2023 ANNUAL REPORT

North Carolina Railroad Company

VISION

A railroad company promoting and facilitating opportunities leading to economic gains for North Carolina.

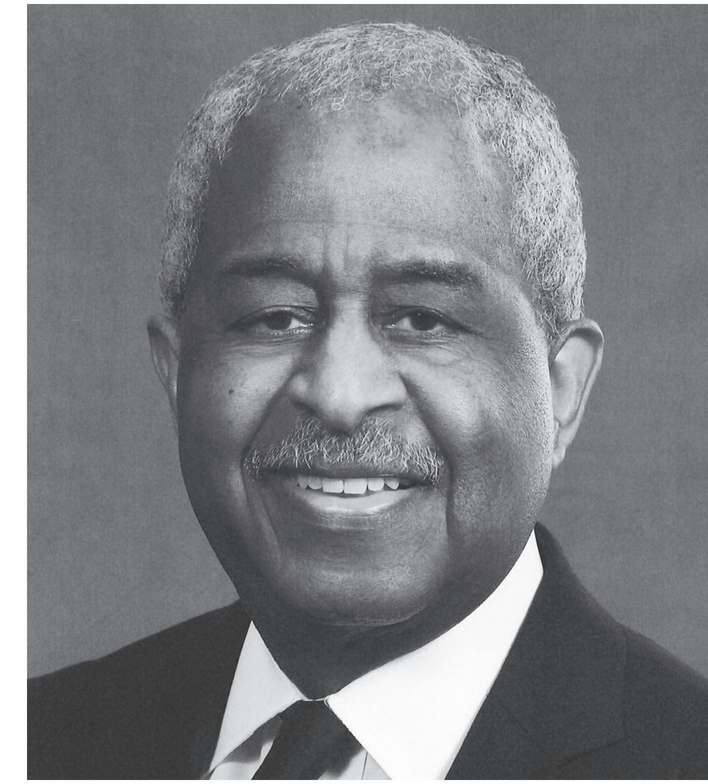
MISSION

Focus on our rail & safety expertise, assets, and advantageous corridor to provide dynamic services and best-in-class solutions.

NCRR is the *one* private railroad company that has been driving economic growth for North Carolina for over 175 years. We maintain our rail corridor that serves as the state's essential conduit and work with communities and companies to provide dynamic services and best-in-class, rail-centric solutions.

We transform our trusted expertise and unique assets into economic advantages.

Letter From The Chairman



On behalf of the Board of Directors and the staff of NCRR, I'm thrilled by our accomplishments over the last year. Our team continued to do exceptional work promoting and facilitating opportunities leading to important economic gains in communities across North Carolina.

In 2023, we awarded $2 million to rail-served sites across four North Carolina counties in the third year of our Build Ready Sites (BRS) program. We also invested $1.5 million across two *NCRR Invests* recipient projects to create 1,000 new jobs for North Carolina. These strategic investments support sustainable economic growth and prosperity that will benefit North Carolina for years to come.

As we reflect on this past year, we also celebrate the introduction of three new service areas that will pave the way for a brighter and more connected future for our state. What's more, these services will enhance the ability of local communities to retain, grow, and attract businesses, leading to job growth and increased tax bases.

Our newly introduced consulting services offer expertise in project management, land use consulting, and value engineering. Additionally, our industrial property services focus on facilitating seamless operations through offerings such as transloading, property suitability analysis, and track construction management. Our commitment to advancing rail networks is further reflected in our new engineering, construction, and safety services, enabling investments in essential rail infrastructure needs. These new services are designed to cater to the needs of our rail-served and potential rail-served industries, ensuring safety, efficiency and growth.

In a year marked by significant strides in innovation and service expansion, we remain dedicated to promoting job creation and attracting new industries.

At the start of 2024, we celebrated our 175th charter day, a significant milestone in our history. Looking ahead, I am most excited about the monumental impact our new service offerings will have on North Carolina's economy. Our commitment to advancing business prosperity, efficiency, and sustainability remains unwavering as we continue to shape the future of rail in our state.

I extend my deepest gratitude to the state of North Carolina, our stakeholders, and the entire NCRR team for their unwavering dedication. Together, we are charting a course toward a prosperous and dynamic future for our state.

Sincerely,

WILLIAM V. "BILL" BELL
Chairman, North Carolina Railroad Company

BOARD OF DIRECTORS

We put collaboration at the core of our process to achieve our shared goals by leaving our egos at the door, bringing our partners into the process early, listening to understand, and working together to identify win-win solutions that benefit us all.

We harness the power of creativity in business by challenging traditional thinking, offering new perspectives, and identifying novel solutions to the problems and opportunities at hand.

Excellence is our standard and we don't accept anything less. Consistent high-quality services build trust and confidence that we never take for granted, and we aim to uphold that with every action we take.

We lead with integrity by maintaining our values, sharing our opinions candidly and directly, and treating everyone with the highest level of respect.

WHO IS NCRR?

The Faces of NCRR's Future

Jamar Nixon
Market Research Analyst

Pioneering Growth in Data Analytics and Communications

In April 2023, Jamar Nixon transitioned into the role of Market Research Analyst at NCRR. With a Master's degree from the University of North Carolina at Chapel Hill, Jamar brings exceptional analytical skills and an aptitude for strategically supporting the NCRR's leadership team and departments.

Jamar started at NCRR in 2021 as a Real Estate Representative, where he supported the Real Estate department's mission to protect the corridor and maintain relationships with our municipal partners. Leveraging his expertise in research and project management to ensure that NCRR has the necessary tools and information to amplify the company's vision, mission, and operations, he stands ready to connect, collaborate, and propel the NCRR's goal of progress and prosperity for our stakeholders.

Putting Collaboration at the Core

Jasmin is responsible for supporting the company's real estate, economic development, business development, and engineering departments via project and process management, schedule coordination, and vendor liaison. Her skill set has been critical in establishing new service offerings, such as NCRR's track protection program, and ensuring their integration into the company's existing systems.

Jasmin joined NCRR's team in May 2021 as a paralegal, supporting the review and organization of various legal agreements and business contracts. Over time, her organizational ability and cross-department collaboration made her essential to NCRR's mission.

Jasmin Pride Harris
Business Operations Manager

Connor Christensen
Economic Development Program Manager

Spearheading Economic Growth at NCRR

In May 2023, Connor Christensen was promoted to the crucial role of Economic Development Program Manager at NCRR. With a solid background in business development and a Bachelor's degree in Economics from the University of Florida, Connor is a natural leader with a knack for communication, interdisciplinary collaboration, and networking. Having previously served NCRR as the Economic Development Coordinator for two years, Connor has sharpened his skills in leadership, community development, and creative problem-solving and continues to play a pivotal role in driving NCRR's economic growth.

Connor's experience in the computer and network security industry has equipped him with a unique perspective on cybersecurity, and his expertise in public speaking and critical thinking allows him to identify and pursue strategic opportunities for development and partnership. He works closely with internal teams and external stakeholders to create innovative solutions that benefit communities throughout North Carolina. Connor's dedication to North Carolina communities, along with his ability to navigate complex challenges, make him an invaluable asset to the NCRR team.

OUR TEAM


CARL WARREN
President and Chief Executive Officer


TRISH HAVER
Chief Commercial Officer


MICHELLE JENG
Chief Financial Officer


CATHERINE KNUDSON
Director of Corporate Affairs


TRISH NOONAN
Accounts Payable Specialist


NANCY PICKETT
Business Process Specialist


JASMIN PRIDE HARRIS
Business Operations Manager


AMY SANDIDGE
Director of Sales & Commercial Development


MASHAL AL KIRDASI
Systems Manager


DONALD ARANT, P.E.
Vice President Engineering


ZACHARY BARHAM
Project Manager


JOANN BIAZZO-SMITH
Controller


GLEDI SOFTA
Director of Construction and Compliance


ILAN WAJSMAN
Vice President Information Technology


SUSAN WISNIEWSKI
Accounting Manager


EDWARD WU, P.E.
Director of Engineering


MONIQUE BOOKER
HR Assistant


CONNOR CHRISTENSEN
Economic Development Program Manager


TAELOR FIELDS
Real Estate Asset Manager


JOHN GASS
Safety & Compliance Senior Manager


HILARY KANUPP, C.A.
Program Operations Manager


DAVINA KILLINGSWORTH
Office Administrator


JUSTIN MADIGAN
Infrastructure Manager


JAMAR NIXON
Market Research Analyst

CORRIDOR MAP

North Carolina Railroad Company Corridor

North Carolina Railroad Company

FREIGHT ROUTES

North Carolina Railroad Company
*North Carolina Class | Freight Service

Norfolk Southern

CSX Transportation

Various Shortlines

INTERMODAL TERMINALS

Norfolk Southern

CSX Transportation

LOGISTICAL CENTERS

Military Bases

Seaports

Airports

NCRR SERVICES

Giving North Carolina a Competitive Advantage

In 2023, the North Carolina Railroad Company made significant strides in expanding operations by unveiling three new service areas, signaling a transformative era in rail development. These additions represent a bold commitment to fostering growth across the state, aligning with our mission to utilize our rail and safety expertise, assets, and advantageous corridor to provide dynamic services and best-in-class solutions for the state.

CONSULTING SERVICES

NCRR's Consulting Services offer valuable support and guidance for current rail-served industries and those with potential for truck-to-rail conversion. This service area offers a comprehensive suite of solutions to help improve operational efficiency, optimize resource utilization, and drive economic development.

For example, land use consulting provides expert guidance on development strategies and zoning regulations, while value engineering offers innovative approaches to maximize value while minimizing costs. Multi-modal supply chain solutions tailor transportation integration, and specialized support is available for managing oversized or dimensional shipments. Economic development consulting provides key insights to foster growth, attract investments, and create job opportunities. Additional services include project management, strategic planning, and assistance in identifying and sourcing essential raw materials for industrial processes.

INDUSTRIAL PROPERTY SERVICES

Our new Industrial Property Services offering aims to provide seamless operations for businesses along our corridors, which includes transloading solutions, property suitability analysis for laydown space, and track construction management as our core services. By managing the Request for Proposal (RFP) process for rail-specific services, we ensure businesses have access to the most suitable partners for their logistical needs, streamlining operations and enhancing efficiency.

The rail operations services offered by NCRR are pivotal in supporting industries reliant on rail transportation. Our comprehensive suite includes railcar leasing, storage, weighing services, and third-party switching. These services cater to a wide spectrum of industries, from rail-served enterprises to those dealing with over-dimensional commodities like utility-grade transformers.

By partnering with us, businesses can rely on seamless rail operations and precise logistical solutions.

Our new service areas reflect our dedication to advancing the state's rail network and supporting the economic vitality of our communities.

ENGINEERING, CONSTRUCTION, AND SAFETY SERVICES

Engineering and construction services form the backbone of progress at NCRR. Our expertise in engineering review, design of on-site rail construction, and rail track inspection ensures the highest standards of safety and efficiency. We work closely with rail-served industries, the North Carolina Department of Transportation (NCDOT), and other rail construction organizations to support their foundational needs.

NCRR's investment funding options are available to support engineering, design, construction, and other costs associated with rail and location expansion.

This aspect of our services extends to EDOs, municipalities, and out-of-state industries, offering financial support to drive the development of essential rail infrastructure.

This service area includes a wide array of offerings tailored to meet the diverse needs of our clients. From the initial review and design phase of on-site rail construction to ensuring that rail track installations adhere to stringent safety standards, we provide comprehensive solutions.

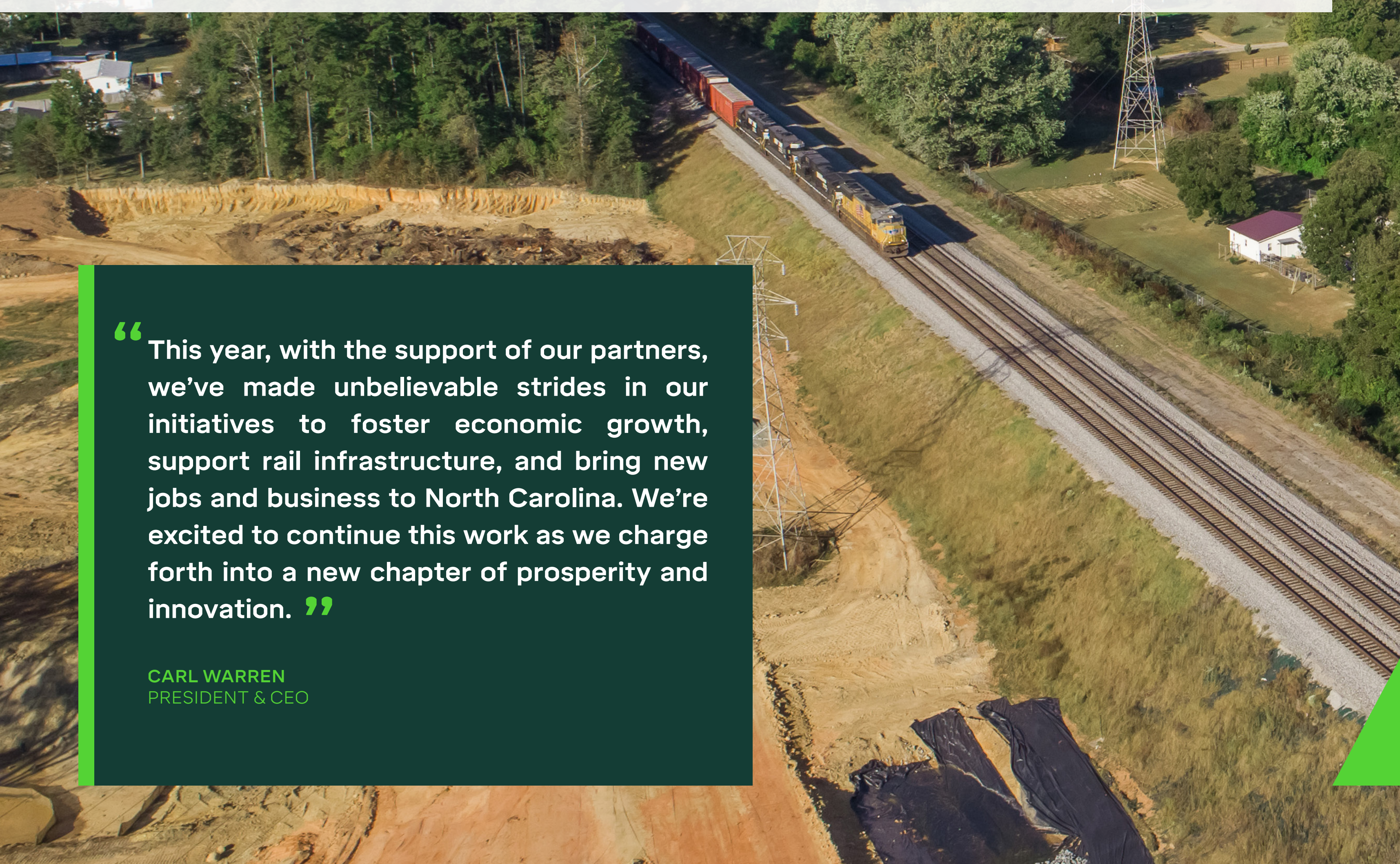
BUILD READY SITES

Investing in Local Growth Opportunities

In a continuation of our commitment to furthering growth and development, the North Carolina Railroad Company proudly presents our Build Ready Sites (BRS) 2023 Recipients.

Launched in 2021, this initiative aims to provide essential funding and support to rail-served sites, transforming them into "build-ready" spaces primed for attracting new businesses. The program eliminates common roadblocks to advancement by ensuring the availability of sites that are ready for immediate development, significantly reducing the time and resources required for new business setups.

Under the BRS program, award recipients undergo a rigorous application and site review process, ensuring the selected sites have the potential to become economic hubs for their respective regions. Recipients receive funding for crucial land preparation activities, including clearing, grading, and extending essential water and sewer capabilities. By addressing these foundational needs, NCRR empowers communities to proactively attract new businesses, create jobs, and bolster local economies.



> **"This year, with the support of our partners, we've made unbelievable strides in our initiatives to foster economic growth, support rail infrastructure, and bring new jobs and business to North Carolina. We're excited to continue this work as we charge forth into a new chapter of prosperity and innovation."**
>
> CARL WARREN
> PRESIDENT & CEO

BUILD READY SITES 2023 RECIPIENTS

Richmond County
Energy Way Industrial Complex

The Energy Way Industrial Complex in Richmond County is poised to become a major hub for industrial growth. With the $500,000 investment, this site will undergo crucial enhancements, including land preparation and infrastructure development. The improvements aim to attract new businesses to the region, cultivating economic success and job creation for residents.

Burke County
Great Meadows Site

The $500,000 investment in Burke County's Great Meadows Site will facilitate critical land preparation efforts. By enhancing the structure and accessibility of the Great Meadows Site, NCRR aims to attract new businesses and enhance growth in the region.

Nash County
Ammons Site

In Nash County, the Ammons Site—selected to receive a $500,000 investment—will undergo transformative changes, making it an ideal location for industrial development. The funding will support land preparation activities and essential structural upgrades. This will lay the foundation for future businesses to thrive.

Warren County
The Highway 1 Site

The $500,000 investment in The Highway 1 Site in Warren County will support vital improvements to the property, including land clearing, grading, and foundational enhancements. Transforming the Highway 1 Site into a premier industrial location will stimulate economic development and create new opportunities for the local community.

Looking ahead, the Build Ready Sites 2024 Program application is set to open in August, offering counties another opportunity to tap into this transformative initiative. For more information on the Build Ready Sites program and upcoming application deadlines, please visit ncrr.com/economic-impact.

NCRR Invests Program

Enhancing Strategic Job Growth Opportunities

The NCRR Invests program enables economic empowerment, drives job creation, promotes rail utilization, and supports the growth of local communities. Since its inception in 2016, this program has been instrumental in securing new or expanded locations for multiple manufacturing facilities across North Carolina. Overall, NCRR has committed over $17 million of its private revenue, resulting in new or expanded locations of 20 manufacturing facilities and the creation of over 12,500 new jobs. Capital investment from companies entering the state has reached over $8.3 billion.

By addressing freight rail infrastructure needs and prioritizing collaborative partnerships, NCRR Invests continues to play a pivotal role in advancing the state's economic prosperity.

NCRR INVESTS PROJECTS ANNOUNCED IN 2023

Siemens Mobility's State-of-the-Art Facility in Lexington

Siemens Mobility's State-of-the-Art Facility in Lexington

In August 2023, the North Carolina Railroad Company celebrated the groundbreaking ceremony of Siemens Mobility's new east coast manufacturing facility in Lexington. This marked a landmark event in the region's transportation network and manufacturing sector development.

Siemens Mobility, a global leader in sustainable transportation solutions, selected Lexington as the site for its state-of-the-art facility. Through the NCRR Invests program, NCRR will invest approximately $1 million toward the construction and materials needed for Siemens Mobility's new on-site rail operations. This investment will boost the production of rail vehicles and mobility solutions, enhancing transportation networks across North Carolina and beyond.

The Siemens Mobility facility will create over 500 jobs for Davidson County and it is estimated that these jobs will pay 114% of the County's current average annual wage.

This historic partnership highlights NCRR's commitment to innovation, sustainability, and job creation within the state and is an excellent example of how NCRR contributes to NC's competitive advantage not only through investments, but also with its strong rail expertise. This new facility signifies a shared dedication to advancing North Carolina's transportation landscape, ushering in a new era of progress.

Epsilon Advanced Materials' EV Battery Plant in Brunswick County

Epsilon Advanced Materials' EV Battery Plant in Brunswick County

In October 2023, NCRR was named as one of several partners for Epsilon Advanced Materials to establish a new manufacturing facility at the Mid-Atlantic Industrial Rail Park in Brunswick County. This significant venture brings a total estimated $649.9 million in investments to the area and promises 500 jobs with an average annual wage of $51,430.

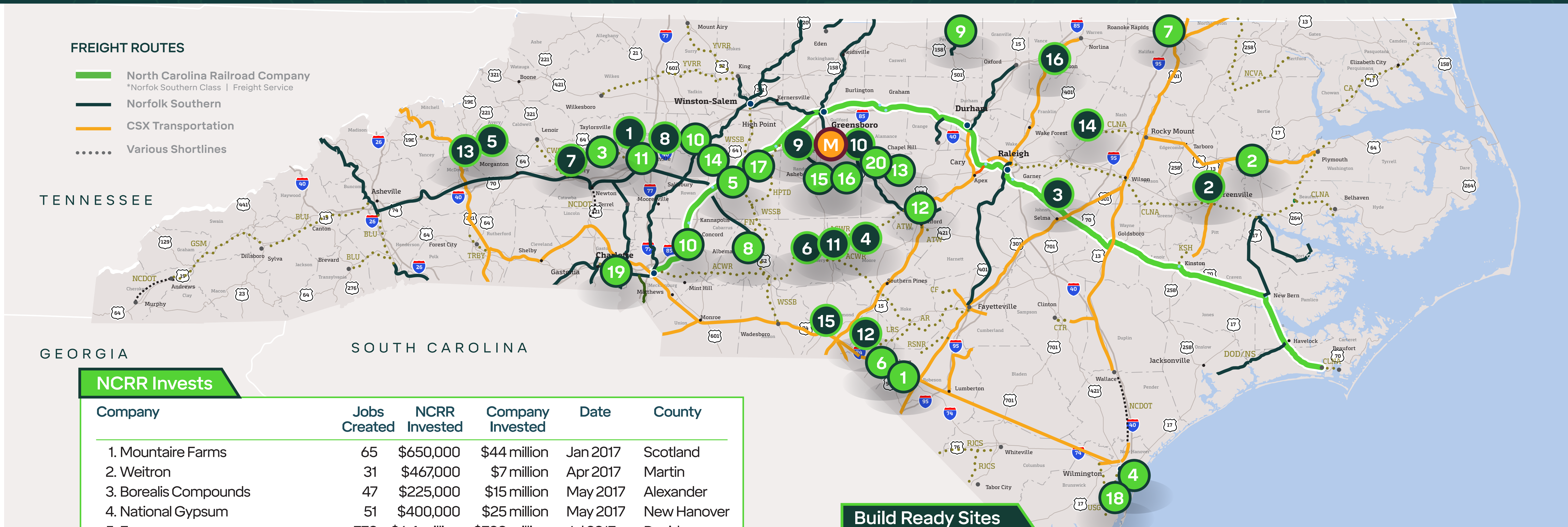
Epsilon Advanced Materials, a global battery material manufacturer, plans to create a state-of-the-art EV battery plant, delivering high-performance and environmentally friendly battery materials. Supported by the US Inflation Reduction Act (IRA), this venture is the largest Indian venture in the US EV battery industry.

Through the program, NCRR is investing approximately $500,000 to facilitate the design and construction of on-site rail infrastructure and a rail spur for CSX, a leading rail-based freight transportation supplier in North America. This investment is expected to increase annual rail activity by over 3,400 rail cars, boosting transportation efficiency and supporting the region's industrial growth. It's estimated that the facility will be operational by 2026.

> **"Set apart by our world-class rail experts, each milestone we've reached this year is a testament to the dedication and excellence of our team. I'm grateful to work alongside this dedicated team of rail professionals, as we continue our work to benefit North Carolina and the greater rail industry."**
>
> **DONALD ARANT, P.E.**
> VICE PRESIDENT, ENGINEERING

NCRR ECONOMIC DEVELOPMENT MAP

North Carolina Railroad Company



NCRR Invests

Company	Jobs Created	NCRR Invested	Company Invested	Date	County
1. Mountaire Farms	65	$650,000	$44 million	Jan 2017	Scotland
2. Weitron	31	$467,000	$7 million	Apr 2017	Martin
3. Borealis Compounds	47	$225,000	$15 million	May 2017	Alexander
4. National Gypsum	51	$400,000	$25 million	May 2017	New Hanover
5. Egger	770	$6.4 million	$700 million	Jul 2017	Davidson
6. Edwards Wood Products	91	$450,000	$50 million	Jul 2017	Scotland
7. JBB Packaging	50	$400,000	$11.9 million	Nov 2018	Halifax
8. Charlotte Pipe and Foundry	400	$1.5 million	$325 million	June 2020	Stanly
9. Nestle Purina	300	$2.1 million	$450 million	Oct 2020	Rockingham
10. Red Bull/Rauch/Ball	633	$700,000	$900 million	July 2021	Cabarrus
11. Sherwin-Williams	183	$300,000	$324 million	Feb 2022	Iredell
12. Service Offsite Solutions	235	$300,000	$18 million	Mar 2022	Lee
13. VinFast	7,500	$1 million	$4 billion	Mar 2022	Chatham
14. Nucor	180	$750,000	$350 million	April 2022	Davidson
15. Technimark	220	$250,000	$62 million	April 2022	Randolph
16. Sumitomo Forestry America, Inc	129	$200,000	$19.5 million	Dec 2022	Randolph
17. Siemens Mobility	506	$1 million	$220 million	Mar 2023	Davidson
18. Epsilon Advanced Materials	500	$500,000	$650 million	Oct 2023	Brunswick
19. Siemens Energy	475	$100,000	$150 million	Feb 2024	Mecklenburg
20. Innovative Construction Group	150	$200,000	$39.8 million	Apr 2024	Chatham

Build Ready Sites

County	NCRR Award Amount	County	NCRR Award Amount
1. Alexander 2021	$500,000	9. Randolph 2022	$500,000
2. Pitt 2021	$500,000	10. Chatham 2022	$500,000
3. Johnston 2021	$750,000	11. Montgomery 2022	$500,000
4. Moore 2021	$167,000	12 Scotland 2022	$400,000
5. Burke 2021	$500,000	13. Burke 2023	$500,000
6. Montgomery 2021	$500,000	14. Nash 2023	$500,000
7. Catawba 2022	$500,000	15. Richmond 2023	$500,000
8. Iredell 2022	$500,000	16. Warren 2023	$500,000

Greensboro-Randolph Megasite

Company	Jobs Created	NCRR Invested	Company Invested	Date	County
Toyota	5,000	$35 million	$13.9 billion	Dec 2021	Randolph

North Carolina Railroad Company and Subsidiaries

Consolidated Financial Statements
Years Ended December 31, 2023 and 2022

The report accompanying these financial statements was issued by BDO USA, P.C., a Virginia professional corporation, and the U.S. member of BDO International Limited, a UK company limited by guarantee.

BDO

North Carolina Railroad Company and Subsidiaries

Consolidated Financial Statements
Years Ended December 31, 2023 and 2022

North Carolina Railroad Company and Subsidiaries

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Independent Auditor's Report

Board of Directors and Stockholder
North Carolina Railroad Company and Subsidiaries
Raleigh, North Carolina

Opinion

We have audited the consolidated financial statements of North Carolina Railroad Company and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, P.C.

May 15, 2024

Consolidated Financial Statements

North Carolina Railroad Company and Subsidiaries

Consolidated Balance Sheets

December 31,		**2023**		2022
Assets				
Current assets:				
Cash and cash equivalents	$	**39,447,905**	$	25,355,018
Accounts receivable, net of allowance of $207,684 and $102,022 as of December 31, 2023 and 2022, respectively		**277,802**		337,191
Prepaid expenses		**631,988**		522,221
Total current assets		**40,357,695**		26,214,430
Property and equipment:				
Roadway and land		**7,848,742**		7,848,742
Tracks, signals and bridges		**423,263,948**		415,167,718
Land		**15,656,871**		13,766,174
Buildings and improvements		**19,619,141**		19,555,091
Equipment and furniture		**3,530,671**		3,393,154
Construction in progress		**764,659**		9,468,080
		470,684,032		469,198,959
Less: accumulated depreciation		**(306,723,231)**		(279,143,658)
Property and equipment, net		**163,960,801**		190,055,301
Other assets:				
Investments reserved for capital projects		**119,540,932**		105,567,328
Long-term receivables		**4,105,811**		4,708,926
Other		**26,127**		47,384
Total other assets		**123,672,870**		110,323,638
Total Assets	$	**327,991,366**	$	326,593,369

North Carolina Railroad Company and Subsidiaries

Consolidated Balance Sheets (continued)

December 31,		**2023**		2022
Liabilities and Stockholder's Equity				
Current liabilities:				
Accounts payable and accrued expenses	$	**2,891,136**	$	3,024,094
Customer deposits		**740,080**		180,494
Current portion of unearned rent		**200,455**		200,455
Total current liabilities		**3,831,671**		3,405,043
Long-term liabilities:				
Other liabilities		**46,300**		46,300
Deferred tax liability		**430,429**		471,405
Unearned rent, less current portion		**9,220,909**		9,421,363
Total long-term liabilities		**9,697,638**		9,939,068
Total liabilities		**13,529,309**		13,344,111
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		**473,812,602**		473,812,602
Accumulated deficit		**(159,355,142)**		(159,287,159)
Accumulated other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities		**4,438**		(1,276,344)
Total stockholder's equity		**314,462,057**		313,249,258
Total Liabilites and Stockholder's Equity	$	**327,991,366**	$	326,593,369

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years Ended December 31,		**2023**		2022
Income:				
Lease of roadway and land	$	**17,691,272**	$	16,929,447
Other lease income		**7,723,992**		7,207,900
Total lease income		**25,415,264**		24,137,347
Expenses:				
Wages and benefits		**6,044,201**		4,898,476
Professional fees		**524,101**		369,814
Contracted services		**1,495,733**		1,500,482
Franchise and property taxes		**894,772**		940,837
Insurance		**333,965**		352,101
Reporting and public relations		**112,394**		192,342
Depreciation		**27,579,573**		27,650,863
Engineering, surveying and mapping		**282,650**		239,316
Property and corridor management		**341,977**		423,911
Bad debt expense		**88,035**		14,492
General and administrative		**1,352,242**		1,206,185
Economic development		**3,681,545**		2,977,670
Total expenses		**42,731,188**		40,766,489
Operating loss		**(17,315,924)**		(16,629,142)
Other Income (Loss):				
Investment income (loss), net of expenses		**8,553,987**		(62,065)
Unrealized gain (loss) on marketable equity securities		**5,289,943**		(15,672,819)
Other income		**4,999,865**		1,324,451
Project contributions		**(1,483,550)**		(25,985,105)
Other income (loss), net		**17,360,245**		(40,395,538)
Income (loss) before income taxes		**44,321**		(57,024,680)
Income tax expense		**112,304**		120,181
Net Loss	$	**(67,983)**	$	(57,144,861)
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses)	$	**909,271**	$	(1,634,256)
Reclassification adjustments for unrealized holding gains included in net loss		**371,511**		442,801
Other comprehensive income (loss)		**1,280,782**		(1,191,455)
Comprehensive Income (Loss)	$	**1,212,799**	$	(58,336,316)

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company and Subsidiaries

Consolidated Statements of Changes in Stockholder's Equity

	Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	Total Stockholder's
	Shares	Amount	Paid-in Capital	Deficit	Income (Loss)	Equity
Balance, December 31, 2021	317	$ 159	$ 473,812,602	$ (102,142,298)	$ (84,889)	$ 371,585,574
Net loss and other comprehensive loss	-	-	-	(57,144,861)	(1,191,455)	(58,336,316)
Balance, December 31, 2022	317	$ 159	$ 473,812,602	$ (159,287,159)	$ (1,276,344)	$ 313,249,258
Net loss and other comprehensive income	-	-	-	**(67,983)**	**1,280,782**	**1,212,799**
Balance, December 31, 2023	**317**	**$ 159**	**$ 473,812,602**	**$ (159,355,142)**	**$ 4,438**	**$ 314,462,057**

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	**2023**	2022
Cash Flows from Operating Activities:		
Net loss	**$ (67,983)**	$ (57,144,861)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities:		
Bad debt expense	**88,035**	14,492
Depreciation	**27,579,573**	27,650,863
Loss on property and equipment contributed to projects	**1,262,500**	25,985,105
Deferred income tax	**(40,976)**	(25,889)
(Income) loss from investments reserved for capital projects	**(13,843,930)**	15,734,884
Changes in operating assets and liabilities:		
Accounts receivable	**(28,646)**	352,767
Prepaid expenses	**(109,767)**	(27,405)
Long-term receivable	**603,115**	(1,106,137)
Other assets	**21,257**	18,653
Accounts payable and accrued expenses	**(180,571)**	730,268
Customer deposits	**559,586**	(586,117)
Unearned rent	**(200,454)**	(200,455)
Other liabilities	**-**	(14,265)
Net cash and cash equivalents provided by operating activities	**15,641,739**	11,381,903
Cash Flows from Investing Activities:		
Purchases of property and equipment	**(2,699,960)**	(3,912,211)
Purchases of investments	**(146,107,192)**	(72,232,118)
Proceeds from sales of investments	**147,258,300**	72,428,235
Net cash and cash equivalents used in investing activities	**(1,548,852)**	(3,716,094)
Net increase in cash and cash equivalents	**14,092,887**	7,665,809
Cash and Cash Equivalents, at beginning of year	**25,355,018**	17,689,209
Cash and Cash Equivalents, at end of year	**$ 39,447,905**	$ 25,355,018
Supplemental Disclosure of Cash Flows:		
Cash paid for income taxes	**$ 111,400**	$ 202,092
Supplemental Disclosure of Non-Cash Transactions:		
Property and equipment purchases in accounts payable	**$ 47,613**	$ -

See accompanying notes to consolidated financial statements.

1. Organization and 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, (“NCRR Holdings”) was formed on April 5, 2016, for the purpose of acquiring real estate to be used in future economic development projects of NCRR.

2. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

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 U.S. 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

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.

North Carolina Railroad Company and Subsidiaries

Notes to Consolidated Financial Statements

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. At December 31, 2023 and 2022, the Company had cash balances of approximately $38.5 million and $24.7 million, respectively, that exceeded the Federal Deposit Insurance Corporation limits.

Accounts Receivable

Accounts receivable are uncollateralized obligations due under lease agreements. The Company estimates an allowance 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**
Tracks 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.

Long-Term Receivables

The Company's long-term receivables primarily consist of receivables under tax credit revenue agreements, plus accumulated interest. These amounts are due from one third party with history of paying the full amounts due. The Company continuously monitors the third party to ensure the credit quality of these receivables. The Company estimates an allowance for expected credit losses based on its historical collection experience, the length of time its receivables are outstanding, the continued financial condition of the third party as well as the past, current and projected write offs of these receivables. There were no material write offs or recoveries during the years ended December 31, 2023 and 2022. There were also no material past due amounts or any receivables with a non-accrual status as of December 31, 2023 and 2022. Based on these factors, there was no allowance for credit losses recognized on long-term receivables as of December 31, 2023 and 2022.

Unearned Rent

The Company's unearned rent consists of payments received in excess of the rent recognized on a straight-line basis over the term of the underlying lease agreement.

Revenue Recognition

The Company's operating income consists of the following and is recognized in accordance with the Financial Accounting Standards Board's ("FASB") Topic 842, *Leases*:

> <u>Lease of roadway and land</u>: Revenue received from property that is operated by NSR is reflected in the consolidated statements of operations and comprehensive income on a straight-line basis in accordance with the lease term in the Company's lease arrangements.
>
> <u>Other lease income</u>: The Company leases certain property that is not operated by NSR. Revenue is reflected in the consolidated statements of operations and comprehensive income on a straight-line basis in accordance with the lease term in the Company's lease arrangements. The Company also collects license fee revenue which is recognized in accordance with the lease term. The Company defers recognition of contingent rentals until the requirements are met.

Advertising

The Company incurred $54,119 and $32,870 in advertising costs in 2023 and 2022, 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

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments,* which introduces the current expected credit losses methodology. Among other things, the ASU requires the measurement of all expected credit losses for most financial assets carried at amortized cost at each reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company adopted the standard effective January 1, 2023. The adoption of the standard did not have a material impact on the consolidated financial statements.

3. Fair Value Measurements

Accounting Standard Codification 820 ("ASC 820"), *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

> *Level 1:* Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.
>
> *Level 2*: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Observable inputs other than quoted prices for the asset or liability; and

- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following table summarizes the levels in the ASC 820 fair value hierarchy for the Company as of:

December 31, 2023	Level 1	Level 2	Level 3	Total
Investments reserved for capital projects:				
Cash and cash equivalents:				
Board designated	$ -	$ -	$ -	$ -
Other	1,459,685	-	-	1,459,685
Mutual funds:				
Equity securities	68,162,667	-	-	68,162,667
Fixed income	43,833,860	-	-	43,833,860
Available for sale:				
U.S Government and federal agencies	-	1,789,013	-	1,789,013
Mortgage-backed securities	-	-	-	-
Collateralized mortgage obligations	-	2,231,888	-	2,231,888
Corporate debt securities	-	2,063,819	-	2,063,819
Foreign bonds	-	-	-	-
Total investments reserved for capital projects	$ 113,456,212	$ 6,084,720	$ -	$ 119,540,932

North Carolina Railroad Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2022	Level 1	Level 2	Level 3	Total
Investments reserved for capital projects:				
Cash and cash equivalents:				
Board designated	$ -	$ -	$ -	$ -
Other	8,621,514	-	-	8,621,514
Mutual funds:				
Equity securities	57,391,940	-	-	57,391,940
Fixed income	19,889,253	-	-	19,889,253
Available for sale:				
U.S Government and federal agencies	-	5,999,636	-	5,999,636
Mortgage-backed securities	-	1,687,854	-	1,687,854
Collateralized mortgage obligations	-	3,101,103	-	3,101,103
Corporate debt securities	-	7,889,731	-	7,889,731
Foreign bonds	-	986,297	-	986,297
Total investments reserved for capital projects	$ 85,902,707	$ 19,664,621	$ -	$ 105,567,328

There were no purchases or sales of Level 3 investments nor any transfers into or out of Level 3 during the years ended December 31, 2023 and 2022.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses, which qualify as financial assets and financial liabilities, approximate fair value due to the relative terms and short maturity of these financial instruments. The carrying amount for the long-term receivables approximates fair value primarily based on the terms of the underlying tax credits receivable.

4. Investments Reserved for Capital Projects

The following is a summary of the investment portfolio by major classification included in investments reserved for capital projects at:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:				
Board designated	$ -	$ -	$ -	$ -
Other	1,459,685	-	-	1,459,685
Total cash and cash equivalents	1,459,685	-	-	1,459,685
Mutual funds:				
Equity securities	69,112,334	707,823	(1,657,490)	68,162,667
Fixed income	43,146,961	690,734	(3,835)	43,833,860
Total mutual funds	112,259,295	1,398,557	(1,661,325)	111,996,527
Available for sale:				
U.S. Government and federal agencies	1,775,872	13,141	-	1,789,013
Mortgage-backed securities	-	-	-	-
Collateralized mortgage obligations	2,259,972	13,741	(41,825)	2,231,888
Corporate debt securities	2,049,513	22,512	(8,206)	2,063,819
Foreign bonds	-	-	-	-
Total available for sale	6,085,357	49,394	(50,031)	6,084,720
Total investments reserved for capital projects	$ 119,804,337	$ 1,447,951	$ (1,711,356)	$ 119,540,932

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:				
Board designated	$ -	$ -	$ -	$ -
Other	8,621,514	-	-	8,621,514
Total Cash and cash equivalents	8,621,514	-	-	8,621,514
Mutual funds:				
Equity securities	59,800,664	141,298	(2,550,022)	57,391,940
Fixed income	22,998,190	-	(3,108,937)	19,889,253
Total mutual funds	82,798,854	141,298	(5,658,959)	77,281,193
Available for sale:				
U.S. Government and federal agencies	6,148,520	3,190	(152,074)	5,999,636
Mortgage-backed securities	1,817,707	-	(129,853)	1,687,854
Collateralized mortgage obligations	3,290,460	-	(189,357)	3,101,103
Corporate debt securities	8,597,219	669	(708,157)	7,889,731
Foreign bonds	1,092,134	-	(105,837)	986,297
Total available for sale	20,946,040	3,859	(1,285,278)	19,664,621
Total investments reserved for capital projects	$ 112,366,408	$ 145,157	$ (6,944,237)	$ 105,567,328

Investment management fees, totaling $241,155 and $241,293, respectively, in 2023 and 2022, are netted against investment income (loss).

The Company recognized a net realized gain of $4,277,353 and a net realized loss of $3,032,298 during the years ended December 31, 2023 and 2022, respectively, on the sale of securities.

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, 2023 and 2022 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	
December 31, 2023	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and federal agencies	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities	-	-	-	-	-	-
Collateralized mortgage obligations	123,511	(174)	944,884	(41,651)	1,068,395	(41,825)
Corporate debt securities	364,432	(2,193)	153,987	(6,013)	518,419	(8,206)
Foreign bonds	-	-	-	-	-	-
Total	$ 487,943	$ (2,367)	$ 1,098,871	$ (47,664)	$ 1,586,814	$ (50,031)

	Less than 12 Months		More than 12 Months		Total	
December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and federal agencies	$3,196,650	$ (92,485)	$ 1,957,998	$ (59,588)	$ 5,154,648	$ (152,074)
Mortgage-backed securities	1,109,188	(46,347)	578,666	(83,506)	1,687,854	(129,853)
Collateralized mortgage obligations	524,734	(41,372)	2,576,369	(147,985)	3,101,103	(189,357)
Corporate debt securities	2,796,257	(204,640)	5,007,805	(503,518)	7,804,062	(708,157)
Foreign bonds	-	-	986,297	(105,837)	986,297	(105,837)
Total	$ 7,626,829	$ (384,844)	$11,107,134	$ (900,435)	$18,733,963	$ (1,285,279)

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, 2023 and 2022 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.

The amortized cost and fair values of available for sale securities at December 31, 2023 and 2022 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.

December 31, 2023	**Amortized Cost**	**Fair Value**
Available for sale:		
Due within one year	**$ 1,391,989**	**$ 1,394,578**
Due after one year through five years	**4,693,370**	**4,690,142**
Total	**$ 6,085,359**	**$ 6,084,720**

December 31, 2022	**Amortized Cost**	**Fair Value**
Available for sale:		
Due within one year	$ 3,348,245	$ 3,248,372
Due after one year through five years	15,099,249	14,109,792
Due after five years through ten years	1,434,421	1,361,595
Due after 10 years	1,064,125	944,862
Total	$ 20,946,040	$ 19,664,621

The Company's investments reserved for capital projects were restricted as follows as of:

December 31,	**2023**	2022
Restricted under contracts	**$ 61,121,960**	$ 31,227,816
Board designated funds	**58,418,972**	74,339,512
Investments reserved for capital projects	**$ 119,540,932**	$ 105,567,328

See Note 6 below for discussion regarding the Company's capital project commitments.

5. 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 NSR 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.

NSR Tax Credits

The Company's long-term receivable balances primarily consist of tax credits and related accrued interest receivable as follows:

December 31,	**2023**	2022
Tax credits receivable	**$ 3,486,724**	$ 4,270,000
Accrued interest (interest rates of 3.5% to 4.5%)	**81,522**	275,381
Total tax credits and related accrued interest receivable	**$ 3,568,246**	$ 4,545,381

The tax credits as of December 31, 2023 and 2022 were for the tax years 2020 to 2023 and tax years 2018 to 2022, respectively.

6. Capital Commitments

Project Agreements and Contracts

As of December 31, 2023 and 2022, the Company has commitments under various individual project agreements and other contracts totaling approximately $61 million and $31 million, respectively. The contractual commitments of the Company consist of capital improvement projects, American Recovery and Reinvestment Act of 2009 ("ARRA") and the Passenger Rail Investment and Improvement Act of 2008 ("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 2024 and 2027.

ARRA/PRIIA High-Speed Passenger Rail Projects

In 2011, the State of North Carolina was selected to receive certain federal grant awards through ARRA and 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. 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, 2023 and 2022, the Company has expended approximately $17.0 million and $16.5 million, respectively, 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, 2023 and 2022, the Company has expended approximately $51.5 million and $38.2 million of its commitments under NCRR Invests project agreements, with an additional $5.8 million and $8.2 million, respectively, committed. During fiscal year 2023 and 2022, NCRR Invests conveyed approximately 1,250 acres of land in northern Randolph County to Toyota as part of an economic development project. The loss on the property contributed to the project totaled $1.3 million and $26.0 million in 2023 and 2022, respectively, and is reported as "Project contributions" within "Other income (loss), net" on the accompanying consolidated statements of operations and comprehensive income. NCRR Invests expenditures that are not i) spent on NCRR property or ii) for the acquisition of NCRR owned assets, are expensed as incurred and are reported as "Economic development" expenses on the accompanying consolidated statements of operations and comprehensive income.

7. Employee Benefit Plan and Deferred Compensation

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, including discretionary contributions, for the years ended December 31, 2023 and 2022 were $225,586 and $202,465, respectively.

North Carolina Railroad Company and Subsidiaries

Notes to Consolidated Financial Statements

8. 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 in May 2020, July 2021 and June 2023 with a maturity date of July 2028. The line of credit has a variable interest rate of the one-month TERM SOFR plus a 0.85% margin and is unsecured. There was no outstanding balance as of December 31, 2023 and 2022. 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, 2023.

9. 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 5, comprises 70% of the lease income during the years ended December 31, 2023 and 2022. Rental income from this lease during 2023 and 2022 was approximately $17.7 million and $16.9 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 as of December 31, 2023:

Year ending December 31,	**Amount**
2024	**$ 22,298,865**
2025	**23,078,712**
2026	**23,838,403**
2027	**24,693,595**
2028	**25,439,058**
Thereafter	**134,546,486**
Total	**$ 253,895,119**

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 during the years ended December 31, 2023 and 2022.

10. 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 recognized unearned rent liability as follows as of:

December 31,	**2023**	2022
Current portion	$ **200,455**	$ 200,455
Non-current portion	**9,220,909**	9,421,363
Total unearned rent liability	$ **9,421,364**	$ 9,621,818

11. Income Taxes

The Company's loss before income taxes was as follows:

Years ended December 31,	**2023**	2022
Income (loss) before income taxes:		
Nontaxable entities	$ **(453,773)**	$ (57,533,537)
Taxable entity	**498,094**	508,857
Income (loss) before income taxes	$ **44,321**	$ (57,024,680)

The difference between the federal income tax computed by the statutory federal income tax rate of 21% and NCRI's income tax expense as reflected in the consolidated financial statements was as follows:

Years ended December 31,	**2023**	2022
Income tax at statutory federal income tax rates	$ **136,601**	$ 130,356
Decrease attributable to:		
State income tax, net of federal income tax benefit	**(20,775)**	(7,949)
Other	**(3,522)**	(2,226)
Total	$ **112,304**	$ 120,181

The Company's taxable subsidiary, NCRI, has deferred income tax balances as follows at:

December 31,	**2023**	2022
Asset:		
Allowances	$ **15,087**	$ -
Liability:		
Property and equipment	**(445,516)**	(471,405)
Net deferred tax liability	$ **(430,429)**	$ (471,405)

The Company's total tax expense is summarized as follows:

Years ended December 31,	**2023**	2022
Current income tax expense	$ **153,280**	$ 146,071
Deferred income tax benefit	**(40,976)**	(25,890)
Total income tax expense	$ **112,304**	$ 120,181

12. 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 consolidated balance sheets and results of operations and comprehensive income.

13. Subsequent Events

The Company has evaluated subsequent events and their potential effects on the accompanying consolidated financial statements from December 31, 2023 (the date of the most recent consolidated balance sheet presented) through May 15, 2024 (the date the accompanying consolidated financial statements were available to be issued). No material recognizable events were identified.

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With over 175 years of rail expertise, we know what it takes to keep things moving. As we continue to push forward, forging new partnerships, investing in our state, and supporting our industry, our era of progress will be defined by our world-class rail expertise, strategic connections, and creative business solutions. Like the trains in our corridor that charge forth, we too, are Forever In Motion.

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