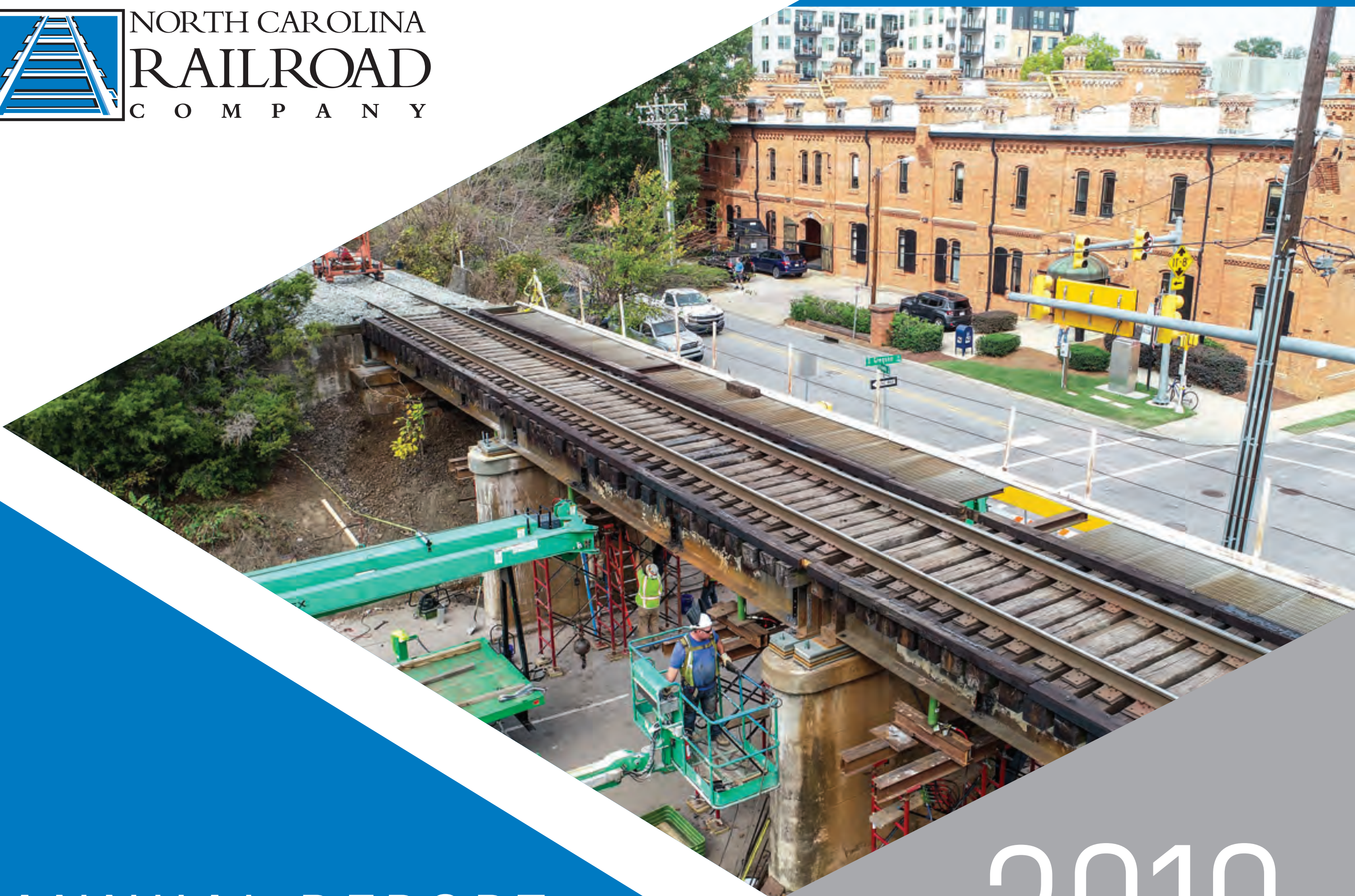
NORTH CAROLINA RAILROAD COMPANY



ANNUAL REPORT 2019

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

2019 was a productive year for the North Carolina Railroad Company.

We maintained our focus on economic development — bringing attention to rail-served sites in every part of the state, as well as investing in freight rail infrastructure to assist in the recruitment or expansion of rail-served businesses across the state.

We made significant investments in rail infrastructure including improvements to railroad bridges in Durham and Morrisville to address safety needs, while also planning for future growth of both freight and passenger service.

We also began preparing for an important transition. Following more than three decades leading the North Carolina Railroad – President Scott Saylor is retiring July 2020. During his 31-year career with NCRR, Scott set a bold vision for the company, and oversaw impressive growth of the organization and the role it plays in rail-served economic development.

As we look to the future, we will continue to make strategic investments in freight rail infrastructure both on and off the NCRR corridor to assist with economic development and job creation. We are studying future rail infrastructure needs to address connectivity of suburban and rural residential areas with high-density employment locations along the NCRR corridor. And we continue to collaborate with the 40 municipalities along our 317-mile railroad to develop innovative solutions to address the growth of communities, while also preserving corridor to meet the current and future needs of both freight and passenger rail service in North Carolina.

William V. "Bill" Bell

Chairman
North Carolina Railroad Company Board of Directors

INFRASTRUCTURE INVESTMENTS

Infrastructure Investments Give Durham Railroad Bridges New Life

CRABTREE CREEK BRIDGE

The replacement of a 100-year-old railroad bridge extending across Crabtree Creek in Morrisville is nearing completion. Construction began in early 2019 and involved building a new bridge with capacity for double track, connecting the tracks to the new bridge and removal of the original bridge.

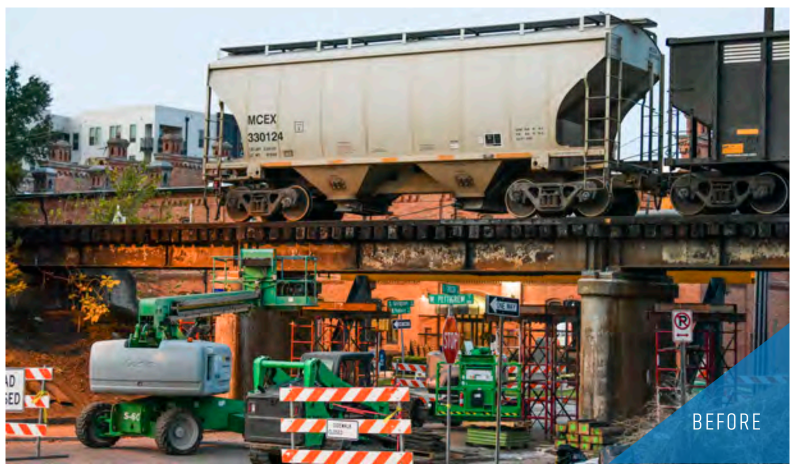
DURHAM BRIDGES

Beginning in 2018, as part of the company's long-term infrastructure improvement plan, NCRR initiated projects to address two railroad bridges in Durham that were in need of rehabilitation.

The **Gregson Street Bridge** was put into service in 1940. At that time, a clearance of 11-feet, eight inches was not uncommon, and some bridge clearances remain less than that today. In more recent years, the bridge became known for crashes — earning the title, "Can-Opener Bridge."

Like most bridges with limited overhead clearance, signage and other advance approach warnings were posted to alert drivers to the height of the bridge. A crash beam was also placed in front of the bridge to absorb the impact of large vehicles that would typically strike the bridge structure itself. In the last five years the North Carolina Department of Transportation (NCDOT) enhanced the advance warning system by posting traffic signaling and lighted warning signs to provide additional warning to motorists.

The Gregson Street Bridge rehabilitation raised the bridge to increase the roadway clearance from 11'8" to 12'4" for the purpose of improving safety for the community while reducing the threat of damage to the railroad bridge and tracks resulting from vehicle strikes. The additional eight inches maximizes the increased clearance without affecting the grade of adjoining track on each side of the bridge.



Gregson Street bridge prior to rehabilitation

Gregson Street bridge following rehabilitation

Once complete, the bridge will allow for the connection of two Wake County greenways in Morrisville, increasing opportunities for safe pedestrian travel. This project is a partnership between Town of Morrisville and NCRR, totaling $9.8 million, with the town investing $1 million.

NCRR INVESTMENT OF
$8.8 MILLION

NCRR TOTAL INVESTMENT OF
$1.5 MILLION

Chapel Hill Street bridge prior to rehabilitation

Chapel Hill Street bridge following rehabilitation

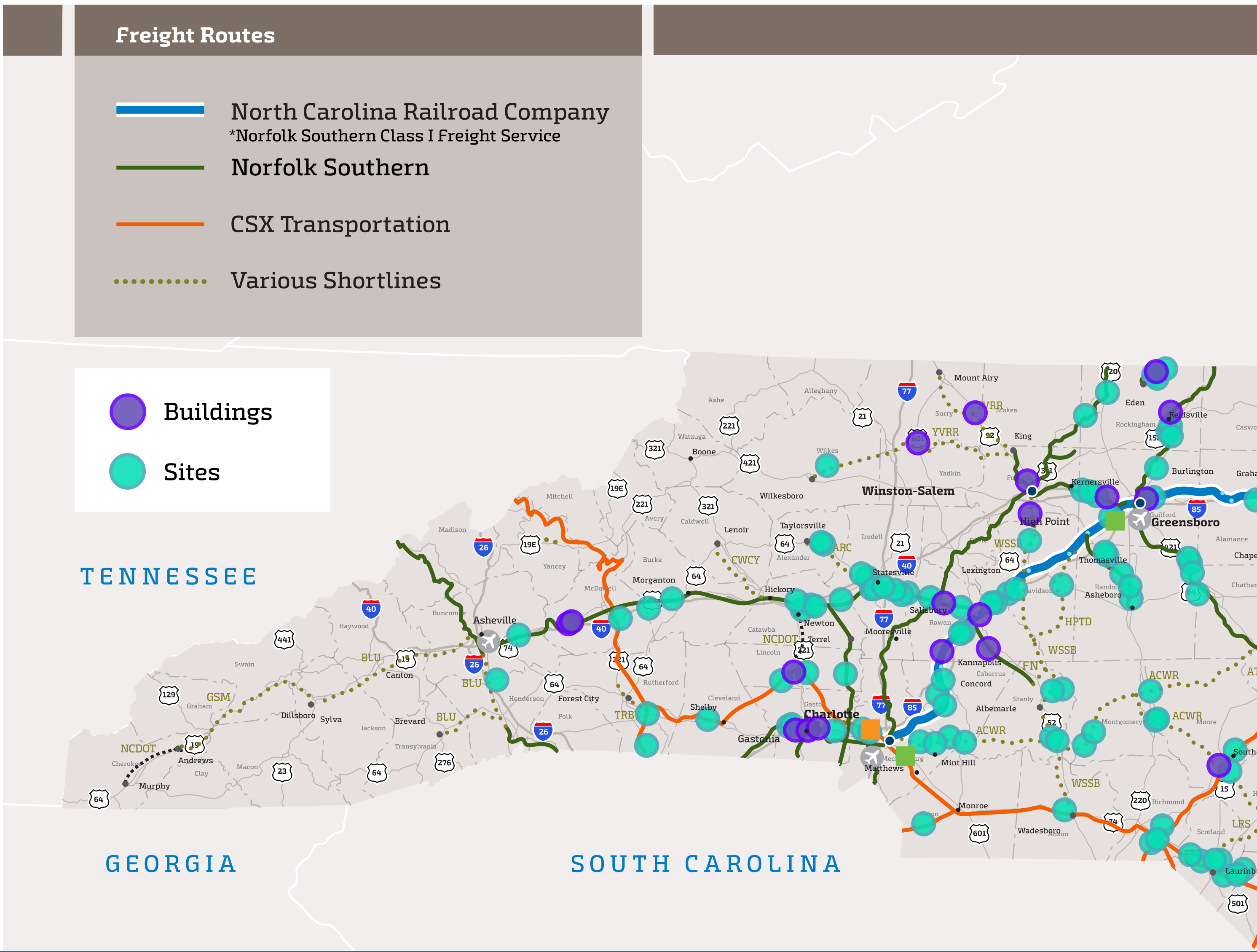
The Gregson Street Bridge project follows the **Chapel Hill Street Bridge** project in Durham, which included the removal of an unused railroad bridge as well as improvements to the NCRR bridge and the retaining walls, improving safety and enhancing the appearance of an important gateway to downtown Durham.

Executing both of these projects involved significant partnership with the City of Durham, Norfolk Southern and NCDOT, with a total investment of $1.5 million by NCRR.

ECONOMIC DEVELOPMENT

Rail-served Sites Give North Carolina a Competitive Advantage

Over the past five years, the North Carolina Railroad Company has committed to rail-served economic development in a way that sets North Carolina apart from other states. Through NCRR Invests, the Company assists in recruitment and retention of rail-served business and industry by making investments in rail infrastructure companies need to locate or expand, resulting in more jobs for the people of North Carolina. Since launching NCRR Invests, the Company has invested more than $14 million in nine rail-served economic development projects that have been publicly announced.



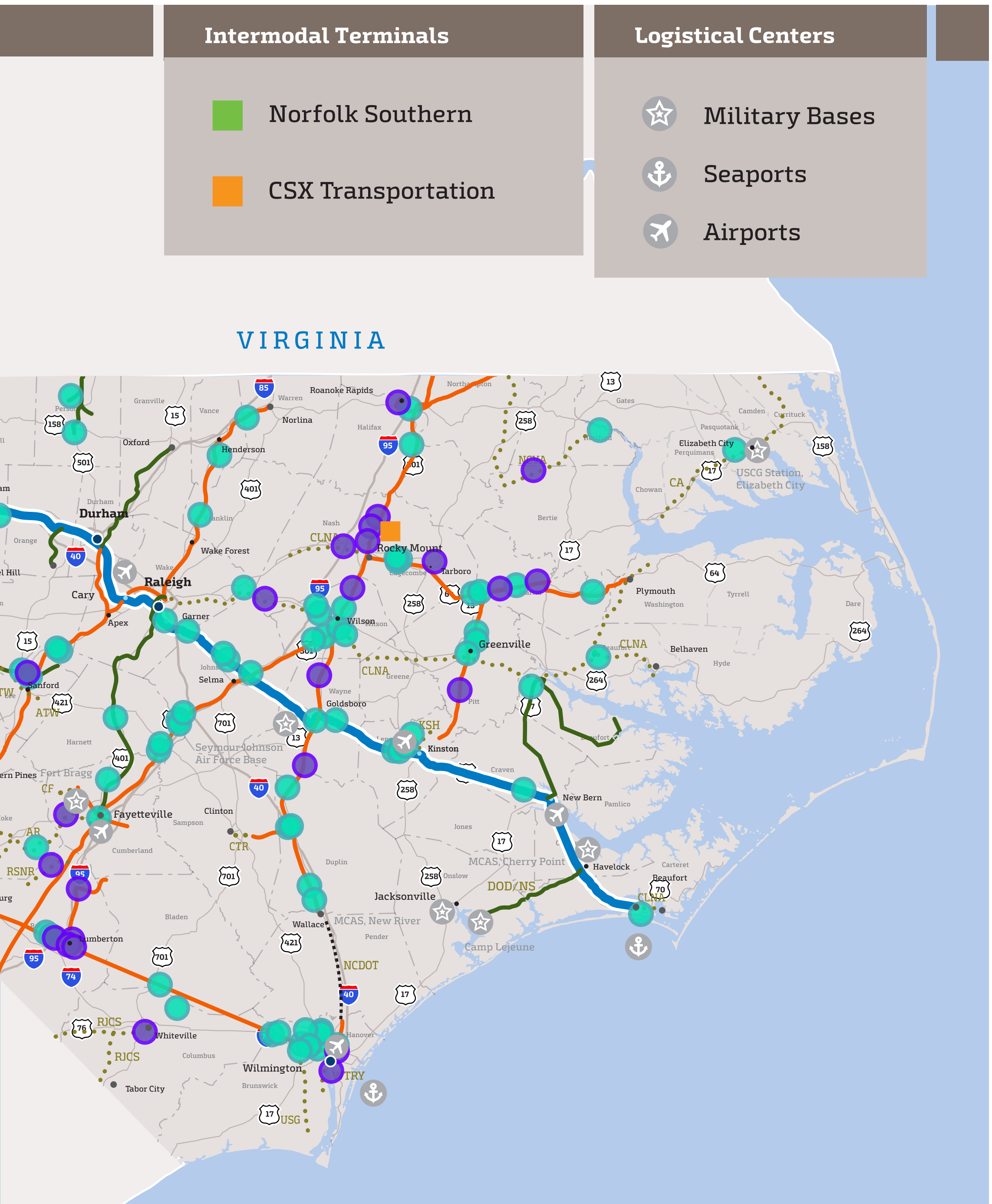
NORTH CAROLINA RAILROAD COMPANY

RAIL SERVED SITES

Additionally, the Company is encouraging economic development partners and the real estate community across the state to review their site and building inventories and to identify those that are or could be rail-served. While these established sites are broadly marketed, promoting them specifically to rail-served companies and site selection consultants sets North Carolina apart.

Through targeted outreach, NCRR is promoting North Carolina's database of rail-served properties to site location professionals and corporate executives at both national and international levels. NCRR's newsletter, Switching It Up, showcases available N.C. rail-served properties, tips for how to competitively position these properties when talking with clients, and other information specific to rail-served economic development.

How do you know if an industrial site or building is truly rail-served? A rail-served property has the onsite rail infrastructure already in place that a company could use to ship product via rail almost immediately. If a site or building is located near an active rail line, the respective railroad's operator is able to determine if and how rail service can be brought efficiently to the property.



"When companies need a rail-served site, it can be a difficult search process for a critical need," says Anna Lea Moore, NCRR Vice President of Economic Development. "We are leveraging our rail expertise to help a client's site location task be an efficient process when they consider North Carolina. We've worked to raise the bar by providing access to our site inventory and by equipping communities with the knowledge required to be relevant and helpful when trying to meet the customer's specific rail needs."

"By taking these steps, we are increasing awareness around the opportunities for rail-served sites as well as the due diligence required for them to be effectively marketed," says Moore. "We are working to not only be responsive, but also proactive."

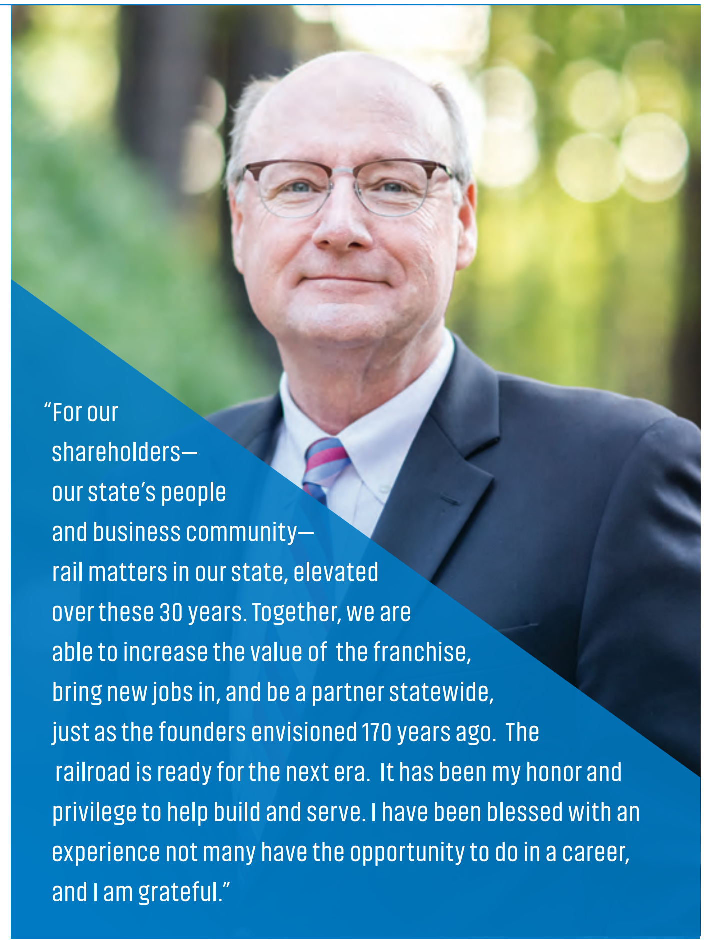
SCOTT SAYLOR RETIREMENT

Taking the Long View:

NCRR PRESIDENT RETIRES AFTER MORE THAN 30 YEARS WITH THE COMPANY

Scott Saylor has spent more than 30 years at the North Carolina Railroad Company and understands what it means to take the long view. Hired in 1989, the Forsyth County native was the first full-time employee of the of the North Carolina Railroad Company in more than 100 years. In his first year at NCRR, Saylor oversaw the merging of the Atlantic & North Carolina Railroad Company, consolidating the track from Charlotte to the Port of Morehead City to become the 317-mile railroad it is today. There were more milestones ahead.

In the early 1990's, negotiations over a new lease began between NCRR and Norfolk Southern. The lease negotiations, led by Scott and a team of experts, were the first of their kind since 1895. In 1998, the State of North Carolina, then a three-quarters shareholder, purchased the common stock to become the sole voting shareholder of our private company. Preferred shares were issued, and NCRR became a Real Estate Investment Trust for 10 years. In 1999, the Company, with Saylor as General Counsel, concluded renegotiation of the current agreement with Class I freight rail operator Norfolk Southern, with continued Amtrak service under the agreement. The new 45-year agreement would move a 99-year lease dating back to 1895 into the modern day, resulting in substantially higher rental fees for NCRR and continued high-quality freight service for economic development.



"For our shareholders—our state's people and business community—rail matters in our state, elevated over these 30 years. Together, we are able to increase the value of the franchise, bring new jobs in, and be a partner statewide, just as the founders envisioned 170 years ago. The railroad is ready for the next era. It has been my honor and privilege to help build and serve. I have been blessed with an experience not many have the opportunity to do in a career, and I am grateful."

Revenue from the agreement increased from $500,000 to $11 million for 1999, an inflation escalator was added, and today the rental is $16.45 million annually.

Saylor tours Edwards Wood Products in Scotland County. Through NCRR Invests, the Company invested $450,000 to assist in the recruitment of the sawmill and 91 jobs.

Saylor, his wife Fran and NCRR Director Bill Kincheloe.

"I am proud of what we have achieved. I've served under the leadership of our Board of Directors, through seven governors, with an outstanding team of management and staff. Our General Assembly has patiently and steadily supported our goals and purposes. It has been a combination of effort, leadership, and spirit like no other, and exactly as the founders envisioned when they created our unique private company to promote economic growth."

After being named president in 2001, he continued working with NCRR's Board of Directors to shape the vision for the future of the Company—giving a nod to the original goal for the Railroad—economic development and prosperity. The achievements of the Company over Saylor's tenure include increasing the capital of the railroad from several hundred thousand dollars to more than $100 million; advancing the NCRR as a platform for track and infrastructure improvements that have positioned North Carolina as a leader in rail-served manufacturing projects, job creation, and passenger rail service; as well as developing rail corridor protection practices to position the corridor for future uses. He's grown the NCRR team from one full-time employee (himself) to now 20 full-time employees, all of whom are experts in their skills and contribute to the unique asset that is the North Carolina Railroad.

Saylor and his staff, at the direction of the Board, have solidified the Railroad's commitment to the economy of our state and solidified its mission—that the Railroad Company should work for the good of the people of North Carolina.

Saylor with former members of the NCRR Board of Directors, Jack Moody, Sam Hunt and Brad Wilson.

Saylor and Jim Nance (Albemarle), NCRR Board of Directors and former NCRR Director, Bob Brown.

ARANT NAMED VICE PRESIDENT OF ENGINEERING FOLLOWING RETIREMENT OF JIM KESSLER

Donald Arant, Vice President of Engineering

The North Carolina Railroad Company named Donald Arant, P.E., Vice President of Engineering in early 2020. Arant is a licensed professional engineer with significant experience in rail transportation, civil and municipal engineering, and major rail infrastructure project management.

"The Vice President of Engineering plans and executes an infrastructure investment strategy that ensures the 317-mile corridor is prepared to meet the needs of both current and future freight and passenger service," says NCRR President, Scott Saylor. "Donald brings a wealth of knowledge and experience, as well as a genuine love of railroad engineering, to an extremely important role at the Company."

"NCRR is an historic company that plays an important role in our state's freight rail network," says Arant. "I'm looking forward to collaborating with our freight and passenger rail partners, as well as working closely with our economic development and real estate teams to ensure that the 317-mile railroad continues to meet the infrastructure needs required of current and future rail service."

Arant joined the company in 2015 when he was hired as NCRR's first full time Staff Engineer. Prior to that, he was with STV, a global engineering and architecture firm with offices in Charlotte. He is a graduate of NC State University. Arant is taking on the role following the retirement of James K. "Jim" Kessler, P.E., who held the position since 2012 and retired from the Company in 2019.

Jim Kessler
Vice President of Engineering (Retired)

RAIL FORUM (AUGUST 2019)

Eighth Progress in Motion Rail Forum Highlights:

IMPORTANCE OF RAIL INFRASTRUCTURE

The North Carolina Railroad Company (NCRR) hosted its eighth Progress in Motion Rail Forum August 20, 2019 at the Raleigh Convention Center. The Forum gathered freight and passenger rail representatives, economic development professionals, engineers, government officials, municipal planners and policymakers to discuss the rail industry and the role of rail infrastructure in economic development and job creation.

"This is our eighth Forum over ten years now, today bringing 300 people together to discuss the rail industry," said North Carolina Railroad Company President, Scott Saylor. "There is no other gathering of this kind, and we are proud that the Progress in Motion Rail Forum continues to be such a well-attended, educational and networking event for so many. We have attendees and speakers from six states."

Past Chairman of the NCRR Board of Directors, Michael Walters welcomed the approximately 300 attendees to the event. Loretta Boniti, Senior Political Reporter and Host of Spectrum News' In Focus, moderated the Forum. Nationally recognized rail industry analyst and president of ABH Consulting, Tony Hatch, provided the opening presentation and shared insights into the current state of the rail industry.

The Forum also gathered representatives from three established commuter rail providers—Doug Allen, CEO of Virginia Railway Express, VA.; Paul Ballard, former President and CEO of Trinity Metro, TX; and George Gault, Program Manager with SunRail, FL—to participate in a panel discussion, moderated by Scott Levitan, CEO and President of the Research Triangle Foundation.

The Forum included breakout sessions and brought the state's Class I freight rail providers together. Chris Ingraham, Assistant Vice President of Industrial Development for Norfolk Southern and Kellen Riley, Industrial Development Manager for CSX discussed

COMMUTER RAIL STUDY

As passenger and commuter rail options are considered a viable connection between high-density employment locations and the surrounding suburban and rural residential areas, NCRR is lending subject matter expertise to ensure any potential projects that involve the North Carolina Railroad Company-owned existing tracks or corridor will also accommodate existing and future freight rail and passenger rail needs.

The Company is currently working closely with Wake, Durham and Johnston Counties, local Metropolitan Planning Organizations (MPO), the regional transit authority and other key partners as they study and plan for a

strategies for identifying industrial site attributes that are required by rail-served companies. The North Carolina Railroad Company's Vice Presidents of Engineering and Real Estate were joined by Keith Pugh P.E. with City of High Point, Jerry Allen, with Town of Morrisville and David DeYoung, with Town of Clayton to discuss how they have collaborated on projects that are important to the Railroad and their communities.

Jim Goodmon, CEO and Chairman of Capitol Broadcasting Company, Inc. offered the keynote. "What we do in transportation is key to economic development. Take a leadership role in what happens in the communities you serve."

In closing remarks Saylor noted that 2019 marks the 170th anniversary of the North Carolina Railroad. "As we reflect on the Company's 170-year history, our company and what it means to the state, I can't help but consider the future. At NCRR we see incredible opportunities for rail-served industrial growth, the potential for commuter rail, and more opportunities to partner on investments that improve rail infrastructure and positively impact the economy. Today's discussions demonstrate that these are key topics across the state and we look forward to continuing that discussion to keep North Carolina moving forward."

commuter rail service on shared tracks within the NCRR corridor, which could involve more than 30 miles of new track and multiple bridge upgrades.

Early involvement in the planning of a locally sponsored commuter rail service can help ensure that it effectively functions with appropriate infrastructure investment in a shared corridor with existing and future freight and passenger trains and is cost-beneficial to the citizens of the region.

BOARD OF DIRECTORS

William V. "Bill" Bell
Chairman
Durham
Executive Vice President/ COO, UDI Community Development Corporation (dba: UDI/CDC)

Michael L. Weisel
Vice Chairman
Raleigh
Managing Member, Capital Law Group

Jacob F. Alexander III
Salisbury
The Alexander Companies, Inc.

Martin Brackett
Charlotte
Attorney, Robinson, Bradshaw & Hinson, PA

Liz Crabill
Chapel Hill
North Carolina Department of Commerce

William H. Kincheloe
Rocky Mount
President, Wildwood Lamps and Accents

Steve Lerner
Chapel Hill
Founder and Managing Partner, Blue Hill Group

James E. Nance
Albemarle
Managing Member, North State Acquisitions, LLC

John M. Pike
Goldsboro
CEO, Goldsboro Milling Company

George Rountree III
Wilmington
Attorney & Special Counsel Rountree Losee, LLP

Franklin Rouse
Leland
President, Rouse Insurance Agency, Inc.

Nina Szlosberg-Landis
Raleigh
President, Circle Squared Media

Michael Walters
Fairmont
President, Claybourn Walters Logging Co., Inc.

NCRR MANAGEMENT

PRESIDENT

Scott M. Saylor
President

PLANNING

Catherine Knudson
Planning Director

CORPORATE COMMUNICATIONS

Megen Hoenk
Director of Corporate Communications

ENGINEERING

Donald H. Arant, P.E.
Vice President, Engineering

Justin Madigan
Infrastructure Manager & Information Technology

ECONOMIC DEVELOPMENT

Anna Lea Moore
Vice President, Economic Development

Emily Cox
Economic Development Project Coordinator

ACCOUNTING AND FINANCIAL

Daniel P. Halloran, CPA
Vice President and Chief Financial Officer

Corey Mallard, CPA
Controller

Nancy D. Pickett
Office Manager

Hilary A. Kanupp, CA
Archivist, C.A.

Davina Killingsworth
Administrative Assistant

PROPERTY DEPARTMENT

Andrew Tate
Vice President, Real Estate

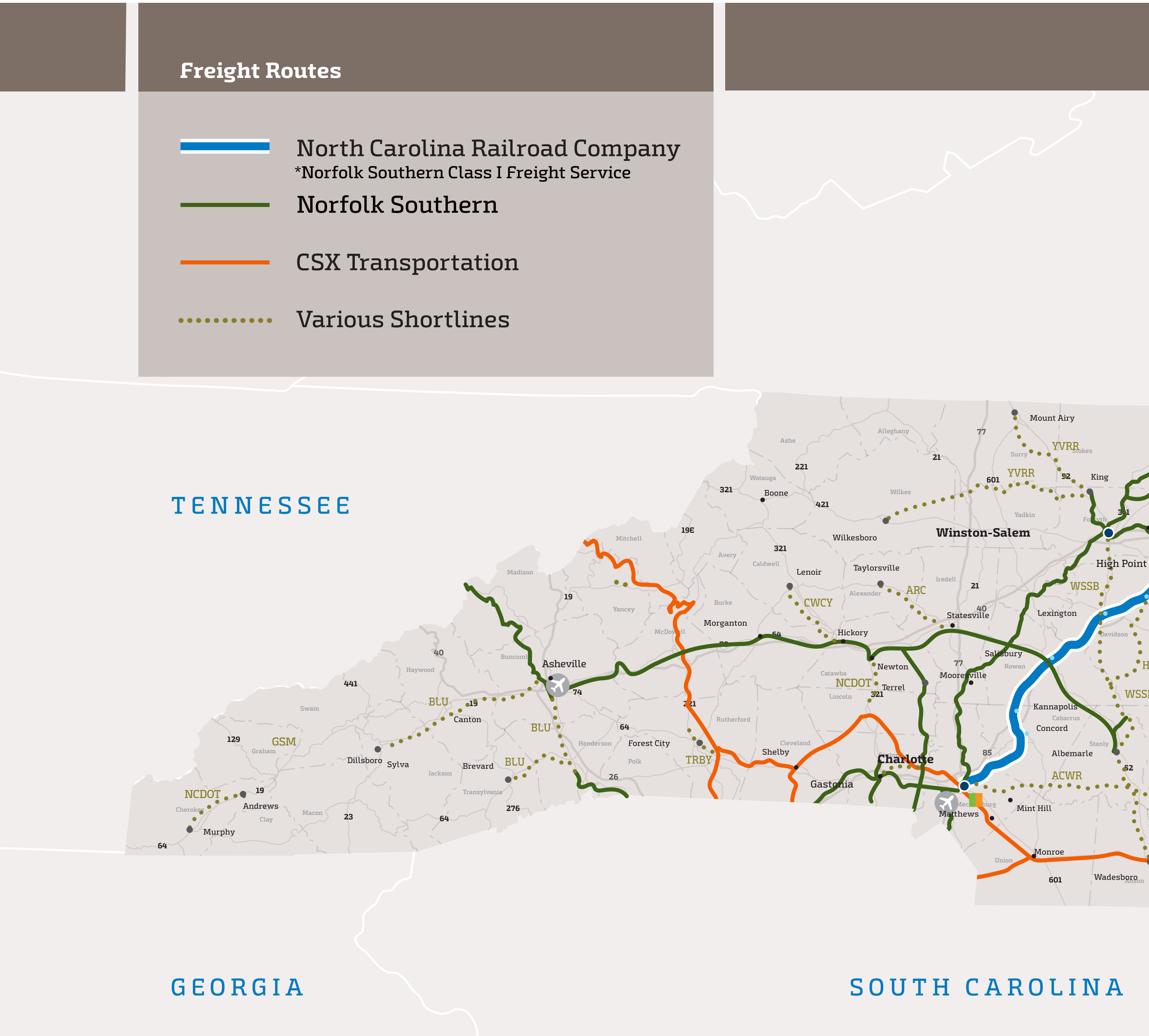
Taelor Fields
Real Estate Representative

Amy Sandidge
Corridor Manager

Kristian Forslin, GISP, PLS
GIS and Survey Manager

Cameron Kidd
Land Manager

Walter Zeck
Facilities Manager



NORTH CAROLINA RAILROAD COMPANY

CORRIDOR MAP


Intermodal Terminals
Norfolk Southern
CSX Transportation
Logistical Centers
Military Bases
Seaports
Airports
VIRGINIA
Eden
Reidsville
Oxford
Henderson
Norlina
Roanoke Rapids
Burlington
Graham
Kernersville
Greensboro
Durham
Chapel Hill
Thomasville
Asheboro
Raleigh
Cary
Apex
Garner
Wake Forest
Rocky Mount
Tarboro
Wilson
Greenville
Plymouth
Belhaven
Elizabeth City
USCG Station, Elizabeth City
NCVA
CA
CLNA
Selma
Goldsboro
Seymour Johnson Air Force Base
Kinston
New Bern
Havelock
Beaufort
MCAS, Cherry Point
Jacksonville
MCAS, New River
Camp Lejeune
Sanford
ATW
ACWR
Southern Pines
Fort Bragg
CF
Fayetteville
AR
LRS
RSNR
WSSB
PTD
Laurinburg
Lumberton
Clinton
CTR
Wallace
Whiteville
RICS
Tabor City
Wilmington
WTRY
USG


J.B. HUNT
Intermodal
TOP LIFT ONLY
J.B. HUNT
Intermodal

North Carolina Railroad Company

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

DIXON HUGHES GOODMAN LLP

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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, 2019 and 2018, 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, 2019 and 2018, 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

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for certain equity investments as of January 1, 2019 due to the adoption of ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. In addition, the Company changed its method of accounting for restricted cash as of January 1, 2019 due to the adoption of ASU No. 2016-18, *Statement of Cash Flows*. Our opinion is not modified with respect to these matters.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
June 22, 2020

North Carolina Railroad Company
Consolidated Balance Sheets
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 9,009,528**	$ 6,882,035
Certificate of deposit	**4,016,888**	-
Accounts receivable, net of allowance for doubtful accounts of $135,272 and $311,681 for 2019 and 2018	**442,549**	186,706
Prepaid expenses	**82,616**	36,358
Total current assets	**13,551,581**	7,105,099
Property and equipment:		
Roadway and land	**7,848,742**	7,848,742
Tracks, signals and bridges	**400,539,314**	400,037,251
Land	**36,144,886**	34,756,850
Buildings and improvements	**19,387,918**	19,233,315
Equipment and furniture	**3,158,788**	2,906,676
Construction in progress	**7,254,329**	2,080,302
	474,333,977	466,863,136
Less accumulated depreciation	**196,496,026**	166,126,431
Property and equipment, net	**277,837,951**	300,736,705
Other assets:		
Investments reserved for capital projects	**91,779,218**	87,151,568
Long-term receivables	**4,013,429**	2,894,314
Other	**6,165**	5,815
Total other assets	**95,798,812**	90,051,697
Total assets	**$ 387,188,344**	$ 397,893,501

	2019	2018
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$ 3,723,127**	$ 2,353,653
Dividend payable	**-**	3,945,123
Current portion of unearned rent	**200,455**	216,301
Total current liabilities	**3,923,582**	6,515,077
Long-term liabilities:		
Other liabilities	**522,204**	392,337
Deferred tax liability	**546,000**	567,000
Unearned rent, less current portion	**10,022,726**	10,302,787
Total long-term liabilities	**11,090,930**	11,262,124
Total liabilities	**15,014,512**	17,777,201
Stockholder's equity:		
Common stock, $0.50 par value; 10,000,000 shares authorized; 317 shares issued and outstanding	**159**	159
Additional paid-in capital	**462,774,353**	462,774,353
Accumulated deficit	**(91,050,738)**	(84,452,174)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	**450,058**	1,793,962
Total stockholder's equity	**372,173,832**	380,116,300
Total liabilites and stockholder's equity	**$ 387,188,344**	$ 397,893,501

North Carolina Railroad Company
Consolidated Statements of Operations and Comprehensive Income (Loss)
Years Ended December 31, 2019 and 2018

	2019	2018
Income:		
Lease of roadway and land	**$ 16,080,320**	$ 15,780,490
Other lease income	**5,937,485**	2,944,501
Total lease income	**22,017,805**	18,724,991
Expenses:		
Wages and benefits	**3,302,033**	3,274,722
Professional fees	**795,452**	482,955
Contracted services	**382,512**	295,608
Franchise and property taxes	**934,221**	917,869
Insurance	**275,474**	220,445
Reporting and public relations	**195,982**	224,605
Depreciation	**30,812,867**	30,830,111
Engineering, surveying and mapping	**280,064**	687,487
Property and corridor management	**1,098,520**	581,149
Bad debts	**75,622**	28,028
General and administrative	**1,092,207**	1,018,134
Economic development	**1,177,587**	5,645,001
Total expenses	**40,422,541**	44,206,114
Operating loss	**(18,404,736)**	(25,481,123)
Other income (loss):		
Investment income, net of expenses	**10,296,695**	1,558,585
Unrealized loss on marketable equity securities	**(33,885)**	-
Other income	**1,817,958**	211,798
Project contributions	**(2,372,000)**	-
Total other income	**9,708,768**	1,770,383
Loss before income taxes	**(8,695,968)**	(23,710,740)
Income tax expense	**102,720**	122,231
Net loss	**$ (8,798,688)**	$ (23,832,971)
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	**$ 1,663,282**	$ (3,128,705)
Reclassification adjustments for unrealized holding (gains) losses included in net loss	**(807,062)**	767,929
Other comprehensive income (loss)	**856,220**	(2,360,776)
Comprehensive loss	**$ (7,942,468)**	$ (26,193,747)

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholder's Equity
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 and other comprehensive 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
Cumulative effect of adoption of ASU 2016-01	-	-	2,200,124	(2,200,124)	-
Net loss and other comprehensive income	-	-	(8,798,688)	856,220	(7,942,468)
Balance, December 31, 2019	$ 159	$ 462,774,353	$ (91,050,738)	$ 450,058	$ 372,173,832

North Carolina Railroad Company
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	Adjusted 2018
Cash flows from operating activities:		
Net loss	$ (8,798,688)	$ (23,832,971)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for bad debts	(75,622)	(28,028)
Depreciation	30,812,867	30,830,111
Deferred income tax benefit	(21,000)	(9,000)
Income from investments reserved for capital projects	(10,119,827)	(1,540,124)
Changes in operating assets and liabilities:		
Accounts receivable	(180,221)	78,435
Long-term receivable	(1,119,115)	699,308
Prepaid expenses	(46,258)	14,028
Other assets	(350)	15,442
Accounts payable and accrued expenses	(638,675)	517,302
Unearned revenues	(280,061)	(168,349)
Other liabilities	129,867	55,059
Net cash provided by operating activities	9,662,917	6,631,213
Cash flows from investing activities:		
Purchase of property and equipment	(5,921,810)	(12,524,582)
Purchase of certificate of deposit	(4,016,888)	-
Transfers of investments reserved for capital projects to cash, cash equivalents, restricted cash for capital expenditures	5,336,296	6,278,921
Net cash used in investing activities	(4,602,402)	(6,245,661)
Cash flows from financing activities:		
Payment of dividend	(3,945,123)	(3,894,917)
Net cash used in financing activities	(3,945,123)	(3,894,917)
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,115,392	(3,509,365)
Cash, cash equivalents, and restricted cash at beginning of year	8,051,707	11,561,072
Cash, cash equivalents, and restricted cash at end of year	$ 9,167,099	$ 8,051,707
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 146,500	$ 107,500
Supplemental schedule of noncash investing and financing activities:		
Cumulative effect of adoption of ASU 2016-01	$ 2,200,124	$ -
Property and equipment purchases in accounts payable	$ 2,371,410	$ 379,107
Additions to PP&E reclassed from deposits in other assets	$ -	$ 291,780
Accrued dividends payable	$ -	$ 3,945,123

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 Holdings I LLC, a wholly owned subsidiary of NCRR, was formed on April 5, 2016, for the purpose of acquiring real estate to be used in future economic development projects of NCRR.

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. Cash and cash equivalents exclude amounts held in long-term investment portfolios as those amounts are commingled with investments reserved for capital projects. 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.

The reconciliation of cash, cash equivalents and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at December 31, 2019 and 2018 is as follows:

	2019	2018
Cash and cash equivalents	**$ 9,009,528**	$ 6,882,035
Restricted cash in investments reserved for capital projects	**157,571**	1,169,672
Total cash, cash equivalents, and restricted cash	**$ 9,167,099**	$ 8,051,707

Restricted cash in investments includes amounts that are held outside of investment portfolios and are designated for capital projects.

Certificate of Deposit

The Company purchased a certificate of deposit during the year ended December 31, 2019, that has a maturity date between three and twelve months from the date of purchase. The certificate of deposit is considered a fair value Level 1 asset. The Company believes that the certificate of deposit that is carried at cost plus accrued interest substantially approximates the fair value.

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 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. The investments in debt securities 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 debt securities are sold, gains and losses are determined using the specific identification method. Marketable equity securities are reported at fair value with all changes recorded through income. Realized and unrealized gains and losses are determined by using the average cost method. Investments are classified as noncurrent due to the board designations of investments for capital improvements. The Company reviews debt 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 $68,808 and $87,954 in advertising costs in 2019 and 2018, 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 Adopted Accounting Standards

ASU 2016-01: *Recognition and Measurement of Financial Assets and Financial Liabilities*

In 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires entities to measure substantially all equity securities at fair value and recognize changes in fair value in net income. Prior to issuance of this ASU, the Company held unrealized gains and losses related to equity investments in accumulated other comprehensive income. The Company adopted the new standard effective January 1, 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings. As of January 1, 2019, the Company reclassified a total of $2,200,124 in unrealized gains on equity securities from accumulated other comprehensive income to accumulated deficit.

<u>ASU 2016-18: *Statement of Cash Flows*</u>

During 2019, the Company adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is intended to improve the classification and presentation of changes in restricted cash on the statements of cash flows and will provide more consistent application of GAAP by reducing diversity in practice. The ASU also requires an entity to disclose information about the nature of restricted cash. The consolidated statement of cash flows for the year ended December 31, 2018 has been adjusted to reflect retrospective application of the new accounting guidance. Previously, the Company reflected changes in restricted cash in investing activities. The Company has retrospectively removed these changes from the respective section in the consolidated statement of cash flows, resulting in an increase in cash used by investing activities from $848,892 to $6,245,661. In addition, total ending cash presented on the consolidated statement of cash flows as of December 31, 2018 increased from $6,882,035 (exclusive of restricted cash and restricted cash equivalents) to $8,051,707 (inclusive of restricted cash and restricted cash equivalents).

<u>ASU 2014-09: *Revenue from Contracts with Customers*</u>

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new standard effective January 1, 2019, the first day of the Company's fiscal year using the modified retrospective approach. A substantial portion of the Company's revenues are derived from leases or investment income that are not within the scope of the ASU and are accounted for under other GAAP standards, therefore there was no material impact as a result of the adoption. As such, there is no cumulative-effect adjustment from the adoption of this ASU reflected in the consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

<u>ASU 2016-02: *Leases*</u>

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, 2021 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, 2019 and 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Mutual Funds:				
Equity securities	**$ 38,853,527**	**$ 2,227,357**	**$ -**	**$ 41,080,884**
Fixed income	**16,775,902**	**63,488**	**124,606**	**16,714,784**
	$ 55,629,429	**$ 2,290,845**	**$ 124,606**	**$ 57,795,668**
Available for Sale:				
U.S. Government and federal agencies	**$ 9,013,337**	**$ 40,100**	**$ -**	**$ 9,053,437**
Mortgage backed securities	**3,024,423**	**69,860**	**7,886**	**3,086,397**
Collateralized mortgage obligations	**3,805,093**	**82,806**	**7,942**	**3,879,957**
State and local governments	**529,102**	**1,252**	**809**	**529,545**
Corporate debt securities	**14,942,082**	**275,028**	**11,893**	**15,205,217**
Foreign bonds	**603,332**	**4,467**	**-**	**607,799**
	$ 31,917,369	**$ 473,513**	**$ 28,530**	**$ 32,362,352**

	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

In addition to the investments disclosed above, investments reserved for capital projects includes cash and cash equivalents that are comingled in long-term investment portfolios totaling $1,463,627 and $2,318,399 at December 31, 2019 and 2018, respectively. Investments reserved for capital projects also include restricted cash totaling $157,571 and $1,169,672 at December 31, 2019 and 2018, respectively. Investment management fees, totaling $162,553 and $167,793, respectively, in 2019 and 2018, are netted against investment income.

The Company received total gross proceeds of $93,793,585 on the sale of securities and purchased $92,164,214 of securities during the year ended December 31, 2019. The Company received total gross proceeds of $71,823,355 on the sale of securities and purchased $66,288,843 of securities during the year ended December 31, 2018. The Company recognized a gross realized gain of $7,414,515 and gross realized loss of $767,929 during the years ended December 31, 2019 and 2018, respectively, on the sale of securities.

Investments in mutual funds

The Company carries all investments in mutual funds at fair value and records the subsequent changes in fair values in income. Prior to January 1, 2019, substantially all mutual funds were classified as available-for-sale and were also carried at fair value. However, the Company recorded the periodic changes in fair value of these securities as components of other comprehensive income and recorded gains and losses in the Consolidated Statements of Operations when the mutual funds were sold.

Investments in available for sale securities

Available for sale securities are carried in the consolidated financial statements at fair value. A net unrealized holding gain and net unrealized holding loss on available for sale securities in the amount of $1,663,282 and $3,128,705 has been included in accumulated other comprehensive income during the year ended December 31, 2019 and 2018, respectively.

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, 2019 and 2018 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
2019						
Mortgage backed securities	**$ -**	**$ -**	**$ 502,588**	**$ 7,886**	**$ 502,588**	**$ 7,886**
Collateralized mortgage obligations	**598,158**	**1,691**	**600,937**	**6,251**	**1,199,095**	**7,942**
State and local governments	**-**	**-**	**60,155**	**809**	**60,155**	**809**
Corporate debt securities	**1,047,506**	**2,884**	**463,349**	**9,009**	**1,510,855**	**11,893**
Total	**$ 1,645,664**	**$ 4,575**	**$ 1,627,029**	**$ 23,955**	**$ 3,272,693**	**$ 28,530**

	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

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, 2019 and 2018 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. Management has determined that their available for sale securities 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.

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.

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

	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equity securities	**$ 41,080,884**	**$ 41,080,884**	**$ -**	**$ -**
Fixed income	**16,714,784**	**16,714,784**	**-**	**-**
Available for sale:				
U.S Government and federal agencies	**9,053,437**	**-**	**9,053,437**	**-**
Mortgage backed securities	**3,086,397**	**-**	**3,086,397**	**-**
Collateralized mortgage obligations	**3,879,957**	**-**	**3,879,957**	**-**
State and local governments	**529,545**	**-**	**529,545**	**-**
Corporate debt securities	**15,205,217**	**-**	**15,205,217**	**-**
Foreign bonds	**607,799**	**-**	**607,799**	**-**
	$ 90,158,020	**$ 57,795,668**	**$ 32,362,352**	**$ -**

	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	$ -

The amortized cost and fair values of available for sale securities at December 31, 2019 and 2018 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, 2019		
Available for sale:		
Due within one year	**$ 2,124,669**	**$ 2,119,093**
Due after one year through five years	**24,636,398**	**24,952,792**
Due after five years through ten years	**4,410,152**	**4,548,265**
Due after 10 years	**746,150**	**742,202**
	$ 31,917,369	**$ 32,362,352**
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

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 resulting in an annual payment of $2,700,000. 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 $4,013,429, representing $3,414,250 of total tax credit revenue that the Company is due for tax years 2016 to 2019 from NSR, plus accumulated 3.5% interest of $160,997, and also other receivables of $438,182 from other third parties as of December 31, 2019. As of December 31, 2018 the long-term receivable amounted to $2,894,314 representing $2,556,750 of total tax credit revenue that the Company was 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.

5. Capital Commitments

Project Agreements and Contracts

As of December 31, 2019, the Company has commitments under various individual project agreements and other contracts totaling $31.3 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 2020 and 2023.

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, 2019, the Company has expended approximately $12.2 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, 2019, the Company has expended approximately $9.9 million of its commitments under NCRR Invests project agreements, with an additional $6.9 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 Company has designated the following amounts (invested in cash, certificates of deposit, debt securities and mutual funds) for capital improvement projects as follows:

	2019	2018
Restricted under contracts	**$ 31,326,606**	$ 40,469,872
Board designated funds	**60,452,612**	46,681,696
Investments reserved for capital projects	**$ 91,779,218**	$ 87,151,568

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, 2019 and 2018 were $150,228 and $160,586, respectively, including $81,864 and $91,764, 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 $129,867 and $49,463 related to the plan in 2019 and 2018, respectively. The resulting deferred compensation liability of $469,094 and $339,227 at December 31, 2019 and 2018, respectively, 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 was renewed on July 17, 2019, and expires on July 24, 2020 and has a variable interest rate at one-month LIBOR plus .85% and is unsecured. There was no outstanding balance as of December 31, 2019 and 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, 2019.

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 73% and 84% of the lease income during the year ended December 31, 2019 and 2018, respectively. Rental income received from this lease during 2019 and 2018 was approximately $16.1 million and $15.8 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
2020	$ 18,373,212
2021	18,205,765
2022	18,113,659
2023	17,947,044
2024	17,584,382
Thereafter	187,759,905
	$ 277,983,967

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. There was no contingent rental income earned during the year ended December 31, 2019. There was $52,460 of contingent rental income earned during the year ended December 31, 2018.

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 $10,223,181 and $10,519,088 at December 31, 2019 and 2018, respectively, of which $200,455 and $216,301 is included in the current portion of unearned rent at December 31, 2019 and 2018, respectively.

10. Income Taxes

The Company's income (loss) before income taxes for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Income (loss) before income taxes:		
Nontaxable entities	**$ (10,868,576)**	$ (24,214,604)
Taxable entity	**442,693**	503,864
Loss before income taxes	**$ (10,425,883)**	$ (23,710,740)

The difference between the federal income tax computed by the statutory federal income tax rate of 21% for the years ended December 31, 2019 and 2018 and NCRI's income tax expense as reflected in the consolidated financial statements is as follows:

	2019	2018
Income tax at statutory federal income tax rates	**$ 93,582**	$ 105,853
Increase (decrease) attributable to:		
State income tax, net of federal income tax benefit	**12,354**	19,290
Other	**(3,216)**	(2,912)
	$ 102,720	$ 122,231

The Company's taxable subsidiary, NCRI, has deferred income tax balances at December 31, 2019 and 2018 as follows:

	2019	2018
Liability:		
Property and equipment	**$ 546,000**	$ 567,000
Net deferred tax liability	**$ 546,000**	$ 567,000

The Company's total tax expense (benefit) for 2019 and 2018 is summarized as follows:

	2019	2018
Current income tax expense	$ 123,720	$ 131,231
Deferred income tax benefit	(21,000)	(9,000)
Total income tax expense	$ 102,720	$ 122,231

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 June 22, 2020, which is the date the financial statements were available to be issued.

Subsequent to the balance sheet date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors, and governmental, regulatory and private sector responses. The consolidated financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.


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