

Board of Trustees, Cincinnati Southern Railway

Financial Statements and Additional Financial Information
(Relating Solely to the Cash Transactions of the Board of Trustees)

Years Ended December 31, 2017 and 2016

with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Cincinnati Southern Railway:

Report on the Financial Statements

We have audited the accompanying financial statements of the Board of Trustees, Cincinnati Southern Railway, which comprise the statements of assets and fund balances – cash basis (relating solely to the cash transactions of the Board of Trustees) as of December 31, 2017 and 2016, and the related statements of receipts, disbursements and changes in fund balances – cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and fund balances arising from cash transactions of the Board of Trustees, Cincinnati Southern Railway as of December 31, 2017 and 2016, and its receipts, disbursements, and changes in fund balances for the years then ended, in accordance with the basis of accounting Note 1 describes.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board of Trustees, Cincinnati Southern Railway's basic financial statements. The summary schedule of cash receipts and disbursements, detailed schedule of cash receipts, detailed schedule of cash disbursements, and detailed schedule of interest received on pages 15 through 18 are presented for purposes of additional analysis and are not a required part of the basic financial statements. However, these schedules are management's responsibility and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules were subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling this 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 information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Audit Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2018, on our consideration of the Board of Trustees, Cincinnati Southern Railway'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 solely 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 the effectiveness of the Board of Trustees, Cincinnati Southern Railway's 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 Board of Trustees, Cincinnati Southern Railway's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Board of Trustees, Cincinnati Southern Railway
 Statements of Assets and Fund Balances - Cash Basis
 (Relating Solely to the Cash Transactions of the Board of Trustees)
 December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|------------------|
| Assets: | | |
| Cash and cash equivalents (including certificates of deposit) | \$ <u>4,093,137</u> | <u>2,730,746</u> |
| Total assets | <u>4,093,137</u> | <u>2,730,746</u> |
| Fund Balances: | | |
| Unrestricted: | | |
| Expense Reserve Fund | <u>2,982,427</u> | <u>1,441,376</u> |
| Total unrestricted fund balance | <u>2,982,427</u> | <u>1,441,376</u> |
| Restricted: | | |
| Tax Credit Fund | 1,110,691 | 1,289,351 |
| Investment Fund | <u>19</u> | <u>19</u> |
| Total restricted fund balances | <u>1,110,710</u> | <u>1,289,370</u> |
| Total fund balances | \$ <u>4,093,137</u> | <u>2,730,746</u> |

See accompanying notes to financial statements.

Board of Trustees, Cincinnati Southern Railway
Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis
(Relating Solely to the Cash Transactions of the Board of Trustees)
For the Year Ended December 31, 2017

| | Expense Reserve Fund | Investment Fund | Tax Credit Fund | Total |
|---|----------------------------|--------------------|-------------------------|-------------------------|
| Receipts: | | | | |
| Payments from lessee (Note 4) | \$ 218,490 | - | - | 218,490 |
| Earnings on investments | - | 16,511 | - | 16,511 |
| Tax Credits | - | - | 1,165,500 | 1,165,500 |
| | <u>218,490</u> | <u>16,511</u> | <u>1,165,500</u> | <u>1,400,501</u> |
| Disbursements: | | | | |
| Professional services | 31,410 | - | - | 31,410 |
| Public officials liability insurance | 6,655 | - | - | 6,655 |
| Bank fees | 45 | - | - | 45 |
| | <u>38,110</u> | <u>-</u> | <u>-</u> | <u>38,110</u> |
| Excess of cash receipts over disbursements | 180,380 | 16,511 | 1,165,500 | 1,362,391 |
| Transfers between funds: | | | | |
| Reimbursement (Note 4) | 1,349,967 | - | (1,349,967) | - |
| Allocation of earnings on investment | 10,704 | (16,511) | 5,807 | - |
| | <u>1,360,671</u> | <u>(16,511)</u> | <u>(1,344,160)</u> | <u>-</u> |
| Excess of cash receipts over (under) disbursements after transfers between funds | 1,541,051 | - | (178,660) | 1,362,391 |
| Fund balances: | | | | |
| Beginning of year | <u>1,441,376</u> | <u>19</u> | <u>1,289,351</u> | <u>2,730,746</u> |
| End of year | \$ <u><u>2,982,427</u></u> | <u><u>19</u></u> | <u><u>1,110,691</u></u> | <u><u>4,093,137</u></u> |

See accompanying notes to financial statements.

Board of Trustees, Cincinnati Southern Railway
Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis
(Relating Solely to the Cash Transactions of the Board of Trustees)
For the Year Ended December 31, 2016

| | Expense Reserve Fund | Sale of Property Fund | Investment Fund | Tax Credit Fund | Total |
|---|----------------------------|-----------------------------|--------------------|-----------------------|------------------|
| Receipts: | | | | | |
| Payments from lessee (Note 4) | \$ 326,550 | - | - | - | 326,550 |
| Earnings on investments | - | - | 14,523 | - | 14,523 |
| Tax Credits | - | - | - | 3,001,250 | 3,001,250 |
| | <u>326,550</u> | <u>-</u> | <u>14,523</u> | <u>3,001,250</u> | <u>3,342,323</u> |
| Total receipts | | | | | |
| Disbursements: | | | | | |
| Professional services | 44,627 | - | - | - | 44,627 |
| Public officials liability insurance | 6,655 | - | - | - | 6,655 |
| Payment to City (Note 4) | - | 101,381 | 8,513 | 4,390,106 | 4,500,000 |
| Bank fees | 129 | - | - | - | 129 |
| | <u>51,411</u> | <u>101,381</u> | <u>8,513</u> | <u>4,390,106</u> | <u>4,551,411</u> |
| Total disbursements | | | | | |
| Excess of cash receipts over (under) disbursements | 275,139 | (101,381) | 6,010 | (1,388,856) | (1,209,088) |
| Transfers between funds: | | | | | |
| Allocation of earnings on investment | 5,752 | - | (14,504) | 8,752 | - |
| | <u>5,752</u> | <u>-</u> | <u>(14,504)</u> | <u>8,752</u> | <u>-</u> |
| Total transfers | | | | | |
| Excess of cash receipts over (under) disbursements after transfers between funds | 280,891 | (101,381) | (8,494) | (1,380,104) | (1,209,088) |
| Fund balances: | | | | | |
| Beginning of year | 1,160,485 | 101,381 | 8,513 | 2,669,455 | 3,939,834 |
| End of year | \$ <u>1,441,376</u> | <u>-</u> | <u>19</u> | <u>1,289,351</u> | <u>2,730,746</u> |

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of the Board of Trustees, Cincinnati Southern Railway (“the Board”) are set forth to facilitate the understanding of data presented in the financial statements.

Description of entity

The Trustees of the Cincinnati Southern Railway operated initially under the provisions of the General Assembly of the State of Ohio and the General Code Sections as supplemented or amended by various House Bills. On April 4, 1977, House Bill 69 was passed authorizing the City of Cincinnati to provide legislation for the continuance of a Board of Trustees. Ordinance #290-1977 provided for the appointment, removal, bonding, and compensation of the Board. The Board of Trustees must consist of five members who shall be appointed by the Mayor with approval of City Council.

Principles of operations

The Board holds title on behalf of the City of Cincinnati to a railroad right-of-way between Cincinnati, Ohio and Chattanooga, Tennessee and leases the property to the Cincinnati, New Orleans and Texas Pacific Railway Company, a wholly-owned subsidiary of the Norfolk Southern Corporation (Lessee). The lease expires on December 31, 2026, but has an option for an additional twenty-five years. All funds paid by the Lessee under terms of the various leases are sent directly to the Treasurer of the City of Cincinnati without going through the Board’s financial records. The lease also provides that the Board may sell or convey any land or lands included in the lease, which may become unnecessary for the maintenance, use and operation of the railway.

Basis of accounting

The Board prepares its financial statements on the basis of cash receipts and cash disbursements. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. The accompanying financial statements are therefore not intended to be in accordance with accounting principles generally accepted in the United States of America. These financial statements include only those funds that were received and accounted for through the records of the Board, which includes the annual payments by the Lessee for Board expenses, tax credits, income from trustee investments and income derived from the sale of unneeded right-of-way property.

Property of the Cincinnati Southern Railway, leases, and right-of-ways, etc., are not included in the financial statements because records of the cost and/or fair value of the tangible assets and intangible assets are not available. Additionally, proceeds from bond issues and payments for the principal and interest on bonds are not reported in the financial statements because these items are under the jurisdiction of the City of Cincinnati.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Fund accounting

In order to ensure the observance of limitations and restrictions placed on the use of the resources available to the Board, the accounts are maintained in accordance with the principles of fund accounting. Fund accounting is the procedure by which the resources for various purposes are classified for each fund and all financial transactions are reported by each fund group. A description of the funds follows:

Expense Reserve Fund

The Expense Reserve Fund receives revenue from the lease and pays the necessary expenses of the Board in overseeing the terms and conditions of the lease.

Tax Credit Fund

The Tax Credit Fund receives revenue from the lessee based on Tax Credit Agreements and remits excess federal and state tax credits to the City of Cincinnati.

Sale of Property Fund

The Sale of Property Fund receives the proceeds and pays related expenses for the sale of leased property which is deemed to be superfluous and returned to the Trustees in accordance with Section 3(e) of the Supplemental Agreement. Based upon the research of the City of Cincinnati Solicitor's office, the net earnings from the sale of property fund are to be paid to the Treasurer of the City of Cincinnati for bond retirement. In 2015, this fund received \$101,381 in connection with the Helenwood, Scott County, Tennessee sale and salvage, where the land on which a branch line was no longer in use. The funds were received on December 31, 2015 and remitted to the City of Cincinnati on June 24, 2016. In 2017, this Fund had no receipts and thus, no such payments were made. In accordance with Section 3(f) of the Supplemental Agreement, proceeds for leased property which is condemned or conveyed under threat of condemnation are excluded from being recorded in the sale of property fund and are held by the Lessee in a property replacement account (see Note 5).

Investment Fund

The Investment Fund receives the proceeds from all investments and allocates these earnings to the other funds based on a calculation derived by the Board (see Note 3).

Income Taxes

The Board is exempt from federal income taxes under Internal Revenue Code Section 115.

Compensation

Section 205-5 of the Cincinnati Municipal Code provides that Trustees may receive compensation, with Board consent, for special assignments related to Board responsibilities that may arise from time to time. For the years ended December 31, 2017 and 2016, no Trustees received compensation.

2. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents include all cash balances, certificates of deposit and bankers acceptances with an initial maturity of three months or less on deposit with local banks. At December 31, 2017 and 2016, the cash and cash equivalent balances were \$4,093,137 and \$2,730,746, respectively. Of the bank deposit balances, the statutory limit was covered by the Federal Deposit Insurance Corporation and the balance was collateralized by pools established by the financial institutions to secure the repayment of all public monies deposited with the institutions as required by Section 135 of the Ohio Revised Code.

3. EARNINGS ON INVESTMENTS:

All interest earned on cash and cash equivalents are recorded in the Investment Fund. The Expense Reserve Fund and the Tax Credit Fund are allocated a portion of this revenue, with the remaining balance being deemed excess revenues to be remitted to the City of Cincinnati. For the years ended December 31, 2017 and 2016, the allocation to the Expense Reserve Fund is computed on a pro-rata basis based on the average fund balances of the Expense Reserve Fund, Tax Credit Fund and Investment Fund. The amounts allocated are as follows:

| | <u>2017</u> | <u>2016</u> |
|----------------------|--------------------|---------------------|
| Expense Reserve Fund | \$ 10,704 | 5,752 |
| Tax Credit Fund | 5,807 | 8,752 |
| City of Cincinnati | <u> -</u> | <u> 19</u> |
| | <u>\$ 16,511</u> | <u>14,523</u> |

During 2016, the Board remitted \$8,513 from the Investment fund to the City of Cincinnati.

4. PAYMENTS FROM LESSEE:

Expense Reserve Fund: The Board receives quarterly payments from the lessee to defray the cost of necessary expenses. Since January 1, 1987, the annual base payment has been \$100,000 and the payments increase annually based on the change in the consumer price index (CPI). CPI Payments were \$118,490 and \$114,050 in 2017 and 2016, respectively. In 2016, the Board also received the 2015 CPI payment of \$112,500.

Tax Credit Fund: In 2008, the Board entered into a Tax Credit Agreement with Cincinnati, New Orleans and Texas Pacific Railway Company (“Lessee”) which enabled the Lessee to claim tax credits under Section 45G(c)(2) of the Internal Revenue Code. As part of the agreement, the Lessee agreed to pay the Board fifty percent of the tax credits claimed. In 2015, the Board and the City of Cincinnati entered into a Memorandum of Understanding establishing a mechanism for the Board to remit excess federal and state tax credits the Board receives to the City. Consistent with the Memorandum of Understanding, the Board has remitted the following excess funds to the City of Cincinnati as of December 31, 2017:

| <u>Date Sent</u> | | <u>Amount</u> |
|--------------------|----|------------------|
| September 25, 2015 | \$ | 1,500,000 |
| June 24, 2016 | | <u>4,500,000</u> |
| Total to date | \$ | <u>6,000,000</u> |

In 2017, consistent with the Memorandum of Understanding, the Board reimbursed the Expense Reserve Fund for costs incurred from July 2005 through September 2010 in the amount of \$1,349,967.

4. PAYMENTS FROM LESSEE (continued):

The Following federal and state tax credits were received from the Lessee as of December 31, 2017:

| <u>Date Received</u> | <u>Amount</u> | <u>Tax Agreement</u> |
|----------------------|---------------------|--------------------------|
| January 9, 2012 | \$ 1,165,500 | 2008 Federal Tax Credit |
| November 20, 2012 | 1,163,750 | 2009 Federal Tax Credit |
| November 20, 2012 | 1,163,750 | 2010 Federal Tax Credit |
| January 27, 2016 | 1,163,750 | 2011 Federal Tax Credit |
| January 27, 2016 | 1,163,750 | 2012 Federal Tax Credit |
| October 6, 2017 | <u>1,165,500</u> | 2013 Federal Tax Credit |
| Subtotal to date | \$ <u>6,986,000</u> | |
| | | |
| December 3, 2015 | \$ 673,750 | 2010 Kentucky Tax Credit |
| October 31, 2016 | <u>673,750</u> | 2011 Kentucky Tax Credit |
| Subtotal to date | \$ <u>1,347,500</u> | |
| | | |
| Grand total to date | \$ <u>8,333,500</u> | |

5. PROPERTY REPLACEMENT ACCOUNT:

In accordance with Section 3(f) of the Supplemental Agreement, any cash awarded from leased property being condemned or under threat of condemnation is to be deposited into an interest-bearing account in the name of the lessee. This account is not included in the financial statements of the Board. These funds shall be used by the lessee for repairs and improvements of railroad operations. On an annual basis, the Board is to receive an accounting of these funds from the lessee. All monies remaining at the end of the lease will be remitted directly to the Board.

During 1990, a Property Replacement Account was established with a financial institution (since this account was opened, this bank has changed names, U.S. Bank is the current bank) with deposits of \$14,500 from McCreary County, Kentucky and \$500 from Hamilton County, Tennessee.

During 1991, a \$1,550 award from Hamilton County, Tennessee was negotiated and apportioned, with \$748 for permanent drainage easement to be deposited in the Property Replacement Account and \$802 for temporary slope easement to be retained by the Cincinnati, New Orleans and Texas Pacific Railway Company. Also, during 1991, \$9,175 was generated by approving a permanent and temporary easement to the State of Kentucky.

During 1992, \$14,925 was generated by selling three parcels of property that were to be condemned to the Tennessee Department of Transportation. Also, \$2,000 was generated from an adverse possession claim on the Catnip Hill, Kentucky property.

During 1993 and 1994, the only activity in this account was for interest earnings. During 1995, \$8,880 was generated by selling 1.416 acres in Tennessee to the Tennessee Department of Transportation under threat of condemnation.

5. PROPERTY REPLACEMENT ACCOUNT (continued):

During 1996, \$9,500 was generated by selling 1.318 acres in Tennessee to the Tennessee Department of Transportation under threat of condemnation. During 1997, \$2,075 was refunded to the Cincinnati, New Orleans and Texas Pacific Railway Company. The Board determined that \$2,075 of the \$9,500 deposit made in 1996 should have been paid to the Company for deprivation of use of land belonging to the Company.

During 1998, \$32,824 was generated by selling 8,604 square feet in Tennessee to the Chattanooga Housing Authority under threat of condemnation and \$800 was generated by selling 0.3 acres to the Tennessee Department of Transportation under threat of condemnation.

During 1999, \$47,468 was generated by selling 2.3 acres in Chattanooga, Tennessee and \$25,000 was generated for conveyance of land to Erlanger, Kentucky.

During 2000, \$7,470 was generated by selling .86 acres in Chattanooga, Tennessee and \$1,001 was generated related to a condemnation award for a wire line crossing in Scott County, Tennessee.

During 2001, 2002, and 2003, the only activity in this account was for interest earnings.

During 2004, \$4,400 was generated by selling 1.309 acres in Whitley City, Kentucky to the Kentucky Department of Transportation under threat of condemnation, \$36,984 was generated by selling 3.05 acres in Tennessee to Hamilton County, Tennessee related to a condemnation award for easements, \$6,825 was generated by selling .512 acres in Chattanooga, Tennessee to the Tennessee Department of Transportation related to a condemnation award for Third Street, and \$3,294 was generated by selling multiple parcels of land in Spring City, Tennessee to the Tennessee Department of Transportation related to a condemnation award.

During 2005, \$9,646 was generated by selling various easements in Pulaski County, Kentucky to East Kentucky Power Cooperative under threat of condemnation, \$7,000 was generated by selling land below the Elm Street Bridge located in Kenton County, Kentucky to the State of Kentucky under threat of condemnation, and \$168,000 was generated by selling 1.68 acres in Fayette County, Kentucky to the University of Kentucky under threat of condemnation.

During 2006, the only activity in this account was for interest earnings.

During 2007, \$3,000 was generated by the sale of a permanent easement for an overhead bridge in Crescent Springs, Kenton County, Kentucky.

During 2008, \$5,000 was generated by the sale of a permanent easement for transmission lines on land located in the Fourth Civil District of Scott County, Tennessee.

During 2009, \$127,220 was generated by the sale of permanent easements for sidewalks and utilities, \$4,443 was generated by the sale of permanent aerial easement for a bridge, \$8,525 was generated by the sale of permanent easements for roadway, \$7,775 was generated by sale of permanent easements, \$8,228 was generated by the sale of permanent easements, and \$351,000 was generated by the sale of 1.17 acres to Kentucky Transportation Cabinet.

5. PROPERTY REPLACEMENT ACCOUNT (continued):

During 2010, \$2,700 was generated by the sale of permanent easements. In March, \$7,775 was determined to have been deposited in 2009 into the 3(f) account in error. A transfer of \$7,775 was made from the 3(f) to Norfolk Southern Corporation to correct the error.

During 2011, the only activity in this account was for interest earnings. During 2012, \$560,900 was generated by the sale of a deed of conveyance and grant of temporary easement in Fayette County, Kentucky to the Kentucky Transportation Cabinet.

During 2013, \$2,418,000 was generated by the sale of a deed of conveyance in Fayette County, Kentucky to the Kentucky Transportation Cabinet. In April, the purchase of 9 parcels of property in Pulaski County, Kentucky was completed for a total purchase price of \$1,021,250. In May, \$6,100 was deposited into the account related to sale of property in Grant County, Kentucky.

During 2014, \$7,500 was generated by granting an aerial easement to the Tennessee Valley Authority, \$42,500 was generated by the granting of an easement in Greendale, Kentucky to the Kentucky Transportation Cabinet. In December, the Norfolk Southern Corporation withdrew \$2,960,000 in relation to the double-mail project at Grove/Somerset.

During 2015, \$1,175 was from the Tennessee Department of Transportation in relation to a 1996 condemnation.

During 2016, \$15,000 was from the Tennessee Valley Authority in relation to the granting of an easement in 2015 with the funds being deposited into the Property Replacement Account in 2016.

During 2017, \$9,500 was from the Tennessee Valley Authority in relation to the grant of an easement in 2016 with the funds being deposited into the Property Replacement Account in 2017.

Board of Trustees, Cincinnati Southern Railway
Notes to the Financial Statements
(Relating Solely to the Cash Transactions of the Board of Trustees)
December 31, 2017 and 2016

5. PROPERTY REPLACEMENT ACCOUNT (continued):

| <u>Description of Account Activity</u> | <u>Amount</u> |
|--|---------------|
| Hamilton County, Tennessee – permanent easement, 1990 | \$ 500 |
| McCreary County, Kentucky – threat of condemnation, 1990 | 14,500 |
| Hamilton County, Tennessee – permanent drainage easement, 1991 | 748 |
| State of Kentucky – permanent and temporary easements, 1991 | 9,175 |
| Tennessee Department of Transportation – threat of condemnation, 1992 | 14,925 |
| Catnip Hill – adverse possession, 1992 | 2,000 |
| Tennessee Department of Transportation – threat of condemnation, 1995 | 8,880 |
| Tennessee Department of Transportation – threat of condemnation, 1996 | 9,500 |
| Refund of 1996 deposit due to deprivation of land use, 1997 | (2,075) |
| Chattanooga Housing Authority – threat of condemnation, 1998 | 32,824 |
| Tennessee Department of Transportation – threat of condemnation, 1998 | 800 |
| Chattanooga, Tennessee – sale of 2.3 acres deemed superfluous, 1999 | 47,468 |
| Erlanger, Kentucky – sale of 1.573 acres deemed superfluous, 1999 | 25,000 |
| Chattanooga, Tennessee – sale of .86 acres, 2000 | 7,470 |
| Scott County, Tennessee – condemnation award, 2000 | 1,001 |
| State of Kentucky – threat of condemnation, 2004 | 4,400 |
| Hamilton County, Tennessee – condemnation award, 2004 | 36,984 |
| Chattanooga, Tennessee – condemnation award, 2004 | 6,825 |
| Spring City, Tennessee – condemnation award, 2004 | 3,294 |
| Pulaski County, Kentucky – condemnation award, 2005 | 9,646 |
| Kenton County, Kentucky – condemnation award, 2005 | 7,000 |
| Fayette County, Kentucky – condemnation award, 2005 | 168,000 |
| Kenton County, Kentucky – permanent easement, 2007 | 3,000 |
| Scott County, Tennessee – permanent easement, 2008 | 5,000 |
| Grant County, Kentucky – permanent easement, 2009 | 141,320 |
| Temporary easement to be retained by Norfolk Southern, 2009 | (14,100) |
| Crescent Springs, Kentucky – permanent easement, 2009 | 4,433 |
| Lexington, Kentucky – permanent easements, 2009 | 8,525 |
| Lexington, Kentucky – permanent easements, 2009 | 7,775 |
| Lexington, Kentucky – sale of 1.17 acres – threat of condemnation, 2009 | 351,000 |
| Pulaski County, Kentucky – permanent easement, 2009 | 8,228 |
| Nicholasville, Kentucky – permanent easement, 2010 | 1,000 |
| Scott County, Kentucky – permanent easement, 2010 | 1,700 |
| Transfer to Norfolk Southern for overpayment account related to easement from 2009 | (7,775) |
| Fayette County, Kentucky – deed of conveyance and grant of temporary easement, 2012 | 560,900 |
| Fayette County, Kentucky – deed of conveyance, 2013 | 2,418,000 |
| Grant County Kentucky – deed of conveyance, 2013 | 6,100 |
| Pulaski County, Kentucky – purchase of 9 parcels of property, 2013 | (1,021,250) |
| Tennessee Valley Authority - granting of aerial easement, 2014 | 7,500 |
| Fayette County, Kentucky – granting of easement, 2014 | 42,500 |
| Withdrawal for the double-main project at Grove/Somerset, 2014 | (2,960,000) |
| Tennessee Department of Transportation – additional funds received related 1996 condemnation | 1,175 |
| Tennessee Valley Authority - sale of an easement - sale in 2015 funds received 2016 | 15,000 |
| Tennessee Valley Authority - sale of an easement - sale in 2016 funds received 2017 | 9,500 |
| Bank and Wire Fees | (117) |
| Interest earnings through 2017 | 32,806 |
| Total | \$ 31,085 |
| Amount confirmed with both U.S. Bank and Norfolk Southern | \$ 31,085 |

6. CINCINNATI, NEW ORLEANS AND TEXAS PACIFIC RAILWAY COMPANY:

As described in Note 1, the Board leases property to the Cincinnati, New Orleans and Texas Pacific Railway Company, who remits payment under this lease directly to the City of Cincinnati in quarterly installments. In 1987, a Supplementary Agreement was negotiated in which the basic rent was established at \$11,000,000 per year, coupled with an escalator clause with a formula based upon the Implicit Price Deflator for Gross National Product (IPD-GNP). The use of this formula is reflected in rental payments as shown below:

| Year | Rent Payments Received by the City of Cincinnati | |
|------|--|-----|
| 1987 | \$ 6,000,000 | (A) |
| 1987 | 11,706,522 | (B) |
| 1988 | 14,159,750 | (C) |
| 1989 | 8,900,706 | |
| 1990 | 12,238,082 | |
| 1991 | 12,685,453 | |
| 1992 | 13,192,871 | |
| 1993 | 13,632,589 | |
| 1994 | 13,993,444 | |
| 1995 | 14,207,684 | |
| 1996 | 14,559,892 | |
| 1997 | 14,857,993 | |
| 1998 | 15,216,901 | |
| 1999 | 15,256,161 | |
| 2000 | 15,511,244 | |
| 2001 | 15,852,336 | |
| 2002 | 16,211,233 | |
| 2003 | 16,407,065 | |
| 2004 | 16,681,555 | |
| 2005 | 17,085,916 | |
| 2006 | 17,701,180 | |
| 2007 | 18,317,889 | |
| 2008 | 18,889,407 | |
| 2009 | 19,323,674 | |
| 2010 | 19,551,307 | |
| 2011 | 19,709,868 | |
| 2012 | 20,189,606 | |
| 2013 | 20,553,019 | |
| 2014 | 20,862,753 | |
| 2015 | 21,194,471 | |
| 2016 | 21,480,172 | |
| 2017 | 21,804,737 | |
| | \$ 517,935,480 | |

- (A) Reflects the agreed upon sum for settlement of past claims under the Supplementary Agreement.
- (B) Reflects rent for 1987 plus interest on late payment of rents.
- (C) The 1988 rent received includes \$2,831,950 pre-payment of rental income due in 1989.

ADDITIONAL FINANCIAL INFORMATION

Board of Trustees, Cincinnati Southern Railway
 Summary Schedule of Cash Receipts and Disbursements
 For the Year Ended December 31, 2017

| | <u>Amount</u> |
|---|---------------------|
| Cash account balances: | |
| US Bank Premium Business Checking with Interest | \$ 121,502 |
| US Bank - Investment Account | <u>2,609,244</u> |
| Total cash balances at January 1, 2017 | 2,730,746 |
| Receipts: | |
| Total receipts for the year (See schedule at page 16) | 1,400,501 |
| Disbursements: | |
| Total disbursements for the year (See schedule at page 17) | <u>(38,110)</u> |
| Total cash balances at December 31, 2017 | \$ <u>4,093,137</u> |
| Cash and cash equivalent account balances: | |
| US Bank Premium Business Checking with Interest | \$ 64,948 |
| US Bank - Investment Account | <u>4,028,189</u> |
| Total cash balances at December 31, 2017 | \$ <u>4,093,137</u> |

Board of Trustees, Cincinnati Southern Railway
Detailed Schedule of Cash Receipts
For the Year Ended December 31, 2017

| Deposit Date | Transactions | Amount |
|-----------------|---|---------------------|
| 1/31/2017 | Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 4th quarter 2016 | \$ 25,000 |
| 3/23/2017 | Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 1st quarter 2017 | 25,000 |
| 6/22/2017 | Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 2nd quarter 2017 | 25,000 |
| 6/29/2017 | Norfolk Southern Railway - Supplement Payment - 2017 | 118,490 |
| 10/4/2017 | Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 3rd quarter 2017 | 25,000 |
| 10/6/2017 | Norfolk Southern Railway - Federal Tax Credit Payment - 2013 | 1,165,500 |
| | Total Earnings on Investment in 2017 (see schedule at page 18) | <u>16,511</u> |
| | | <u>\$ 1,400,501</u> |

See Note 4 to the financial statements.

Board of Trustees, Cincinnati Southern Railway
Detailed Schedule of Cash Disbursements
For the Year Ended December 31, 2017

| <u>Date</u> | <u>Transactions</u> | <u>Amount</u> |
|-------------|---|-------------------------|
| 01/04/17 | Vehr Communications | \$ 143 |
| 03/14/17 | American Short Line and Regional Railroad Association - Annual Dues | 11,150 |
| 03/14/17 | Treasurer, City of Cincinnati - Professional Services | 6,597 |
| 03/14/17 | Nossman LLP | 1,852 |
| 03/14/17 | Vehr Communications | 208 |
| 04/14/17 | Bank Fee | 25 |
| 05/02/17 | Nossman LLP | 400 |
| 06/22/17 | Clark Schaefer Hackett - 2016 Audit | 6,180 |
| 08/21/17 | Tim Riordan reimbursement | 96 |
| 08/21/17 | Vehr Communications | 93 |
| 10/02/17 | Dorothy Carman - consulting services | 1,114 |
| 10/19/17 | Tom McOwen reimbursement | 88 |
| 10/19/17 | Cors & Bassett | 99 |
| 11/14/17 | Bank Fee | 20 |
| 12/01/17 | Arthur J. Gallagher Risk Management Services - Insurance Premium | 6,655 |
| 12/12/17 | Tom McOwen reimbursement | 164 |
| 12/12/17 | Vehr Communications | 1,657 |
| 12/12/17 | IMG Rebel Advisory, Inc - consulting services | <u>1,569</u> |
| | | \$ <u><u>38,110</u></u> |

Board of Trustees, Cincinnati Southern Railway
Detailed Schedule of Interest Received
For the Year Ended December 31, 2017

| | US Bank Premium Business Checking | US Bank Investment Account | Total Interest |
|----------------|--|----------------------------------|-------------------|
| January | \$ 1.10 | 1,702.72 | 1,703.82 |
| February | 0.44 | 3,172.18 | 3,172.62 |
| March | 0.44 | 237.27 | 237.71 |
| April | 0.45 | 638.55 | 639.00 |
| May | 0.36 | 1,395.89 | 1,396.25 |
| June | 0.87 | 2,491.33 | 2,492.20 |
| July | 0.90 | 2,843.76 | 2,844.66 |
| August | 0.63 | 1,243.70 | 1,244.33 |
| September | 0.61 | 309.99 | 310.60 |
| October | 7.30 | 1,379.51 | 1,386.81 |
| November | 0.61 | 523.35 | 523.96 |
| December | <u>0.87</u> | <u>557.69</u> | <u>558.56</u> |
| Total interest | \$ <u>14.58</u> | <u>16,495.94</u> | <u>16,510.52</u> |

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Cincinnati Southern Railway:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Trustees, Cincinnati Southern Railway (the "Board") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 15, 2018, wherein we noted the Board uses the cash basis of accounting.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 15, 2018

