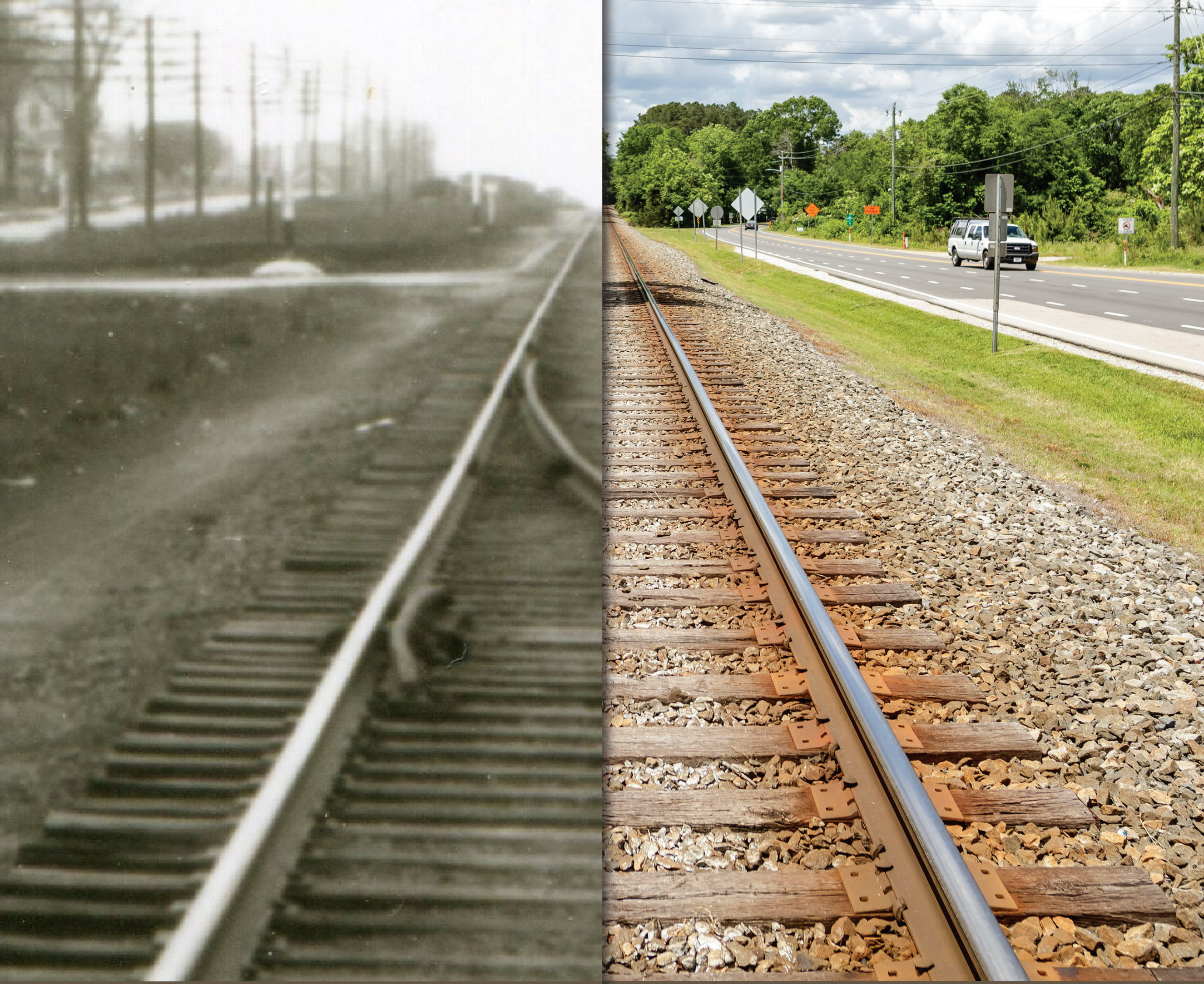


2018 ANNUAL REPORT

NORTH CAROLINA RAILROAD COMPANY

CELEBRATING 170 YEARS

1849-2019

In 1849, the North Carolina Railroad Company is incorporated by the state legislature and hailed as a “tree of life” for the state of North Carolina.

The vision of a railway linking the Piedmont to the coastal plain has long since become a reality, and expanded well beyond the dreams of its founders. While much has changed in more than a century and a half, the North Carolina Railroad Company is a private business corporation that remains an integral component of North Carolina’s economy and quality of life. And its mission is still the same: to work for the good of the people of North Carolina. Today, and well on down the line.

FRONT FLAP: *North Carolina Railroad at Pollock St. in Selma, Johnston County, 1932, Albert Barden Collection, State Archives of North Carolina*

ABOVE: *North Carolina Railroad at Carpenter Rd. in Morrisville, 2019*

NORTH CAROLINA RAILROAD COMPANY

ABOVE: *North Carolina Railroad at Davie St. in Greensboro, 1926, Southern Railway Historical Association*

RIGHT: *Railway worker positions tie plates atop new crossties on North Carolina Railroad with help of a tie plate jack, Goldsboro, 2012*

OUR MISSION

Putting the North Carolina Railroad Company to work for the good of the people of North Carolina.

OUR VISION

TO IMPROVE OUR STATE BY:

- *Enabling freight to grow business*
- *Expanding rail to move people*
- *Investing in North Carolina*

LETTER FROM THE CHAIRMAN

The North Carolina Railroad Company has a long and storied history. As we look back on 170 years of service, we're proud of the part we've played in building our state's economy, recruiting and supporting good jobs for our citizens, and making North Carolina one of the best places in the country to live.

But we'll never stop looking ahead.

We'll continue to be directly involved in economic development and the recruitment of rail-served business and industry across the state. Through NCRR Invests, we've already assisted in several recruitment and expansion efforts that have led to more than 2,000 new jobs.

We'll continue to put a priority on reinvesting in our 317-mile railroad—and the countless signs, switches, rights-of-way and other elements that make up our extensive infrastructure.

We'll continue to manage our rail corridor in a spirit of innovation and collaboration with the 40 municipalities that are our neighbors along this important asset—an approach that allows us to be proactive in in our collaboration with growing cities and towns, while ensuring the best possible conditions for efficient freight and passenger service.

We know that we manage a unique and important North Carolina asset. From the days when the railroad was first chartered and called, "a tree of life," to today when our expanded network connects to the entire east coast, we've taken that responsibility seriously.

And whatever innovations and opportunities tomorrow brings, we'll continue to do the same.

Michael Walters
Chairman, North Carolina Railroad Company Board of Directors

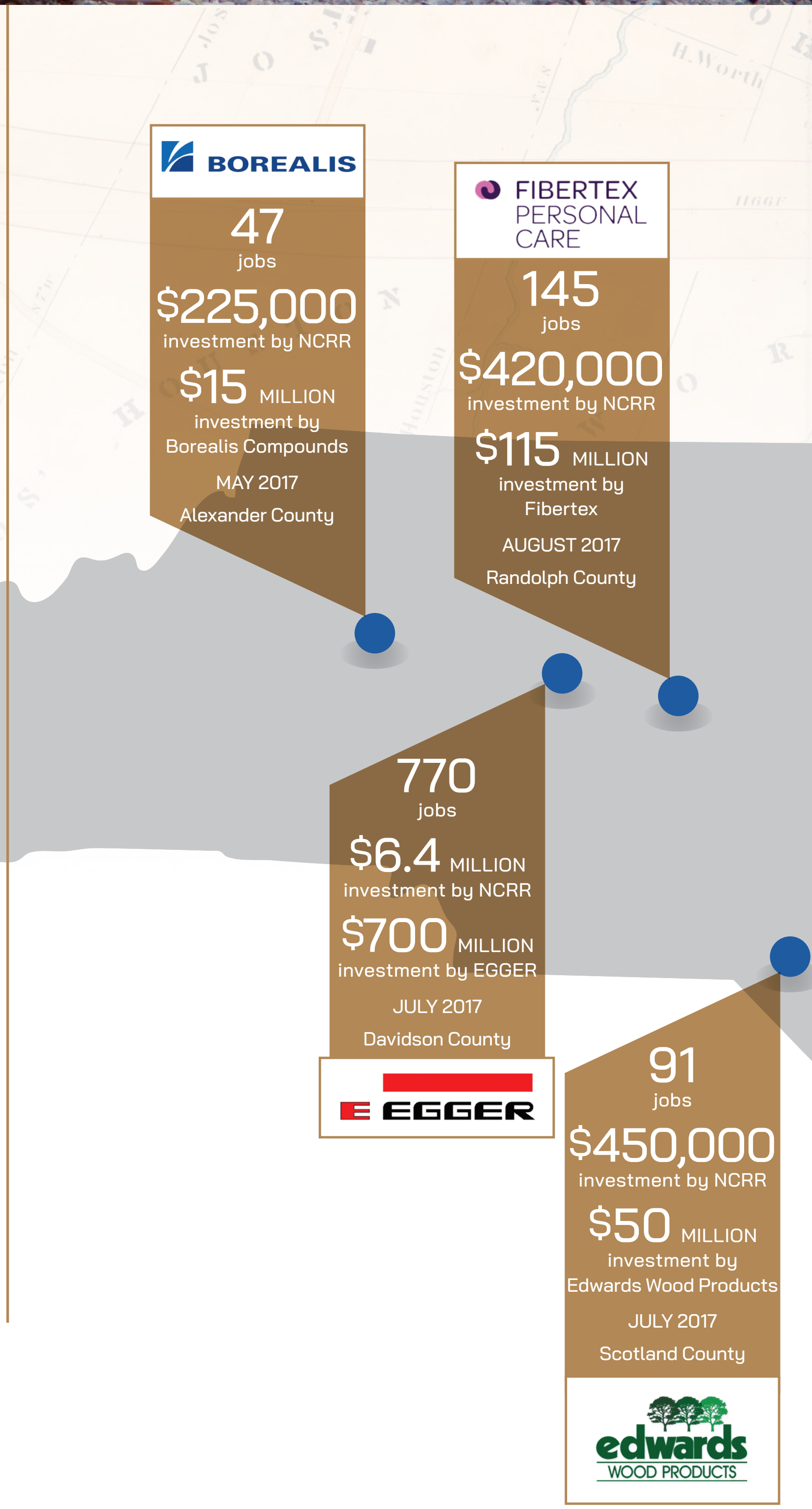
Lead track connecting EGGER Wood Products manufacturing site to North Carolina Railroad, Davidson County, 2018

INVESTMENTS IN FREIGHT RAIL INFRASTRUCTURE SPUR ECONOMIC DEVELOPMENT

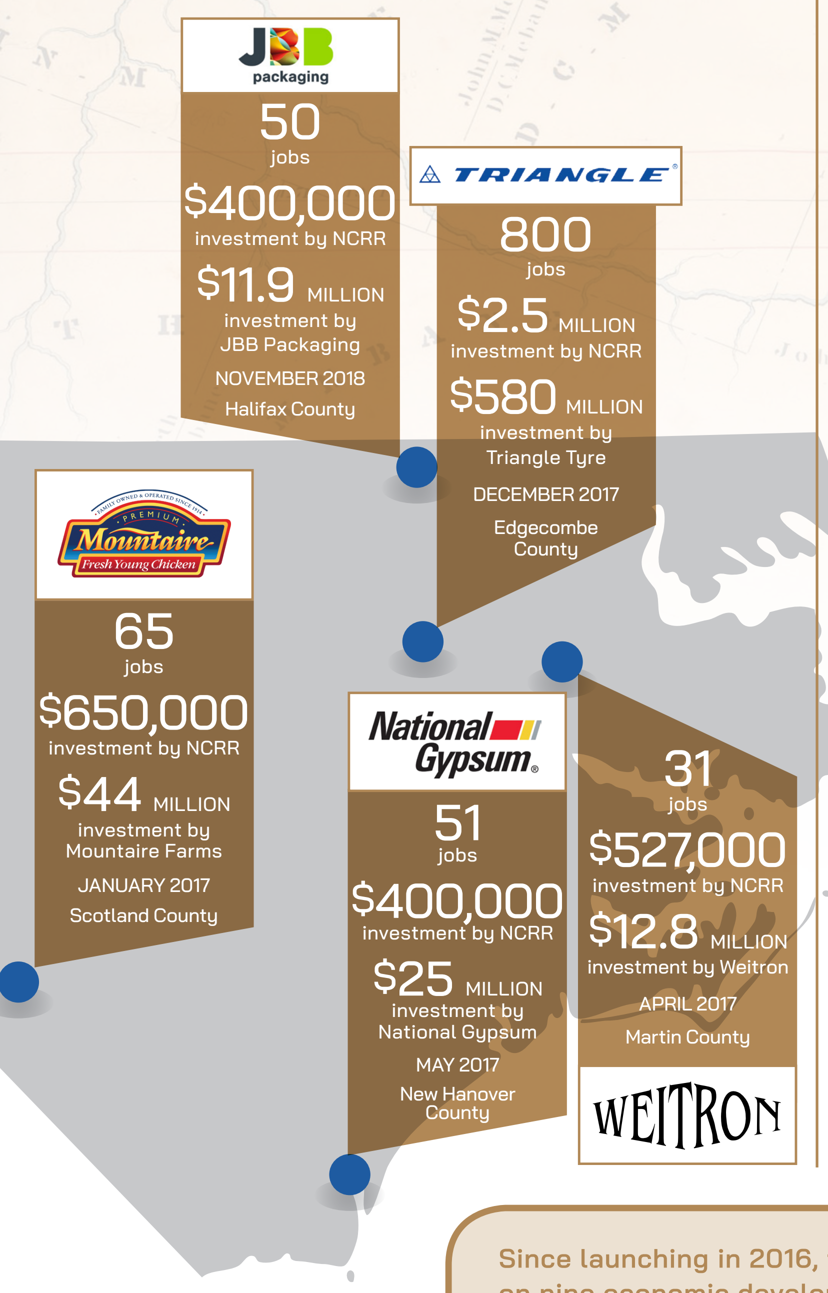
More than 170 years ago, the North Carolina Railroad was chartered for the purpose of economic development. NCRR continues this mission today. Since launching NCRR Invests in 2016, the North Carolina Railroad Company has assisted the state in the recruitment or expansion of nine rail-served businesses, bringing more than 2,000 jobs to North Carolina.

"NCRR Invests is an initiative unlike any other in the country," says President, Scott Saylor. "Rail infrastructure is capital intensive and requires a significant investment, but it can be a game changer for the recruitment of rail-served business and industry. Through NCRR Invests, we collaborate with economic development partners by investing in freight rail infrastructure necessary for the company's operations, whether it's an engineering or design requirement, or building a lead track into an industrial park."

JBB Packaging LLC, a Dutch manufacturer of plastics packaging for ornamental horticulture, announced in 2018 that it would be locating a production facility at the Becker Industrial Park in Weldon. A key factor in the company's decision to locate in Halifax County was the availability of a rail-served building, but the existing rail spur serving the building required some improvements. Through NCRR Invests, the North Carolina Railroad Company invested approximately $400,000 to assist with the rehabilitation of an existing spur track. The company is bringing 50 jobs to Halifax County and is expected to be operational and using rail in 2020.



Lead track connecting Weitron production facility to freight railroad service in Martin County, 2018



Construction of a lead track that serves EGGER Wood Products was completed in 2018. The Austrian manufacturer of wood products used in furniture and flooring made the decision to locate their first U.S. production facility in Davidson County in 2017. While construction on the facility is still underway, the lead track, an investment of 6.4 million by The North Carolina Railroad Company, will connect the facility to the North Carolina Railroad, served by Norfolk Southern. EGGER Wood Products will eventually employ approximately 700 employees.

While some NCRR Invests infrastructure projects are just ramping up, others are at, or nearing, completion. In 2017, Mountaire Farms announced that they would be expanding their North Carolina operations, and building a feed mill in Scotland County. The North Carolina Railroad Company invested $650,000 in the rehabilitation of an industrial lead track at the Laurinburg Maxton Airport Industrial Park. The feed mill is operational and the lead track connects to the CSX main line, providing opportunities for existing companies and future users located at the Park to ship via rail.

"Through NCRR Invests we are creating a competitive advantage for North Carolina," says Anna Lea Moore, Vice President of Economic Development. "The rail-served companies that choose to locate or expand in our state see that North Carolina can be a destination for industry that requires freight rail service, and that message will continue to spread."

Since launching in 2016, the North Carolina Railroad Company has partnered on nine economic development announcements resulting in more than 2,000 jobs and $1.8 billion in investments by the companies choosing to locate or expand in North Carolina.

Fast responses enable freight railroad operations to stay on track

The 2018 hurricane season posed significant impacts to much of North Carolina. In addition to the devastating effects Hurricanes Florence and Michael had on homes and businesses, the storms also severely impacted our state's infrastructure.

Through a trackage rights agreement, the North Carolina Railroad Company allows Class I freight rail provider Norfolk Southern to operate on NCRR's 317 miles of tracks, from the Port in Morehead City to Charlotte. Through this partnership, the engineering team at Norfolk Southern works with NCRR's Vice President of Engineering, Jim Kessler to quickly identify damage along the railroad corridor and initiate repairs.

The damage to infrastructure following a powerful storm can be a substantial threat to the state's economy even after the storm passes. While portions of major interstates were under water, the 317-mile North Carolina Railroad experienced damage and service outages resulting from rising water levels and high winds. In the days following the hurricanes, Norfolk Southern worked to restore culverts that were washed out, remove downed trees, and repair portions of the track, allowing both freight and passenger trains to resume normal operations on the North Carolina Railroad corridor.

North Carolina's railroad corridor from Charlotte to Morehead City is open for business, moving people and products to keep the economy in motion.

Eight washouts on the North Carolina Railroad occurred during Hurricane Florence, with most taking place on the eastern portion of the line. The photos below demonstrate damage, repair and restoration by Norfolk Southern near Kinston.

Construction continues on Morrisville bridge project

The replacement of a nearly 100-year-old railroad bridge continues in Morrisville. NCRR is partnering with the Town of Morrisville to construct a new railroad bridge over Crabtree Creek, replacing a structure built in 1927. The Company will invest $8.7 million in the $9.8 million project.

The new railroad bridge allows for a future second track to accommodate added freight service as well as future passenger or commuter rail. The project includes the extension of a pedestrian greenway under the bridge, connecting Morrisville and Cary's greenway systems.

"Thanks to the North Carolina Railroad Company's investment and our partnership, the pedestrian underpass will provide a safe location for pedestrians to cross under the railroad and enjoy the greenway we will develop," said Jerry Allen, Morrisville Director of Parks and Recreation.

NCRR is working on the project with longtime freight partner Norfolk Southern and the Town of Morrisville. The Morrisville municipality is investing $1 million to partner in the bridge project.

"These investments will not only secure the future of freight, but also provide a safe way for pedestrians to pass under the railroad and open a constrained greenway," said NCRR President Scott Saylor.

Construction is scheduled to be complete in mid-2020.

"We have several infrastructure improvement projects in the works at any given time that take into account the future needs of the corridor," says Saylor. "We are looking ahead 10, 20 and 50 years to ensure this important east-west freight and passenger route thrives well into the future."

Constructing a new bridge over Crabtree Creek requires building temporary bridge to allow freight and passenger trains to continue to operate while the new bridge is being constructed.

North Carolina Railroad Company Vice President of Engineering Named President of Engineering Association

North Carolina Railroad Company Vice President of Engineering, James "Jim" Kessler, P.E., was named 2018 - 2019 President of the American Railway Engineering and Maintenance-of-Way Association (AREMA). Kessler was officially installed as president of AREMA on September 16, 2018 during the Annual AREMA Presidents Dinner.

NCRR Vice President of Engineering, Jim Kessler (left) receives the President's Gavel from outgoing AREMA President, Dwight Clark.

"I'm honored to serve as president of an organization that I've been a part of for more than 37 years," says Kessler. "AREMA provides both new and long-time engineers opportunities to learn and grow in their profession, as well as cultivating a pipeline of future railroad engineering professionals. As president, I plan to encourage members to become more involved in the organization and take full advantage of the opportunities it offers."

"Jim is a great asset to our Company," says Scott Saylor, North Carolina Railroad Company President. "Since joining the North Carolina Railroad in 2013, he has led many important projects to completion including double tracking, new rail sidings in Johnston and Lenoir Counties, and the rehabilitation of the Trent River railroad bridge in New Bern. As Vice President of Engineering at NCRR, he partners with engineering staff at Norfolk Southern and North Carolina's Department of Transportation and also supports our economic development team as NCRR makes strategic investments in rail-served economic development projects."

"I have had the pleasure of working with Jim for several years and his focus has been on moving the Association forward. I look forward to supporting Jim in his role as President, as I am sure he will perform an exemplary job," said AREMA Executive Director and CEO Elizabeth S. Caruso.

Kessler is a Licensed Professional engineer with more than 45 years of experience in railroad engineering. He holds a B.S. in Civil Engineering degree from North Carolina State University and is a member of the American Society of Civil Engineers (Fellow).

AREMA boasts a membership of more than 6,000 engineering professionals and publishes best practices, plans and specifications for the railway industry. AREMA also provides educational opportunities to help fulfill its mission – the development and advancement of both technical and practical knowledge and recommended practices pertaining to the design, construction and maintenance of railway infrastructure.

Corridor Management

Successful Corridor Management is a Result of Collaboration and Innovation

One-hundred and seventy years ago, the North Carolina Railroad was chartered to better connect the eastern portion of the state to the Piedmont. The Railroad offered a mechanism for the more efficient movement of goods and people. The North Carolina Railroad remains a key route for freight and passenger rail service, connecting to two Class I freight rail networks, regional railroads, multiple passenger lines, and the entire east coast rail network.

Today, the Railroad runs through four of the state's largest cities, thriving downtown areas and rural communities, all of which are experiencing varying degrees of residential and commercial development. What may not be expected, is that the railroad corridor must also grow to accommodate future freight and passenger needs. The question is, how do the two grow together in a way that's mutually beneficial?

"In many towns, the NCRR corridor consists of one track with approximately 100 feet on each side. When it's been that way for several decades, towns and cities don't always consider the possibility that two more tracks could be added that will bump up against a new retail space or condo development," says Andrew Tate, Vice President of Real Estate. "We have to emphasize long-term planning and relationship building in order for NCRR and the communities to collaborate successfully."

NCRR's Real Estate and Corridor Management staff work with the 40 municipalities along the 317-mile railroad to ensure that the corridor factors into cities' and towns' long-term plans and development. Preserving the railroad corridor and maintaining the ability to increase capacity by adding future tracks is vital for economic development related to both freight and passenger services.

If city planning impacts the railroad corridor in any way, they collaborate with the Company to find alternative solutions or establish agreements. These agreements outline parameters for accessing the railroad corridor, with the understanding that additional tracks could be located within the corridor at any time, if need arises. Typically, agreements cover beautification efforts maintained by the community, parking lots or temporary structures that can be relocated.

Clayton is one of the fastest growing communities in the Triangle and the town is working to revitalize the downtown area. The NCRR corridor runs through downtown Clayton, and the town is collaborating with the Company to encourage development that accommodates a growing population, while also keeping future rail capacity and safety in mind.

"Agreements are necessary for safety and operational requirements," says Tate. "Whether it's an annual parade route through downtown or a master plan to build a mixed-use development adjacent to the railroad corridor, the agreements make it easier for adjacent property owners and communities to understand the guidelines associated with railroad property."

Tate says that when communities make requests to NCRR that impact the corridor, both parties have to be willing to be creative, with a focus on partnership. "You have to be willing to compromise, while also maintaining standards for safety, operations, and the possibility for future growth."

Chapel Hill Street in Durham, 1920s (left) 2017 (right)

Preserving the corridor is key to ensuring future capacity needs are met. Track near Hopson Road in Wake County (above).

The North Carolina Railroad leases a portion of its corridor to the Charlotte Area Transit System (CATS) Blue Line (right).

NCRR line runs through Hancock St. in downtown New Bern. (lower right).

Agreements with communities and adjacent property owners are necessary in both rural and urban settings, with scale being the differentiator. Urban areas often require agreements related to large commercial and residential developments, while rural areas and towns typically have smaller scale needs that have a longer lifespan.

SCHOLARSHIPS

North Carolina Railroad Company invests in logistics and distribution management scholarships

Samuel Norman-David Yowonske served in the United States Army for 20 years before returning home to pursue a degree in Supply Chain Management at Lenoir Community College in Kinston. Yowonske is also a 2018-19 recipient of the North Carolina Railroad Company's Global Logistics and Supply Chain Management Scholarship for students seeking an associate degree in Supply Chain Management.

After completing his studies at Lenoir Community College, Yowonske plans to transfer to East Carolina University to complete his bachelor's degree.

Since 2016, the North Carolina Railroad Company has provided annual scholarships to students pursuing an associate degree in the logistics and distribution management programs at Lenoir Community College and Davidson County Community College – both located along the North Carolina Railroad line. NCRR is committed to assisting the state in the recruitment and expansion of rail-served industry, while also promoting the necessity of a skilled workforce to meet the logistics and distribution management needs required by these companies.

Robert Wayne Scarboro is an Archdale resident enrolled at Davidson County Community College and works full-time as an allocator for Global Brands Group and is pursuing an associate degree in Supply Chain Management. As the 2018-19 recipient of the North Carolina Railroad Company's scholarship, Scarboro hopes that furthering his education will allow him to advance within the company.

"The North Carolina Railroad Company's history is rooted in economic development and job creation. Our community colleges are doing excellent work preparing the skilled workforce required by rail-served industry—and the demand for such expertise continues to grow," said NCRR President Scott Saylor. "The Company is excited to make these meaningful contributions to ensure North Carolina's workforce, and students like Mr. Yowonske and Mr. Scarboro are prepared for careers at a rail-served or logistics-based company."

Coursework for supply chain management considers the international and domestic movement of goods from the raw materials source(s) through production and ultimately to the consumer. Courses in economics and finance, transportation, warehousing, inventory control, material handling, purchasing, computerization, supply chain operations, federal transportation and safety regulations are some of the types of classes offered within this field of study.

Endowment invests in future railway infrastructure engineers

The North Carolina Railroad Company and the American Railway Engineering and Maintenance of Way Association (AREMA) Educational Foundation are working together to encourage and assist students with their railway engineering studies. Three years ago, the North Carolina Railroad Company made a one-time endowment of $50,000 to the AREMA Foundation to award scholarships on behalf of the North Carolina Railroad Company, in perpetuity. The Foundation recently announced that Soumya Sharma of North Carolina State University has been awarded the 2019 North Carolina Railroad Company Engineering Scholarship.

The $1,000 scholarship, awarded annually since 2017, is funded by an endowment made by NCRR to the Foundation. It recognizes a deserving civil, mechanical, electrical or industrial engineering student currently attending college in North Carolina. Previous recipients were Melissa Hyland of North Carolina State University in 2017 and Daniel Bissette of North Carolina State University in 2018.

"Planning for rail infrastructure requires a long-term vision and we want to assist in making sure that there is a pipeline of talent for many years to come," says Scott Saylor, President of the North Carolina Railroad Company.

James K. Kessler, current AREMA President and Vice President of Engineering and Planning with NCRR, and a graduate of N.C. State University, brought the idea forward in 2016.

"Our company hires and works with engineers all the time, and we respect their contribution immensely," Kessler says. "If we can give an aspiring engineer the added assistance he or she needs to pursue their education, it's a win for everyone."

The AREMA Educational Foundation, a tax-exempt, charitable organization, promotes educational activities related to railway engineering. The Foundation provides scholarships to engineering students who are specializing in the railway industry and supports other educational and training endeavors that help to ensure the future of the profession.

Scholarship recipients to date also include:

Karen Renee Huff, Yadkinville,
Davidson County Community College, 2016-17

Melissa Briceno, Winston-Salem,
Davidson County Community College, 2017-18

Penny Barefoot, Faison, Lenoir Community College, 2016-17

Jeffrey Jenkins, Black Creek, Lenoir Community College, 2017-18

Soumya Sharma

Samuel Norman-David Yowonske

Robert Wayne Scarboro

BOARD AND STAFF

Freight train on Trent River Bridge, New Bern, 2013

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Catherine Knudson
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Justin Madigan
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Emily Cox
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Davina Killingsworth
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Andrew Tate
Vice President – Real Estate

Melissa DeVita
Department Administrative Assistant

Kristian Forslin, GISP, PLS
GIS and Survey Manager

Cameron Kidd
Land Manager

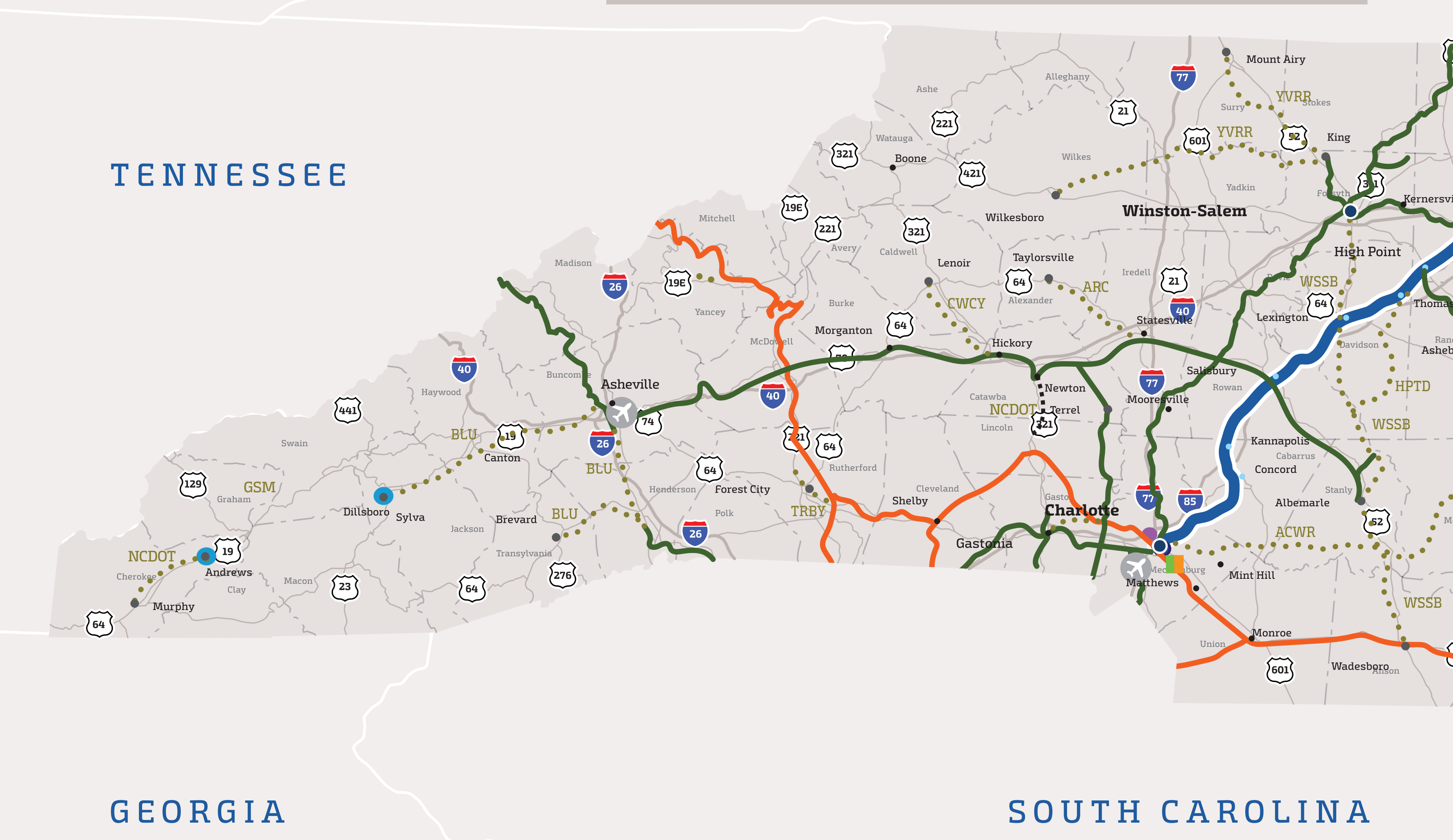
Amy Sandidge
Real Estate Representative

Walker Zeck
Facilities Manager

CORRIDOR MAP

Freight Routes

- North Carolina Railroad Company
  *Norfolk Southern Class I Freight Service
- Norfolk Southern
- CSX Transportation
- Various Shortlines

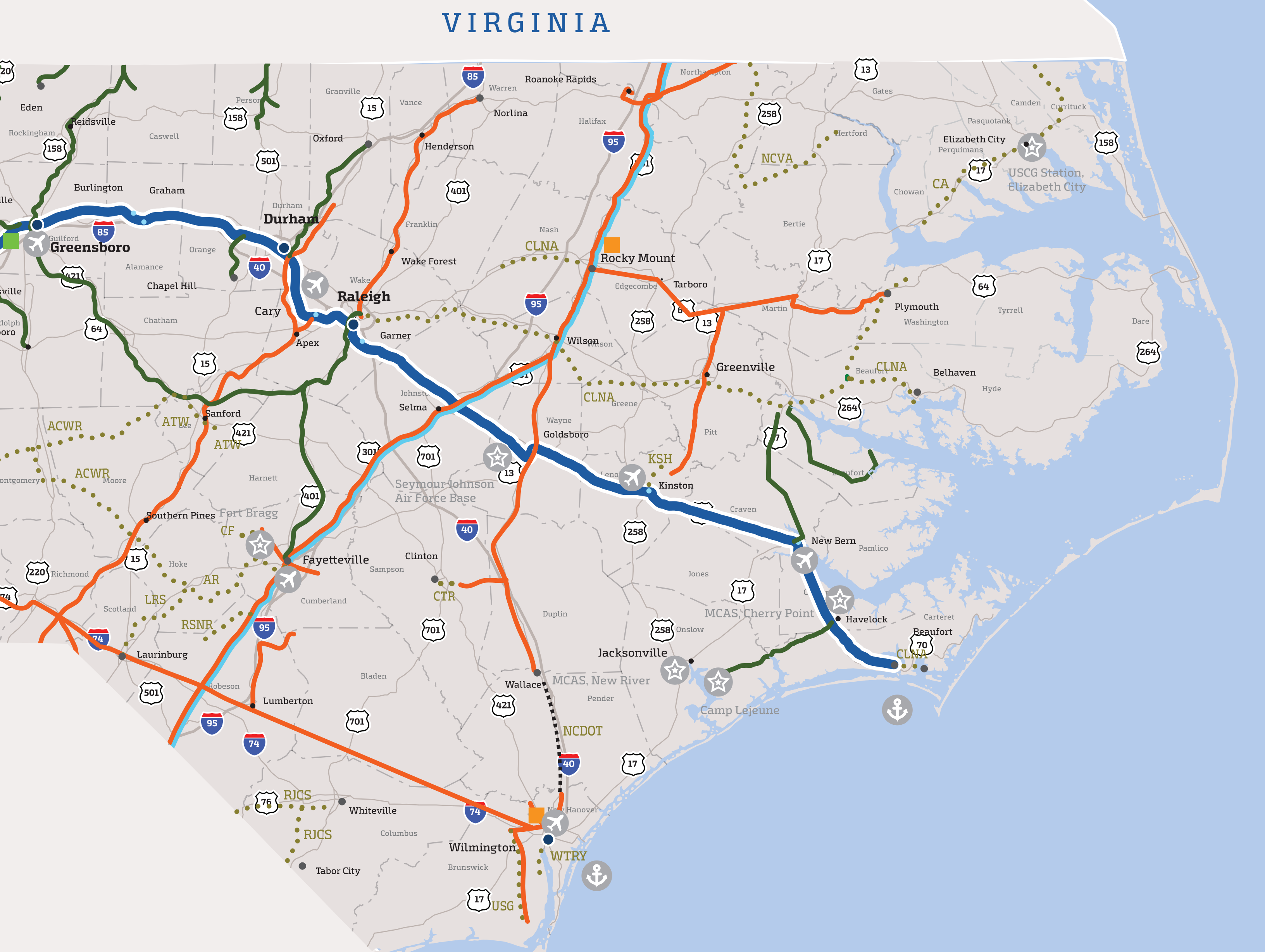


Intermodal Terminals

- Norfolk Southern
- CSX Transportation

Logistical Centers

- Military Bases
- Seaports
- Airports



North Carolina Railroad Company

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

DIXON HUGHES GOODMAN LLP

Table of Contents

Independent Auditors' Report

Directors and Stockholder
North Carolina Railroad Company
Raleigh, North Carolina

We have audited the accompanying consolidated financial statements of North Carolina Railroad Company and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Railroad Company and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
May 23, 2019

North Carolina Railroad Company
Consolidated Balance Sheets
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,882,035	$ 4,994,631
Accounts receivable, net of allowance for doubtful accounts of $311,681 and $428,000 for 2018 and 2017	186,706	237,113
Prepaid expenses	36,358	50,386
Total current assets	7,105,099	5,282,130
Property and equipment:		
Roadway and land	7,848,742	7,848,742
Tracks, signals and bridges	400,037,251	400,037,251
Land	34,756,850	25,037,187
Buildings and improvements	19,233,315	16,344,332
Equipment and furniture	2,906,676	2,796,915
Construction in progress	2,080,302	1,614,417
	466,863,136	453,678,844
Less accumulated depreciation	166,126,431	135,296,320
Property and equipment, net	300,736,705	318,382,524
Other assets:		
Investments reserved for capital projects	87,151,568	99,647,910
Long-term receivables	2,894,314	3,593,622
Other	5,815	313,037
Total other assets	90,051,697	103,554,569
Total assets	$ 397,893,501	$ 427,219,223

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company
Consolidated Balance Sheets
December 31, 2018 and 2017 **(Continued)**

	2018	2017
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$ 2,353,653**	$ 1,397,942
Dividend payable	**3,945,123**	3,894,917
Current portion of unearned rent	**216,301**	286,780
Total current liabilities	**6,515,077**	5,579,639
Long-term liabilities:		
Other liabilities	**392,337**	337,278
Deferred tax liability	**567,000**	576,000
Unearned rent	**10,302,787**	10,471,136
Total long-term liabilities	**11,262,124**	11,384,414
Total liabilities	**17,777,201**	16,964,053
Stockholder's equity:		
Common stock, $0.50 par value; 10,000,000 shares authorized; 317 shares issued and outstanding	**159**	159
Additional paid-in capital	**462,774,353**	462,774,353
Accumulated deficit	**(84,452,174)**	(56,674,080)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	**1,793,962**	4,154,738
Total stockholder's equity	**380,116,300**	410,255,170
Total liabilites and stockholder's equity	**$ 397,893,501**	$ 427,219,223

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company
Consolidated Statements of Operations and Comprehensive Income (Loss)
Years Ended December 31, 2018 and 2017

	2018	2017
Income:		
Lease of roadway and land	**$ 15,780,490**	$ 15,579,669
Other lease income	**2,944,501**	2,691,174
Total lease income	**18,724,991**	18,270,843
Expenses:		
Wages and benefits	**3,274,722**	3,197,258
Professional fees	**482,955**	501,700
Contracted services	**295,608**	790,680
Franchise and property taxes	**917,869**	565,068
Insurance	**220,445**	196,629
Reporting and public relations	**224,605**	246,657
Depreciation	**30,830,111**	22,009,308
Engineering, surveying and mapping	**687,487**	1,311,629
Property and corridor management	**581,149**	669,994
Bad debts	**28,028**	77,173
General and administrative	**1,018,134**	880,879
Economic development	**5,645,001**	33,266
Total expenses	**44,206,114**	30,480,241
Operating loss	**(25,481,123)**	(12,209,398)
Other income:		
Investment income, net of expenses	**1,558,585**	2,596,170
Other income	**211,798**	854,075
Total other income	**1,770,383**	3,450,245
Loss before income taxes	**(23,710,740)**	(8,759,153)
Income tax expense (benefit)	**122,231**	(195,550)
Net loss	**$ (23,832,971)**	$ (8,563,603)
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding (losses) gains arising during the period	**$ (3,128,705)**	$ 2,909,488
Reclassification adjustments for unrealized holding losses (gains) included in net income	**767,929**	(431,481)
Other comprehensive (loss) income	**(2,360,776)**	2,478,007
Comprehensive loss	**$ (26,193,747)**	$ (6,085,596)

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2018 and 2017

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholder's Equity
Balance, December 31, 2016	$ 159	$ 230,389,267	$ (44,215,560)	$ 1,676,731	$ 187,850,597
Capital improvement contributions	-	232,385,086	-	-	232,385,086
Dividends	-	-	(3,894,917)	-	(3,894,917)
Net income (loss)	-	-	(8,563,603)	2,478,007	(6,085,596)
Balance, December 31, 2017	159	462,774,353	(56,674,080)	4,154,738	410,255,170
Dividends	-	-	(3,945,123)	-	(3,945,123)
Net loss	-	-	(23,832,971)	(2,360,776)	(26,193,747)
Balance, December 31, 2018	$ 159	$ 462,774,353	$ (84,452,174)	$ 1,793,962	$ 380,116,300

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net loss	**$ (23,832,971)**	$ (8,563,603)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for bad debts	**(28,028)**	(77,173)
Depreciation	**30,830,111**	22,009,308
Deferred income tax benefit	**(9,000)**	(352,000)
Interest earned by investments reserved for capital projects	**(1,540,124)**	(2,703,412)
Changes in operating assets and liabilities:		
Accounts receivable	**78,435**	(74,179)
Long-term receivable	**699,308**	(12,077)
Prepaid expenses	**14,028**	(24,541)
Other assets	**15,442**	(284,311)
Accounts payable and accrued expenses	**517,302**	864,589
Unearned revenues	**(168,349)**	(221,777)
Other liabilities	**55,059**	82,178
Net cash provided by operating activities	**6,631,213**	10,643,002
Cash flows from investing activities:		
Purchase of property and equipment	**(12,524,582)**	(4,752,961)
Due from escrow agent	**-**	1,814,531
Transfer of unrestricted cash and cash equivalents to investments reserved for capital projects	**-**	(10,500,000)
Transfers of investments reserved for capital projects to cash and cash equivalents for capital expenditures	**11,675,690**	4,993,913
Net cash used in investing activities	**(848,892)**	(8,444,517)
Cash flows from financing activities:		
Payment of dividend	**(3,894,917)**	(3,848,466)
Net cash used in financing activities	**(3,894,917)**	(3,848,466)
Net increase (decrease) in cash and cash equivalents	**1,887,404**	(1,649,981)
Cash and cash equivalents at beginning of year	**4,994,631**	6,644,612
Cash and cash equivalents at end of year	**$ 6,882,035**	$ 4,994,631
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	**$ 107,500**	$ 188,000
Supplemental schedule of noncash investing and financing activities:		
Additions to property and equipment contributed by the North Carolina Department of Transportation	**$ -**	$ 232,385,086
Property and equipment purchases in accounts payable	**$ 379,107**	$ 11,177
Additions to PP&E reclassed from deposits in other assets	**$ 291,780**	$ -
Accrued dividends payable	**$ 3,945,123**	$ 3,894,917

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Business

The North Carolina Railroad Company and Subsidiaries, a North Carolina company, (collectively referred to as the “Company”), owns approximately 317 miles of continuous railroad line extending from Charlotte, North Carolina to Morehead City, North Carolina. The Company’s railroad facilities are operated by Norfolk Southern Railway Company (“NSR”). The State of North Carolina is the sole owner of all the common stock of the Company.

N.C. Railroad, Inc. (“NCRI”), a wholly owned subsidiary of the North Carolina Railroad Company (“NCRR”), was formed on December 15, 2006. NCRI conducts certain taxable activities, such as leasing of commercial real estate, while NCRR conducts all tax-exempt activities, such as leasing of railroad facilities and corridor management.

North Carolina Railroad Lessee LLC (“NCRR Lessee”), a wholly owned subsidiary of NCRR, was formed on April 5, 2016. NCRR Lessee manages real estate properties to be used in future economic development projects of NCRR.

North Carolina Railroad Holdings I LLC and North Carolina Railroad Holdings II LLC (collectively “NCRR Holdings"), wholly owned subsidiaries of NCRR, were formed on April 5, 2016, for the purpose of acquiring real estate to be used in future economic development projects of NCRR. Effective April 4, 2017, NCRR Lessee and North Carolina Railroad Holdings II, LLC were merged into North Carolina Railroad Holdings I LLC.

2. Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of NCRR and its wholly owned subsidiaries, NCRI and NCRR Holdings. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

In preparing its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful lives of property and equipment. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents include money market funds. Cash and cash equivalents that are restricted or designated by the Board of Directors for capital projects are reported as investments reserved for capital projects in the accompanying consolidated balance sheets. See Note 5.

At times, the Company places cash and cash equivalents and certificates of deposits with original maturities of three months or more with financial institutions in amounts that are in excess of Federal Deposit Insurance Company insurance limits. The Company has not experienced any losses in such accounts. The financial condition of financial institutions is periodically reassessed, and the Company believes the risk of any loss is minimal.

Accounts Receivable

Accounts receivable are uncollateralized obligations due under lease agreements. The Company provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and management's review of the current status of the existing receivables. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Company computes depreciation using the straight-line method over the following estimated useful lives:

	Estimated Useful Lives (Years)
Buildings and building improvements	25
Bridges	25
Track and signals	10
Equipment and furniture	3 - 7

Values of the properties included in Roadway and Land approximate 1916 valuations by the Interstate Commerce Commission. These properties represent fully depreciated roadway or undepreciated land. The Company assesses long-lived assets for impairment whenever events or changes indicate that the carrying amount of the assets may not be recovered based on estimated future undiscounted cash flows. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the useful lives of the assets are revised or the assets are written down to their estimated fair values.

Investments Reserved for Capital Projects

Investments reserved for capital projects consist of investments in marketable equity securities and debt securities. These investments are classified as available-for-sale and are reported at fair value, with changes in net unrealized gains and losses included in other comprehensive income, net of tax, if any. When securities are sold, gains and losses are determined using the specific identification method for all investments except mutual funds which are determined using the average cost method. Investments are classified as noncurrent due to the board designations of investments for capital improvements. The Company reviews securities when quoted market prices are less than cost to determine if the impairment is other than temporary. Declines in the fair value of individual securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value with such write down being included in earnings as realized losses.

Fair Values

The Company uses market data or assumptions that market participants would use in pricing assets and liabilities at fair value and establishes a three-tier fair-value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include values based on quotes in active markets for identical assets (Level 1), values estimated based on other available market information including quoted market prices for similar assets in active and non-active markets and pricing models based on observable inputs (Level 2), and values based on management's estimates using various valuation methods (Level 3).

Revenue Recognition

Lease of Roadway and Land

Revenue received from property that is operated by NSR is reflected in the consolidated statements of income when earned in accordance with the Company's lease arrangements.

Other Lease Income

The Company leases certain property that is not operated by NSR. Revenue is reflected in the consolidated statements of operations when earned. The Company also collects license fee revenue which is recognized when earned. The Company defers recognition of contingent rentals until the requirements are met.

Advertising

The Company incurred $87,954 and $103,593 in advertising costs in 2018 and 2017, respectively.

Income Taxes

Pursuant to Section 11146 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act of 2005 (the "Act"), a substantial portion of the Company's income is exempt from federal and state income taxes. The activities that generate income which is not exempt from federal and state income taxes pursuant to the Act are conducted in NCRI.

Deferred tax assets and liabilities are recognized by NCRI for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Recently Issued Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)". The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The FASB issued four additional standards that amended and/or clarified certain guidance and provisions in ASU 2014-09, all of which are effective January 1, 2019 for the Company. The Company is currently evaluating the impact on its consolidated financial statements upon the adoption of these new standards.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases". Under the new standard, lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For statement of operations and comprehensive income purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. The new standard will be effective January 1, 2020 for the Company, and the Company is currently evaluating the effect this ASU may have on its consolidated financial statements.

3. Investments Reserved for Capital Projects

The following is a summary of the securities portfolio by major classification included in investments reserved for capital projects at December 31, 2018 and 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Available for Sale:				
U.S. Government and federal agencies	**$ 14,881,023**	**$ 170,792**	**$ 10,024**	**$ 15,041,791**
Mortgage backed securities	**9,990,273**	**15,841**	**209,231**	**9,796,883**
Collateralized mortgage obligations	**4,126,463**	**45,779**	**42,251**	**4,129,991**
State and local governments	**6,619,360**	**1,389**	**116,500**	**6,504,249**
Corporate debt securities	**23,052,987**	**17,226**	**275,189**	**22,795,024**
Equity securities	**23,195,435**	**2,805,541**	**605,417**	**25,395,559**
	$ 81,865,541	**$ 3,056,568**	**$ 1,258,612**	**$ 83,663,497**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
Available for Sale:				
U.S. Government and federal agencies	$ 27,853,448	$ 15,727	$ 105,284	$ 27,763,891
Mortgage backed securities	10,303,316	4,993	185,242	10,123,067
Collateralized mortgage obligations	4,673,359	6,215	77,467	4,602,107
State and local governments	7,937,873	6,100	96,067	7,847,906
Corporate debt securities	21,994,911	160,319	71,548	22,083,682
Equity securities	15,608,468	4,496,993	-	20,105,461
	$ 88,371,375	$ 4,690,347	$ 535,608	$ 92,526,114

Available for sale securities are carried in the consolidated financial statements at fair value. For the year ended December 31, 2018, a net unrealized holding loss on available for sale securities in the amount of $3,128,705 has been included in accumulated other comprehensive income. For the year ended December 31, 2017, a net unrealized holding gain on available for sale securities in the amount of $2,909,488 has been included in accumulated other comprehensive income.

All assets have been valued using a market approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active.

In addition to the investments disclosed above, investments reserved for capital projects includes cash and cash equivalents totaling $3,488,071 and $7,100,283 at December 31, 2018 and 2017 respectively. There was no accrued interest receivable at December 31, 2018 and $21,513 at December 31, 2017 that was included in investments reserved for capital projects. Investment management fees, totaling $167,793 and $195,441, respectively, in 2018 and 2017, are netted against investment income.

Accounting standards require management to evaluate certain investments whereby fair value is below cost to determine when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of the impairment loss. The following table reflects the investments in an unrealized loss position as of December 31, 2018 and 2017 for which impairment loss has not been taken, aggregated by investment category and length of time that the individual securities have been in a continuous loss position.

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018						
U.S. Government and federal agencies	**$ 1,996,744**	**$ 5,258**	**$ 1,551,752**	**$ 4,766**	**$ 3,548,496**	**$ 10,024**
Mortgage backed securities	**3,507,154**	**36,022**	**4,768,974**	**173,209**	**8,276,128**	**209,231**
Collateralized mortgage obligations	**1,070,861**	**29,347**	**719,036**	**12,904**	**1,789,897**	**42,251**
State and local governments	**699,034**	**10,406**	**5,680,707**	**106,094**	**6,379,741**	**116,500**
Corporate debt securities	**11,513,143**	**188,886**	**6,897,613**	**86,303**	**18,410,756**	**275,189**
Equity securities	**3,774,466**	**605,417**	**-**	**-**	**3,774,466**	**605,417**
Total	**$ 22,561,402**	**$ 875,336**	**$19,618,082**	**$ 383,276**	**$42,179,484**	**$ 1,258,612**

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2017						
U.S. Government and federal agencies	$ 21,761,894	$ 96,289	$ 2,400,653	$ 8,995	$ 24,162,547	$ 105,284
Mortgage backed securities	3,627,081	46,698	5,526,412	138,544	9,153,493	185,242
Collateralized mortgage obligations	1,310,219	8,855	2,994,965	68,612	4,305,184	77,467
State and local governments	3,535,523	32,649	3,447,247	63,418	6,982,770	96,067
Corporate debt securities	10,963,529	64,631	1,545,716	6,917	12,509,245	71,548
Total	$ 41,198,246	$ 249,122	$15,914,993	$ 286,486	$ 57,113,239	$ 535,608

Management continually reviews the marketable securities portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, the recommendation of investment advisors and the length of time and extent to which the market value has been less than cost and the Company's ability and intent to hold the investment until maturity. Any such losses are characterized in the period of determination as investment loss and included in nonoperating income (loss).

Other-than-temporary does not mean permanent impairment. Management believes that the securities that are in an unrealized loss position at December 31, 2018 and 2017 for which other-than-temporary impairment was not taken will recover their losses. This assessment is based on the length of time the securities have been in an unrealized loss position and the nature of the security held. The Company's equity securities consist of a wide range of industries, the majority of which are invested in large capital companies. Management has determined that these are of high quality and the Company has the intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value.

The fair values of securities carried at fair value in the consolidated financial statements are determined as follows:

	December 31, 2018	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S Government and federal agencies	**$ 15,041,791**	**$ -**	**$ 15,041,791**	**$ -**
Mortgage backed securities	**9,796,883**	**-**	**9,796,883**	**-**
Collateralized mortgage obligations	**4,129,991**	**-**	**4,129,991**	**-**
State and local governments	**6,504,249**	**-**	**6,504,249**	**-**
Corporate debt securities	**22,795,024**	**-**	**22,795,024**	**-**
Equity securities	**25,395,559**	**25,395,559**	**-**	**-**
	$ 83,663,497	**$ 25,395,559**	**$ 58,267,938**	**$ -**

	December 31, 2017	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S Government and federal agencies	$ 27,763,891	$ -	$ 27,763,891	$ -
Mortgage backed securities	10,123,067	-	10,123,067	-
Collateralized mortgage obligations	4,602,107	-	4,602,107	-
State and local governments	7,847,906	-	7,847,906	-
Corporate debt securities	22,083,682	-	22,083,682	-
Equity securities	20,105,461	20,105,461	-	-
	$ 92,526,114	$ 20,105,461	$ 72,420,653	$ -

The amortized cost and fair values of available for sale securities at December 31, 2018 and 2017 by contractual maturity are shown below. Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
December 31, 2018		
Available for sale:		
Due within one year	**$ 8,508,826**	**$ 8,484,042**
Due after one year through five years	**25,493,113**	**25,207,821**
Due after five years through ten years	**14,885,790**	**15,022,237**
Due after 10 years	**9,782,377**	**9,553,838**
Equities	**23,195,435**	**25,395,559**
	$ 81,865,541	**$ 83,663,497**
December 31, 2017		
Available for sale:		
Due within one year	$ 9,550,511	$ 9,482,270
Due after one year through five years	31,815,556	31,762,189
Due after five years through ten years	19,952,732	19,858,529
Due after 10 years	11,444,109	11,317,665
Equities	15,608,468	20,105,461
	$ 88,371,376	$ 92,526,114

4. Trackage Rights Agreement and Leases on Roadway and Land

Prior to 1999, substantially all of the Company's assets were leased to NSR or its predecessors in two leases originally dating back to 1895 and 1939. The terms of the leases did not require either the Company or Norfolk Southern to renew the leases.

On August 10, 1999, the Board of Directors of the Company approved a Trackage Rights Agreement ("TRA") concurrent with NSR terminating the original leases. The TRA's term is 15 years with two 15-year renewal options by NSR (45 years) for a base annual rental of $11,000,000 (minimum) beginning January 1, 2000, with annual adjustments based upon an inflation index and a 4.5% annual cap (arbitration of cap if it exceeds an average of 4.5% over any 7-year period). The TRA was approved by the Surface Transportation Board on September 1, 1999. During 2012, NSR exercised its option to renew the TRA for the 15 year period beginning January 1, 2015 and ending on December 31, 2029.

The TRA grants exclusive freight trackage rights to NSR to conduct all freight operations over the NCRR railroad line. Under federal law, the National Rail Passenger Corporation ("Amtrak") operates over NSR operated lines under agreements with NSR. NSR is obligated under the TRA to provide rail service to all industries on the NCRR line. NSR is obligated to maintain the NCRR line and any improvements made to the line by NSR for freight operations. Under the TRA, NSR does not have financial responsibility for passenger improvements made by the Company, North Carolina Department of Transportation (NCDOT), Amtrak, or other parties.

Under the TRA, approximately 38 parcels not used in railroad operations have been returned to the Company for separate (non-NSR) management. These noncorridor properties are managed by the Company after transition from NSR management. The TRA contains provisions for responsibility for environmental matters by NSR and the Company.

NSR is responsible for any taxes on its freight operations. A Policy Planning Committee comprised of NCRR and NSR representatives addresses all future planning issues, capital improvements, and any disputes that arise under the TRA. In the event of any disagreements, NCRR and NSR are subject to binding arbitration under the TRA.

A lease of certain properties in Charlotte, North Carolina to NSR (the "1968 Lease") expires on December 31, 2067, and provided for an annual rental of $81,319 through December 2018. The 1968 Lease provides that beginning on January 1, 2019, the annual rental for the remaining term of the 1968 Lease is 6% of the appraised value of the property on that date. Under the terms of the 1968 Lease, all taxes connected with the property, except income taxes, are paid by the lessee. The 1968 Lease was not affected by the TRA. During 2016, the Company sold a portion of the property subject to the 1968 Lease. The 1968 Lease was not affected by the sale.

Pursuant to agreements signed in each year since 2008, NCRR has assigned to NSR all of the NCRR lines that constitute eligible railroad tracks solely for purposes of allowing NSR to qualify as an eligible taxpayer with respect to such track and to claim tax credits under section 45G(a) for qualified railroad track maintenance expenditures it pays or incurs during each year under agreement with respect to such track. In exchange, NSR agrees to pay to NCRR fifty percent of the tax credits NSR claims. Payment of the amount owed under the agreement is not due until the amount of the allowable credit is not subject to further appeal, review or modification through proceedings or otherwise.

The Company has recorded a long-term receivable amounting to $2,894,314, representing $2,556,750 of total tax credit revenue that the Company is due for tax years 2015 to 2017 from NSR, plus accumulated 4% interest of $172,511, and also other receivables of $165,053 from other third parties as of December 31, 2018. As of December 31, 2017 the long-term receivable amounted to $3,593,622 representing $3,405,500 of total tax credit revenue that the Company was due for tax years 2014 to 2017 from NSR, plus accumulated 4% interest of $179,804 plus also other receivables of $8,318 from other third parties.

5. Capital Commitments

Project Agreements and Contracts

As of December 31, 2018, the Company has commitments under various individual project agreements and other contracts totaling $40.5 million. The contractual commitments of the Company consist of capital improvement projects, ARRA/PRIIA High-Speed Passenger Rail improvement projects, and certain economic development projects, including NCRR Invests projects. The commitments to ARRA/PRIIA High-Speed Passenger Rail projects and NCRR Invests projects are described in more detail below. The various individual projects, capital improvements and strategic investments to which capital is committed are scheduled for completion between 2019 and 2022.

ARRA/PRIIA High-Speed Passenger Rail Projects

In 2011, the State of North Carolina was selected to receive certain federal grant awards through the American Recovery and Reinvestment Act of 2009 ("ARRA") and the Passenger Rail Investment Act of 2008 ("PRIIA") for the capital funding of certain high speed intercity passenger rail projects, under which NCDOT is the grantee of the awards. On December 15, 2010, the Company, the NCDOT, and NSR entered into an Agreement on Principles ("AOP"), which outlined certain terms for capital improvements within and along the NCRR corridor operated by NSR (Note 4). On March 21, 2011, the Company, NCDOT, NSR and Amtrak entered into a Definitive Service Outcomes Agreement ("DSOA"), clarifying the individual parties' responsibilities and further detailing the projects to be funded by the grants to NCDOT. On March 21, 2012, the Company and the NCDOT entered into a Railroad Corridor Property Acquisition Agreement ("RCPA") regarding rail corridor property, including acquisition of additional railroad corridor property needed in connection with certain projects funded by the grants to NCDOT. Except as described below, as of December 31, 2017, substantially all of the ARRA and PRIIA projects were completed. The Company has recorded capital contributions and related assets for a portion of the improvements made by NCDOT.

Under the AOP, DSOA, and RCPA, the Company has committed up to a total of $31,000,000 of capital investment toward certain projects in order to assist in completion of certain track capacity improvement projects and engineering. Out of its $31,000,000 commitment, the AOP and DSOA provide that the Company reserve up to $10,000,000 for a Capital Reserve Fund, which is designated by the Company for the purpose of making further capacity improvements to the NCRR line in the future in order to improve passenger and freight train reliability caused by identified unacceptable train delays. Investments by the Company under these agreements are ongoing and their costs are to be applied against and reduce the Company's commitment under the agreements. Through December 31, 2018, the Company has expended approximately $8.8 million of its commitments under these agreements. The Company also has committed use of the Company's rail corridor lands for such capacity and other related improvement projects.

NCRR Invests

NCRR invests is an economic development initiative started in 2016 to create a competitive advantage for the state of North Carolina in the recruitment of rail-served business and industry. NCRR Invests works with economic development partners at the state and local level to provide assistance to rail served companies that have committed to job creation in North Carolina. Through December 31, 2018, the Company has expended approximately $6.4 million of its commitments under NCRR Invests project agreements, with an additional $10.9 million committed. NCRR Invests expenditures that are not spent on NCRR property or for the acquisition of NCRR owned assets are expensed in the current period as "Economic Development" expenses on the income statement.

Board Designated Funds

The Board of Directors passed resolutions during 2017 to designate $10,500,000 of unrestricted cash for use on future capital improvement projects.

The Company has designated the following amounts (invested in cash, certificates of deposit, debt securities and mutual funds) for capital improvement projects as follows:

	2018	2017
Restricted under contracts	**$ 40,469,872**	$ 50,748,153
Restricted for other capital improvements	**-**	147,436
Board designated funds	**46,681,696**	48,752,321
Investments reserved for capital projects	**$ 87,151,568**	$ 99,647,910

6. Employee Benefit Plan

The Company established a Safe Harbor 401(k) Plan effective January 1, 2012 to provide retirement benefits for its employees. All full-time employees who meet certain eligibility requirements are qualified to participate in the 401(k) Plan. Participants may make pre-tax deferrals up to 90% of their compensation subject to Internal Revenue Service limitations. Participants are fully vested in their contributions plus actual earnings thereon and any rollovers into their accounts. The Company contributes 3% of the compensation of all eligible active participants. In addition, the Company may elect each plan year whether to make a discretionary employer contribution on behalf of eligible active participants. Employer contributions for the years ended December 31, 2018 and 2017 were $160,586 and $142,608, respectively, including $91,764 and $81,490, respectively, of discretionary contributions.

In 2013 the Company entered into a deferred compensation agreement with an officer. The deferred compensation liability is fully vested at all times unless the officer is terminated for cause as defined in the plan, at which time the deferred compensation balance would be forfeited in its entirety. The plan requires annual employer contributions equal to a percentage of the officer's compensation plus an earnings component. The

Company recognized expense of $49,463 and $82,178 related to the plan in 2018 and 2017, respectively. The resulting deferred compensation liability of $339,227 at December 31, 2018 and $289,764 at December 31, 2017, is included in other liabilities in the accompanying financial statements.

7. Line of Credit

In July 2018, the Company executed a line of credit with a financial institution which provides maximum borrowings of up to $5,000,000. The line of credit expires on July 25, 2019 and has a variable interest rate at one-month LIBOR plus .85% and is unsecured. There was no outstanding balance as of December 31, 2018. The Company's line of credit contains a restrictive covenant to maintain a minimum liquidity. The Company was in compliance with respect to this covenant as of December 31, 2018.

8. Future Minimum Lease Revenue

The Company derives income from leased commercial space and other property under non-cancellable operating leases. Of the non-cancellable leases, one lease, described in Note 4, comprises 84% of the lease income. Rental income received from this lease during 2018 and 2017 was approximately $15.8 million and $15.6 million, respectively. The remaining non-cancellable leases are related to the rental of commercial space. Future minimum rent receipts, excluding renewal periods, on the non-cancellable operating leases are as follows for the years ending December 31:

	Amount
2019	$ 15,268,936
2020	15,256,278
2021	15,081,661
2022	15,053,278
2023	14,990,909
Thereafter	92,647,299
	$ 168,298,361

Minimum lease receipts do not include contingent rentals that may be received under certain leases. The Company's policy is to defer recognition of such contingent rentals until the requirements are met. Contingent rental income earned during the years ended December 31, 2018 and 2017 totaled $52,460 and $22,224, respectively.

9. City of Charlotte Lease Agreement

The Company and the City of Charlotte ("Charlotte") entered into an agreement ("Lease Agreement") dated May 3, 2012, whereby Charlotte leased a segment of the North Carolina Railroad corridor, approximately 2.7 miles in length parallel to the Company's main line railroad tracks and facilities, for the purpose of the extension of Charlotte's LYNX Blue Line light rail transit system. The Lease Agreement provides for a one time rent payment to be paid to the Company in the amount of $11,760,000 for the 50 year lease term, all of which was received in full on October 16, 2013. The Lease Agreement provides that Charlotte is responsible for all construction, operations, maintenance, taxes, assessments and costs related to Charlotte's use of the segment.

Coincident with the execution of the Lease Agreement, Charlotte entered into a Construction and Reimbursement Agreement and an Operations Agreement with NSR related to Charlotte's use of the segment and the compatibility thereof with NSR's operation and maintenance of the Company's rail line.

The Lease Agreement provides that design and construction is to be provided by Charlotte at its expense, subject to the approval of the Company. The Lease Agreement is subject to early termination, in which event a portion of the lease fee may be refundable. The Lease Agreement contains one renewal term at a rate agreed upon by the parties, or in the absence of agreement, based upon an appraised value.

The Company has recorded an unearned rent liability of $10,519,088 and $10,757,916 at December 31, 2018 and 2017, respectively, of which $216,301 and $217,956 is included in the current portion of unearned rent at December 31, 2018 and 2017, respectively.

10. Income Taxes

The Company's income (loss) before income taxes for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Income (loss) before income taxes:		
Nontaxable entities	**$ (24,214,604)**	$ (9,136,707)
Taxable entity	**503,864**	377,554
Loss before income taxes	**$ (23,710,740)**	$ (8,759,153)

The difference between the federal income tax computed by the statutory federal income tax rate of 21% and 34% for the years ended December 31, 2018 and 2017, respectively, and NCRI's income tax expense as reflected in the consolidated financial statements is as follows:

	2018	2017
Income tax at statutory federal income tax rates	**$ 105,853**	$ 128,368
Increase (decrease) attributable to:		
State income tax, net of federal income tax benefit	**19,290**	10,896
Decrease in federal and state tax rates	**-**	(332,000)
Other	**(2,912)**	(2,814)
	$ 122,231	$ (195,550)

The Company's taxable subsidiary, NCRI, has deferred income tax balances at December 31, 2018 and 2017 as follows:

	2018	2017
Asset:		
Deferred rent	**$ -**	$ 32,000
Liability:		
Property and equipment	**(567,000)**	(608,000)
Net deferred tax liability	**$ (567,000)**	$ (576,000)

The Company's total tax expense (benefit) for 2018 and 2017 is summarized as follows:

	2018	2017
Current income tax expense	$ 131,231	$ 156,450
Deferred income tax benefit	(9,000)	(352,000)
Total income tax expense (benefit)	$ 122,231	$ (195,550)

11. Commitments and Contingencies

The Company is subject to litigation in the ordinary course of business. Management believes that any potential liability thereto is not material to the Company's financial position and results of operations.

12. Subsequent Events

The Company evaluated the effect subsequent events would have on the consolidated financial statements through May 23, 2019, which is the date the financial statements were available to be issued.

CELEBRATING

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YEARS

NORTH CAROLINA RAILROAD COMPANY