SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2018

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

September 26, 2018

Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

This report on the audit of the financial statements of South Carolina Department of Transportation for the fiscal year ended June 30, 2018, 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

George L. Kennedy, III, CPA
State Auditor

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SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

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SCOTT + COMPANY

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, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

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 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, 2017 were audited by other auditors whose report dated April 25, 2018, 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. 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, 2018, 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, 2017, 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 1 to the financial statements, the Department adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2018. 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, 2018, 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, pension, and other postemployment benefit information as listed in the table of contents, 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 75 and 76 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 September 26, 2018 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. 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.

Scott and Company LLC

Columbia, South Carolina
September 26, 2018

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the South Carolina Department of Transportation (the "Department"), we provide this *Management's Discussion and Analysis* of the Department's financial statements for the fiscal year ended June 30, 2018 as a narrative overview and analysis. 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 April 25, 2018. 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, 2018 by $15.1 billion (presented as "Net Position"). Of this amount, a deficit of $(209.9) million was reported as "unrestricted net position". The deficit in unrestricted net position is due to $323.4 million of net position being restricted by law or loan agreements as well as the Department reporting $774.7 million in pension and OPEB liabilities. The Department's component unit, Connector 2000 Association, Inc. reported a *net position deficit* of ($72.1) million as of December 31, 2017, the close of its fiscal year.

Changes in Net Position - The Department's total net position increased by $933.2 million, or 6.6% in fiscal year 2018. The increase in net position can be attributed to an increase in self-constructed infrastructure assets net of accumulated depreciation and a donation of infrastructure assets from the South Carolina Infrastructure Bank, as well as $349.6 million in revenues from the Infrastructure Maintenance Fee and increased motor fuel fees which began during fiscal year 2018. The Department's component unit net position decreased by $9.6 million.

Capital Assets – Capital Assets, net of depreciation, which include infrastructure, were approximately $15.4 billion at June 30, 2018 for the Department. Capital additions for the year totaled $839.2 million. The carrying value of capital assets removed from the records this year was $5.0 million. Capital assets of the component unit, net of depreciation, were approximately $1.4 million at December 31, 2017 which is comprised of equipment.

Long-term Obligations - The Department's total long-term obligations decreased by $73.9 million (16.5 %) during the current fiscal year to $371.4 million. This change is attributable to a net decrease in bonds payable of $51.1 million, a net decrease in the amount due the South Carolina State Transportation Infrastructure Bank of $25.0 million and other net decreases of $2.4 million offset by new borrowings under a capital lease of $4.5 million. Long-term obligations of the component unit increased by 3.7% to $205.5 million.

FUND ACTIVITY

Governmental Funds - Fund Balances - As of the close of fiscal year 2018, the Department's governmental funds reported a combined ending fund balance of $869.7 million, an increase of $282.4 million in comparison with the prior year. Of this total amount, $522.3 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. Revenue exceeded expenditures by $276.3 million. Overall agency expenditures were up 15.5% from the previous year.

In the current fiscal year, highway maintenance expenditures increased 39.7% over the previous year while capital expenditures decreased 5.1%. Operating expenditures, excluding debt service increased 4.7%, debt service decreased 0.9%, and allocations to other entities decreased $44.8 million or 20.9%. Overall revenues increased 3.6%. Federal revenues increased 8.8% over last year; and motor fuel and fee revenues were up 10.8% from the previous year. Revenues from the new Infrastructure Maintenance Fee were $239.6 million.

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 S*tatement 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 S*tatement 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.

Governmental Funds – Most of the basic services provided by the Department are financed through the governmental fund. The governmental funds are 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 funds 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.

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects and exclusive of resources held in trust for individuals, private organizations, or other governments.

The Department has two governmental funds which are special revenue funds which are described as follows:

State Highway Fund – The State Highway Fund, which is a special revenue fund, generally records the expenditure of revenues that are committed or 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 committed or 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 (the "Code").

This fund accounts for, among others, gasoline user fee, 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. The Department's appropriation from the State's General Fund is also included in this fund.

Infrastructure Maintenance Trust Special Revenue Fund – Established during fiscal year 2018, the Infrastructure Maintenance Trust Fund was created by South Carolina Act 40 of 2017 and provides additional funding to the Department to be used for the repairs, maintenance and improvements to the existing transportation system.

This fund accounts for a 2 cent increase to the existing gasoline user fee, an infrastructure maintenance fee imposed on the registration of vehicles, trailers, semi-trailers and other items pursuant to Chapter 3 of Title 56 of the Code, a motor carrier road use fee, an increase in biennial vehicle registration fees and a road use fee on hybrid and alternative fuel vehicles. The Infrastructure Maintenance Trust Fund is a special revenue fund as all funds are restricted by law to the repairs, maintenance and improvements of the existing transportation system.

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

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 basic fiduciary funds financial statements can be found immediately following the governmental fund 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 preceded by the management discussion and analysis and are followed by another 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, actual contributions to these two retirement programs on behalf of current and former employees of the Department, retiree health benefit (OPEB) liabilities, and related contributions. 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 $15.1 billion at the close of business on June 30, 2018 (See **Table A-1** for a summary of net position for fiscal years 2016-2017 and 2017-2018). The largest portion of the Department's net position (99.4%) 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.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	**45.0%**		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Stategies	5.0%	5.91%	0.30%
Real Assets	**8.0%**		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	**17.0%**		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	**18.0%**		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100%		5.32%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.57%

Discount Rate

The discount rate used to measure the TPL was 7.25 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 Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the 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 TPL.

Sensitivity Analysis

The following table presents the collective NPL of the participating employers calculated using the discount rate of 7.25 percent, as well as what the employers' NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate (In thousands)			
System	**1.00% Decrease (6.25%)**	**Current Discount Rate (7.25%)**	**1.00% Increase (8.25%)**
SCRS	$ 578,020	$ 448,473	$ 369,868
PORS	$ 793	$ 587	$ 425

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017.

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2018, the Department recognized pension expense of $48.5 million. At June 30, 2018, the Department reported deferred outflows (inflows) of resources related to pensions from the following sources:

	(In Thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 26,156	$ -
Differences in actual and proportionate share of employer contributions	-	35
Assumption Changes	26,309	
Differences in actual and expected experience	2,005	248
Net differences between projected and actual earnings on plan investments	12,540	-
Change in proportionate share of net pension liability	10,772	1,011
	$ 77,782	$ 1,294

The Department reported approximately $26.2 million 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, 2019. 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, 2018. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2018 was 4.073 years for SCRS and 4.553 years for PORS (in thousands).

		(In Thousands)		
Measurement Period Ending June 30,	**Fiscal Year Ending June 30,**	**SCRS**	**PORS**	**TOTAL**
2018	2019	$ 15,768	$ 24	$ 15,792
2019	2020	23,068	33	23,101
2020	2021	14,588	16	14,604
2021	2022	(3,158)	(7)	(3,165)
Net Balance of Deferred Outflows / Inflows of Resources		$ 50,266	$ 66	$ 50,332

The Department made contributions to the retirement plan after the measurement date of $26.2, $23.0 million, and $20.8 million for the years ended June 30, 2018, 2017, and 2016, respectively.

NOTE 13. POST-EMPLOYMENT BENEFITS AND OTHER THAN PENSIONS:

PEBA is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts. By law, the SFFA, which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB).

PEBA, Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Fund. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the State and therefore, OPEB Trust fund financial information is also included in the comprehensive annual financial report of the State.

Plan Descriptions

The Other Post-Employment Benefits Trust Fund (OPEB Trust), refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans.

In accordance with Act 195, the OPEB Trust is administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trust is a cost-sharing multiple-employer defined benefit plan. Article 5 of the State Code of Laws defines the plan and authorizes the Trustee to at any time adjust the plan, including its benefits and contributions, as necessary to insure the fiscal stability of the plan. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental benefits to retired State and school district employees and their covered dependents.

Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public-school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. 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 15-24 years of service for 50% employer funding.

Contributions and 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 to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the year ended June 30, 2018 and 2017 was 5.50 and 5.33 percent, respectively. The South Carolina Retirement System collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs.

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.56% as of June 30, 2017
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging Factors:	Based on plan specific experience
Retiree Participation:	79% for retirees who are eligible for funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017

Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort.

The following table represents State's net OPEB liability as of June 30, 2017:

(in thousands)

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	$ 14,659,611	$ 1,114,775	$ 13,544,836	7.60%

The TOL is calculated by the Trusts' actuary, and each Trust's fiduciary net position is reported in the Trust's financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trusts' notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts' actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts' funding requirements.

At June 30, 2018, the Department reported a liability of $325.6 million for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017. The Department's proportion of the net OPEB liability was based on a projection of the Department's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Department's proportion was 2.403769%.

Single Discount Rate

The Single Discount Rate of 3.56% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long-term Expected Rate of Return

The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. For actuarial purposes, the 4.00 percent assumed annual investment rate of return includes a 1.75 percent real rate of return and a 2.25 percent inflation component. This information is summarized in the following table:

Asset Class	**Target Asset Allocation**	**Expected Arithmetic Real Rate of Return**	**Allocation Weighted Long Term Expected Portfolio**
US Domestic Fixed Income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
Total Expected Real Return	100.0%		1.84%
Expected Inflation			2.25%
Total Return			4.09%
Investment Return			4.00%

Sensitivity Analysis

The following table represents the Department's proportionate share of the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.56%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Single Discount Rate (in thousands)			
OPEB Trust	**1.00% Decrease (2.56%)**	**Current Discount Rate (3.56%)**	**1.00% Increase (4.56%)**
SCRHITF	$ 383,449	$ 325,592	$ 278,935

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the Department's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (in thousands)			
OPEB Trust	**1.00% Decrease**	**Current Healthcare Cost Trend Rate**	**1.00% Increase**
SCRHITF	$ 266,994	$ 325,592	$ 401,449

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2018, the Department recognized OPEB expense of $19.9 million. At June 30, 2018, the Department reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 10,561	$ -
Differences in actual and expected plan experience	-	141
Changes in assumptions	-	30,636
Net differences between projected and actual earnings on plan investments	559	-
	$ 11,120	$ 30,777

Contributions subsequent to the measurement date of $10.6 million were reported as deferred outflows of resources related to OPEB and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows. Average remaining services lives of all employees provided with OPEB through the June 30, 2017 was 7.246 years for SCRHITF:

Measurement Period Ending June 30,	**Fiscal Year Ending June 30,**	**SCRHITF**
2018	2019	$ (4,788)
2019	2020	(4,788)
2020	2021	(4,788)
2021	2022	(4,788)
2022	2023	(4,927)
Thereafter		(6,139)

NOTE 14. 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 15. TRANSACTIONS WITH STATE ENTITIES / RELATED PARTIES:

The Department has significant transactions with the State and various State agencies. The Department purchases goods and services from various State agencies. Total purchases from State agencies were approximately $26.8 million for the year ended June 30, 2018. The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately $1.2 million for the year ended June 30, 2018.

The gasoline user fees, special fuels user fees and max 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 $614.3 million for the year ended June 30, 2018 of which $113.4 million was accrued as a receivable at June 30, 2018. Gasoline user fees revenues collected by DOR for the County Transportation Program Agency Fund amounted to $73.9 million for the year ended June 30, 2018.

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 $16.9 million of fuel oil user fee revenue to the South Carolina Department of Motor Vehicles (“DMV”) in fiscal year 2018 for the IFTA calculation. The DMV then remits that amount to the central IFTA organization for redistribution to other member states. The Department remitted $16.7 million in FY 2017 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.

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. The amounts of expenditures applicable to related party transactions are not readily available.

Workers' compensation insurance premiums for the fiscal year 2018 of $8.6 million were paid to the State Accident Fund and $32.9 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 2018 for which it was paid $2.1 million. The Bank also reimbursed the Department $24.9 million in direct project costs. Allocations to other entities - State agency represented amounts paid to the Bank and totaled $40.6 million for the year ended June 30, 2018. The payments were from gas user fee collections and represented an amount not to exceed the one cent per gallon collected in accordance with Section 11-43-160 of the Code for the on-going funding of construction and maintenance of highways. The Department also transferred $50.0 million to the Bank as directed by the state legislature as part of additional “Act 98” funding from the State’s general fund. The Bank transferred $50 million to the department as directed by the State Legislators (Proviso 117.135) whom then transferred to the County Transportation Program.

The Department received $10 million from the Bank in accordance with a 2009 contractual agreement between Horry County, the Bank, and the Department. This amount has been recorded as unearned revenue as the $10 million must be spent on specific infrastructure projects. Eligible costs of $3.7 million have been incurred and $6.3 million are remaining.

Additionally, the Bank makes quarterly payments to the Department, and Department makes monthly payments to the Bank in accordance with an agreement between Horry County, the Bank, and the Department. In the agreement, the Department was assigned the payments originally assigned to Horry County in order to guard against Horry County defaulting on their project loans with the Bank. The amount paid to and received from the Bank was $4.7 million for the year ended June 30, 2018.

The Department has established an agreement with the Bank to restrict $10.0 million in cash as guaranty on Horry County loan payments to the Bank.

A summary of intergovernmental payables to other State agencies in the governmental fund balance sheet at June 30, 2018 is as follows:

(In Thousands)

Due To / Description

Archives & History Dept	$	2
Department Of Administration		18
Department Of Motor Vehicles		61
Department Of Public Safety		559
Health & Environmental Control Department		-
SC Department Of Corrections		41
SC State Infrastructure Bank		1,077
SFAA Administration		5
State Treasurers Office		12
	$	1,775

NOTE 16. 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. The Department does not expect any significant impact should grantors audit and/or adjust reimbursement amounts.

NOTE 17. RISK MANAGEMENT:

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage 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).

The State offers two self-insured health plans and a Tricare Supplemental plan to qualified employees. Additionally, all other coverages (such as dental, vision, life and long-term disability) are extended through the State’s insurance offerings with premiums being remitted to the PEBA.

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	Data processing equipment
Motor Vehicles	Business Interruptions
Real property and contents	Torts
Medical malpractice claims against covered employee for nurse.	

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from 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 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, 2017, 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, 2018 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.

NOTE 18. CONTINGENCIES AND SUBSEQUENT EVENTS:

CONTINGENCIES:

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.

In September 2017, South Carolina experienced inclement weather as Hurricane Irma impacted the southern United States. This event caused wind, surge damage and flooding to the coast. The Department has incurred costs through June 30, 2018 of $5.3 million of which $.4 million has been received in federal assistance. Approved federal assistance of $1.6 million has been accrued at June 30, 2018.

In October 2016, South Carolina Hurricane Matthew made landfall in McClellanville, SC as a Category 1 storm with sustained winds of 75 miles per hour. This event caused wind and surge damage to the lower part of the coast and wind and flooding damage to the northern part of the coast. The Department conducted thorough inspections of all bridges and roads and began recovery of the State Highway System. Total damages on the State Highway System are expected to be $100.1 million and many costs are eligible for federal assistance from Federal Highway Administration and Federal Emergency Management. It is estimated that the State’s responsible share would be $30.4 million. The Department has incurred costs through June 30, 2018 of $60.4 million of which $49.6 million has been received in federal assistance.

The Department continues to incur costs for damage and repair as a result of the October 2015 statewide emergency event of significant rainfall resulting in widespread flooding. Total damages on the State Highway System are estimated to be $137 million and many costs are eligible for federal assistance from Federal Highway Administration and Federal Emergency Management. It is estimated the State’s responsible share would be $49 million. During the 2016 Legislative Session, The General Assembly provided funding in the amount of $49 million which was provided to the Department to assist in the recovery and repair process and provide required federal assistance matching funds. The Department is committed to the full recovery of the State Highway System and has incurred costs through June 30, 2018 of $115.7 million of which $73.4 million has been received in federal assistance. Additional federal assistance is expected up to $13.1 million and will be based upon total costs and their federal assistance eligibility.

During the 2017 Legislative Session Act 40, the “Roads Bill”, was adopted which provides the Department with the first sustainable and significant increase in revenue in the 30 years.

The new revenues are to be largely allocated specifically to the long-term maintenance and preservation of the State system. Over the next ten years, with the assistance of these funds, the Department will improve the “worst of the worst” dangerous rural roads, replace fifty percent of the State’s structurally deficient bridges, resurface and rebuild fifty percent of the State’s highways and embark on 11-12 Interstate widening projects. At full implementation, the 2017 Roads Bill will add an estimated additional $600 million for South Carolina infrastructure. The gas tax increased by 2 cents a year, beginning July 2017, and will continue to increase by 2 cents per year for the next 6 years for a total of 12 cents by July 2022.

Subsequent to year end, during September 2018, South Carolina was impacted by Hurricane Florence, which brought 10 to 18 inches of rain in areas saturating the ground and flooding the rivers. The Department is actively responding to widespread flooding across the Northeast portion of the state. The Federal Highway Administration is available to assist with the cost of immediate repair of essential roads and bridges. Additional financial assistance is expected to be reimbursed by FEMA at 75%. The Department’s share of repair and recovery costs has not yet been determined as of the date of this report.

NOTE 19. COMPONENT UNIT DISCLOSURES

NOTE 19A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 Department in the financing, acquisition, construction, and operation of turnpikes, highway projects, and other transportation facilities.

The Association’s operations are governed by a license agreement (the Original License Agreement as amended, the “Revised License Agreement”) with the Department 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”). The Association originally financed construction of the Southern Connector by issuing toll road revenue bonds in 1998. In 2011, in connection with implementation of its Debt Adjustment Plan pursuant to its Chapter 9 Bankruptcy case, the Association exchanged its 1998 Bonds for new toll road revenue bonds (the “2011 Bonds”). The Association’s 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 the Revised License Agreement, all of which became effective April 21, 2011. Following a mandatory exchange (subject to Bondholder opt out of the exchange) of certain of its 2011 Pro-Rata Term bonds for 2011 By-Lot Term Bonds and payment of outstanding issuance costs of the 2011 Bonds, the Association’s bankruptcy proceedings were finalized on August 27, 2012, when the United States Bankruptcy Court issued the Final Decree closing the Association’s Bankruptcy case.

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 Department because of its fiscal dependence upon the Department. The Association is governed by a Board of Directors, the members of which are subject to approval of the Department.

The 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 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 Department, and (c) upon dissolution of the Association, all of the Association’s net position will revert to the Department, the Association meets the criteria set forth in the definition of a governmental entity. Accordingly, the accompanying financial statements of the Association have been prepared in accordance with GAAP applicable to governmental unit proprietary funds.

The Association has no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Association is a proprietary fund type and operates as an enterprise fund. The Association uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents

The Association considers all investment with maturities of three months or less when purchased to be cash equivalents. The amount 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 ended money market mutual funds.

Investments

The Association's Trust Indenture contains provisions requiring all bond proceeds and toll revenues received by the Association to be held in trust. Such monies held in the 2011 Trust Fund Accounts are expended in accordance with 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 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 value and categorized within the fair value hierarchy established under GASBS No. 72. For short-term, highly liquid instruments that have a remaining maturity of one year or less at the time of purchase, such as the Association's 2016 United States Treasury Note, the investments' fair value is generally equivalent to amortized cost. The fair value hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. Gains or losses that result from changes in fair value are included in nonoperating revenues or expenses.

Capital Assets

All capital and intangible assets, including the Association's intangible interest in its License Agreement with the Department, are stated at cost or at acquisition value at the time of donation. The Association generally follows capitalization policies recommended by the State Comptroller General.

Pursuant to this policy, equipment and vehicles with individual or group costs greater than $5 thousand and intangible assets (including software) with costs generally in excess of $100 thousand are capitalized. Equipment and vehicle depreciation is computed using the straight-line method over the equipment's estimated useful life between four and ten years, or the vehicle's estimated useful life of five years. The Association's intangible software is amortized over three to five years. The Association's intangible interest in its License Agreement with the Department through its expiration in 2051 on a straight-line basis. When capital assets are disposed of, the cost and accumulated depreciation/amortization are removed from the books. The resulting gain or loss is included in nonoperating revenues or expenses.

Bonds Payable, Bond Discounts, Bond Premiums and Bond Issuance Costs

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.

Interest in License Agreement with the Department

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 the Department, 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 revisions to the original License Agreement include (1) requiring the Association to make periodic deposits into the 2011 R&R Fund, (2) modification of the Association's responsibility for performance and payment of highway maintenance, repair and renewal, (3) elimination of License Fees payable to the Department, (4) modification of the manner in which toll rates are set, and (5) prohibiting the Department from terminating the License Agreement for any insolvency of or failure by the Association to pay or perform its obligations due to insufficient toll revenues.

Under the License Agreement, the Department is responsible for performance and payment of all highway maintenance of the Southern Connector. As defined in the 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 2011 R&R Fund. 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 License Agreement, nor will any resulting nonpayments constitute arrearages requiring deposits to the 2011 R&R Fund from future Distributable Cash.

Once the Department has incurred highway maintenance costs relating to the Southern Connector, the Department 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 the Department 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 the Department to schedule necessary highway maintenance activities.

Under the Association's Debt Adjustment Plan, toll rates were initially set at amounts set forth in the Stantec Traffic Study as defined in the License Agreement. Subsequent revisions of the Southern Connector toll rates are permitted or required in certain circumstances as prescribed by the terms of the Association's Trust Indenture and the 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 the Department for approval. As prescribed in the License Agreement, the Department 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 the Department 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 the Department and the 2011 Bonds Trustee, and, at the Association's request, the Department will confirm the effectiveness of and take other steps as necessary to implement the recommended revisions to the Southern Connector toll rates.

The License Agreement specifies that neither the Department 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 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 a revision of toll rates.

The first toll rate study required since the effective date of the Association's Debt Adjustment Plan was performed during 2015. Accordingly, in January 2016, the Association implemented the new toll rates recommended in the toll rate study.

The License Agreement shall expire on July 22, 2051, or upon repayment, redemption or defeasance of the 2011 Bonds and all other project debt. The 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 License Agreement due to insufficient toll revenues shall not be an event of default under the License Agreement.

Provisions are included to extend the 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 the Department .

Under the License Agreement, the Department 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, the Department, 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 License Agreement.

Restricted Assets

The Association is bound by an Amended Trust Indenture which contains provisions to establish certain funds and accounts to be held by the Trustee. The 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 amounts held in these funds are presented as restricted assets.

Net Position

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

> *Net investment in capital assets* — Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> *Restricted net position* — Consists of certain assets, reduced by liabilities related to those assets. Assets included in this category of net position include those with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position.
>
> *Unrestricted net position* — All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Unless otherwise dictated in the Amended 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 are available.

The Association's net deficit at December 31, 2017 represents accumulated shortfalls since commencement of operations because toll revenues have been insufficient to cover interest accretions on the Association's Bonds. Such accretions are not payable from current toll revenues, but from those to be received in future years.

NOTE 19B. DEPOSITS AND INVESTMENTS:

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

(In Thousands)

	Financial Statements			Footnotes	
Unrestricted current assets:					
Cash and cash equivalents	$	1,870	Bank Deposits	$	1,870
Restricted noncurrent assets:					
Cash and cash equivalents		10,735	Investments		10,735
Total component unit	$	12,605		$	12,605

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 Trust Indenture (as noted earlier) which are consistent with federal and State law. At December 31, 2017, approximately $1.7 million of the Association's bank balances of approximately $1.9 million (with a carrying value of $1.9 million) were uninsured and uncollateralized. The South Carolina State Treasurer held none of the deposits noted above.

Investments

The South Carolina State Treasurer held none of the investments noted below. As of December 31, 2017, the Association had the following investments as defined by GASB:

(In Thousands)

Investment Type	Credit Rating^	Fair Value Level	Fair Value	Percentage of Total Investments	Weighted Average maturi (in Years)
December 31, 2017:					
Money Market Mutual Funds	AAAm, Aaa-mf, AAAmmf	1	$ 10,735	100.00%	0.082

(^) If available, credit ratings are from Standard & Poor's, Moody's 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 the failure of the counterparty, 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, 2017, none of the Association's investments were exposed to custodial credit risk.

Credit Risk for Investments:

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association does not have a formal investment policy for credit risk but follows the guidelines outlined in the Association's Amended Trust Indenture (as noted earlier) which are consistent with federal and State law.

Concentration of Credit Risk for Investments:

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

NOTE 19C. BONDS PAYABLE:

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 (the "DTC") and are Pro-Rata Term Bonds for which each holder of such Bonds will receive a prorate 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 consist of the following. (Descriptions of the Association's Term Bonds have been updated for the Bond Exchange as noted.)

The Association's 2011 Bonds, as updated for the Bond Exchange, consist 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 originally included eleven serial bonds. The original principal amount at issuance of these serial bonds totaled $36.6 million. Seven serial bonds remained outstanding following the Association's January 1, 2015 payment of debt service and before 2016 activity. Such remaining outstanding serial bonds mature January 1 of the years 2016 through 2022 inclusive, and accrete interest at rates ranging from 4.75% 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 $164 thousand are subject to annual pro rata paydown payments on January 1 of the years 2023 through 2031 in varying amounts from $34 thousand to $55 thousand, with a payment of $55 thousand 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 $127 thousand are subject to annual pro rata paydown payments on January 1 of the years 2033 through 2041 in varying amounts from $64 thousand to $90 thousand, with a payment of $90 thousand 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 thousand are subject to annual pro rata paydown payments on January 1 of the years 2043 through 2051 in varying amounts from $91 thousand to $113 thousand, with a payment of $57 thousand (as revised following the extraordinary mandatory prepayments paid on February 15, 2014 and 2018) 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.

  - o The Series 2011A1 term bonds maturing on January 1, 2032, with an aggregate original principal amount of $40.5 million and a maturity value of $149.5 million 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 $8.5 million to $13.5 million, with a payment of $13.7 million at final maturity on January 1, 2032. Interest accretes on these term bonds at 6.50%.

  - o The Series 2011A1 term bonds maturing on January 1, 2042, with an aggregate original principal amount of $31.3 million and a maturity value of $251.0 million 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 $15.7 million to $22.2 million, with a payment of $22.3 million at final maturity on January 1, 2042. Interest accretes on these term bonds at 7.00%.

  - o The Series 2011A1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of $18.1 million and a maturity value of $334.3 million 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 $22.4 million to $27.9 million, with a payment of $14.1 million (as revised following the extraordinary mandatory redemptions paid on February 15, 2014 and 2018) 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.

  - o The Series 2011B term bonds maturing on January 1, 2032, with an aggregate original principal amount of $57 thousand are subject to annual pro rata paydown payments on January 1 of the years 2014 (following the Association's January 1, 2013 payment of debt service) through 2031 in varying amounts from $3 thousand to $13 thousand, with a payment of $13 thousand at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.

  - o The Series 2011B term bonds maturing on July 22, 2051, with an aggregate original principal amount of $28 thousand are subject to annual pro rata paydown payments on January 1 of the years 2033 through 2051 in varying amounts from $15 thousand to $26 thousand, with a payment of $15 thousand 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.

  - o The Series 2011B1 term bonds, maturing on January 1, 2032, with an aggregate original principal amount of $13.6 million and a maturity value of $73.9 million 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 thousand to $3.1 million, with a payment of $3.2 million at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.

  - o The Series 2011B1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of $7.0 million and a maturity value of $226.7 million 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 $3.6 million to $6.4 million, with a payment of $3.6 million 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 $18 thousand. These term bonds are subject to annual pro rata paydown payments on January 1 of the years 2013 through 2051 in varying amounts from $1 thousand to $7 thousand, with a payment of $4 thousand 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 $2.1 million and a maturity value of $97.8 million. 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 $82 thousand to $793 thousand, with a payment of $445 thousand 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 any, on January 1, if the 2011 Extraordinary Prepayment Fund, contains in excess of $50 thousand. 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. The Association made such extraordinary mandatory prepayments/redemptions in 2014 and 2018.

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 years ended December 31, 2017 and 2016 was as follows:

(In Thousands)

	Balances December 31, 2016	Increases	Decreases	Balances December 31, 2017	Amount Due in One Year
Senior Bonds					
Series 2011A Serial Bonds	$ 32,830	$ 1,623	$ 4,910	$ 29,543	$ 5,427
Series 2011A Retained Term Bonds	534	37	-	571	-
Series 2011A 1 New Term Bonds	131,740	9,068	-	140,808	67
Total Senior Bonds	165,104	10,728	4,910	170,922	5,494
Senior Subordinate Bonds:					
Series 2011B Retained Term Bonds	123	10	5	128	5
Series 2011B 1 New Term Bonds	29,699	2,486	1,130	31,055	1,248
Total Senior Subordinate Bonds	29,822	2,496	1,135	31,183	1,253
Senior Subordinate Bonds:					
Series 2011C Retained Term Bonds	27	3	1	29	1
Series 2011C 1 New Term Bonds	3,171	304	139	3,336	154
Total Junior Subordinate Bonds	3,198	307	140	3,365	155
Total Revenue Bonds Payable	$ 198,124	$ 13,531	$ 6,185	$ 205,470	$ 6,902

During 2017, increases in bonds payable totaled $13.5 million and represented accretions on the Association's bonds. Those accretions plus $3 thousand of accrued premiums (paid as part of the February 2018 extraordinary mandatory prepayments/redemptions of 2011 bonds) were recorded as interest expense; accordingly, total interest expense for 2017 was $13.5 million. The 2017 decreases in bonds payable of $6.2 million represented debt service payments that were made in January 2017.

The following schedule summarizes the Association's debt service requirements to maturity as of December 31, 2017. 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. The amount shown as debt service for 2018 includes the Association's extraordinary mandatory prepayment/redemption paid in February 2018.

(In Thousands)

Year ending December 31:	Principal	Interest	Totals
2018	$ 6,902	$ -	$ 6,902
2019	7,441	-	7,441
2020	8,094	-	8,094
2021	9,600	-	9,600
2022	10,152		10,152
2023-2027	62,656	-	62,656
2028-2032	81,314	-	81,314
2033-2037	105,225	-	105,225
2038-2042	129,925	-	129,925
2043-2047	151,559	-	151,559
2048-2051	155,428	-	155,428
	$ 728,296	$ -	$ 728,296

At December 31, 2017, the following accounts established by the Trust Indenture, as discussed in Note 1, were included in the Trust Estate and provided security for the 2011 Bonds. The balances shown below include accruals of year-end interest and any year-end transfers.

(In Thousands)

Trust Account		
2011 Revenue Fund	$	5
2011 Debt Service Fund		6,836
2011 Debt Service Reserve		2,035
2011 Extraordinary Prepayment Fund		70
Total	$	8,946

The 2011 Bonds are expressly nonrecourse to the Association, the State, the Department, or any agency, department or political subdivision of the State, 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 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 Trust Indenture specifies that any amounts owing on the 2011 Bonds that are unpaid due to insufficient Distributable Cash, as defined, 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 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 Note 1, 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 the Department 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 may estimate the cost and appropriate timing of such needs. The Association received the latest report from its Engineer in June 2017 and in turn submitted that report to the Association's Trustee and the Department. At the time these financial statements were issued, the 2018 Engineer's inspection was underway.

- On or before April 30, 2016, and once every five years thereafter as prescribed in the 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 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 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 the Department, the Trustee and the 2011 Bondholders. Unless the 2011 Bondholders submit an objection in accordance with the terms of the 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 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 Trust Indenture. The 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 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, 2017 and 2016.

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 under the Bankruptcy Filings link under the Postings arrow.

NOTE 19D. INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT:

The Association's interest in its License Agreement with the Department 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.

The following tables summarize the activity related to the Association's Interest in License Agreement with the Department (intangible asset) during the years ended December 31, 2017 and 2016:

(In Thousands)

Description	Balance December 31, 2016	Additions	Disposals	Balance December 31, 2017
Interest in License Agreement with the Department	$ 192,623	$ -	$ -	$ 192,623
Less: Accumulated Amortization	(69,007)	(3,575)	-	(72,582)
Interest in License Agreement with the Department, Net	$ 123,616	$ (3,575)	$ -	$ 120,041

Interest Costs Incurred

Interest costs expensed during the years ended December 31, 2017 and 2016 totaled $13.5 million and $13.0 million, respectively. Interest expense in 2017 included interest accreted on the Association's 2011 Bonds and the accrued premiums paid as part of the extraordinary mandatory prepayments/redemptions.

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, 2018
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Earmarked	$ -	$ -	$ 1,140	$ 1,140
General fund	-	-	653	653
Restricted	-	-	1,145,608	1,145,608
Total Revenues	-	-	1,147,401	1,147,401
Expenditures				
General Fund				
Permanent improvement SIB	50,000	50,000	50,000	-
Mass Transit	57	57	57	-
Sandy Island Boat Ramp	75	75	-	75
Lex County Maintenance Complex	100	100	-	100
Salt Shed Infrastructure	465	465	465	-
Shop Road Famers Mkt Bypas	122	122	122	-
Flood Road Repair	25,547	25,547	8,954	16,593
General Administration				
Executive director	$ 187	$ 187	$ 187	-
Classified positions	14,474	14,474	14,165	309
Unclassified position	255	255	136	119
Other personal services	255	779	775	4
Other operating**	26,500	30,054	26,255	3,799
Permanent Improvement	-	299	299	-
Debt service	1,317	1,317	1,317	-
Land & Buildings				
Other operating	7,638	388	345	43
Permanent improvement	5,975	3,966	2804	1,162
Engineering - Adm. Proj. Mgmt.				
Classified positions	79,776	79,522	75,338	4,184
Unclassified position	143	158	158	-
Other personal services	3,060	3,299	3,242	57
Other operating	11,099	12,469	10,035	2,434
Permanent improvement	-	64	63	1
Engineering - Construction				
Other operating	53,771	62,927	52,794	10,133
Permanent improvements	1,344,143	1,328,139	1,031,740	296,399
Debt service	75,111	75,111	75,111	-
Principal - loan note	2,004	2,094	2,094	-
Interest - loan note	2,976	2,886	2,886	-
Allocations municipal-restricted	1,000	-	-	-
Allocations county-restricted	250	-	-	-
Allocations other entities	100	-	-	-
General Fund Transfer Bridge Repair	-	-	(8,954)	8,954
Highway Maintenance				
Classified positions	98,620	95,371	93,370	2,001
Other personal services	3,060	5,786	5,730	56
Other operating**	131,338	135,140	133,332	1,808
Permanent improvements	150	174	172	2
Non-Federal Aid				
Other operating Bridges Minor Repair	-	6,000	3,464	2,536
Other operating Rehab & Resurfacing	133,476	137,476	108,038	29,438
Mass Transit				
Unclassified position	140	100	68	32
Classified positions	5,550	5,422	4,991	431
Other personal services	-	168	168	-
Other operating	1,300	1,793	1,325	468
Allocations municipal-restricted	100	1,540	1,045	495
Allocations Counties-Restricted	-	1,050	582	468
Allocations State Agencies	-	50	-	50
Allocations other entities	27,645	22,945	21,835	1,110
Allocations School Districts	-	10	-	10
Toll Operations				
Classified positions	110	109	58	51
Other personal services	-	1	1	-
Other operating	4,500	4,500	3,629	871
Debt service	3,087	3,087	3,087	-
Employer Contributions	92,780	92,780	86,428	6,352
Port Access Road				
Other Operating	-	-	7,452	(7,452)
Permanent Improvements	102,081	102,081	65,771	36,310
Total Expenditures	$ 2,310,337	$ 2,310,337	$ 1,890,934	$ 419,403

** Includes Federal Funds

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2018

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 on a combined basis for the Transportation and Infrastructure Maintenance Trust Special Revenue Funds 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 SFAA approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the SFAA.

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.

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 14.
- 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.
- The accrual basis is used for other non-payroll expenditures.

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.

Reconciliation of Budget Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2018
(in Thousands)

	General Fund	Other Budgeted Funds	Total
Total expenditures, budgetary basis	$ 59,598	$ 1,831,336	$ 1,890,934
Basis of accounting differences:			
Change in accrued salaries	-	1,634	$ 1,634
Change in accounts payable	-	11,061	$ 11,061
Transfer to other entities not expenditures under budgetary basis	-	107,851	$ 107,851
Other basis difference	-	(8,852)	$ (8,849)
Total expenditures, GAAP basis	$ 59,598	$ 1,943,030	$ 2,002,631

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, 2018
Last Five Fiscal Years
(In Thousands)

	2018	2017	2016	2015	2014
Department's proportion of the net pension liability	1.99%	1.96%	1.89%	1.91%	1.91%
Department's proportionate share of the net pension liability	$ 448,473	$ 418,310	$ 359,827	$ 328,817	$ 342,563
Department's covered payroll	$ 198,382	$ 187,553	$ 171,918	$ 173,387	$ 171,613
Department's proportionate share of the net pension liability as a percentage of covered payroll	226.07%	223.04%	209.30%	189.64%	199.61%
Plan fiduciary net position as a percentage of total pension liability	53.30%	52.90%	57.00%	59.92%	56.39%

Note: The amounts presented above were determined as of June 30th 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, 2018
Last Five Fiscal Years
(In Thousands)

	2018	2017	2016	2015	2014
Department's proportion of the net pension liability	0.021%	0.030%	0.029%	0.022%	0.022%
Department's proportionate share of the net pension liability	$ 587	$ 761	$ 632	$ 426	$ 461
Department's covered payroll	$ 429	$ 400	$ 265	$ 268	$ 211
Department's proportionate share of the net pension liability as a percentage of covered payroll	136.83%	190.25%	238.49%	158.96%	218.48%
Plan fiduciary net position as a percentage of total pension liability	60.90%	60.40%	64.57%	67.55%	62.98%

Note: The amounts presented above were determined as of June 30th 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, 2018
Last Ten Fiscal Years
(In Thousands)

	2018	2017	2016	2015	2014
Contractually required contribution	$ 26,098	$ 22,933	$ 20,743	$ 18,739	$ 18,379
Contributions in relation to the contractually required contribution	26,098	22,933	20,743	18,739	18,379
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Department covered payroll	$ 192,463	$ 198,382	$ 187,553	$ 171,918	$ 173,387
Contributions as a percentage of the covered payroll	13.56%	11.56%	11.06%	10.90%	10.60%

	2013	2012	2011	2010	2009
Contractually required contribution	$ 18,191	$ 16,403	$ 15,897	$ 17,300	$ 17,000
Contributions in relation to the contractually required contribution	18,191	16,403	15,897	17,300	17,000
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Department covered payroll	$ 171,613	$ 172,027	$ 169,300	$ 184,239	$ 181,044
Contributions as a percentage of the covered payroll	10.60%	9.54%	9.39%	9.39%	9.39%

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, 2018
Last Ten Fiscal Years
(In Thousands)

	2018	2017	2016	2015	2014
Contractually required contribution	$ 59	$ 59	$ 55	$ 34	$ 34
Contributions in relation to the contractually required contribution	59	59	55	34	34
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Department covered payroll	$ 412	$ 429	$ 400	$ 265	$ 265
Contributions as a percentage of the covered payroll	14.32%	13.75%	13.75%	12.83%	12.83%

	2013	2012	2011	2010	2009
Contractually required contribution	$ 26	$ 23	$ 25	$ 27	$ 29
Contributions in relation to the contractually required contribution	26	23	25	27	29
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Department covered payroll	$ 211	$ 196	$ 217	$ 244	$ 262
Contributions as a percentage of the covered payroll	12.32%	11.73%	11.52%	11.07%	11.07%