revenues:				
Motor Fuel Taxes	540.5	37%	559.2	34%
Other Taxes	59.5	4%	65.1	4%
Other Revenues	35.8	2%	38.0	2%
State Appropriations	102.5	7%	50.4	3%
Investment Earnings	3.1	0%	3.4	0%
Total Revenues	<u>1,451.6</u>	<u>100%</u>	<u>1,642.1</u>	<u>100%</u>
Expenses:				
Public Transportation	<u>1,039.1</u>		<u>1,075.5</u>	
Total Expenses	<u>1,039.1</u>		<u>1,075.5</u>	
Changes in Net Position	<b>412.5</b>		<b>566.6</b>	
Net Position, Beginning of Year, as restated	<u>12,510.5</u>		<u>12,598.5</u>	
Net Position, End of Year	<u><b>\$ 12,923.0</b></u>		<u><b>\$ 13,165.1</b></u>	

## FINANCIAL ANALYSIS OF THE DEPARTMENT'S INDIVIDUAL FUNDS

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Fund

The focus of the Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Department's state highway fund reported ending fund balance of **\$388.2** million, an increase of **\$191.9** million in comparison with the prior year. "Committed" fund balance is 95.2% of the total fund balance or **\$369.6** million, which has been approved by the Board of Commissioners for spending in the coming years. A portion of fund balance is "restricted" to indicate that it is not available for new spending because it has already been restricted to pay the South Carolina Infrastructure Bank (**\$10** million). The remainder of fund balance is "non-spendable" for (1) for inventories and prepaid expenses (**\$6.401** million), (2) for long-term receivables (**\$1.953** million) and **\$0.248** million for other assets.

### GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

The South Carolina Appropriations Act as enacted becomes the legal operating budget for the department. The Department's legally adopted budget is presented at the program level including the restricted, earmarked, and general funds appropriated and is included in Other Budgeted Funds for the State. Legal level of authority exists at the program level and any revisions to the budget over and above the amount totally appropriated must be approved by the State Budget and Control Board. The Department has the authority to carry forward any unspent cash balances in certain earmarked accounts and appropriate those balances to meet program expenditures.

Expenditures for permanent improvements and maintenance that are federally funded were lower than programmed due to the extended time in execution of projects and weather related events. As a result federal reimbursements were lower than budgeted.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Department's investment in capital assets for its governmental activities as of June 30, 2015, amounts to **\$17.4 billion**, less accumulated depreciation of **\$3.7 billion**, leaving a net book value of **\$13.7 billion**. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally stationary in nature and can be preserved for a significantly longer period than most capital assets. In the case of the Department, infrastructure assets are classified into **three networks: roads, bridges and right of ways**. Costs or estimated costs of infrastructure and related depreciation were recorded retroactively back to the year 1914. The Department has chosen to depreciate infrastructure assets (excluding right of ways). **Table A-3** summarizes capital assets at June 30, 2015 and June 30, 2014.

**Table A-3**

**SCDOT Capital Assets  
(expressed in millions)**

	Primary Government	
	2014	2015
Land	\$ 3.4	\$ 3.4
Buildings and Improvements	83.4	83.4
Furniture, Vehicles and Equipment	245.6	247.5
Infrastructure		
Right of Way	1,464.5	1,517.0
Roads	10,180.3	10,445.1
Bridges	2,439.8	2,505.9
Construction in Progress	2,486.3	2,598.9
<b>Total Cost</b>	<b>\$ 16,903.3</b>	<b>\$ 17,401.2</b>
Less Accumulated Depreciation	3,529.9	3,718.5
<b>Net Capital Assets</b>	<b>\$ 13,373.4</b>	<b>\$ 13,682.7</b>

The total increase in the Department's investment in capital assets for the current fiscal year was about **2.3%** in terms of net book value. However, actual expenditures to purchase or construct capital assets were **\$389.8** million for the year. Donated assets equaled **\$130.1** million. Depreciation charges for the year totaled **\$199.4 million**. There was a total of **\$11.2** million in capital assets disposed of during the year. Refer to note 6 in the financial statements for additional information on capital assets.

**Debt Administration**

The authority of the Department to incur debt is described in Sections 57-11-210 of the South Carolina Code and continued and amended by Section 11-27-30 thereof, authorizing the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith and credit of the state. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for state highway purposes from gasoline and fuel oil taxes and motor vehicle license fees.

The Department's total long-term obligations decreased by **\$71.0** million during the current fiscal year to **\$586.9** million. The net decrease is primarily attributed to the payment of principal on outstanding debt of **\$65.9** million. Other long-term debt includes **\$250.1** million due to the South Carolina State Transportation Infrastructure Bank for financial assistance on transportation projects managed by the entity and accrued compensated absences of **\$25.8** million (net decrease for the year of **\$0.8 million**). Due within one year for all long-term obligations is **\$87.3** million. Refer to notes 7, 8 and 9 of the financial statements for additional information on debt administration.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Moving Ahead for Progress in the 21st Century Act (P.L. 112-141) (MAP-21), was signed into law by the President of the United States on July 6, 2012. This legislation will fund surface transportation federal programs at over \$105 billion for federal fiscal years (FY) 2013, 2014 and 2015. This program began October 1, 2012 with an estimated federal amount for South Carolina of \$609 million per year. MAP-21 is a milestone for the U.S. economy and the national surface transportation program. The program provides two federal fiscal years of funding stability for the Department. In summary MAP-21 creates a streamlined and performance-based surface transportation program and builds on many of the current highway, transit, bike, and pedestrian programs. It is expected to transform the policy and programmatic framework for investments to guide the system's growth and development. MAP-21 will impact state fiscal years FY2013, FY2014 and part of FY2015 until it is either reauthorized or replaced by alternative legislation. This legislation was extended until October 2015.

State motor fuel user fees were projected to remain relatively unchanged in fiscal year 2014-2015. The Department's motor fuel user fees increased in FY15 by approximately 3.5%. A small increase in motor fuel has been projected for the 2015-2016 fiscal year. State leaders have not granted an increase in state fuel user fee rates since 1987. During the legislative session ending June 2013, the legislature increased annual funding for the non-federal aid secondary road maintenance by about \$60 million. \$50 million of one-time funding designated for bridge work was funded in FY2014, which will cover bridge project expenditures for fiscal years 2014-2018. Approximately \$30 million remains of those funds per a carry forward proviso. Various legislative increases, such as retirement contribution and insurance, compete for the Departments limited resources. In addition, during the 2015 legislative session an unfunded bonus of \$800 was awarded to employees who make less than \$100,000 per year. Small growth in state motor fuel taxes coupled with increased costs and state match requirements on various federal programs require the Department to continue an aggressive cash management program to provide resources to address critical highway maintenance and preservation needs.

The Department has and continues to concentrate on the maintenance of the current system and replacement of bridges. Revenues must grow in order for the Department to completely address the needs for maintenance and rehabilitation of the highway system. Additional funding will be needed to prevent further significant deterioration of the state's highway system, which will lead to greater costs to repair and renovate in the future.

During the 2006-2007 Legislative session, restructuring legislation was passed for the Department of Transportation. Act 114 established a Secretary of Transportation, a Governor Appointee, in lieu of an Executive Director and established qualifications for Commissioners. The Secretary is to administer the day to day operations of the Department and carry out the policies of the commission. The Secretary is responsible for routine operation and maintenance except for requests for resurfacing, installation of new traffic signals, curb cuts on primary routes, construction of bike lanes, and construction projects under \$10 million. These duties along with developing a statewide long range plan; utilizing prescribed criteria to develop a priority list of projects; developing the Statewide Transportation Improvement Plan (STIP); utilizing prescribed criteria to develop a priority list of projects financed with state funds; awarding federal enhancement grants, and approving the Department's budget belong to the Commission.

The eight member Commission is comprised of seven members elected by the members of the South Carolina General Assembly based on the State's Congressional Districts. One at large member is appointed by the Governor. Each nominee must be screened by a Joint Transportation Review Committee and found qualified to fill the post of Commissioner.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Department's finances for all of the Department's taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Department's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Transportation  
Deputy Secretary of Finance and Administration  
955 Park Street, Suite 304  
Columbia, South Carolina 29202-0191

The Department's component unit, Connector 2000 Association, Inc., issues its own separately audited financial statements. These statements may be obtained by directly contacting Southern Connector at Post Office Box 408, Piedmont, South Carolina 29673 or by telephone at (864) 527-2150.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF NET POSITION  
JUNE 30, 2015**

(In Thousands)

	Primary Entity Governmental Activities	Component Unit
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 364,519	\$ 1,366
Invested securities lending collateral	315	-
Receivables:		
Federal government	75,405	-
State agencies	93,151	-
Local governments	10,078	-
Other entities-net of allowances	18,940	-
Accrued interest receivable	382	-
Prepaid items	3,964	56
Inventories	2,437	309
	<u>569,191</u>	<u>1,731</u>
Total current assets		
<b>Noncurrent assets:</b>		
Restricted assets:		
Cash and cash equivalents	10,031	7,101
Total restricted assets	<u>10,031</u>	<u>7,101</u>
Receivables, net of current portion:		
Local governments	1,820	-
Other entities	133	-
Other assets	248	-
Non-depreciable capital assets	4,119,256	-
Capital assets, net of accumulated depreciation	9,563,491	232
Interest in license agreement, net of accumulated amortization	-	130,765
	<u>13,694,979</u>	<u>138,098</u>
Total non-current assets		
<b>TOTAL ASSETS</b>	<u>14,264,170</u>	<u>139,829</u>
<b>Deferred outflows of resources:</b>		
Deferred loss on refunding	10,356	-
Contributions to retirement plan after measurement date	18,773	-
Difference between expected and actual retirement plan experience	9,329	-
Total deferred outflows of resources	<u>38,458</u>	<u>-</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 38,458</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF NET POSITION (CONTINUED)**

**JUNE 30, 2015**

(In Thousands)

<b>LIABILITIES AND NET POSITION</b>	Primary Entity Governmental Activities	Component Unit
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Bonds payable	\$ 47,951	\$ 4,101
Accrued interest payable	2,173	-
Accounts payable	118,099	81
Unearned toll revenue	-	271
Transponder deposits	-	17
Intergovernmental payable:		
Due to State agency	24,956	-
Accrued payroll and related liabilities	20,745	-
Due to Agency Fund - County Transportation Program	12,847	-
SCDOT Maintenance Payable	-	402
Accrued compensated absences	15,898	-
Unearned revenue	37,270	-
Securities lending collateral	911	-
Total current liabilities	280,850	4,872
<b>Noncurrent liabilities:</b>		
Bonds payable, including unamortized premium and net of current portion and unamortized discounts	263,083	177,397
Intergovernmental payable:		
Due to State agency, net of current portion	226,668	-
Accrued compensated absences, net of current portion	9,917	-
Net pension liability	329,243	-
Total noncurrent liabilities	828,911	177,397
<b>TOTAL LIABILITIES</b>	<b>1,109,761</b>	<b>182,269</b>
<b>Deferred inflows of resources:</b>		
Difference between projected and actual investment earnings	27,771	-
<b>Total Deferred inflows of resources</b>	<b>27,771</b>	<b>-</b>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>27,771</b>	<b>-</b>
<b>Net position:</b>		
Net investment in capital assets	13,131,957	232
Restricted:		
State infrastructure agreement	10,000	-
SCDOT Maintenance	-	487
Unrestricted	23,139	(43,159)
<b>TOTAL NET POSITION</b>	<b>\$ 13,165,096</b>	<b>\$ (42,440)</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

(In Thousands)

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
Primary entity:						
Public Transportation	\$ 1,054,473	\$ 55,293	\$ 248,515	\$ 622,163	\$ (128,502)	\$ -
Unallocated Interest Expense	21,047	-	-	-	(21,047)	-
Total primary entity	1,075,520	55,293	248,515	622,163	(149,549)	-
Component unit:						
Toll operations	\$ 18,960	\$ 7,570	\$ -	\$ -	-	(11,390)
Totals					(149,549)	(11,390)
General revenues:						
Motor Fuel Taxes					559,228	-
Other Taxes					65,189	-
Other Revenues					37,994	-
State Appropriations					50,357	-
Investment Earnings					3,425	-
Total general revenues					716,193	-
Change in net position					566,644	(11,390)
Net position - Beginning, as restated					12,598,452	(31,392)
Net position - Ending					\$ 13,165,096	\$ (42,782)

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**BALANCE SHEET - GOVERNMENTAL FUND**

**JUNE 30, 2015**

(In Thousands)

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$	364,519
Invested securities lending collateral		315
Receivables:		
Federal government		75,405
State agencies		93,151
Local governments		10,078
Other entities		18,940
Accrued interest receivable		382
Prepaid items		3,964
Inventories		2,437
Total current assets		569,191

**Non-current assets:**

Restricted assets:		
Cash and cash equivalents		10,031
Total restricted assets		10,031
Receivables, net of current portion		
Local governments		1,820
Other entities		133
Other assets		248
Total non-current assets		12,232

**TOTAL ASSETS**

**\$ 581,423**

**LIABILITIES AND FUND BALANCE**

**Liabilities:**

**Current liabilities:**

Accounts payable	\$	118,099
Intergovernmental payables:		
Due to State agencies		1,510
Accrued payroll and related liabilities		20,745
Due to Agency Fund - County Transportation Program		12,847
Unearned revenue		39,089
Securities lending collateral		911
Total liabilities		193,201

**TOTAL LIABILITIES**

193,201

**Fund Balance:**

**Nonspendable**

Inventories and prepaid items		6,401
Long-term receivables		1,953
Other assets		248

Restricted		10,031
Committed		369,589
Total fund balance		388,222

**TOTAL FUND BALANCE**

388,222

**TOTAL LIABILITIES AND FUND BALANCE**

**\$ 581,423**

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

(In Thousands)

<b>FUND BALANCE - GOVERNMENTAL FUND</b>		<b>\$</b>	<b>388,222</b>
Amounts reported for governmental activities in the statement of net position are different because:			
Assets are capitalized and depreciated or amortized in the statement of net position and are charged to expenditures in the governmental fund:			
Capital assets, net of accumulated depreciation			13,682,747
Unearned revenues are recognized on an accrual basis in the statement of net position and on the modified accrual basis in the governmental fund:			
Participation agreements, net of allowance for bad debts			1,820
Deferred outflow of resources are recognized in the statement of net position, but are not reported on in the governmental fund			
Deferred loss on refunding of bonds			10,356
Contributions to retirement plan after measurement date			18,773
Difference between expected and actual retirement plan experience			9,329
Deferred inflow of resources are recognized in the statement of net position, but are not reported on in the governmental fund			
Difference between projected and actual investment earnings			(27,771)
Liabilities are not due and payable in the current period, therefore, are not reported in the governmental fund:			
Bonds payable including unamortized premium	\$	(311,034)	
Intergovernmental payable:			
Due to State agency		(250,114)	
Accrued compensated absences		(25,815)	
Accrued interest payable		(2,173)	
Net pension liability		(329,243)	(918,379)
Rounding			(1)
<b>NET POSITION - GOVERNMENTAL ACTIVITIES</b>		<b>\$</b>	<b><u>13,165,096</u></b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

(In Thousands)

<b>REVENUES:</b>	
Taxes:	
Motor fuel	\$ 559,228
Auto Sales	60,947
Electric Power	4,242
Fees, Fines, and Permits	37,994
State appropriations	50,357
Federal grants (FHWA)	602,149
Federal grants (FTA)	18,795
Federal grants (FEMA)	119,632
Reimbursements from Agency Fund	3,358
Interest/investment income	3,425
Sales of goods and fees for services	11,706
Other Revenues	20,503
Participation agreement/project revenues	17,459
<b>TOTAL REVENUES</b>	<b>1,509,795</b>
<b>EXPENDITURES:</b>	
Current:	
General administration	54,651
Engineering	56,972
Toll facilities	4,397
Public transportation	28,788
Highway maintenance	536,368
Capital outlay:	
Rights of way land	27,066
Construction in progress	
Infrastructure - road and bridge network	348,279
Other	1,329
Equipment and furniture	8,618
Vehicles	4,543
Debt service:	
Principal	66,013
Interest	22,054
Bond Issuance Costs	48
Allocations to other entities:	
State agency - State Infrastructure Bank	27,444
State agency - State Infrastructure Bank - Act 98	50,000
Agency Fund - County Transportation Program	81,992
<b>TOTAL EXPENDITURES</b>	<b>1,318,562</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>191,233</b>
<b>Other financing Sources</b>	
Proceeds from sale of capital assets	658
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>658</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>191,891</b>
<b>FUND BALANCE, beginning of year</b>	<b>196,331</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 388,222</b>

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

(In Thousands)

<b>INCREASE IN FUND BALANCE - GOVERNMENTAL FUND</b>	\$	191,891
Amounts reported for governmental activities in the statement of activities are different because:		
Costs of capital assets are reported as expenditures in the governmental fund and are reported as capital asset additions in the statement of net position		389,835
Costs of donated capital assets for right of ways land and infrastructure - road and bridge network are reported in the statement of activities are not reported in the governmental fund		130,102
Depreciation of capital assets is reported as expenses in the statement of activities		(199,403)
Amortization of deferred losses on refunding of bonds is reported as expenses in the statement of activities		(1,904)
Amortization of pension is reported as expenses in the statement of activities		(4,302)
Decrease in accrued interest payable is reported as an expense in statement of activities		1,007
Deferred revenues are reported on a modified accrual basis in the governmental fund and on an accrual basis in the statement of activities		(426)
Amortization of premium on bonds is reported as a reduction of expenses in the statement of activities		4,275
Repayments of long-term debt are reported as expenditures in governmental fund and are reported as a reduction of liabilities in the statement of net position:		
Bonds payable	\$	43,175
Intergovernmental payable:		
Due to State agency		22,719
Capital leases		119
		66,013
Decrease in accrued compensated absences is reported as expense in the statement of activities		754
Costs less accumulated depreciation of capital assets disposed of are reported as expenses in the statement of activities		(11,200)
<b>INCREASE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b>566,645</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015**

(In Thousands)

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 165,823
Accrued interest receivable	191
Due from State Highway Fund	<u>12,847</u>
Total assets	<u><u>\$ 178,861</u></u>
<b>LIABILITIES:</b>	
Accounts payable and Other liabilities	\$ 7,557
Special deposits and bonds	2,819
Funds held for counties	<u>168,485</u>
Total liabilities	<u><u>\$ 178,861</u></u>

**See accompanying Notes to Financial Statements.**

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

### **Reporting Entity**

The Department was established pursuant to Section 57-1-20 of the Code of Laws of South Carolina as an administrative agency of the State, comprised of a Division of Mass Transit; a Division of Construction, Engineering and Planning; and a Division of Finance and Administration. The Department is responsible for the planning, construction, maintenance and operation of the highway system of the State and the coordination of statewide mass transit activities.

The Department is governed by the South Carolina Transportation Commission (the "Commission"), which is comprised of eight members, seven of whom are elected by the Legislative Delegations of each of the State's Congressional Districts. One at-large member is appointed by the Governor. The Commission serves as a general policy-making body for the various functions and purposes of the Department as prescribed by law. The Commission defines policies that are to be administered by the Secretary of Transportation.

The core of a financial reporting entity is normally the primary government, which has a separately elected governing body. The Department is reported as part of the primary government of the State. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. The Department is identified herein as such a primary entity. As required by generally accepted accounting principles, the financial reporting entity includes both the primary entity and all of its component units. Component units are legally separate organizations for which the elected officials of the primary entity are financially accountable, or entities that if excluded would make the financial statements misleading or incomplete. In turn, component units may have component units. The Department has determined it has one component unit, the Connector 2000 Association, Inc. (the "Association").

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

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

Based on the above described fiscal dependency criterion, the Department has determined it is not a component unit of another entity and the Association is a component unit of the Department under Statements 14, 39 and 61 of the Governmental Accounting Standards Board ("GASB"). This financial reporting entity includes only the Department (a primary entity) and its component unit.

### **Component Unit**

The Association was initially designated a component unit of the Department because the Department initially fixed the toll rates for the Southern Connector in Greenville County, South Carolina and, after consultation with the Association, has the right (but not the obligation) to revise the toll rates from time to time to rates which are not less than 90% and not more than 120% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. Rates set by the Department must satisfy the applicable revenue covenants contained in the Association's financing documents. Also, the Association is governed by a Board of Directors approved by the Department.



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 Association was formed to assist the South Carolina Department of Transportation (the “SCDOT”) in the financing, acquisition, construction, and operation of turnpikes, highway projects, and other transportation facilities.

From February 1998 through April 20, 2011, the Association’s operations were governed by a license agreement (the “Original License Agreement”) with the SCDOT that granted 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 with financing provided by the SCDOT the South Carolina Highway 153 Extension (the “SC 153 Extension”) (collectively, the “Projects”). Toll road revenue bonds (the “1998 Bonds”) were issued on February 11, 1998 pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, each dated as of February 1, 1998 (together, the “Original Trust Indenture”) to finance the construction of the Southern Connector.

The Association’s toll revenues were insufficient to allow it to pay its 1998 Bond obligations and certain amounts owed to SCDOT when due, and the Association filed a petition for protection under Chapter 9 of the United States Bankruptcy Code on June 24, 2010 (the “Bankruptcy Petition”). On April 1, 2011, the United States Bankruptcy Court for the State of South Carolina (the “Bankruptcy Court”) confirmed the Association’s First Amended Plan for Adjustment of Debts, the Addendum to First Amended Plan for Adjustment of Debts and the Debtor’s Modification to the First Amended Plan for Adjustment of Debts (collectively, the “Debt Adjustment Plan”). The Debt Adjustment Plan encompasses a First Amended and Restated Master Indenture of Trust and a First Supplemental Indenture of Trust (collectively, the “Amended Trust Indenture”) and a First Amendment to the License Agreement between the Association and SCDOT (the Original License Agreement as amended, the “Revised License Agreement”). The Debt Adjustment Plan, the Amended Trust Indenture, and the Revised License Agreement became effective April 21, 2011. The Association’s operations since that date are governed by the Revised License Agreement with SCDOT.

Upon implementation of its Debt Adjustment Plan in 2011, the Association issued new toll road revenue bonds (the “2011 Bonds”) in exchange for its 1998 Bonds. In 2012, the Association completed a mandatory exchange of certain of its 2011 Pro-Rata Term Bonds for 2011 By-Lot Bonds and paid outstanding issuance costs of its 2011 Bonds. These actions completed the full implementation of the Associations’ Debt Adjustment Plan, and on August 27, 2012, the Bankruptcy Court issued the Final Decree closing the Association’s Bankruptcy case. See note 8 for additional information pertaining to the Association’s Bankruptcy proceedings, its License Agreement with SCDOT and its 2011 Bonds and Amended Trust Indenture.

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. The Association is governed by a Board of Directors, the members of which are subject to approval of the SCDOT, and because of a possible benefit/burden relationship with SCDOT, in that SCDOT has to provide repairs and maintenance of the road. The SCDOT can accept or reject the toll rate studies, which can influence toll rates.

The basic financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). For the purpose of applying GAAP, the Association’s management has determined that the Association should be treated as a governmental entity. The governmental Accounting Standards Board (“GASB”), which has jurisdiction over accounting and financial reporting standards applicable to governmental entities, and the Financial Accounting Standards Board (“FASB”), which has jurisdiction over such standards applicable to nongovernmental entities, have agreed on a definition of a governmental entity that is to be used when determining whether governmental GAAP is applicable. Since (a) the Association is a public benefit corporation, (b) the members of the Association’s Board of Directors are subject to the approval of the SCDOT, and (c) upon dissolution of the Association, all of the Association’s net position will

revert to the SCDOT, the Association meets the criteria set forth in the definition of a governmental entity. Accordingly, the accompanying basic financial statements of the Association have been prepared in accordance with GAAP applicable to governmental unit proprietary funds.

The Association has no component units.

The financial statements of a component unit are blended in as though it were part of the primary entity if it is, in substance, part of its operations. Since the Association is not a part of the operations of the Department, the Association's financial activity is presented discretely outside of the Department's primary entity financial statements. A complete copy of the Association's financial statements can be obtained from Connector 2000 Association, Inc., PO Box 408, Piedmont, South Carolina 29673. Additional information concerning the Association may be found at the following web address: <http://www.southernconnector.com/home.htm>.

The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the Department. Generally, all State departments, agencies, and colleges are included in the State's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent of the State. Although the Department operates somewhat autonomously, it lacks full powers. In addition, the Governor and/or the General Assembly appoint all of its board members and budgets a significant portion of its funds.

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Department and its component unit and do not include any other funds or component units of the State of South Carolina. The presentation of the Department's financial position and changes in financial position, differs from the State of South Carolina's Comprehensive Annual Financial Report primarily due to adjusting certain transactions that exist between the Department and the Bank.

### **Government-Wide and Fund Financial Statements**

The financial statements of the Department and its component unit are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The GASB is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

#### Government-Wide Financial Statements

The Government-wide financial statements are prepared on the accrual basis of accounting and include a "Statement of Net Position" which discloses the financial position of the Department; and a "Statement of Activities" which demonstrates the degree to which the direct expenses by function of the Department's programs are offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government.

## Fund Financial Statements

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

### Governmental Fund:

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

State Highway Fund – The State Highway Fund generally records the expenditure of revenues that are restricted to specific programs or projects. This special revenue fund accounts for federal grant program revenues, taxes levied with statutorily defined distributions, and other resources restricted as to purpose. Charges for and costs of operations of vehicles and other equipment utilized for road and bridge network projects are reported in this fund. The State Highway Fund was established pursuant to Section 57-11-20 of the Code of Laws of South Carolina.

This fund accounts for, among others, gasoline tax, including the 2.66 cents per gallon that is allocated to the County Transportation Program Agency Fund; and, other special imposts upon highway users for the construction and maintenance of highways and bridges and for other operations of the Department. This fund also accounts for revenue from the sales of goods and services and from participation agreements between the Department and other entities for the sharing of costs of construction projects. Revenues from participation agreements and other project contracts are recognized as earned based on the percentage of completion method. The unearned portion is reflected as deferred revenue in the liability section of the financial statements of the Department until earned. The Department's appropriation from the State's General Fund is also included in this fund. The state highway fund accounts for all the activity of the department in a special revenue fund as all funds are committed to the maintenance and preservation of the state road systems.

### Fiduciary Funds:

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

- The County Transportation Program Fund was established pursuant to Section 12-28-2740 of the South Carolina Code of Laws to provide for the receipts from distribution and use of the 2.66 cents per gallon gasoline tax collected by the South Carolina Department of Revenue and remitted to the Department.
- In addition to the gasoline tax, the Department is required to transfer \$9.5 million annually from the State Highway Fund to the Program. Each county has a county transportation committee that is appointed by the county legislative delegation to administer the use of these funds. Based on the legally prescribed allocation formula, these monies are either paid directly to the counties for infrastructure projects that are administered by the counties or to vendors on behalf of the counties for expenditures incurred on projects that the county transportation committees have contracted the Department to administer.
- The Right of Way Fund is used to account for payments for the purchase of right of ways land which has been contested by the property owner. In those cases, the property owner is paid 75% of the offer and 25%

of the offer is transferred to the county clerk of court. Current year's activity represents receipt of funds from various clerks of court and disbursement to property owners upon settlement of contested cases.

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay obligations of the current period. For this purpose, the government considers major sources of revenues to be available if they are collected within sixty days of the end of the current fiscal year. Major sources of revenue reported in compliance with policy are taxes, federal grants, and participation agreements. The Department also accrues current amounts due on long-term receivables based on set repayment schedules.

Expenditures generally are recorded when a liability is incurred, except for principal and interest on general debt, as under accrual accounting. Financial resources of fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

### **Component Unit**

The Association generally follows the authoritative guidance in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That Use Proprietary Fund Accounting*, to distinguish operating from nonoperating revenues and expenses. Thus, the principal operating revenues of the Association are toll revenues received from patrons. Operating expenses of the Association primarily consist of the costs of operating the Southern Connector, including administrative expenses, depreciation of equipment, professional fees, and trustee fees and costs. Nonoperating revenues primarily include interest earned on cash equivalents and investments and realized and unrealized gains on investments. Nonoperating expenses primarily include (a) interest expense on the Association's debt (b) amortization of the Association's intangible interest in its License Agreement with SCDOT, (c) reimbursements of SCDOT highway maintenance expense from the 2011 Renewal and Replacement Fund, and (c) realized and unrealized losses on investments.

### **Revenues – Exchange and Non-Exchange Transactions**

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, exchange transaction revenues are recorded in the fiscal year in which the resources are measurable and become available.

Non-exchange transactions, in which the Department receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted or authorized; matching requirements, in which the Department must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Department on a reimbursement basis contingent upon the federal authority to claim the funds.

## **Budget Policy**

All of the activity in the Department's governmental fund is budgeted, Other Budgeted Funds by the State of South Carolina, and are annual appropriations for public transportation by the General Assembly. The appropriation as enacted becomes the legal operating budget for the State Highway Fund. Please refer to the information contained in Required Supplementary Information for the budget to actual and notes regarding the governmental fund.

## **Component Unit**

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

## **Cash and Cash Equivalents**

The amounts shown in the financial statements as "cash and cash equivalents" of the Department represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report ("CAFR") of the State of South Carolina.

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

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

## **Investments – Component Unit**

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 hand, deposits in banks, and funds invested in open-end money market mutual funds.

The Association’s Amended Trust Indenture contains provisions requiring all bond proceeds and toll revenues received by the Association to be held in trust and expended in accordance with the Amended Trust Indenture guidelines. Accordingly, at the April 21, 2011 effective date of the Association’s Debt Adjustment Plan, new 2011 Trust Fund Accounts were opened, and monies were transferred into these accounts from the 1998 Trust Fund Accounts. Monies in the 2011 Trust Fund Accounts are expended in accordance with Amended Trust Indenture guidelines. All monies held in the 2011 Trust Fund Accounts that are not insured by the FDIC must be secured by and/or invested in investment securities as defined in the Amended Trust Indenture. Investment securities include, but are not limited to, direct obligations of, or obligations guaranteed by, the United States of America or an agency thereof.

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

## **Capital Assets – Primary Entity**

Capitalized assets include land, improvements to land, easements, right-of-ways, buildings, building improvements, vehicles, equipment, furniture, infrastructure, and all other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. Infrastructure assets acquired prior to fiscal years ended June 30, 1980 are reported at cost beginning with fiscal year 1917. Capital assets also include assets purchased with Federal funds in which the Federal government retains a reversionary interest.

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gift. Assets contributed by another state agency are recorded at the acquisition cost of that agency. The Department follows capitalization guidelines established by the State of South Carolina. Major additions, renovations, and other improvements which provide new uses, or extend the useful life of an existing capital asset, are capitalized. Routine repairs and maintenance are charged to operations in the year in which the expense is incurred.

Prior to the change in the statewide depreciation policy at July 1, 2011, depreciation was computed using the straight-line method over the estimated useful lives of the assets. A full year of depreciation was taken in the year the asset is placed in service and no depreciation was taken in the year of disposition. Effective July 1, 2011, depreciation is computed using a full month’s worth of depreciation booked upon the initial acquisition of the asset. A full month of depreciation will be booked during the life of the asset each month and this will continue until retirement of the asset or until full depreciation of that asset has occurred. All changes in the calculation will be applied prospectively against the ending balances from July 1, 2011. This new methodology will be computed based upon the remaining useful life of the subject asset.

A summary of the Department's capitalization and useful life by asset category is as follows:

<u>Asset Category</u>	<u>Capitalization</u>	<u>Useful Life (Years)</u>
Land	All, regardless of cost	N/A
Non-depreciable land improvements	All, regardless of cost	N/A
Depreciable land improvements	Any costing more than \$100,000	30
Infrastructure:	Any costing more than \$500,000	
Roads		75
Bridges		50
Buildings and building improvements	Any costing more than \$100,000	30
Vehicles Equipment and furniture	Any costing more than \$5,000	5 – 12

#### **Capital Asset – Component Unit**

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

Pursuant to this policy, equipment with individual or group costs greater than \$5,000 and intangible assets with costs generally in excess of \$100,000 are capitalized. Equipment depreciation is computed using the straight-line method over the equipment's estimated useful life between four and ten years. The Association's intangible interest in its License Agreement with SCDOT is amortized as described in Note 12. When capital assets are disposed of, the cost and accumulated depreciation are removed from the books. The resulting gain or loss is included in non-operating revenues or expenses.

#### **Interest Capitalization – Component Unit**

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Subtopic 835-20, 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 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.

#### **Receivables**

All of the receivables are reported net of any allowances for uncollectible amounts and any discounts, if applicable. The Department's receivables consist of amounts due from the Federal government, State agencies, local governments, and other entities and individuals. Some of the receivables are evidenced by notes and contracts. The notes and contracts are related to costs shared by other entities in construction projects.

### **Receivables - Component Unit**

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

### **Prepaid Expenses**

The Department makes certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements.

### **Inventories**

The Department maintains inventories for its use and resale to other state agencies, local governments, and other entities. All inventories are valued at cost using the weighted average method. Expenditures for inventory are accounted for using the consumption method of accounting. All inventories of the Association are valued at cost using the first-in-first-out method ("FIFO").

### **Other Assets**

Other assets consist of right of ways land the Department had to purchase for economic reasons that was not allocable to project construction costs. These purchases are held until they are disposed of and are reflected in the accompanying financial statements at the original cost to the Department. Expenditures for this land are accounted for using the consumption method of accounting in which the purchase is recorded as expenditure when disposed of. Gains or losses on the disposition of right-of-ways land are included in the other revenues category in the fund financial statements. Right of ways land transferred to county and municipal governments for no consideration are recorded as allocations to other entities – county and municipal governments in the fund financial statements.

### **Interfund Receivables/Payables**

Long-term interfund loans are classified as "advance to" or "advance from" particular funds. Short-term amounts are classified as "due to" or "due from" the particular funds. No interest is charged on the advances to or due from amounts. Short-term amounts are generally repaid within 60 days. There were no advances outstanding as of June 30, 2015.

### **Bonds Payable, Bond Discounts, Bond Premiums and Bond Issuance**

The Department reports bonds payable in the governmental activities in the government-wide financial statements. The Department defers and amortizes bond discounts and bond premiums over the term of the bonds using the bonds outstanding method, which results in amortization being computed using the percentage of bonds retired to the original amount of bonds issued. Costs incurred in connection with the bond issues are expensed as incurred unless it is insurance. The Department reports bonds payable net of the applicable bond premium or discount and the deferred losses on refundings. Unamortized issuance costs are reported as deferred charges.



### **Bonds Payable - Component Unit**

The current and noncurrent portions of bonds payable are recorded as liabilities in the accompanying Statement of Net Position. Bond issuance costs, excluding those related to prepaid insurance costs, are expensed as incurred.

### **Deferred Outflows and Inflows of Resources**

Deferred outflows of resources consist of deferred losses on refunding of bonds and amounts related to the net pension liability. The deferred losses on refunding of bonds result from the current or advance refunding of bonds resulting in the defeasance of debt. The difference between the reacquisition price and the net carrying amount of the old debt is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

For current refundings and advance refundings of bonds resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is also deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Reference note 13 for information on deferred inflows and outflows of resources related to net pension liability.

### **Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expending of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier.

The potential liability is calculated annually for financial reporting purposes. There was no arbitrage liability at June 30, 2015.

### **Rebatable Arbitrage - Component Unit**

The Association records the arbitrage liability using the revenue reduction method, whereby the rebate is recorded as a reduction of interest revenue. At December 31, 2014, the Association had no arbitrage liability.

### **Interest in License Agreement with the Department - Component Unit**

Prior to the April 21, 2011 effective date of the Association's Debt Adjustment Plan, the Association operated under the terms of its Original License Agreement with SCDOT. Beginning April 21, 2011, the Association's operations are governed by the Revised License Agreement with SCDOT, which modifies or amends certain provisions of the Original License Agreement. Any terms of the Original License Agreement that were not amended or modified by the Revised License Agreement remain in effect. See Note 12 for a detailed discussion of the terms of the Revised License Agreement.

The Association's interest in its License Agreement with SCDOT constitutes a service concession arrangement (an "SCA") that is accounted for as an intangible asset relating to the Southern Connector that began generating revenues upon commencement of toll road operations. An SCA is an arrangement between a transferor government and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or

another public asset in exchange for significant consideration, and the operator collects and is compensated by fees from third parties. 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. Upon commencement of toll road operations, the Association began amortizing its interest in the License Agreement. See note 12 for a description of this amortization.

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

### **Restricted Assets – Component Unit**

The Amended Trust Indenture contains provisions to establish certain Funds and Accounts (the "2011 Funds and Accounts") to be held by the Trustee. The Amended Trust Indenture's terms define the amounts that may be deposited into the Funds and Accounts, and restrict payments from such Funds and Accounts. The various Funds and Accounts established and the related restrictions imposed by the Amended Trust Indenture are described below.

The Amended Trust Indenture established new 2011 Funds and Accounts and required the transfer of amounts remaining in the 1998 Funds and Accounts to certain of the 2011 Funds and Accounts. The Amended Trust Indenture directs the deposit of all revenues and other deposits in the 2011 Funds and Accounts, and restricts the payments from the 2011 Funds and Accounts. The funds and accounts established are as follows:

The 2011 *Cost of Issuance Fund* was established to pay or reimburse the Association for costs of implementing its Debt Adjustment Plan. Upon issuance of the 2011 Bonds, monies remaining in the 1998 Funds and Accounts were transferred into this fund. Costs of implementing the Debt Adjustment Plan and issuing the 2011 Bonds were paid from this fund in accordance with the Amended Trust Indenture. In 2012, following the Association's payment of the costs of issuing the 2011 By-Lot Term Bonds discussed below in Note 12, the 2011 Cost of Issuance Fund was closed.

The 2011 *Revenue Fund* was established to hold all revenues from toll road operations. The Amended Trust Indenture provides that all revenues received from the operation of the Southern Connector after March 31, 2011, shall be delivered to the Trustee immediately upon receipt by, or on behalf of, the Association and shall be deposited into the 2011 Revenue Fund.

The order and priority of permissible payments from the 2011 Revenue Fund (the "New Waterfall") is as follows:

Whether or not an event of default has occurred under the Amended Trust Indenture, the Trustee may withdraw its fees and expenses from the 2011 Revenue Fund from time to time, and is obligated to notify the Association of such fees and expenses withdrawn. Thereafter, the Trustee is obligated to transfer monies from the 2011 Revenue Fund for the following purposes in the priority listed below:

1. Operating costs budgeted for the next succeeding month shall be distributed to the Association. All amounts remaining in the 2011 Revenue Fund (other than proceeds from liability or casualty insurance, condemnation awards and loans) after distribution of Trustee fees and costs and Association operating costs are deemed to be Distributable Cash. On the business day prior to each 2011 Bond payment date, the Trustee shall transfer Distributable Cash as follows:
2. The Trustee will deposit into the 2011 Renewal and Replacement Fund (the "2011 R&R Fund"):
  - (i) for 2011 Bond payment dates on or before January 1, 2016, an amount equal to 5.0% of the amount of Distributable Cash, and
  - (ii) for 2011 Bond payment dates after January 1, 2016, an amount equal to 2.5% of the amount of Distributable Cash.

3. The Trustee shall transfer to the 2011 Senior Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Senior Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Senior Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the Amended Trust Indenture (see Note 12) on the 2011 Senior Bonds from earlier 2011 Bond payment dates.
4. The Trustee shall deposit into the 2011 R&R Fund:
  - (i) for 2011 Bond payment dates on or before January 1, 2016, an amount equal to 0.0% of the amount of Distributable Cash, and
  - (ii) for 2011 Bond payment dates after January 1, 2016, an amount not to exceed 2.5% of the amount of Distributable Cash.
5. If any Account in the 2011 Debt Service Reserve Fund contains less than the 2011 Debt Service Reserve Fund Requirement for such Account, the Trustee shall transfer into such Account an amount equal to the amount needed to restore the balance in such Account to the 2011 Debt Service Reserve Fund Requirement for such Account.
6. The Trustee shall transfer to the 2011 Senior Subordinate Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Senior Subordinate Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Senior Subordinate Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the Amended Trust Indenture (see Note 8) on the 2011 Senior Subordinate Bonds from earlier 2011 Bond payment dates.
7. The Trustee shall deposit into the 2011 R&R Fund an amount not to exceed 2.5% of the amount of Distributable Cash.
8. The Trustee shall transfer to the 2011 Junior Subordinate Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Junior Subordinate Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Junior Subordinate Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the Amended Trust Indenture (see Note 8) on the 2011 Junior Subordinate Bonds from earlier 2011 Bond payment dates.

Any Distributable Cash remaining after making the distributions listed above (“Excess Net Revenues”) will be deposited into the 2011 Extraordinary Prepayment Fund to be used (if the amount on deposit in the 2011 Extraordinary Prepayment Fund exceeds \$50,000) towards the prepayment of 2011 Senior Bonds in accordance with provisions of the Amended Trust Indenture.

The Amended Trust Indenture specifies that nonpayment of amounts to the 2011 R&R Fund due to the insufficiency of Distributable Cash will not result in a default under the Revised License Agreement or the Amended Trust Indenture, and shall not be added to the 2011 R&R Fund deposits for future 2011 Bond payment dates.

The 2011 *Debt Service Reserve Fund*, which consists of the 2011 Senior Bonds Debt Service Reserve Account, the 2011 Senior Subordinate Bonds Debt Service Reserve Account and the 2011 Junior Subordinate Bonds Debt Service Reserve Account, was established to pay shortfalls in debt service on the 2011 Senior Bonds initially; and once all 2011 Senior Bonds have been redeemed, on the 2011 Senior Subordinate Bonds; and once all 2011 Senior Subordinate Bonds have been redeemed, on the 2011 Junior Subordinate Bonds. The Amended Trust Indenture contains provisions allowing transfers from Accounts of the 2011 Debt Service Reserve Fund to the corresponding Accounts of the 2011 Debt Service Fund of amounts needed to pay debt service on the respective tier of 2011 Bonds or to fully pay such tier of 2011 Bonds when prescribed conditions have been met. Minimum balances for each of the Accounts of the 2011 Debt Service Reserve Fund are determined in accordance with

terms prescribed in the Amended Trust Indenture. If any debt service payments are made from any 2011 Debt Service Reserve Fund Account, the Amended Trust Indenture requires that the minimum balance of such Account be restored before any debt service payments be made in respect of the 2011 Senior Subordinate or 2011 Junior Subordinate Bonds. Amounts in excess of the minimum balance requirement for any 2011 Debt Service Reserve Fund Account are transferred to the 2011 Extraordinary Prepayment Fund. The Amended Trust Indenture describes circumstances in which amounts in a 2011 Debt Service Reserve Account will be transferred to the 2011 Debt Service Reserve Account of a subordinate tier of 2011 Bonds. If such transfers are made, the minimum balance requirement for the recipient 2011 Debt Service Reserve Account will be reset.

The 2011 *R&R Fund* was established to reimburse SCDOT to the extent of available funds for Highway Maintenance Costs of the Southern Connector, as provided in the Revised License Agreement. The Trustee shall transfer amounts from the 2011 Revenue Fund to the 2011 R&R Fund on or before each 2011 Bond payment date as described above in the New Waterfall. The 2011 R&R Fund is not a part of the 2011 Trust Estate.

The 2011 *Extraordinary Prepayment Fund* was established to make mandatory prepayments of the 2011 Bonds in accordance with the Amended Trust Indenture. The 2011 Extraordinary Prepayment Fund will receive transfers from the 2011 Revenue Fund and/or the 2011 Debt Service Reserve Fund, and shall apply amounts to the Extraordinary Mandatory Prepayment of the Series 2011 Bonds in accordance with the terms of the Amended Trust Indenture.

The 2011 *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the U.S. Treasury. As a result of investing tax exempt bond proceeds at rates of return not exceeding the maximum amount that is permitted under the applicable tax code, at December 31, 2013, there were no funds on deposit in this Fund. The 2011 Rebate Fund is not a part of the 2011 Trust Estate.

### **Unearned Revenue**

Unearned revenue in the government-wide financial statements also consists of advance payments for construction projects which have not been earned. Revenues are recognized in the period in which the project expenditures are made.

Unearned revenue in the fund financial statements represents the long-term portion of receivables that will not be collected within one year of the balance sheet date and advance payments for construction projects.

### **Compensated Absences**

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Department calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability.

### **Compensated Absences - Component Unit**

The Association grants its regular full time employees paid vacation days based on years of service and 10 paid holidays per year. Employees receive no sick days but are allowed to use vacation or holiday time when sick. All vacation and holiday time must be taken in the year earned. Therefore, at year end there are no accumulating vacation or holiday benefits, thus no liability for such items was recognized at December 31, 2014.

## **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates include but are not limited to the amounts remaining on outstanding construction contracts, the allowance for doubtful accounts and the useful life of capital assets.

## **Net Position**

### **Primary Entity:**

The Department presents the following classifications of net position in the "Statement of Net Position" in accordance with GASB 63.

*Net Investment in Capital Assets* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

The Department's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

## **Component Unit**

Proprietary fund equity is classified as net position and displayed as the following three components:

*Net Investment in Capital Assets* – 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. This includes the Association's accreted interest liability that was capitalized during the Association's Development Stage.

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

*Unrestricted Net Position* – All other net position that do not meet the definition of "restricted" or "invested in capital assets net of related debt".

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

The Association's negative net position at December 31, 2014, resulted from shortfalls since commencement of operations due to lower than expected traffic counts and toll revenue.

## **FUND BALANCE**

The following categories of fund balance are being used in the fund level financial statement of the governmental fund in accordance with GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions:

### ***Nonspendable fund balance***

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

### ***Restricted fund balance***

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

### ***Committed fund balance***

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Department recognizes committed fund balances that have been approved for specific purposes by Department Commission before the fiscal year end.

The Department pre-defines the use of committed fund balance with two key actions. 1) The Commission submits a budget to the governor, the budget, in some revised form, is later approved by the legislature and governor, which generally governs the purpose and use of departmental funds and resources. 2) The Commission also produces and approves, following public comment, the Statewide Transportation Improvement Plan ("STIP") which further prioritizes the use of Departmental funds and resources for the following six years. Amendments to either the annual budget or the STIP require formal submission to the State Budget Office or to the Commission respectively.

### ***Assigned fund balance***

The assigned fund balance classification includes amounts that are constrained by the Department's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Department's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Department's highest level of authority. Assigned fund balance amounts in the Department's financial statements represent amounts approved by Department Commission to be transferred and spent after year end. In the special revenue fund, assigned fund balances represent amounts to be spent for specific purposes. The Department had no assigned fund balance at June 30, 2015.

### ***Unassigned fund balance***

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund. The governmental fund is presented as a special revenue fund, and therefore, there was no unassigned fund balance.

Based on the Department's policies regarding fund balance classifications as noted above, the Department considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by department Commission or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

### **Implementation of New Accounting Standards**

The Department implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68 in the year ended June 30, 2015. Net position as of July 1, 2014 has been restated in accordance with these provisions. See Note 13 for further details regarding the implementation of these standards.

(in thousands)

Net position as of June 30, 2014, as previously reported:	\$12,923,064
Adjustment to net position to record net pension liability:	<u>(324,612)</u>
Net position as of June 30, 2015, as restated:	<u><u>\$12,598,452</u></u>

**NOTE 2. DEPOSITS AND INVESTMENTS:**

The following schedule reconciles deposits and investments within the footnotes to the amounts in the financial statements:

	(In Thousands)		
	<u>Financial Statements</u>		<u>Footnotes</u>
<b>Primary Entity:</b>			
Unrestricted current assets:		Deposits held by State	
Cash and cash equivalents	\$ 364,519	Treasurer	\$ 540,373
Restricted noncurrent assets:			
Cash and cash equivalents	10,031		-
Fiduciary - Agency Funds			
Cash and cash equivalents	<u>165,823</u>		<u>-</u>
<b>Total Primary Entity</b>	<b><u>\$ 540,373</u></b>		<b><u>\$ 540,373</u></b>
<b>Component Unit</b>			
Unrestricted current assets:			
Cash and cash equivalents	\$ 1,366		\$ -
Restricted current assets:		Bank Deposits	
Cash and cash equivalents	-		1,366
Restricted noncurrent assets:		Investments	
Cash and cash equivalents	<u>7,101</u>		<u>7,101</u>
<b>Total component unit</b>	<b><u>\$ 8,467</u></b>		<b><u>\$ 8,467</u></b>

**PRIMARY ENTITY:**

**Deposits Held by State Treasurer**

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

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. The State's investment policy by law authorizes investments that vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper.

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of investments or collateral securities that are in possession of an outside party. All of the State Treasurer's investments are fully insured or collateralized.



More information pertaining to carrying amounts, fair value, credit and other risks as required by Governmental Accounting Standards Board Statement No. 40, Deposits and Investments - Risk Disclosures, of the State Treasurer's investments are disclosed in the CAFR of the State of South Carolina.

Cash and cash equivalents reported include an unrealized gain of \$492 thousand for the governmental funds and an unrealized loss of \$405 thousand for the fiduciary funds as of June 30, 2015 arising from changes in the fair value. Interest/investment income includes an unrealized gain of \$492 thousand for the year ended June 30, 2015.

### **Securities Lending Program**

By law, the State Treasurer may lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions, with a simultaneous agreement to return the collateral for the same securities in the future. The State may lend United States government securities, corporate bonds, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians requires them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State's collateral investments generally matched the maturity of the securities loans during the fiscal year ended at June 30, 2015. At June 30, 2015, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. Either the State or the borrower can terminate all securities loans on demand. There are no restrictions on the amount of the loans that can be made. For the fiscal year ended June 30, 2015, the State experienced realized losses on its securities lending transactions from substantial valuation fluctuations in the collateral provided by a borrower. The Department's proportionate share was \$598 thousand of this loss that the State experienced.

The State receives primarily cash as collateral for its loaned securities. The market value of the required collateral must meet or exceed 102.0% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. During the fiscal year ended June 30, 2015, the State met the 102.0% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2015, the State recorded these investments of cash collateral as assets in the financial statements. Corresponding liability amounts also have been recorded because the State must return the cash collateral to the borrower upon expiration of the loan. Amounts included in the accompanying financial statements are the Department's proportionate share of the invested securities lending collateral.

### **COMPONENT UNIT:**

### **DEPOSITS AND INVESTMENTS**

The Association's Amended Trust Indenture requires that all trust 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: direct obligations of, or obligations the principal and interest of which are unconditionally 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 counterparty rating of which is "investment grade" rated as of the date of acquisition; and any other obligation which, at the date of acquisition, is rated by a rating agency in one of the two highest rating categories for long-term obligations or in the highest rating category for short-term obligations.

## Deposits

**Custodial Credit Risk for Deposits:** Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits might not be recovered. The Association does not have a formal deposit policy for custodial credit risk, but follows the guidelines outlined in the Association's Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina law. At December 31, 2014, approximately \$1,128,300 of the Association's bank balances of approximately \$1,379,700 (with a carrying value of \$1,365,763) were uninsured and uncollateralized.

## Investments

The South Carolina State Treasurer held none of the investments noted below. As of December 31, 2014, the Association had the following investments as defined by GASB:

(In Thousands)				
Investment Type	Credit Rating <sup>^</sup>	Fair Value	Percentage of Total Investment	Weighted Average maturity (In Years)
First American Prime Obligation Fund	AAAm, Aaa-mf, AAAmmf			
Total Fair value/weighted average maturity		\$ 7,101	100.00%	0.107

<sup>^</sup> - If available, credit ratings are from Standard & Poor's, Moodys Investors Service, and Fitch Ratings.

**Interest Rate Risk:** The Association does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates, but follows the investment requirements outlined in the Association's Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina law.

**Custodial Credit Risk for Investments:** Custodial credit risk for investments is the risk that, in the event of a bank failure, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association does not have a formal investment policy for custodial credit risk, but follows the guidelines outlined in the Association's Amended Trust Indenture (as noted earlier). As of December 31, 2014, none of the Association's investments were exposed to custodial credit risk.

## NOTE 3. STATE APPROPRIATIONS:

The original appropriation is the Department's base budget amount as presented in Section 84, Part IA of the 2014-2015 Appropriation Act. The Department received \$1.7 billion in appropriations. In fiscal year 2015, the Department expended \$1.276 billion on the budgetary basis of accounting and \$1.318 was expended under the modified accrual basis of accounting. The Department received \$62.226 million in state general funds, which included \$50.357 million in new appropriations and \$11.869 million in carry forward funds. The entire \$62.226 million was fully expended.

**NOTE 4. RECEIVABLES:****PRIMARY ENTITY:**

The following schedule summarizes receivables at June 30, 2015, which include various notes, contracts and other accounts receivable.

(In Thousands)			
<u>Due From / Description</u>	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Totals</u>
<u>Intergovernmental:</u>			
Federal Government:			
Amounts due under various grant programs and reimbursable contracts	\$ 75,405	\$ -	\$ 75,405
	<u>75,405</u>	<u>-</u>	<u>75,405</u>
<u>State Agencies:</u>			
South Carolina Department of Motor Vehicles			
License Fees	3,541	-	3,541
South Carolina Department of Revenue			
Gasoline and special fuels taxes	86,825	-	86,825
Various Agencies:			
Sales of good and services	2,785	-	2,785
	<u>93,151</u>	<u>-</u>	<u>93,151</u>
<u>Local Governments:</u>			
Long-term contracts for construction projects			
	412	1,820	2,232
Participation agreements			
	9,666	-	9,666
	<u>10,078</u>	<u>1,820</u>	<u>11,898</u>
<u>Other:</u>			
Long-term contracts for construction projects	109	133	242
Participation agreements	183	-	183
Sales of goods and services	20,068	-	20,068
Less: allowance for doubtful accounts	(1,420)	-	(1,420)
	<u>18,940</u>	<u>133</u>	<u>19,073</u>
 Total Receivables	 <u>\$ 197,574</u>	 <u>\$ 1,953</u>	 <u>\$ 199,527</u>

The balances due under long-term contracts for construction projects from local governments and other entities represent loans to those entities for their share of the costs of construction projects.

The Association had no outstanding receivables at December 31, 2014.

**NOTE 5. INVENTORIES:**

The following schedule summarizes inventories at June 30, 2015:

(In Thousands)

Sign Shops	\$	687
Repair Shops		1,076
Supply Depot		674
	\$	<u>2,437</u>

**NOTE 6. CAPITAL ASSETS:**

**PRIMARY ENTITY:**

The following schedule summarizes additions to capital assets and their funding sources for the year ended June 30, 2015:

(In Thousands)

	Beginning Balances June 30, 2014	Increases	Decreases	Ending Balances June 30, 2015
Capital assets not being depreciated:				
Land and improvements	\$ 3,353	\$ -	\$ 5	\$ 3,348
Right of ways land	1,464,549	52,449	10	1,516,988
Construction in progress:				
Infrastructure - road and bridge network	2,478,723	452,998	341,746	2,589,974
Other	7,617	1,329	-	8,946
Total capital assets not being depreciated	<u>3,954,242</u>	<u>506,776</u>	<u>341,761</u>	<u>4,119,256</u>
Other capital assets:				
Infrastructure - road and bridge network	12,619,988	341,746	10,757	12,950,977
Buildings and improvements	83,448	-	-	83,448
Equipment and furniture	143,966	8,618	7,479	145,105
Vehicles	101,681	4,543	3,819	102,405
Total other capital assets	<u>12,949,083</u>	<u>354,907</u>	<u>22,055</u>	<u>13,281,935</u>
Less accumulated depreciation for:				
Infrastructure - road and bridge network	3,306,146	181,503	80	3,487,569
Buildings and improvements	42,073	2,235	5	44,303
Equipment and furniture	102,730	6,621	6,966	102,385
Vehicles	78,963	9,044	3,819	84,188
Total accumulated depreciation	<u>3,529,912</u>	<u>199,403</u>	<u>10,870</u>	<u>3,718,445</u>
Other capital assets, net	<u>9,419,172</u>	<u>155,504</u>	<u>11,185</u>	<u>9,563,491</u>
Total capital assets for governmental activities, net	<u>\$ 13,373,414</u>	<u>\$ 662,280</u>	<u>\$ 352,946</u>	<u>\$ 13,682,747</u>

The following schedule further summarizes additions to capital assets and their funding sources for the year ended June 30, 2015:

		(in Thousands)	
<b>Additions:</b>			
Increases per above:			
Capital assets not being depreciated	\$	506,776	
Other capital assets		354,907	
Less, transfers from construction in progress:			
Capital assets not being depreciated		(341,746)	
Total additions	\$	<u>519,937</u>	
<b>Funding Sources:</b>			
Governmental funds	\$	389,835	
Donated capital assets:			
South Carolina Transportation Bank		130,102	
Total funding Sources	\$	<u>519,937</u>	

Included in the Department's capital assets as of June 30, 2015 is \$192.62 million that was paid for by the Association for the Southern Connector. The same amount has been capitalized by the Association as the capital asset – Interest in License Agreement with the Department. Accumulated depreciation on these assets was \$61.86 million at June 30, 2015. Depreciation expense on these assets for the year ended June 30, 2015 was \$3.57 million.

At June 30, 2015, the estimated total costs of Department projects in progress to construct, acquire and maintain various capitalized assets amounted to approximately \$10.1 million for facilities capital projects and approximately \$9.4 billion for infrastructure projects including capital and non-capital. The estimated costs to complete the facilities capital projects amounted to approximately \$1.19 million and the infrastructure projects amounted to approximately \$2.74 billion at June 30, 2015. The outstanding contractual obligations attributable to the facilities capital projects were approximately \$0.369 million and to the infrastructure projects were approximately \$825.65 million. The estimated time frame for completion of these projects is from one to five or more years. The costs of the projects in progress and future projects will be funded from taxes and fees, federal grants, bond proceeds and other Department revenues. The amounts for infrastructure projects exclude those infrastructure project costs funded by the South Carolina Transportation Infrastructure Bank.

The total amount of depreciation expense booked by the Department in FY 2015 was \$199.4 million.

**COMPONENT UNIT:**

The following table summarizes the change in capital assets of the Association and the balance at December 31, 2014:

(In Thousands)				
	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014
Capital assets:				
Equipment	\$ 930	\$ 34	\$ (31)	\$ 933
Less accumulated depreciation	(622)	(110)	31	(701)
Total capital assets for component unit, net	<u>\$ 308</u>	<u>\$ (76)</u>	<u>\$ -</u>	<u>\$ 232</u>

For the year ended December 31, 2014, depreciation expense related to capital assets was \$109,783. The Association had no significant construction commitments outstanding at December 31, 2014.

**NOTE 7. CHANGES IN LONG-TERM OBLIGATIONS:**

The following schedule summarizes changes in long-term obligations of the Department for the year ended June 30, 2015:

(In Thousands)					
	Beginning Balances June 30, 2014	Increases	Decreases	Ending Balances June 30, 2015	Due Within One Year
General obligation					
bonds payable	\$ 317,765	\$ -	\$ 43,175	\$ 274,590	\$ 43,675
Unamortized premiums	40,719	-	4,275	36,444	4,276
Total Bonds Payable	358,484	-	47,450	311,034	47,951
Intergovernmental Payable					
Due to State Agency - SIB	272,833	-	22,719	250,114	23,446
Capital Lease	119	-	119	-	-
Accrued Compensated absences	26,569	16,059	16,813	25,815	15,898
Total Governmental Activities	\$ 658,005	\$ 16,059	\$ 87,101	\$ 586,963	\$ 87,295

The Department has an additional amount due to State agencies of \$1.51 million which is included in the current portion of due to State agencies in the accompanying statement of net position.

The following schedule summarizes principal and interest expenditures/expenses attributable to long-term obligations of the Department for the year ended June 30, 2015:

(in Thousands)			
	Principal	Interest	Totals
Bonds Payable	\$ 43,175	\$ 14,190	\$ 57,365
Contributions Payable	22,719	7,860	30,579
Capital Lease	119	4	123
Total Expenditures	\$ 66,013	22,054	\$ 88,067
Adjustments to Entity-wide statements			
Change in interest accrual - bonds payable		(1,007)	
Total Interest Expense		\$ 21,047	

**NOTE 8. BONDS PAYABLE:**

**Primary Entity**

Sections 57-11-210, et seq. of the South Carolina Code (the "State Highway Bond Act"), as continued and amended by Section 11-27-30 thereof, authorized the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith, credit, and taxing power of the State. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for State highway purposes from any and all taxes or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State. Such taxes include the gasoline tax, the fuel oil tax, the road tax and the motor vehicle license fees described herein. So long as any State Highway Bonds are outstanding the amount of revenues made applicable thereto by the General Assembly may not be less than the amounts needed to fund the general operations budget of the Department and meet debt service requirements for annual principal and interest payments on such bonds. Section 57-11-240 provides that the debt limit for State Highway Bonds exceeds the maximum annual debt service limitation of approximately \$39.7 million which results from the application of the constitutional limitation imposed by said Paragraph 6(a) of Section 13 of the Article X of the South Carolina Constitution. From time to time, the State Budget and Control Board may authorize the issuance of various amounts of State Highway Bonds for specific types of projects or individual projects and may authorize the total to be issued in one or more series depending on the projections of the timing of project expenditures to be funded from the proceeds.

A listing of the general obligation bonds payable at June 30, 2015 is as follows:

(In Thousands)

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates	Ending Principal Balance
10/1/2003	2003A	2,200	10/1/2018	5.00%	\$ 750
4/1/2005	2005A	146,495	8/1/2022	3.00-5.00%	8,480
4/1/2010	2010A	299,860	6/1/2021	3.00-5.00%	182,020
12/1/2013	2013A	23,165	7/1/2021	2.00-5.00%	19,930
6/1/2014	2014A	63,410	10/1/2022	5.00%	63,410
					274,590
	Add, unamortized premium				36,444
	<b>Total bonds payable</b>				<b>\$ 311,034</b>

The following schedule summarizes the debt service requirements, including principal and interest, of bonds payable by the Department to maturity:

(In Thousands)

Year ending June 30:	Principal	Interest	Totals
2016	\$ 43,675	\$ 12,859	\$ 56,534
2017	43,615	11,031	54,646
2018	45,075	8,840	53,915
2019	46,595	6,576	53,171
2020	35,125	4,239	39,364
2021 - 2023	60,505	3,579	64,084
<b>Total debt service for bonds payable</b>	<b>\$ 274,590</b>	<b>\$ 47,124</b>	<b>\$ 321,714</b>

The current portion of bonds payable at June 30, 2015, which is \$47,951 thousand includes the \$43,675 thousand of principal debt service payment and the \$4,276 thousand of unamortized premium.

On October 1, 2003, the Department issued \$2.2 million in general obligation State Highway Bonds, Series 2003A. The purpose of the issuance was to provide funds to improve state maintained roads in Richland County.

On April 1, 2005, the Department issued \$146.4 million in general obligation State Capital Improvement Bonds, Series 2005A, of which \$140 million was used by the Department to further its "Acceleration Program", which generally consists of the construction, reconstruction, and improvement of highways and bridges, and \$6.495 million was used to advance refund \$6.5 million of the Series 1995 Bonds

The Department deposited \$6.7 million in an escrow account with Bank of New York Trust Company, N.A. pursuant to an irrevocable Trust Indenture for the future retirement of the refunded bonds. The deposited funds were invested in U.S. government securities. The \$6.5 million of Series 1995 bonds are considered to be defeased and the liability for those bonds has been removed from the Department-wide statement of net assets. The amount of defeased principal outstanding on the 2005A bond is zero.

On April 1, 2010, the Department issued \$299.86 million in general obligation State Refunding Bonds, Series 2010A. The purpose of the issuance was for advance refunding of \$124.00 million of the Series 1999A bonds, \$1.285 million of the Series 2001A bonds, and \$194.490 million of the Series 2001B bonds.

The Department deposited \$334.44 million in an escrow account with Bank of New York Mellon pursuant to an irrevocable Trust Indenture for the future retirement of the refunded bonds. The deposited funds were invested in State and Local Government securities. The \$124.00 million of Series 1999A bonds, \$1.285 million of Series 2001A bonds, and the \$194.49 million of Series 2001B are considered to be defeased and the liability for those bonds has been removed from the Government-wide statement of net position. The amount of defeased principal outstanding on the 2010A bond is zero.

On December 1, 2013, the Department issued \$23.165 million in general obligation State Refunding Bonds, Series 2013A. The purpose of the issuance was for an advance refunding of \$25.7 million for the Series 2003B bonds.

The Department deposited \$26.2 million in an escrow account with the Bank of New York pursuant to an irrevocable Trust Indenture for the future retirement of the refunded bonds. The deposited funds were invested in State and Local Government securities. The \$25.7 million of Series 2003B bonds are considered to be defeased and the liability for those bonds has been removed from the Government-wide statement of net position. The amount of defeased principal outstanding on 2013A bond is zero.

On June 1, 2014, the Department issued \$63.410 million in general obligation State Refunding Bonds, Series 2014A. The purpose of the issuance was to advance refund \$70.9 million of the Series 2005A bonds.

The Department deposited \$74.89 million in an escrow account with the Bank of New York pursuant to an irrevocable Trust Indenture for the future retirement of the refunded bonds. The deposited funds were invested in State and Local Government securities. The \$70.9 million of Series 2005A bonds are considered to be defeased and the liability for this portion of the bonds have been removed from the Government-wide statement of net position. The principal balance defeased and held in escrow for the 2014A bond is \$70.9 million as of June 30, 2015. During the year ending June 30, 2015 the Department expensed \$46.7 thousand in issuance costs associated with the 2014A bond issue.

## **Component Unit**

Upon confirmation by the Bankruptcy Court of and as a means of implementing the Association's Debt Adjustment Plan, on April 21, 2011, the Association issued its 2011 Bonds, consisting of both Serial and Term capital appreciation bonds, in exchange for the Association's 1998 Bonds. At that time, the Association's obligations under the 2011 Bonds were substituted for its obligations under the 1998 Bonds, and the Association was relieved of any further obligations under the 1998 Bonds. The 2011 Bonds were issued to the existing holders of the 1998 Bonds on a pro rata basis, based on unpaid principal and accrued/accreted interest as of the Bankruptcy Petition date of June 24, 2010. The Series 2011A and 2011B Bonds were



exchanged for the 1998 Senior Bonds, and the Series 2011C Bonds were exchanged for the 1998 Subordinate Bonds.

The Series 2011A, 2011B and 2011C Term Bonds as originally issued in April 2011 are registered with the Depository Trust Corporation (DTC) and are Pro-Rata Term Bonds for which each holder of such Bonds will receive a pro-rata share of any debt service payment made by the Association on such Bonds. In 2012, the Association effected a mandatory Bond Exchange (with option to retain) of 2011 Pro-Rata Term Bonds for 2011 By-Lot Term Bonds. The 2011 By-Lot Term Bonds are registered with the DTC in a form that allows such Bonds to be traded on the secondary market; however, in accordance with DTC policies and procedures, the distribution of debt service redemption payments made on such Bonds prior to maturity occurs “by-lot” under a lottery system, rather than on a pro-rata basis. Accordingly, holders of the 2011 By-Lot Term Bonds are not assured of the timing of any particular bond payment prior to maturity. The option to retain provision of the Bond Exchange allowed holders of the Association’s 2011 Term Bonds to decide whether they would retain their 2011 Pro-Rata Term Bonds as originally issued (the “2011 Retained Term Bonds”) and suffer the illiquidity of those obligations, or exchange those Bonds for 2011 By-Lot Term Bonds (the “2011 New Term Bonds”) and accept the uncertainty of timing of debt service payments.

The Bond Exchange did not alter the Association’s financial obligations under its 2011 Term Bonds.

All of the Association’s 2011 Bonds are dated April 1, 2011 and accrete interest from that date. Interest on the Association’s 2011 bonds is tax-exempt.

The Association’s 2011 Bonds, as updated for the Bond Exchange and as remained outstanding following the Association’s January 1, 2012 payment of debt service, consisted of:

The 2011 Senior Bonds as follows:

- *Series 2011A Senior Capital Appreciation Toll Road Revenue Bonds* (the “Series 2011A Serial Bonds”) are dated April 1, 2011, and include ten serial bonds. The original principal amount at issuance of the remaining outstanding serial bonds totaled \$34,987,331. Such remaining outstanding serial bonds mature January 1 of the years 2013 through 2022 inclusive, and accrete interest at rates ranging from 3.75% to 6.00%.
- *Series 2011A Senior Capital Appreciation Toll Road Revenue Bonds* (the “Series 2011A Retained Term Bonds”) are dated April 1, 2011, and include three term bonds.
  - The Series 2011A term bonds maturing on January 1, 2032, with an aggregate original principal amount of \$163,949 are subject to annual pro rata paydown payments on January 1 of the years 2023 through 2031 in varying amounts from \$34,395 to \$54,516, with a payment of \$55,448 at final maturity on January 1, 2032. Interest accretes on these term bonds at 6.50%.
  - The Series 2011A term bonds maturing on January 1, 2042, with an aggregate original principal amount of \$126,990 are subject to annual pro rata paydown payments on January 1 of the years 2033 through 2041 in varying amounts from \$63,621 to \$89,912, with a payment of \$90,392 at final maturity on January 1, 2042. Interest accretes on these term bonds at 7.00%.
  - The Series 2011A term bonds maturing on July 22, 2051, with an aggregate original principal amount of \$73,418 are subject to annual pro rata paydown payments on January 1 of the years 2043 through 2051 in varying amounts from \$90,876 to \$113,077, with a payment of \$60,151 (as revised following the February 15, 2014 extraordinary mandatory prepayment discussed below) at final maturity on July 22, 2051. Interest accretes on these term bonds at 7.50%.
- *Series 2011A1 Senior Capital Appreciation Toll Road Revenue Bonds* (the “Series 2011A1 New Term Bonds”) are dated April 1, 2011, and include three term bonds.

- The Series 2011A1 term bonds maturing on January 1, 2032, with an aggregate original principal amount of \$40,455,704 and a maturity value of \$149,446,102 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2023 through 2031 in varying amounts from \$8,487,008 to \$13,452,215, with a payment of \$13,683,044 at final maturity on January 1, 2032. Interest accretes on these term bonds at 6.50%.
- The Series 2011A1 term bonds maturing on January 1, 2042, with an aggregate original principal amount of \$31,336,681 and a maturity value of \$250,959,619 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2033 through 2041 in varying amounts from \$15,698,783 to \$22,186,026, with a payment of \$22,305,954 at final maturity on January 1, 2042. Interest accretes on these term bonds at 7.00%.
- The Series 2011A1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of \$18,117,434 and a maturity value of \$334,287,216 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2043 through 2051 in varying amounts from \$22,424,076 to \$27,900,334, with a payment of \$14,843,507 (as revised following the February 15, 2014 extraordinary mandatory redemption discussed below) at final maturity on July 22, 2051. Interest accretes on these term bonds at 7.5%.

The 2011 Senior Subordinate Bonds as follows:

- *Series 2011B Senior Subordinate Capital Appreciation Toll Road Revenue Bonds* (the “Series 2011B Retained Term Bonds”) are dated April 1, 2011, and include two term bonds.
  - The Series 2011B term bonds maturing on January 1, 2032, with an aggregate original principal amount of \$56,612 are subject to annual pro rata paydown payments on January 1 of the years 2013 through 2031 in varying amounts from \$2,754 to \$12,923, with a payment of \$13,152 at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.
  - The Series 2011B term bonds maturing on July 22, 2051, with an aggregate original principal amount of \$28,491 are subject to annual pro rata paydown payments on January 1 of the years 2033 through 2051 in varying amounts from \$14,702 to \$26,129, with a payment of \$14,676 at final maturity on July 22, 2051. Interest accretes on these term bonds at 9.00%.
- *Series 2011B1 Senior Subordinate Capital Appreciation Toll Road Revenue Bonds* (the “Series 2011B1 New Term Bonds”) are dated April 1, 2011, and include two term bonds.
  - The Series 2011B1 term bonds maturing on January 1, 2032, with an aggregate original principal amount of \$13,606,458 and a maturity value of \$73,945,516 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2013 through 2031 in varying amounts from \$662,275 to \$3,106,955, with a payment of \$3,160,274 at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.
  - The Series 2011B1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of \$7,029,534 and a maturity value of \$226,739,016 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2033 through 2051 in varying amounts from \$3,626,162 to \$6,444,579, with a payment of \$3,616,453 at final maturity on July 22, 2051. Interest accretes on these term bonds at 9.00%.

The 2011 Junior Subordinate Bonds as follows:

- *Series 2011C Junior Subordinate Capital Appreciation Toll Road Revenue Bonds* (the “Series 2011C Retained Term Bonds”) are dated April 1, 2011, and include term bonds with an aggregate original principal amount of \$17,943. These term bonds are subject to annual pro rata paydown payments on January 1 of the years 2013 through 2051 in varying amounts from \$697 to \$6,762, with a payment of \$3,775 at final maturity on July 22, 2051. Interest accretes on these term bonds at 10.00%.
- *Series 2011C1 Junior Subordinate Capital Appreciation Toll Road Revenue Bonds* (the “Series 2011C1 New Term Bonds”) are dated April 1, 2011, and include term bonds with an aggregate original principal amount of \$2,142,491 and a maturity value of \$97,782,636. These term bonds are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2013 through 2051 in varying amounts from \$81,503 to \$792,986, with a payment of \$445,033 at final maturity on July 22, 2051. Interest accretes on these term bonds at 10.00%.

In addition to the regularly scheduled debt service payments described above, the Amended Trust Indenture requires or allows the Association to make additional payments of debt service in certain situations.

The Association is required to make extraordinary mandatory prepayments of its 2011 Retained Term Bonds and redemptions of its 2011 New Term Bonds if on any January 1, the 2011 Extraordinary Prepayment Fund described in item J contains in excess of \$50,000. In such case, the monies in the 2011 Extraordinary Prepayment Fund shall be applied toward extraordinary mandatory prepayments/redemptions of the 2011 Bonds on the following February 15, at 105% of the accreted value of the respective 2011 Bonds being paid. Extraordinary mandatory prepayments/redemptions shall pay the 2011 Senior Bonds first. If there are no 2011 Senior Bonds outstanding, then the 2011 Senior Subordinate Bonds shall be prepaid/redeemed. If there are no outstanding 2011 Senior or Senior Subordinate Bonds, then the 2011 Junior Subordinate Bonds shall be prepaid/redeemed.

At any time on or after April 1, 2026, the Association may make optional prepayments of its 2011 Retained Term Bonds or redemptions of its 2011 New Term Bonds at prescribed percentages of such 2011 Bonds' respective accreted values. If the Association makes optional partial prepayments/redemptions of its 2011 Retained/New Term Bonds, the amount of such 2011 Retained/New Term Bonds to be prepaid/redeemed will be selected ratably based upon the accreted values of the outstanding 2011 Retained/New Term Bonds as of the prepayment/redemption date.

Any extraordinary mandatory or optional prepayments of the Association's 2011 Retained Term Bonds will be distributed to Bondholders on a pro-rata basis. Any extraordinary mandatory or optional redemptions of less than all of the Association's 2011 New Term Bonds of a single maturity will be distributed to Bondholders by lot.

The Association's bonds payable activity for the year ended December 31, 2014 was as follows:

(In Thousands)

	Balances			Balances		Amount Due in
	December 31, 2013	Increases	Decreases	December 31, 2014	One Year	
<b>Senior Bonds</b>						
Series 2011A Serial Bonds	\$ 37,253	\$ 1,871	\$ 3,011	\$ 36,113	\$ 3,256	
# Series 2011A Retained Term Bonds	437	31	0	468	-	
# Series 2011A 1 New Term Bonds	107,952	7,424	55	115,321	-	
<b>Total Senior Bonds</b>	<b>145,642</b>	<b>9,326</b>	<b>3,066</b>	<b>151,902</b>	<b>3,256</b>	
<b>Senior Subordinate Bonds:</b>						
Series 2011B Retained Term Bonds	104	9	3	110	3	
Series 2011B 1 New Term Bonds	25,220	2,129	693	26,656	749	
<b>Total Senior Subordinate Bonds</b>	<b>25,324</b>	<b>2,138</b>	<b>696</b>	<b>26,766</b>	<b>752</b>	
<b>Senior Subordinate Bonds:</b>						
Series 2011C Retained Term Bonds	22	2	1	23	1	
Series 2011C 1 New Term Bonds	2,637	255	85	2,807	92	
<b>Total Junior Subordinate Bonds</b>	<b>2,659</b>	<b>257</b>	<b>86</b>	<b>2,830</b>	<b>93</b>	
<b>Total Revenue Bonds Payable</b>	<b>\$ 173,625</b>	<b>\$ 11,721</b>	<b>\$ 3,848</b>	<b>\$ 181,498</b>	<b>\$ 4,101</b>	

# Increases and decreases for the year ended December 31, 2014 and amounts due in one year at December 31, 2014 on the Series 2011A Retained Term Bonds and the 2011A1 New Term Bonds include the extraordinary mandatory prepayments and redemptions that were paid in February 2014. The premiums paid in February 2014 with the extraordinary mandatory prepayments and redemptions are excluded from the tables above.

During 2014, increases in bonds payable totaled \$11,721,935 and represented accretions on the Association's bonds. Those accretions plus premiums totaling \$2,723 that were paid as part of the extraordinary mandatory prepayments/redemptions of 2011 Bonds in February 2014 were recorded as interest expense; accordingly, total interest expense for 2014 was \$11,724,658. The 2014 decreases in bonds payable totaled \$3,847,541 and included \$3,793,067 of debt service paid in January 2014 and extraordinary mandatory prepayments/redemptions of \$54,474 of accreted value of the respective 2011 Bonds paid in February 2014. In 2013, accretions on the Association's bonds increased bonds payable by \$11,126,574 and were recorded as interest expense for the year. The 2013 decreases in bonds payable of \$3,626,348 represented debt service payments that were made in January 2013.

At January 1, 2014, the balance of the Association's 2011 Extraordinary Prepayment Fund exceeded \$50,000. Accordingly on February 15, 2014, the Association made extraordinary mandatory prepayments of \$220 accreted value to prepay certain of its 2011A Retained Term Bonds (that were scheduled to mature on July 22, 2051 with a maturity value of \$3,284) and \$54,254 accreted value to redeem certain of its 2011A1 New Term Bonds (that were scheduled to mature on July 21, 2051 with a maturity value of \$813,091). Premiums paid on the 2011A Retained Term Bonds and the 2011A1 New Term Bonds totaled \$10 and \$2,713, respectively.

The following schedule summarizes the Association's debt service requirements to maturity as of December 31, 2014. Since all of the 2011 Bonds are capital appreciation bonds, accretions are accounted for as interest expense and additions to principal. For purposes of the following debt service schedule, all accretions are included as principal, and no interest is shown.

(In Thousands)

Year ending December 31:	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 4,101	\$ -	\$ 4,101
2016	4,572	-	4,572
2017	6,185	-	6,185
2018	6,835	-	6,835
2019	7,441	-	7,441
2020-2024	49,924	-	49,924
2025-2029	71,039	-	71,039
2030-2034	90,907	-	90,907
2035-2039	113,848	-	113,848
2040-2044	138,111	-	138,111
2045-2049	161,505	-	161,505
2050-2051	89,368	-	89,368
	<u>\$ 743,836</u>	<u>\$ -</u>	<u>\$ 743,836</u>

The terms of the Amended Trust Indenture require the establishment of various 2011 Trust Fund Accounts. The monies deposited into the 2011 Trust Fund Accounts are invested as provided in the Amended Trust Indenture. The types of payments that may be made from the various 2011 Trust Fund Accounts are specified in the Amended Trust Indenture. All of the 2011 Trust Fund Accounts established under the Amended Trust Indenture except for the 2011 R&R Fund and the 2011 Rebate Fund are included in the 2011 Trust Estate, which the Association has pledged as security for payment of the 2011 Bonds. The 2011 Trust Estate also includes the Association's interest in Revenues as defined in the Amended Trust Indenture, the Association's interest in its License Agreement with the SCDOT, and any other property pledged as security for the 2011 Bonds.

At December 31, 2014, the following accounts established by the Amended Trust Indenture were included in the Trust Estate and provided security for the 2011 Bonds:

(In Thousands)

<u>Fund</u>	<u>Amount</u>
	<u>December 31, 2014</u>
2011 Revenue Fund	\$ 47
2011 Debt Service Fund	4,101
2011 Debt Service Reserve	2,034
2011 Extraordinary Prepayment Fund	29
Total	<u>\$ 6,211</u>

During the year ended December 31, 2014, payments from the various accounts were made in accordance with the terms of the Amended Trust Indenture.

The 2011 Bonds are expressly nonrecourse to the Association, the State of South Carolina, SCDOT or any agency, department or political subdivision of the State of South Carolina, and are payable solely from the 2011 Trust Estate. The 2011 Bonds are not rated by a national rating agency.

The 2011 Senior Subordinate Bonds are subordinated to the 2011 Senior Bonds in all respects, including in right of payment and priority of liens. The 2011 Junior Subordinate Bonds are subordinated to the 2011 Senior and Senior Subordinate Bonds in all respects, including in right of payment and priority of liens.

If any debt service payment pertaining to any tier of 2011 Bonds is not paid when due, the Amended Trust Indenture prescribes the manner in which subsequent payments of debt service in respect of such tier of 2011 Bonds shall be applied, first, to any Arrearages, and, second, to the current debt service owing on such tier of 2011 Bonds. The Amended Trust Indenture specifies that any amounts owing on the 2011 Bonds that are unpaid due to insufficient Distributable Cash (defined in item J.) shall be deferred and bear interest from the date of non-payment at a rate equal to the interest rate or yield on the 2011 Bond to which such unpaid amount relates, compounded annually. The term *Arrearages* in the Amended Trust Indenture refers to such unpaid amounts plus interest.

If on any 2011 Bond payment date, no 2011 Bonds remain outstanding in any tier, the remaining 2011 Bonds of subordinate tiers will ascend to the next higher tier in the hierarchy described in the New Waterfall in item J above. For example, if no 2011 Senior Bonds are outstanding on any 2011 Bond payment date, then any 2011 Senior Subordinate Bonds outstanding will be treated as 2011 Senior Bonds payable from the 2011 Senior Bonds Debt Service Account, and any 2011 Junior Subordinate Bonds outstanding will be treated as 2011 Senior Subordinate Bonds payable from the 2011 Senior Subordinate Bonds Debt Service Account.

The 2011 Bonds are subject to certain bond covenants other than payment covenants. The bond covenants include, but are not limited to, the following:

- The Association is prohibited from taking any action, or omitting to take any action, that would cause the 2011 Bonds to lose their tax-exempt status.
- By June 30 of each year, an Association Engineer (as defined) is required to inspect the toll road and submit a report documenting the Association Engineer's findings as to whether the Southern Connector has been maintained by SCDOT in good repair and any deficiencies in the physical condition of the toll road. The report shall identify any highway maintenance needs of the Southern Connector, an assessment of the materiality of such needs, and an estimate of the cost and appropriate timing of such needs. A draft of the latest report was submitted to the Association by its Engineer in early June 2015. The final report will be submitted to the Association's Trustee and SCDOT by June 30, 2015.
- On or before April 30, 2016, and once every five years thereafter as prescribed in the Amended Trust Indenture, the Association shall retain an independent traffic and revenue consultant to perform a toll rate study to determine the optimum toll rates to be charged for the Southern Connector. In addition, a toll rate study will be required if (a) the Association fails to make any debt service payment on its 2011 Senior and/or Senior Subordinate Bonds, or (b) the debt service coverage ratio (as defined in the Amended Trust Indenture) for the 2011 Senior Bonds is less than (i) 1.20 for periods ending on or before January 1, 2016 and (ii) 1.25 for periods ending after January 1, 2016, or (c) the debt service coverage ratio (as defined in the Amended Trust Indenture) for the 2011 Senior Subordinate Bonds is less than 1.00 for any period. Despite the above provisions, the Association will not be required to have a toll rate study performed more frequently than once every two years.

Copies of any toll rate study will be presented to SCDOT, the Trustee and the 2011 Bondholders. Unless the 2011 Bondholders submit an objection in accordance with the terms of the Amended Trust Indenture, the toll rates on the Southern Connector will be set at the optimum toll rates as determined by the traffic and revenue consultant and reported in the toll rate study.

- The Association shall certify to the 2011 Trustee the actual debt service coverage ratios compared to the threshold ratios set forth above. Calculations of the actual debt service coverage ratios shall accompany such certification.

- Prior to the end of each fiscal year, the Association is required to file an annual budget for the next fiscal year with the 2011 Trustee.

The terms of the Amended Trust Indenture provide that any of the following events will be considered an event of default under such Amended Trust Indenture:

- The Association's failure to make any scheduled debt service payment or any mandatory prepayment/redemption of the 2011 Senior Bonds will constitute an event of default. Once all of the 2011 Senior Bonds have been paid, failure to make any scheduled debt service payment or any mandatory prepayment/redemption of the 2011 Senior Subordinate Bonds will constitute an event of default under the Amended Trust Indenture. Once all of the 2011 Senior Bonds and all of the 2011 Senior Subordinate Bonds have been paid, failure to make any scheduled debt service payment or any mandatory prepayment/redemption of the 2011 Junior Subordinate Bonds will constitute an event of default under the Amended Trust Indenture. The Amended Trust Indenture clarifies that the occurrence of an event of default pertaining to any tier of 2011 Bonds as described in this bullet will not automatically cause an event of default with respect to any other tier of 2011 Bonds.
- The Association's failure to perform any covenant other than those relating to payment of the 2011 Bonds will constitute an event of default, if such failure continues 30 days after written notice of the failure has been provided to the Association by the Trustee or to the Association and the Trustee by not less than 25% of the 2011 Senior and/or 2011 Senior Subordinate Bondholders. However, if the Association has taken action to cure such failure within 30 days of receipt of the written notice, the duration of the cure period will be extended to 180 days following the date of the written notice, and no event of default will be deemed to occur, so long as the Association continues to diligently attempt to cure the failure within the 180-day cure period.
- An event of default shall be deemed to occur if the Association (i) voluntarily files a bankruptcy petition or any petition seeking reorganization, readjustment or relief of its debts under federal or State bankruptcy or insolvency act or law; (ii) takes any action consenting to, approving, or acquiescing in any such petition or proceeding; (iii) applies for, or consents to or acquiesces in the appointment of, a receiver or trustee of the Association or for all or a substantial part of its property; (iv) makes an assignment for the benefit of its creditors; or (v) is unable to, or admits in writing its inability to, pay its debts as they come due (except for any inability to make payments due on its 2011 Senior Subordinate or 2011 Junior Subordinate Bonds that would not constitute an event of default under the first bullet above of this paragraph).
- Involuntary bankruptcy proceedings; involuntary petitions seeking reorganization, readjustment or relief of the Association's debts under federal or State bankruptcy or insolvency act or law; or petitions seeking the involuntary appointment of a receiver or trustee of the Association or for all or a substantial part of the Association's property will constitute an event of default if such proceedings or petitions continue undismissed or undischarged for 90 days, or if such proceedings or petitions result in a ruling of bankruptcy or insolvency.

The Amended Trust Indenture does not provide any right to accelerate the maturity of the 2011 Bonds. If an event of default occurs, the 2011 Trustee shall have the right to retain, or cause the Association to retain, (i) an independent consultant to recommend the optimum toll rates for the Southern Connector, and (ii) a management consultant or other third party to examine and make recommendations regarding the Association's operations and operating costs. Unless certain 2011 Bondholders object to the recommendations made by such consultant or other third party, the Association will be required to implement those recommendations to the extent it is able to do so.

The Association monitors the above covenants for compliance throughout the year. The Association believes it was in compliance with and has met its 2011 Bond covenants as of and during the years ended December 31, 2014 and 2013.

More detailed information pertaining to the Association's 2011 Bonds, including complete copies of the First Amended and Restated Master Indenture of Trust; the First Supplemental Indenture of Trust; and related filings, notices and Court Orders pertaining to the Bond Exchange, may be found on the Association's website, [www.SouthernConnector.com](http://www.SouthernConnector.com) under the *Official Filings* link of the *News & Filings* tab.

**NOTE 9. Intergovernmental Payable – Due to State Agency – Primary Entity**

The Department entered into various intergovernmental agreements with the South Carolina Transportation Infrastructure Bank (the "Bank") and various local governments to provide financial assistance for highway and transportation facilities projects. Details of the agreements follow in which the Department has a financial obligation.

Horry County RIDE I Project. The total costs for this project were estimated to be \$888 million. Funding consisted of (1) a \$340 million financial assistance awarded by the Bank, of which \$114 million was re-paid to the Bank by the Department in annual installments of \$10 million each for eleven years and \$4 million in the twelfth year; and an additional \$95 million contribution was paid to the Bank by the Department in annual installments of \$7.6 million including 5% interest per annum for 20 years; (2) a \$300 million interest free loan to Horry County by the Bank; and, (3) a \$247.5 million interest bearing loan by the Bank to Horry County.

Charleston County Project. The total estimated project costs were estimated to be \$650 million. Funding for the project consisted of a \$540 million financial assistance award by the Bank and the funding of \$110 million of expenditures by the Department and claimed as federal expenditures. In addition, the Department is contributing \$200 million to the Bank at the rate of \$8 million per year for 25 years without interest commencing in fiscal year 2003.

US 17 Beaufort and Colleton Counties. During fiscal year 2007, the Department and the Bank entered into an agreement to fund Phase I widening of US17 through Beaufort and Colleton Counties. Total project cost were estimated to be \$100 million. Funding consisted of \$11 million in federal dollars; \$7 million contribution from Beaufort County; and Bank assistance in the form of an \$82 million loan being repaid by the Department in annual installments of \$4.9 million including 4.44% interest for 30 years commencing in fiscal year 2009. The first loan transfer of \$53 million was made July 2008 with the remaining funds of \$29 million transferred July 2009. The remaining \$18 million was fully expended on this project.

Multi-Project Loan. During fiscal year 2006, the Department and the Bank entered into an agreement to extend the original Horry County agreement. This agreement extended an additional \$12 million to complete the Horry County Ride Projects, \$10 million to complete the Lexington project, \$10 million to complete the Beaufort project and \$62.1 million for the bridge demolition project in Charleston. The entire \$62.1 million was utilized, with an imputed interest rate of 5.025%. Annual installments of \$10 million began in 2010 and continue until 2023. On August 20, 2009, the Bank transferred \$10 million from the Beaufort and Lexington projects to the US 17 project increasing the projects total allocation. On August 10, 2011, the Bank authorized the Department to utilize the remaining \$12 million no longer needed for the Horry County project for design build bridge replacement projects.



The following schedule summarizes changes in contributions payable -- State agency (the South Carolina Transportation Infrastructure Bank) for the year ended June 30, 2015 and account balances of each year-end:

Project	(In Thousands)				
	Beginning Balance June 30, 2014	Increases	Decreases	Ending Balance June 30, 2015	Due Within One Year
Horry Ride I Project					
Phase II	\$ 32,609	\$ -	\$ 6,005	\$ 26,604	\$ 6,295
Charleston County Project	103,333	-	8,000	95,333	8,000
US 17	71,686	-	1,834	69,852	1,917
Multi-Project Loan	65,205	-	6,880	58,325	7,234
Totals	\$ 272,833	\$ -	\$ 22,719	\$ 250,114	\$ 23,446

The Department has an additional amount due to State agencies of \$1.51 million which is included in the current portion of due to State agencies in the accompanying statement of net position.

The following schedule summarizes the debt service requirements to the Bank, including principal and interest, to maturity:

Year Ending June 30	(In Thousands)		
	Principal	Interest	Total
2016	\$ 23,446	\$ 7,134	\$ 30,580
2017	24,209	6,371	30,580
2018	25,009	5,571	30,580
2019	25,393	4,553	29,946
2020	19,130	3,850	22,980
2021-2025	71,333	12,732	84,065
2026-2030	31,680	8,553	40,233
2031-2035	20,401	4,498	24,899
2036-2037	9,513	446	9,959
Totals	\$ 250,114	\$ 53,708	\$ 303,822

#### NOTE 10. Deferred Outflows of Resources

The advance refunding of the 2010A resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of \$14.194 million. This difference is reported in the accompanying financial statements as a deferred outflow and is being amortized on a straight line basis and will be charged to operations through the fiscal year ending June 30, 2021 since a call premium was pre-funded. The Department completed the advance refunding to reduce its total debt service payments over the next 11 fiscal years by approximately \$31.134 million and to obtain an economic gain of approximately \$28.827 million (the difference between the present values of the debt service payments on the old debt and the new debt).

The following summarizes the deferred loss on advance refunding of the Series 2010A bonds (in Thousands):

Escrow deposit	\$ 334,443
Less: Net carrying amount	<u>(320,249)</u>
Deferred loss on refunding of bonds payable	14,194
Accumulated amortization of deferred loss	(7,334)
Balance of unamortized deferred loss	<u><u>\$ 6,860</u></u>

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2015 was \$1.419 million.

The advance refunding of the 2013A resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of \$96.1 thousand. This difference is reported in the accompanying financial statements as a deferred outflow and is being amortized on a straight line basis and will be charged to operations through the fiscal year ending June 30, 2021. The Department completed the advance refunding to reduce its total debt service payments over the next 8 fiscal years by approximately \$2.608 million and to obtain an economic gain of approximately \$2.487 million (the difference between the present values of the debt service payments on the old debt and the new debt).

The following summarizes the deferred loss on advance refunding of the Series 2013A bonds (in Thousands):

Escrow deposit	\$ 26,200
Less: Net carrying amount	<u>(26,104)</u>
Deferred loss on refunding of bonds payable	96
Accumulated amortization of deferred loss	(20)
Balance of unamortized deferred loss	<u><u>\$ 76</u></u>

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2015 was \$13 thousand.

The advance refunding of the 2014A resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of \$3.931 million. This difference is reported in the accompanying financial statements as a deferred outflow and is being amortized on a straight line basis and will be charged to operations through the fiscal year ending June 30, 2023. The Department completed the advance refunding to reduce its total debt service payments over the next 10 fiscal years by approximately \$4.272 million and to obtain an economic gain of approximately \$4.220 million (the difference between the present values of the debt service payments on the old debt and the new debt).

The following summarizes the deferred loss on advance refunding of the Series 2014A bonds (in Thousands):

Escrow deposit	\$ 74,973
Less: Net carrying amount	<u>(71,042)</u>
Deferred loss on refunding of bonds payable	3,931
Accumulated amortization of deferred loss	(511)
Balance of unamortized deferred loss	<u><u>\$ 3,420</u></u>

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2015 was \$472 thousand.

See Note 13 for deferred outflows of resources related to pensions.

**NOTE 11. LEASE OBLIGATIONS:**

The Department incurred approximately \$741 thousand in expenditures in the current fiscal year applicable to contingent lease agreements that are based on a five (5) year term in addition to a pay-per-copy arrangement. These lease agreements do not have minimum usage requirements. All contingent lease agreements are with external parties.

In October 2011, the Department entered into an agreement with Banc of America Leasing through the State Treasurer Master Lease program to purchase certain video conferencing equipment. The equipment had a cost of \$234.9 thousand and ownership of the equipment will transfer to the Department at the end of the term of the lease. The interest rate applicable to the loan is 2.8958%. For accounting purposes, it is treated as a capital lease and the equipment is included in the Department's assets and depreciated on the straight line method over five years. As of June 30, 2015, the Department fulfilled this lease obligation with Banc of America Leasing.

**NOTE 12. BANKRUPTCY PROCEEDINGS AND INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT – COMPONENT UNIT:**

**Bankruptcy Proceedings**

In 2012, the Association performed the remaining actions necessary to fully implement its Debt Adjustment Plan, including the exchange of certain 2011 Pro-Rata Term Bonds for 2011 By-Lot Bonds and payment of remaining outstanding costs of issuance of the 2011 Bonds in accordance with the New Waterfall. Accordingly on August 27, 2012, the Bankruptcy Court issued a Final Decree closing the Association's Chapter 9 Bankruptcy case.

**2011 R&R Fund Activity**

The Association's sole obligation related to maintenance of the Southern Connector under its Revised License Agreement with the Department is to make periodic deposits into the 2011 R&R Fund as prescribed by the New Waterfall provisions of the Amended Trust Indenture. As the Department incurs highway maintenance costs relating to the Southern Connector, the Revised License Agreement permits the Department to periodically submit to the Association requisitions for reimbursement of such highway maintenance costs. Any Department highway maintenance cost requisitions received by the Association will be paid from, and to the extent of, monies accumulated in the 2011 R&R Fund.

At December 31, 2013, the balance of the Association's 2011 R&R Fund account was \$809,117. During 2014, deposits into the 2011 R&R Fund consisted of \$458,882 deposited in accordance with the New Waterfall provisions of the Amended Trust Indenture and \$103 of interest income. In 2014, the Association paid \$379,105 of highway maintenance expense incurred by SCDOT, of which \$64,245 was accrued and expensed in 2013. At December 31, 2014, the Association accrued \$401,729 of highway maintenance expense to be reimbursed from the 2011 R&R Fund in 2015. Total highway maintenance expense recognized by the Association for the year ended December 31, 2014 was \$716,588. At December 31, 2014, the balance of the 2011 R&R Fund was \$888,997 and the Fund's net position was \$487,268.

During 2013, deposits into the 2011 R&R Fund consisted of \$424,598 deposited in accordance with the New Waterfall provisions of the Amended Trust Indenture and \$16 of interest income. The Association paid \$105,290 of highway maintenance expense incurred by SCDOT in 2013, of which \$18,000 was accrued and expensed in 2012. At December 31, 2013, the Association accrued \$64,245 of highway maintenance expense to be reimbursed from the 2011 R&R Fund in 2014. Total highway maintenance expense recognized by the Association for the year ended December 31, 2013 was \$151,535. At December 31, 2013, the balance of the 2011 R&R Fund was \$809,117, and the Fund's net position was \$744,872.

The Revised License Agreement contains provisions under which the Association may become liable to the Department for requisitioned highway maintenance costs of the Southern Connector that exceed amounts accumulated in the 2011 R&R Fund and therefore, are not paid from the 2011 R&R Fund. In order for the Association to become obligated to the Department for any such unreimbursed requisitioned highway maintenance costs, all of the Association's 2011 Bonds and any other project debt must first be repaid, redeemed or defeased. In addition, the Department must extend the term of the Revised License Agreement to allow the Association to continue to collect tolls on the Southern Connector to enable the Association to repay the unreimbursed requisitioned highway maintenance costs. If these provisions are implemented, the Association will also become liable to the Department for interest on the unreimbursed requisitioned highway maintenance costs at 5% compounded annually beginning 30 days after the Department submits any reimbursement requests.

### **Interest in License Agreement with the Department**

The Association's operations from its inception through April 20, 2011, were conducted in accordance with the terms of the Association's Original License Agreement with SCDOT, which granted 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.

Upon confirmation by the Bankruptcy Court of and as a means of implementing the Association's Debt Adjustment Plan, the Association entered into a Revised License Agreement with SCDOT which became effective April 21, 2011. The Revised License Agreement specifies that any terms of the Original License Agreement that are not amended or modified by the Revised License Agreement remain in effect.

The Revised License Agreement (1) requires the Association to make periodic deposits into the 2011 R&R Fund, (2) modifies the Association's responsibility for performance and payment of highway maintenance, repair and renewal, (3) eliminates License Fees payable to SCDOT, (4) modifies the manner in which toll rates are set, (5) prohibits SCDOT from terminating the Revised License Agreement for any insolvency of or failure by the Association to pay or perform its obligations due to insufficient toll revenues, and (6) creates a contingent liability for unreimbursed highway maintenance costs payable by the Association to SCDOT only upon repayment, redemption or defeasance of all 2011 Bonds and extension of the Revised License Agreement. All references to license fees are deleted in the Revised License Agreement. As a result, the Association is not required to pay license fees or related interest to SCDOT.

Under the Revised License Agreement, SCDOT is responsible for performance and payment of all highway maintenance of the Southern Connector. As defined in the Revised License Agreement, highway maintenance includes all maintenance, repair, renewal, replacement, enhancement, resurfacing and restoration of the Southern Connector. The Association is not required to perform or pay for any highway maintenance of the Southern Connector.

The Association's sole obligation related to highway maintenance is to make the periodic deposits into the 2011R&R Fund described above for the New Waterfall discussed in Note 1 to the financial statements. The Association's inability to make deposits into the 2011 R&R Fund due to insufficiency of toll revenues will not result in a default under the Revised License Agreement, and such amounts not deposited do not increase future 2011 R&R Fund deposits. Once SCDOT has incurred highway maintenance costs relating to the Southern Connector, SCDOT

may, on a quarterly basis, submit to the Association a requisition for reimbursement and supporting documentation of such highway maintenance costs to be paid from monies deposited in the 2011 R&R Fund. The Association shall in turn request the 2011 Trustee to pay to SCDOT such amounts requested for reimbursement from the 2011 R&R Fund.

The Association has or will appoint at its expense an Association Engineer to perform an inspection of the Southern Connector to identify, review, monitor and report highway maintenance issues and needs, and the Association Engineer may estimate the costs of addressing those issues and needs, and assess the appropriate timing of performing related maintenance activities. The parties will collaborate with SCDOT to schedule necessary highway maintenance activities.

The Association is responsible for maintenance and related costs of the Southern Connector toll facilities under the Revised License Agreement.

Under the Association's Debt Adjustment Plan, toll rates are initially set at amounts set forth in a traffic study performed for the Association by Stantec Engineering. Subsequent revisions of the Southern Connector toll rates are permitted or required in certain circumstances as prescribed by the terms of the Association's Amended Trust Indenture and the Revised License Agreement.

Any revisions to the toll rates shall require a toll rate study to be performed by a qualified independent traffic and revenue consultant selected by the Association. The consultant will study the toll rates charged for use of the Southern Connector, the past and future projected traffic and other relevant factors in order to determine the toll rates which, in the opinion of the consultant, will maximize Southern Connector toll revenues over a projected period of at least five years.

Prior to commencement of the toll rate study, the Association must submit the name and a summary of qualifications of the selected independent traffic and revenue consultant to SCDOT for approval.

As prescribed in the Revised License Agreement, SCDOT may object to the Association's selection of a consultant on the basis of lack of expertise or qualifications and propose at least one alternate consultant considered acceptable by SCDOT for the performance of the toll rate study.

Once the toll rate study has been completed by the independent traffic and revenue consultant, the Association will deliver a copy of such toll rate study to SCDOT and the 2011 Bonds Trustee, and, at the Association's request, SCDOT will confirm the effectiveness of and take other steps as necessary to implement the recommended revisions to the Southern Connector toll rates.

The Revised License Agreement specifies that neither SCDOT nor the State of South Carolina is responsible for determining whether the toll rates charged by the Association are adequate to satisfy the Association's obligations to third parties.

The Revised License Agreement allows the Association to grant toll rate discounts to encourage the use of the electronic toll collection system or to provide an incentive to fleet purchasers. Any such discounts will not be deemed to be a revision of toll rates.

The Revised License Agreement shall expire on July 22, 2051, or upon repayment, redemption or defeasance of the 2011 Bonds and all other project debt. The Revised License Agreement also includes other termination provisions, but specifically states that the failure of the Association to pay any amounts owing or to perform any obligations under the Revised License Agreement due to insufficient toll revenues shall not be an event of default under the Revised License Agreement.

Provisions are included to extend the Revised License Agreement's term by any period equal to any length of time during which toll revenues are impaired due to events of force majeure, or upon written agreement by the Association and SCDOT.

Provisions are also included to extend the Revised License Agreement at the request of SCDOT to allow the Association to pay Unreimbursed Amounts of highway maintenance costs. However, the Revised License Agreement specifies that the Association's liability under this provision will not accrue or be deemed to accrue unless and until all 2011 Bonds and any other project debt have been repaid, redeemed or defeased. This contingency is discussed further in the Association's notes.

Under the Revised License Agreement, SCDOT at all times retains fee simple title to the Southern Connector, all tolling facilities and all real property and improvements thereon. All machinery, equipment, furniture, fixtures and other personal property are the sole property of the Association. Neither the State of South Carolina nor any political subdivision or agency thereof (including, without limitation, SCDOT, the County of Greenville, South Carolina, and the City of Greenville, South Carolina) have any liability whatsoever for payment of any Bonds or any other obligations secured by the Revised License Agreement.

The Association is amortizing the Revised License Agreement through its contractual termination date, or July 2051.

The Association's rights under its License Agreement with SCDOT constitute a service concession arrangement that is accounted for as an intangible asset valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest, less cumulative amortization. The following table summarizes the activity in the Association's Interest in License Agreement with SCDOT (intangible asset) for the year ended December 31, 2014:

Description	(in thousands)			Balance December 31, 2014
	Balance December 31, 2013	Additions	Disposals	
Interest in License Agreement with SCDOT	\$ 192,623	\$ -	\$ -	\$ 192,623
Less: Accumulated Amortization	(58,284)	(3,574)	-	(61,858)
Interest in License Agreement with SCDOT, net	\$ 134,339	\$ (3,574)	\$ -	\$ 130,765

#### NOTE 13. PENSION PLANS:

The South Carolina Public Employee Benefit Authority ("PEBA"), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (reorganized into the Department of Administration on July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review. The administrative pension duties now reside with the State Fiscal Accountability Authority.

PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

## Plan Descriptions

- The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.
- The State Optional Retirement Program (“State ORP”) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.
- The South Carolina Police Officers Retirement System (“PORS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

### *Membership*

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.
- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

### *Benefits*

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

### *Contributions*

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.



Required employee contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation

**State ORP Employee**

8.00% of earnable compensation

**PORS**

Employee Class One	\$21 per month
Employee Class Two	8.41% of earnable compensation
Employee Class Three	8.41% of earnable compensation

Required employer contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

Employer Class Two	10.75% of earnable compensation
Employer Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

**State ORP Employee**

Employer Contribution	10.75% of earnable compensation <sup>1</sup>
Employer Incidental Death Benefit	0.15% of earnable compensation

**PORS**

Employer Class One	7.80% of earnable compensation
Employer Class Two	13.01% of earnable compensation
Employer Class Three	13.01% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

<sup>1</sup> Of this employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

## Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS and PORS.

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	levels off at 3.5%	levels off at 4.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

#### Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that System's fiduciary net position. As of June 30, 2015, the Department's proportional share of the NPL amounts for SCRS and PORS are presented below:

#### Proportional Share of Net Pension Liability (in thousands)

System	
SCRS	\$ 328,817
PORS	426
Total	<u>\$ 329,243</u>

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The Department's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2015, the Department's percentage of the SCRS and PORS net pension liability were 1.909875% and 0.02225%, respectively.

### Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
<b>Short Term</b>	<b>5.0%</b>		
Cash	2.0	0.3%	0.01%
Short Duration	3.0	0.6	0.02
<b>Domestic Fixed Income</b>	<b>13.0</b>		
Core Fixed Income	7.0	1.1	0.08
High Yield	2.0	3.5	0.07
Bank Loans	4.0	2.8	0.11
<b>Global Fixed Income</b>	<b>9.0</b>		
Global Fixed Income	3.0	0.8	0.02
Emerging Markets Debt	6.0	4.1	0.25
<b>Global Public Equity</b>	<b>31.0</b>	<b>7.8</b>	<b>2.42</b>
<b>Global Tactical Asset Allocation</b>	<b>10.0</b>	<b>5.1</b>	<b>0.51</b>
<b>Alternatives</b>	<b>32.0</b>		
Hedge Funds (Low Beta)	8.0	4	0.32
Private Debt	7.0	10.2	0.71
Private Equity	9.0	10.2	0.92
Real Estate (Broad Market)	5.0	5.9	0.29
Commodities	3.0	5.1	0.15
Total Expected Real Return	100.0%		5.88
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.63%

*Sensitivity Analysis*

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

<b>Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate (In thousands)</b>			
<b>System</b>	<b>1.00% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1.00% Increase (8.50%)</b>
SCRS	\$ 425,509	\$ 328,817	\$ 248,147
PORS	\$ 595	\$ 426	\$ 285

**Deferred Outflows (Inflows) of Resources**

For the year ended June 30, 2015, the Department recognized pension expense of \$ 4.3 million. At June 30, 2015, the Department reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 18,773	\$ -
Differences in actual and expected experience	9,329	-
Net differences between projected and actual earnings on plan investments	-	27,771
	<u>\$ 28,102</u>	<u>\$ 27,771</u>

The Department reported approximately \$ 18,773,000 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Department's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2015. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2015 was 4.233 years for SCRS and 4.856 years for PORS (in thousands).

<b>Measurement Period Ending June 30,</b>	<b>Fiscal Year Ending June 30,</b>	<b>SCRS</b>	<b>PORS</b>
2015	2016	\$ (4,050)	\$ (8)
2016	2017	(4,050)	(8)
2017	2018	(4,050)	(8)
2018	2019	(6,258)	(10)
Net Balance of Deferred Outflows / (Inflows) of Resources		<u>\$ (18,408)</u>	<u>\$ (34)</u>

**NOTE 14. POST-EMPLOYMENT BENEFITS AND OTHER THAN PENSIONS:**

**Plan Description**

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Department contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division (IB) of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

**Funding Policies**

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2015 and 4.55% of annual covered payroll for 2014. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Department paid approximately \$8.4 million and \$8.0 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2015 and 2014, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2015 and 2014. The Department recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$18.2 million and \$18.3 million for the years ended June 30, 2015 and 2014, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

**NOTE 15. DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Department have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), 403(b), and Roth 401(k) are administered by third parties and are not included in the CAFR of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee.

The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. The Department has not made any contributions to these plans.

#### **NOTE 16. TRANSACTIONS WITH STATE ENTITIES / RELATED PARTIES:**

##### **Primary Entity:**

The Department has significant transactions with the State of South Carolina and various State agencies. The Department purchases goods and services from various State agencies. Total purchases from State agencies were approximately \$23.5 million for the year ended June 30, 2015. The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately \$134.2 thousand for the year ended June 30, 2015.

The gasoline, special fuels user fees and car sales taxes are collected by the South Carolina Department of Revenue (DOR) and remitted on a monthly basis. The user fees and sales taxes collected by DOR for the State Highway Fund amounted to \$486.7 million for the year ended June 30, 2015 of which \$77.8 million was accrued as a receivable at June 30, 2015. Gasoline tax revenues collected by DOR for the County Transportation Program Agency Fund amounted to \$72.5 million for the year ended June 30, 2015.

The Department participates in the International Fuel Tax Agreement (IFTA) program. This program is an agreement between the lower 48 states of the United States and the Canadian provinces, to simplify the reporting of fuel use by motor carriers that operate in more than one jurisdiction. Alaska, Hawaii, and the Canadian territories do not participate. An operating carrier with IFTA receives an IFTA license and two decals for each qualifying vehicle it operates. The carrier files a quarterly fuel tax report. This report is used to determine the net tax or refund due and to redistribute taxes from collecting states to states that it is due. This tax is required for motor vehicles used, designed, or maintained for transportation of persons or property and:

- Having two axles and a gross vehicle weight rating or registered gross vehicle weight in excess of 26,000 pounds, and/or
- Having three or more axles regardless of weight, and/or
- Is used in combination, when the weight of such combination exceeds 26,000 pounds gross vehicle or registered gross vehicle weight.

Exceptions exist for Recreational Vehicles (such as motor homes, pickup trucks with attached campers, and buses when used exclusively for personal pleasure by an individual. Some states have their own exemptions that often apply to farm vehicles or government vehicles. Additional information about the IFTA can be found at <http://www.iftach.org/>.

The calculation of net amount owed or due is performed by this central organization. This calculation has historically resulted in a net amount due from the Department to the central organization. The Department remitted \$14.7 million of fuel oil user fee revenue to the SC Department of Motor Vehicles (DMV) in FY 2015 for the IFTA calculation. The DMV then remits that amount to the central IFTA organization for redistribution to other member states. The Department remitted \$15.8 million in FY 2014 for the same calculation.

Services received at no cost from the various state agencies, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

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

Workers' compensation insurance premiums for the fiscal year 2015 of \$7.3 million were paid to the State Accident Fund and \$82.2 thousand was paid for Unemployment Insurance, to the South Carolina Unemployment Trust Fund.

The Department provided no material services free of charge to other State agencies during the fiscal year.

See Note 9 regarding transactions resulting from intergovernmental agreements entered into by the Department, the Bank, and other local governments. The Department provided the Bank administrative services, clerical assistance, and project oversight during fiscal year 2015 for which it was paid \$3.591 million. The Bank also reimbursed the Department \$31.627 million in direct project costs. Allocations to other entities - State agency represented amounts paid to the Bank and totaled \$27.4 million for the year ended June 30, 2015. The payments were from gas tax collections and represented an amount not to exceed the one cent per gallon collected in accordance with Section 11-43-160 of the South Carolina Code of Laws for the on-going funding of construction and maintenance of highways. The Department also transferred \$50 million to the Bank as directed by the state legislature as part of additional "Act 98" funding from the general fund.

The Department has established an agreement with the Bank to reserve \$10,000,000 as guaranty on Horry County loan payments to the Bank.

A summary of intergovernmental payables to State agencies in the fund level balance sheet at June 30, 2015 is as follows:

<u>(In Thousands)</u>	
<u>Due To / Description</u>	
Purchases of goods and services:	
Archives and History	\$ 43
Clemson University	87
Lieutenant Governor	4
S.C. Department of Corrections	40
S.C. Department of Disabilities and Special Needs	127
S.C. Department of Natural Resources	6
S.C. Department of Motor Vehicles	71
S.C. Department of Public Safety	30
State Budget and Control Board	27
Transportation Infrastructure Bank	1,044
University of South Carolina	31
	<u>\$ 1,510</u>

**NOTE 17. FEDERAL GRANTS:**

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

**NOTE 18. RISK MANAGEMENT:**

**Primary Entity**

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from that carried in the prior year. Settled claims have not exceeded this coverage in the prior three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

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

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Public Employee Benefit Authority – Insurance Benefits); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefit Authority – Insurance Benefits).

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

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

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

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from re-insurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially. State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and IRF.

The Department obtains coverage up to \$50,000 through a commercial insurer for employee fidelity bond insurance for the Secretary of Transportation for losses arising from theft or misappropriation. Employee fidelity bond coverage is not maintained on the Department's Commission members or its other employees. The



Department self-insures itself for any losses because it feels the likelihood of losses is remote. The Department has not transferred the portion of the risk of loss related to insurance policy deductibles and limits for capital assets and fidelity overages to a State or commercial insurer.

The Department has not reported an estimated claims loss expenditure, and the related liability at June 30, 2015, based on the requirements of GASB Statement No. 10 and No. 30 which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2015 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

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

**Component Unit**

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

No claim settlements have exceeded insurance coverage during the past three years. There were no materially significant reductions in insurance coverage during the year ended December 31, 2014.

**NOTE 19. CONTINGENCIES AND SUBSEQUENT EVENTS:**

**CONTINGENCIES:**

**PRIMARY ENTITY:**

The Department is a defendant in various lawsuits arising from the conduct of its normal business primarily regarding rights-of-way. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of any litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Department.

Through June 30, 2013, the State's Joint Bond Review Committee approved the issuance by the Department not to exceed \$926 million in General Obligation State Highway Bonds for projects. As of June 30, 2012, \$820 million has been issued and \$410.6 million is outstanding. In April 2011, the Commission authorized the department to begin procedures to issue general obligation highway bonds not to exceed \$344 million in general obligation highway bonds for various significant projects. This this authorization was rescinded in 2015.

**South Carolina Department of Transportation**  
**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)**  
**Governmental Fund (General Fund)**  
**For the Fiscal Year Ended June 30, 2015**  
(in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>General Fund</b>				
Permanent improvement SIB	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Mass Transit	57	57	57	-
Cherokee Salt Shed	237	237	237	-
Bridge Repair and Rehab	11,319	11,319	11,319	-
Upstate Salt Storage	313	313	313	-
Completion of Drainage	300	300	300	-
<b>Total Expenditures</b>	<b>\$ 62,226</b>	<b>\$ 62,226</b>	<b>\$ 62,226</b>	<b>\$ -</b>

**South Carolina Department of Transportation**  
**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)**  
**Governmental Fund (Earmarked, Restricted and Federal Funds)**  
**For the Fiscal Year Ended June 30, 2015**  
(in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>General Administration</b>				
Executive director	\$ 156	\$ 156	\$ 156	\$ -
Classified positions	16,408	15,205	15,070	135
Unclassified position	250	243	210	33
Other personal services	250	250	187	63
Other operating	23,286	24,326	21,588	2,738
Permanent improvement	-	2	2	-
Debt service	-	1,168	777	391
Debt - service charge	45	119	119	-
Interest - master lease	4	4	3	1
Alloc mun-restricted	-	100	-	100
<b>Land &amp; Buildings</b>				
Other operating	1,300	1,355	1,316	39
Permanent improvement	-	26	-	26
<b>Engineering - Adm. Proj. Mgmt.</b>				
Classified positions	73,168	73,050	71,729	1,321
Unclassified position	140	147	147	-
Other personal services	3,000	2,656	2,396	260
Other operating	8,824	8,898	6,306	2,592
Land & Buildings	-	48	27	21
<b>Engineering - Construction</b>				
Other operating	155,000	135,840	69,492	66,348
Permanent improvements	775,000	774,000	542,473	231,527
Debt service	53,441	52,273	52,024	249
Principal - loan note	1,834	1,834	1,834	-
Interest - loan note	3,146	3,146	3,146	-
Alloc mun-restricted	1,000	300	-	300
Alloc cntry-restricted	250	250	-	250
Alloc other entities	100	100	-	100
General Fund Transfer Bridge Repair	-	-	(11,319)	11,319
<b>Highway Maintenance</b>				
Classified positions	90,464	90,464	84,092	6,372
Other personal services	3,000	3,338	3,338	-
Other operating	175,500	175,425	150,716	24,709
Permanent improvements	150	15	14	1
<b>Non-Federal Aid</b>				
Other operating Bridges Minor Repair	17,600	14,080	620	13,460
Other operating Rehab & Resurfacing	67,400	91,480	87,812	3,668
<b>Mass Transit</b>				
Unclassified position	98	98	-	98
Classified positions	2,422	2,533	2,533	-
Other personal services	-	7	7	-
Other operating	1,081	1,631	1,108	523
Alloc mun-restricted	100	-	-	-
Alloc other entities	22,645	21,715	20,736	979
<b>Toll Operations</b>				
Classified positions	98	104	104	-
Other operating	3,825	4,270	4,259	11
Debt service	3,578	3,907	3,906	1
<b>Employer Contributions</b>				
	81,134	81,134	73,390	7,744
<b>Port Access Road</b>				
Permanent Improvements	52,500	52,500	3,525	48,975
<b>Total Expenditures</b>	<u>\$ 1,638,197</u>	<u>\$ 1,638,197</u>	<u>\$ 1,213,843</u>	<u>\$ 424,354</u>

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2015**

**NOTE 1. BUDGETARY FUNDS**

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

*General Funds.* These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

*Total Funds.* The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

The Department's legally adopted budget is part of the Total Funds budget for the State. It is presented for the State Highway Fund at the program level including the restricted, earmarked, and general funds appropriated to the Department.

**NOTE 2. ORIGINAL AND FINAL BUDGETED AMOUNTS; BASIS OF PRESENTATION**

The original appropriations presented in the accompanying schedule for the State Highway Fund include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedule for department's governmental fund are substantively the same as for the legally enacted budget.

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the State Highway Fund. However, Section 115 (*Recapitulations*) of the Appropriation Act includes net *source of funds* amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the State Highway Fund is presented as required supplementary information.

As operating conditions change, the Department may move appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personal services without Budget and Control Board approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the Budget and Control Board.

**NOTE 3: LEGAL LEVEL OF BUDGETARY CONTROL**

The Department maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedule.

**NOTE 4: BASIS OF BUDGETING**

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- Departments and agencies shall charge certain vendor and inter-fund payments against the preceding fiscal year's appropriations through July 12.
- The gasoline and motor fuel taxes are recorded on the modified accrual basis in accordance with State law.
- All other revenues are recorded only when the State receives the related cash.

**NOTE 5: RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES**

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist of primarily of reclassifications from financial statement classifications to budgetary fund categories, the accrual and reversal of accounts payable and payroll and related fringe benefits, which exceed the cut off for the Department to charge the previous fiscal year's appropriations. Additionally, acquisitions of capital assets by donation and a portion of the Department's debt service are unbudgeted.

**South Carolina Department of Transportation Required Supplementary Information -  
Schedule of the South Carolina Department of Transportation's Proportionate Share of the Net Pension Liability--  
South Carolina Retirement System  
As of June 30, 2015  
Last Two Fiscal Years**

(in thousands)

	2015	2014
SCDOT's proportion of the net pension liability	1.91 %	1.91 %
SCDOT's proportionate share of the net pension liability	\$ 328,817,158	\$ 342,563,445
SCDOT's covered employee payroll	\$ 173,686,792	\$ 171,613,207
SCDOT's proportionate share of the net pension liability as percentage of covered employee payroll	189.32 %	199.61 %
Plan fiduciary net position as a percentage of the total pension liability	59.92 %	56.39 %

Note: The amounts presented above were determined as of June 30<sup>th</sup> of the preceding year.

**South Carolina Department of Transportation Required Supplementary Information -  
Schedule of the South Carolina Department of Transportation's Proportionate Share of the Net Pension Liability--  
Police Officers Retirement System  
As of June 30, 2015  
Last Two Fiscal Years**

	2015	2014
SCDOT's proportion of the net pension liability	0.22 %	0.22 %
SCDOT's proportionate share of the net pension liability	\$ 425,960	\$ 461,236
SCDOT's covered employee payroll	\$ 267,610	\$ 211,382
SCDOT's proportionate share of the net pension liability as percentage of covered employee payroll	159.17 %	218.20 %
Plan fiduciary net position as a percentage of the total pension liability	67.55 %	62.98 %

Note: The amounts presented above were determined as of June 30<sup>th</sup> of the preceding year.

**South Carolina Department of Transportation Required Supplementary Information -  
Schedule of the South Carolina Department of Transportation's Contributions –  
South Carolina Retirement System  
As of June 30, 2015  
Last Ten Fiscal Years**

(in thousands)

	2015	2014	2013	2012	2011
Contractually required contribution	\$ 18,739	\$ 18,379	\$ 18,191	\$ 16,403	\$ 15,897
Contributions in relation to the contractually required contribution	18,739	18,379	18,191	16,403	15,897
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered-employee payroll	\$ 171,918	\$ 173,386	\$ 171,613	\$ 172,027	\$ 169,300
Contributions as a percentage of the covered employee payroll	10.90%	10.60%	10.60%	9.54%	9.39%
	2010	2009	2008	2007	2006
Contractually required contribution	\$ 17,300	\$ 17,000	\$ 16,400	\$ 13,800	\$ 12,800
Contributions in relation to the contractually required contribution	17,300	17,000	16,400	13,800	12,800
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered-employee payroll	\$ 184,239	\$ 181,044	\$ 178,067	\$ 168,293	\$ 166,234
Contributions as a percentage of the covered employee payroll	9.39%	9.39%	9.21%	8.20%	7.70%

**South Carolina Department of Transportation Required Supplementary Information -  
Schedule of the South Carolina Department of Transportation's Contributions -  
Police Officers Retirement System  
As of June 30, 2015  
Last Ten Fiscal Years**

	2015	2014	2013	2012	2011
Contractually required contribution	\$ 34	\$ 34	\$ 26	\$ 23	\$ 25
Contributions in relation to the contractually required contribution	34	34	26	23	25
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered-employee payroll	\$ 265	\$ 267	\$ 211	\$ 199	\$ 214
Contributions as a percentage of the covered employee payroll	12.84%	12.84%	12.12%	11.76%	11.53%
	2010	2009	2008	2007	2006
Contractually required contribution	\$ 27	\$ 29	\$ 24	\$ 30	\$ 30
Contributions in relation to the contractually required contribution	27	29	24	30	30
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered-employee payroll	\$ 244	\$ 262	\$ 224	\$ 280	\$ 280
Contributions as a percentage of the covered employee payroll	11.05%	11.05%	10.70%	10.70%	10.70%



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2015**

(In Thousands)

	-----Assets-----			
	Cash and Cash Equivalents	Accrued Current Receivable	Due from State Highway Fund	Total Assets
<b>RIGHT OF WAYS FUND</b>				
Balance at June 30, 2014	\$ 175	\$ -	\$ -	\$ 175
Additions	3	-	-	3
Deductions	(178)	-	-	(178)
Balance at June 30, 2015	-	-	-	-
<b>SPECIAL DEPOSITS</b>				
Balance at June 30, 2014	3,610	-	-	3,610
Additions	2,122	-	-	2,122
Deductions	(2,431)	-	-	(2,431)
Balance at June 30, 2015	3,301	-	-	3,301
<b>LOCAL TAX FUND</b>				
Balance at June 30, 2014	24,341	-	-	24,341
Additions	16,881	16,711	-	33,592
Deductions	(3,582)	(16,669)	-	(20,251)
Balance at June 30, 2015	37,640	42	-	37,682
<b>COUNTY TRANSPORTATION FUND</b>				
Balance at June 30, 2014	102,369	222	12,558	115,149
Additions	114,357	399	72,491	187,247
Deductions	(91,844)	(472)	(72,202)	(164,518)
Balance at June 30, 2015	124,882	149	12,847	137,878
<b>TOTALS - ALL AGENCY FUNDS</b>				
Balance at June 30, 2014	130,495	222	12,558	143,275
Additions	133,363	17,110	72,491	222,964
Deletions	(98,035)	(17,141)	(72,202)	(187,378)
Balance at June 30, 2015	\$ 165,823	\$ 191	\$ 12,847	\$ 178,861

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
(In Thousands)

	-----Liabilities-----				
	Accounts Payable/ Other Liabilities	Deposits for Right of Ways	Special Deposits and Bonds	Funds Held for Counties	Total Liabilities
<b>RIGHT OF WAYS FUND</b>					
Balance at June 30, 2014	\$ -	\$ 175	\$ -	\$ -	\$ 175
Additions	-	3	-	-	3
Deductions	-	(178)	-	-	(178)
Balance at June 30, 2015	-	-	-	-	-
<b>SPECIAL DEPOSITS</b>					
Balance at June 30, 2014	595	-	3,015	-	3,610
Additions	173	-	1,963	-	2,136
Deductions	(286)	-	(2,159)	-	(2,445)
Balance at June 30, 2015	482	-	2,819	-	3,301
<b>LOCAL TAX FUND</b>					
Balance at June 30, 2014	-	-	-	23,952	23,952
Additions	-	-	-	17,516	17,516
Deductions	-	-	-	(3,786)	(3,786)
Balance at June 30, 2015	-	-	-	37,682	37,682
<b>COUNTY TRANSPORTATION FUND</b>					
Balance at June 30, 2014	7,295	-	-	108,244	115,539
Additions	7,075	-	-	200,722	207,797
Deductions	(7,295)	-	-	(178,163)	(185,458)
Balance at June 30, 2015	7,075	-	-	130,803	137,878
<b>TOTALS - ALL AGENCY FUNDS</b>					
Balance at June 30, 2014	7,890	175	3,015	132,196	143,276
Additions	7,248	3	1,963	218,238	227,452
Deletions	(7,581)	(178)	(2,159)	(181,949)	(191,867)
Balance at June 30, 2015	\$ 7,557	\$ -	\$ 2,819	\$ 168,485	\$ 178,861

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters based  
on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

Mr. George L. Kennedy, III, CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 15, 2015. Our report includes a reference to other auditors who audited the financial statements of the Connector 2000 Association, Inc., a discretely presented component unit of the Department, as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Connector 2000 Association, Inc. were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Scott and Company LLC*

Columbia, South Carolina  
October 15, 2015