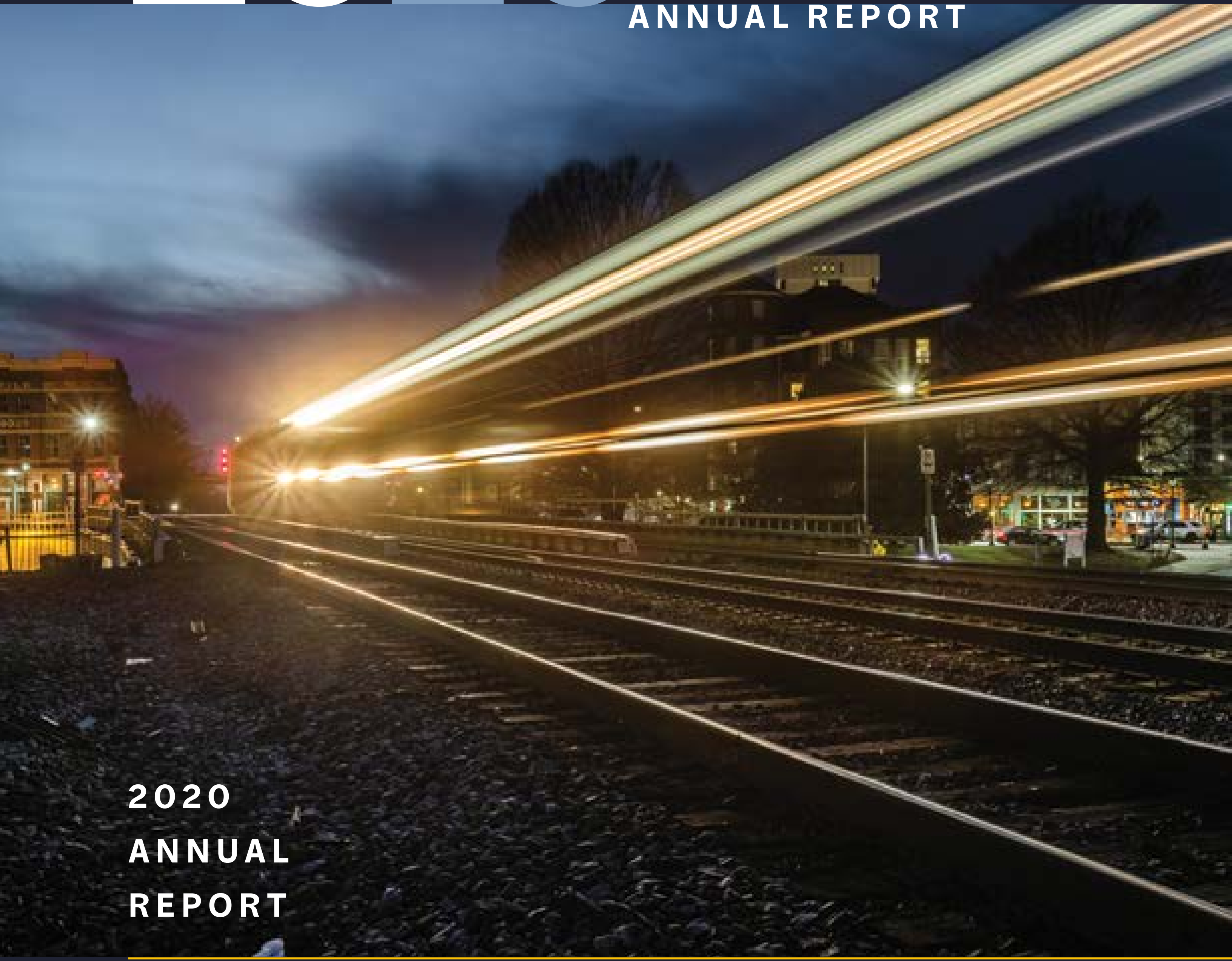
2020 ANNUAL REPORT



2020
ANNUAL
REPORT

NORTH
CAROLINA
RAILROAD
COMPANY

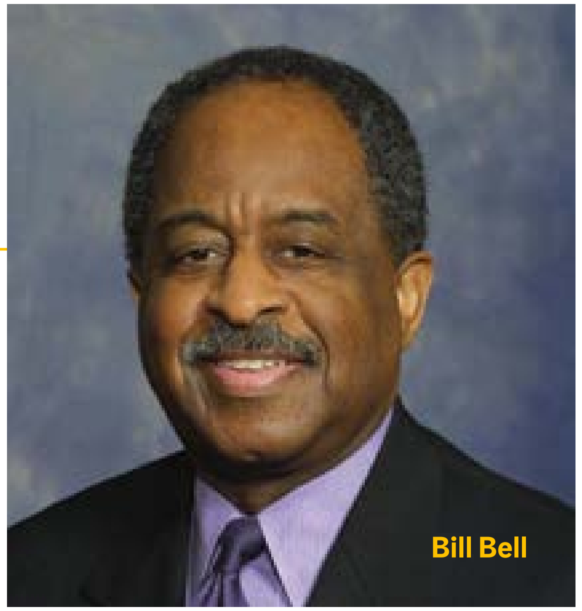
NORTH CAROLINA RAILROAD COMPANY

LETTER FROM THE CHAIRMAN

ON BEHALF OF THE BOARD OF DIRECTORS AND STAFF OF THE NCRR, I AM PLEASED TO SAY THAT 2020 WAS A YEAR OF TRANSITION FOR THE NORTH CAROLINA RAILROAD COMPANY. The Company welcomed a new President and CEO, Carl Warren. Carl brings a wealth of expertise from the railroad industry as well as a passion for economic development. He will build on the historic foundation of the North Carolina Railroad Company and leverage this important asset to take the Company even further.

Through our economic development initiative, NCRR Invests, we continued to assist in the recruitment and retention of major rail-served employers who are making considerable investments in the state. We began planning for a new round of infrastructure investment projects that will allow for increased capacity on the portion of our line stretching from Greensboro to Raleigh. We also welcomed new staff members to the Company who bring diverse skill sets and experiences to the team.

As we celebrate the successes of 2020 and begin working toward the goals of 2021, the Company will continue to be a proactive partner, committed to ensuring NCRR delivers on its vision to continually expand economic opportunities across the state for North Carolinians.



William V. "Bill" Bell

Chairman
North Carolina Railroad Company
Board of Directors

INTERVIEW WITH CARL WARREN

In 2020, the North Carolina Railroad Company announced Carl Warren as its new President and CEO. Warren joined the company from Class I freight railroad, CSX.

During his tenure at CSX, Warren led teams focused on industrial, port and commercial development throughout the CSX system across 23 states and two Canadian provinces. His most recent role focused on driving growth to CSX by aligning business development efforts around short lines, port authorities, site selection consultants and new customers. He also has diverse public and private sector experience from previous assignments at the Port of Portland, Oregon and BNSF Railway, in real estate, operations planning, sales and marketing, and port development.

Carl Warren

YOU JOINED NCRR IN AUGUST 2020. HOW HAS YOUR PREVIOUS EXPERIENCE EQUIPPED YOU TO LEAD NCRR?

I'm very fortunate that over the last 20 years or so I've had the experience of working for two major Class I railroads. I've been in a leadership role at a major port authority and in the process of working through these roles, I've developed a strong understanding of how railroads function, their economic drivers, and the interface between a railroad and a state, as well as how railroads can influence and impact economic development, industry location and passenger rail service. Over my career I've worked on things that touch all these areas, so when I was contacted by the recruiter and learned what NCRR was looking for, I thought it would be fantastic to bring together all these elements to shape the future of NCRR.

LOOKING AHEAD, WHAT DO YOU SEE AS NCRR'S BIGGEST OPPORTUNITIES, AND HOW DO YOU SEE THE COMPANY PURSUING THESE OPPORTUNITIES?

I think NCRR has several opportunities in economic development with programs like NCRR Invests and Build Ready Sites. Through these programs, I see the company enlisting other partners and acting as a catalyst for getting rail sites ready for market to create more jobs and attract investment. Our programs afford us the opportunity to make strategic investments in rail-served industrial sites as well as educate site selectors and potential rail customers about the advantages of locating and growing their rail served businesses in North Carolina. With the right focus, I believe we can do this better than any other State, and our company can make a greater difference.

I also see NCRR being more thoughtful about the use of its assets, especially the rail. I think if we can do that well, we will be more effective in enabling economic development and improving the rail system overall.

NCRR WORKS CLOSELY WITH COMMUNITIES ALONG THE LINE, WITH THE ECONOMIC DEVELOPMENT ORGANIZATIONS ACROSS THE STATE, WITH NCDOT AND TRANSIT PARTNERS LIKE GOTRIANGLE, AND CATS BASED IN CHARLOTTE. DISCUSS THE IMPORTANCE OF PARTNERSHIP.

The successes I've witnessed over my career typically have resulted from a willingness to find common ground and find a way for all the players at the table to get something worthwhile out of it. Lopsided win-lose deals are the easy way out. To move beyond that, we must be willing to believe that shared gains create a better overall outcome.

I saw this early in my career when I was part of an effort that helped more than 20 political jurisdictions, three ports and two Class I railroads figure out how to develop a comprehensive grade separation program that met the needs of a region. When I was at CSX, I saw it again when we implemented the National Gateway clearance project and removed more than 60 overhead obstructions across six states, enabling double stack rail service to the Midwest.

At NCRR, we have partnered to help create an industry-leading property at the Greensboro-Randolph Megasite and embedded the concept of shared gains in all our economic development programs. I am confident that as we work on freight and passenger mobility in North Carolina, we will apply the same principles going forward.

NCRR WAS CHARTERED MORE THAN 170 YEARS AGO FOR THE PURPOSE OF INCREASING ECONOMIC DEVELOPMENT ACROSS THE STATE. HOW DO YOU SEE THE COMPANY FULFILLING THIS MISSION WITH A MODERN OUTLOOK?

In a lot of ways, the fundamentals are not that different than they were 170 years ago. North Carolinians needed to ship and receive products and raw materials and enjoy the improved mobility that rail offered relative to the other alternatives in the marketplace.

When I look at where we are today, we are in a much more interconnected space with intense pressure on land use and development, as well as continued competition for jobs and investment across state lines. When NCRR was built, it was a better choice than relying on horse carriages. Now the railroad is surrounded by interstate highways and must prove its value for moving passengers and freight.

I think we can continue to do some basic things – we must protect the corridor – or it will be consumed by the frenetic activity around it – but we must also see it for what it is – which is truly a platform for growth.

NCRR is a spine for the movement of people between Charlotte and Raleigh, but it will also enable regional transportation around places like Raleigh and Charlotte by providing a new option for regional connectivity with commuter rail development that could link the prosperity of urban and rural parts of the state.

By investing in the railroad itself, we create capacity that allows rail centered commodities like chemicals, ethanol, fertilizer, feed grains, lumber and stone to keep moving, connecting our North Carolina businesses with markets all over North America, and bringing in the materials we need to continue development in our state.

Finally, the foundation for making a difference resides in managing our assets wisely so they generate returns that enhance our ability to invest in our state. Doing that allows us to expand economic development across the state, enabling even greater long-term investments in North Carolina as well as increased job growth, while also fortifying the state's competitive advantage in the recruitment of rail-served companies.

BUILD-READY SITES


Nestle Purina site in Rockinham County

BUILD READY SITES ARE A CATALYST FOR ECONOMIC GROWTH

North Carolina has more than 3,000 miles of railroad served by two Class I rail carriers and more than 20 short lines. This network links North Carolina shippers and receivers to markets throughout North America and across the globe with freight rail and intermodal services.

The North Carolina Railroad Company (NCRR) has invested for years in the success of the freight rail network to attract investment and create jobs, reinforcing and building on the value of rail served industry to the economy of North Carolina. Now NCRR is taking its investment in North Carolina to the next level with its newest program – Build Ready Sites.

"One of the major roadblocks to economic development in North Carolina and across the U.S. is the availability of sites that are ready for development," says Anna Lea Moore, NCRR Vice President of Economic Development. "As our world continues to innovate, speed-to-market for products is a manufacturer's central focus and thus, the critical construction timeline at a new location is completely dependent upon a site's development-readiness. Our goal is to ensure that North Carolina has a healthy inventory of available rail-served sites positioned to meet the stringent timeline and development requirements of new and expanding clients by significantly reducing the development risk."

Through Build Ready Sites, NCRR will partner with communities, railroads and other economic development allies across the state to provide matching funds for site needs, acting as a catalyst to advance more rail-served sites to a development-ready position. The objective is to remove barriers and improve the time-to-construction predictability around land that could be developed by a manufacturer or rail-served employer in 18 months or less.

"A lack of development-ready sites has forced some companies to eliminate North Carolina from their search," says Moore. "If North Carolina doesn't have what companies are looking for – sites that can be ready to go in 18 months or less – we cannot get clients to visit this great State and all it has to offer. Most of our competitor states offer resources for this challenge. NCRR sees an opportunity to fill a gap where there is a distinct need."

"To be a contender in today's competitive landscape, communities must have an inventory of ready sites, primed and on hand for prospects. At Global Location Strategies (GLS), we are witnessing an unprecedented client demand for speed-to-market never seen before," says Sarah White, Principal at GLS. "Historically, over half of our projects have preferred or required direct rail access, further solidifying the need for available, rail-served sites. The Build Ready Sites program will be a pivotal tool to help alleviate communities' infrastructure costs and schedule risks, providing a competitive edge to North Carolina."

The Build Ready Sites initiative will target rail-served sites ranging in size from 50-100 acres. Proposals from both rural and economically distressed communities as well as sites with demonstrated community backing and support from infrastructure partners, such as railroads and utility providers, will be prioritized. Another key consideration will be the degree to which NCRR's funding makes an impact on the overall development goals for the site. Examples of eligible funding uses include land preparation such as clearing or grading, utility extensions, access roads and construction of speculative buildings.

Like NCRR Invests, a state-wide rail infrastructure investment program launched by NCRR in 2016, Build Ready Sites has the potential to be a game changer in advancing N.C.'s competitive position.

"To our knowledge there is no other entity in the country focusing on the development-readiness and marketing of a single state's rail-served buildings and sites," says Moore. "While North Carolina has many effective economic development tools, there is a substantial lack of funding and resources available to assist communities in their site development efforts, and that's why NCRR is stepping into this space with this new program. By working with communities to enhance their efforts to get these sites to that sought-after construction-ready position, North Carolina will be distinctly more competitive in the recruitment of the jobs created by rail-served companies."

NCRR INVESTS


Charlotte Pipe and Foundry site in Stanly County

PARTNERS FOR SUCCESS

In 2020, two significant rail-served employers announced they would be building manufacturing facilities in North Carolina – a total capital investment of nearly $800 million by the companies.

Rather than relocate from Charlotte to a competing state, NCRR helped ensure that Charlotte Pipe kept its operation in North Carolina at a new site in Stanly County.

The North Carolina-based manufacturer and distributor of cast iron and plastic pipe fittings has seven production facilities across the U.S. Charlotte Pipe and Foundry will invest a minimum of $325 million to construct a new, state-of-the-art manufacturing facility at a site in Oakboro. The company will continue to employ 1,050 in Mecklenburg, Union, and Stanly counties, with 400 of those employees relocating to the new Oakboro, NC facility.

The North Carolina Railroad Company (NCRR) is investing approximately $1.5 million to assist Charlotte Pipe and Foundry with the construction of a railroad industrial lead track as well as related infrastructure required for the company's operations. The plant will be served by the Aberdeen, Carolina and Western Railroad, which offers access to both Norfolk Southern and CSX.

NCRR is also one of several partners that assisted in the recruitment of Nestlè Purina Petcare Company (Purina). Purina decided to take advantage of an abundant local manufacturing workforce and will repurpose a former Miller-Coors manufacturing facility in Rockingham County. Purina will make an investment of at least $450 million and create 300 jobs.

Purina requires freight rail service at the new facility. NCRR is investing approximately $1.9 million in a partnership with Class I freight provider Norfolk Southern to return an existing rail line to service, which will re-establish the Eden-area's connection to rail networks throughout North America. Restoration of service also creates the opportunity for companies located along the line to take advantage of this restored rail service and connects available industrial land sites to rail, enabling them to be marketed to rail-served manufacturers.

Continued on the next page.

NCRR INVESTS, *Continued*

"These two investments are the result of strong partnerships," says NCRR President and CEO, Carl Warren. "With Charlotte Pipe, we helped keep a North Carolina company in the state with the right freight rail infrastructure at a great new site. Aligning the company with short line ACWR is good for a homegrown short line and it gives the customer the option of using both CSX and NS, enhancing its sourcing options for rail transportation."

"The recruitment of an employer like Nestlè Purina is also a considerable victory for our State and Rockingham County. To help bring new life to the Miller-Coors site and put more sites back into play with rail in Rockingham County with restored rail access during a pandemic is significant. These projects required collaboration at all levels, and NCRR is proud to be a part of the picture."

PARTNER PERSPECTIVES

"The NCDOT Rail Division truly appreciates its relationship with the North Carolina Railroad Company. Our long-standing partnership has helped contribute to significant improvements to rail transportation and safety along the critically important NCRR corridor. We look forward to continuing this work together on transformative developments for the safe mobility of our citizens and movement of freight on rail."

JASON ORTHNER, Director, Rail Division
North Carolina Department of Transportation

"Eight years ago, Randolph county and Joseph M. Bryan Foundation joined together to develop a megasite for the purpose of attracting a large, advanced manufacturing facility. Shortly thereafter, the North Carolina Railroad joined our efforts. Their participation has been magnificent. The staff of the North Carolina Railroad is very talented and efficient. They have a very "can-do" attitude. With their help, we have accumulated a great 1825-acre site in Randolph County. Our partnership which includes Randolph County, the Bryan Foundation and the North Carolina Railroad is very unique."

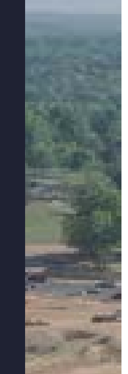
JIM MELVIN, President
The Joseph M. Bryan Foundation of Greater Greensboro

"The North Carolina Railroad is a truly unique resource that we're all fortunate to have as a partner in the state's economic development efforts. Whether helping communities develop potential rail-served industrial sites or teaming up with them to work active recruitment and expansion opportunities, NCRR gives North Carolina a distinct advantage in the intense competition for new jobs and investment."

CHRISTOPHER CHUNG, CEO
Economic Development Partnership of North Carolina

"The North Carolina Railroad is a key strategic partner with GoTriangle in developing new transit alternatives for residents living in Wake, Durham and Johnston counties. NCRR's willingness to assist with a commuter rail study within their corridor demonstrates how the value of this state-owned asset can be maximized to serve the region's freight and mobility needs. We look forward to working with the great team at NCRR to complete our study and building a new rail-based transit network that will ensure the economic success of the Triangle region."

CHARLES E. LATTUCA, President & CEO
GoTriangle



INFRASTRUCTURE INVESTMENT PLAN TARGETS GREENSBORO TO RALEIGH

The North Carolina Railroad is about to embark on a new infrastructure investment plan, and Vice President of Engineering, Donald Arant, says the timing couldn't be better.

The investment plan, totaling $18.1 million, is primarily targeting the portion of the railroad corridor that runs between Greensboro and Raleigh. In 2017, the North Carolina Department of Transportation's Rail Division and NCRR partnered on the Piedmont Improvement Program, which resulted in double tracking the railroad from Greensboro to Charlotte as well as adding passing sidings and removing at-grade crossings at various locations between Greensboro and Raleigh.

The new investment plan proposed by NCRR will provide more operational capacity between Greensboro and Raleigh, allowing opportunities for higher passenger train speeds and more predictable transit times. NCRR will partner with NCDOT's rail division on a study of the line between Raleigh and Greensboro. Together, they will identify a priority list of specific infrastructure improvements that will help increase train speeds and reduce overall travel time while increasing capacity on the line.

NCRR has already identified two projects it plans to initiate in 2021. The first is a curve straightening project in Hillsborough which will allow a speed increase for passenger trains from 45 to 65 miles-per-hour. The curve improvement will also increase sight distance for train crews, enhancing safety. The second project involves extending a second main track from Morrisville, east toward Cary — a carefully targeted improvement spanning up to six miles that will enable two trains to pass each other without having to stop.

"As we continue to see increased needs for travel connectivity options, this is the right time to begin these projects," says Arant.

The study in collaboration with NCDOT's Rail Division will be complete in 2021. The other projects will be initiated this year with construction at least two to three years out given the scale of the projects.

"All of these projects require significant collaboration," says Arant. "We are looking forward to working with NCDOT and Norfolk Southern as we make significant improvements that decrease travel times, improve capacity opportunities and enhance safety on a key route for both freight and passenger service."

The NCRR corridor is resilient and in sound condition, but we need to do more to be ready for the future. It's the best it's been in at least 60 years, and we are effectively meeting the needs of freight service along the line, but expected population increases and industrial activity in the future mean we must be prepared for growth while supporting both freight and passenger service on the railroad.

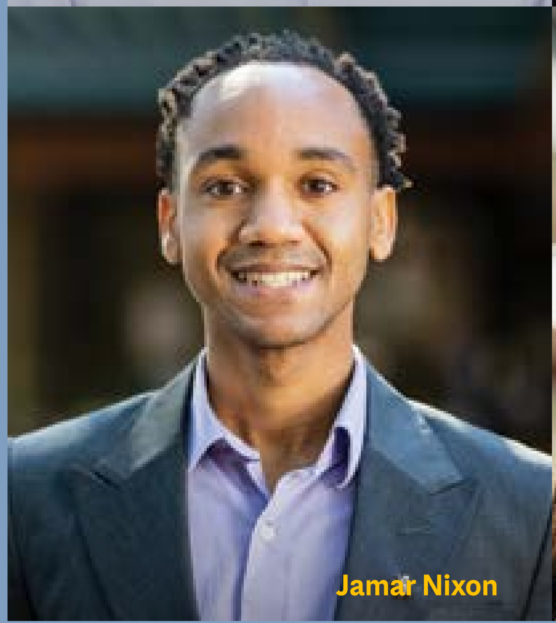
- **DONALD ARANT**, NCRR VP of Engineering

Crabtree Creek Bridge, Morrisville, NC. The Crabtree Creek Bridge replacement project, completed in 2020, allows for a future second track to accommodate added freight service as well as future passenger or commuter rail.

STAFF & LEADERSHIP UPDATES

We really are transitioning this company to a culture of excellence where we keep raising the bar, we keep challenging ourselves, and we keep asking ourselves what more we can learn and accomplish. The NCRR staff delivers a valuable combination of expertise and a desire to exceed expectations. I'm thrilled with our new team members and the diverse set of experiences and perspectives they are contributing to help the company achieve its goals and keep moving forward.

- **CARL WARREN**, President and CEO, NCRR



THE NORTH CAROLINA RAILROAD COMPANY WELCOMED TWO NEW MEMBERS TO ITS BOARD OF DIRECTORS.

MICHAEL S. FOX was appointed to the North Carolina Railroad Company Board of Directors by Governor Roy Cooper. Fox is fulfilling the remainder of the unexpired term previously held by Nina Schlosberg-Landis. Fox, a Greensboro resident, is a partner at Tuggle Duggins, P.A., and is currently Chairman of the North Carolina Board of Transportation.

JORDAN WHICHARD is representing the North Carolina Department of Commerce on the NCRR Board of Directors and was designated by Commerce Secretary, Machelle Sanders. Whichard is Chief Deputy Secretary at the Department of Commerce. Whichard is a resident of Raleigh and previously served as Director of Intergovernmental Affairs for Governor Roy Cooper.

NEW FACES AND NEW POSITIONS ENABLE NCRR TO WORK TOWARD VISION

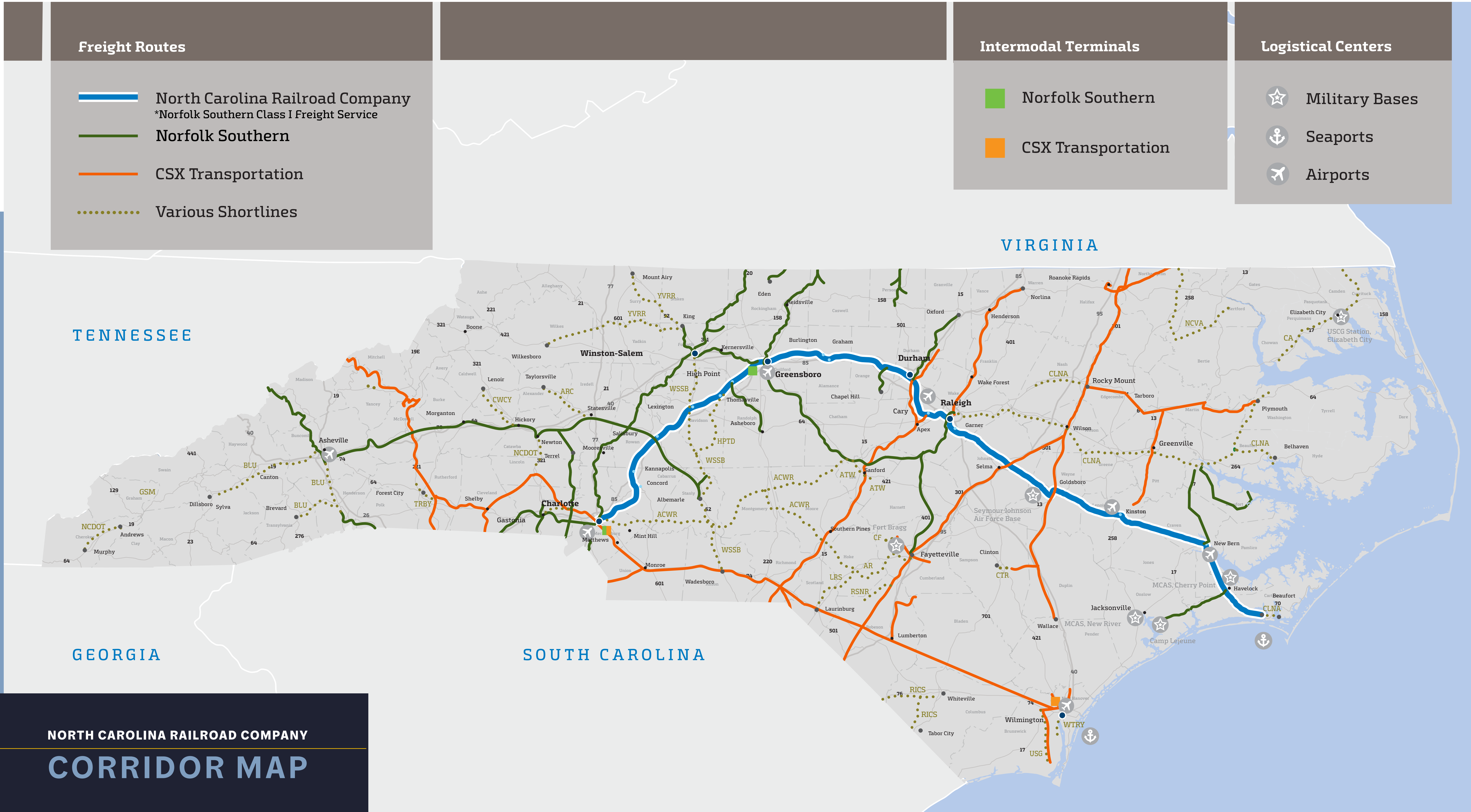
2020 and early 2021 brought new staff members to NCRR as well as some restructuring to better align the Company to meet key goals.

The North Carolina Railroad Company (NCRR) welcomed **EDWARD WU** as the new Director of Engineering, **TERESA STERLING** as the new Controller, **SUSAN WISNIEWSKI** as the new Accounting Manager, **JAMAR NIXON** as the new Real Estate Representative, and **ABBEY THAYER** as the new Real Estate Project Coordinator.

Longtime employee **CATHERINE KNUDSON** was promoted to Director of Planning and Information Management, a leadership role involving strategic plan development and implementation as well as records and information management, which includes the Department of Archives and Geographic Information Systems.

NORTH CAROLINA RAILROAD COMPANY

CORRIDOR MAP



BOARD OF DIRECTORS

WILLIAM V. "BILL" BELL
Chairman
Durham
Executive Vice President/COO, UDI Community Development Corporation (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

MICHAEL S. FOX
Greensboro
Partner, Tuggle Duggins, P.A.

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

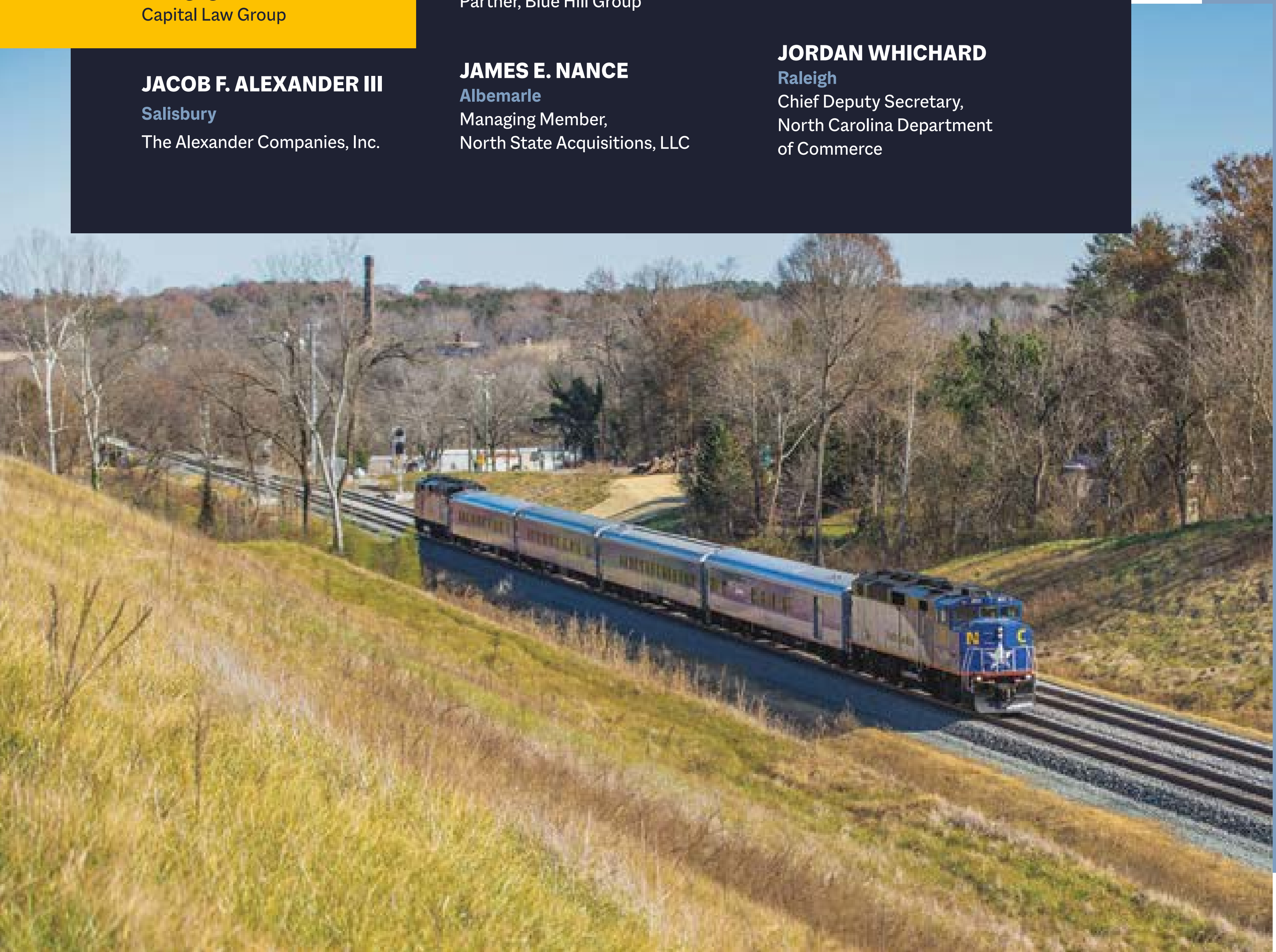
JOHN M. PIKE
Goldsboro
CEO, Goldsboro Milling Company

GEORGE ROUNTREE III
Wilmington
Attorney & Special Counsel Rountree Losee, LLP

FRANKLIN ROUSE
Leland
President, Rouse Insurance Agency, Inc.

MICHAEL WALTERS
Fairmont
President, Claybourn Walters Logging Co., Inc.

JORDAN WHICHARD
Raleigh
Chief Deputy Secretary, North Carolina Department of Commerce



NCRR MANAGEMENT

PRESIDENT
CARL WARREN, President & CEO

GENERAL COUNSEL
ROBERT DOBRONSKI, General Counsel

ACCOUNTING AND FINANCE
MICHELLE JENG, CFO
TERESA STERLING, Controller
NANCY D. PICKETT, Office Manager
SUSAN WISNIEWSKI, Accounting Manager
DAVINA KILLINGSWORTH, Administrative Assistant

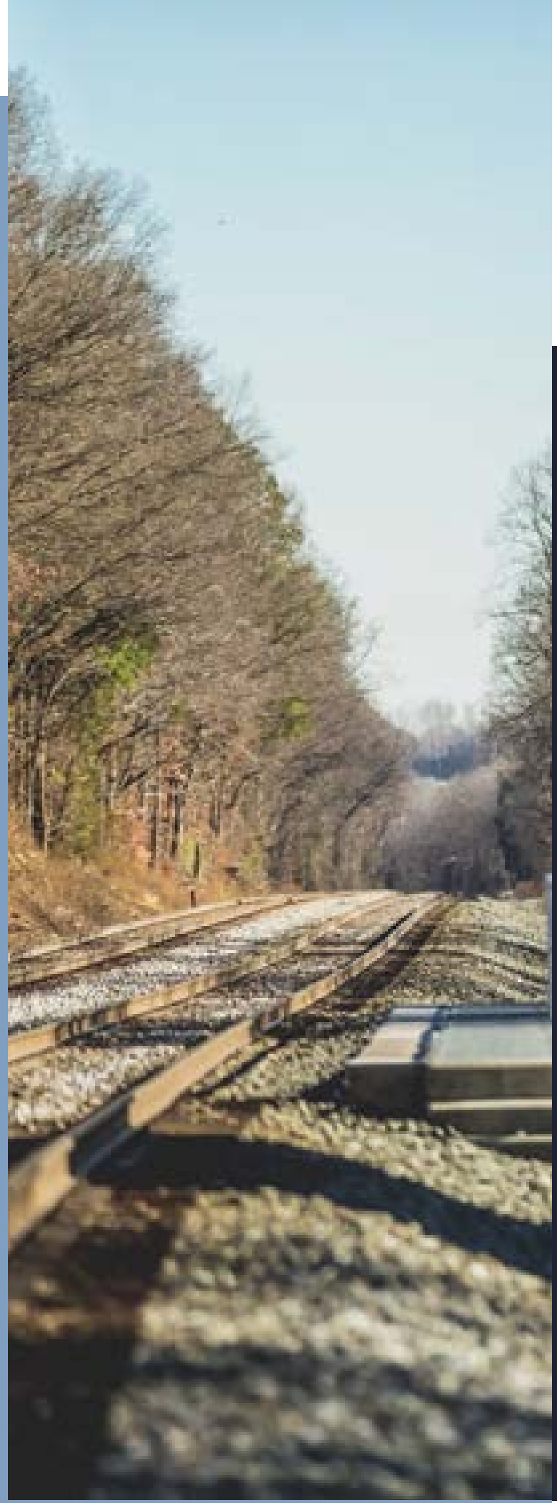
CORPORATE COMMUNICATIONS
MEGEN HOENK, Director of Corporate Communications

PLANNING & INFORMATION MANAGEMENT
CATHERINE KNUDSON, Director of Planning & Information Management
KRISTIAN FORSLIN, GISP, PLS, GIS and Survey Manager
HILARY KANUPP, C.A., Archivist
MONIQUE BOOKER, Administrative Assistant

ENGINEERING
DONALD H. ARANT, P.E., Vice President, Engineering
JUSTIN MADIGAN, Infrastructure Manager
EDWARD WU, Director of Engineering

ECONOMIC DEVELOPMENT
ANNA LEA MOORE, Vice President, Economic Development
EMILY COX, Strategic & Economic Development Projects Manager
CONNOR CHRISTENSEN, Economic Development Coordinator

PROPERTY DEPARTMENT
AMY SANDIDGE, Corridor Manager
TAELOR FIELDS, Facilities Manager
JAMAR NIXON, Real Estate Representative
ABBEY THAYER, Real Estate Project Coordinator



NORTH CAROLINA RAILROAD COMPANY

North Carolina Railroad Company and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

DHG is registered in the U.S. Patent and Trademark Office to Dixon Hughes Goodman LLP.

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Independent Auditors' Report

Directors and Stockholder
North Carolina Railroad Company and Subsidiaries
Raleigh, NC

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, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, 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.

DHG

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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, NC
June 11, 2021

North Carolina Railroad Company and Subsidiaries
Consolidated Balance Sheets
December 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ **14,892,467**	$ 9,009,528
Certificate of deposit	**4,071,263**	4,016,888
Accounts receivable, net of allowance for doubtful accounts of $125,039 and $135,272 for 2020 and 2019	**728,221**	442,549
Prepaid expenses	**105,570**	82,616
Total current assets	**19,797,521**	13,551,581
Property and equipment:		
Roadway and land	**7,848,742**	7,848,742
Tracks, signals and bridges	**400,539,314**	400,539,314
Land	**36,144,886**	36,144,886
Buildings and improvements	**19,402,914**	19,387,918
Equipment and furniture	**3,524,326**	3,158,788
Construction in progress	**10,658,675**	7,254,329
	478,118,857	474,333,977
Less accumulated depreciation	**224,553,270**	196,496,026
Property and equipment, net	**253,565,587**	277,837,951
Other assets:		
Investments reserved for capital projects	**108,457,061**	91,779,218
Long-term receivables	**3,577,166**	4,013,429
Other	**85,260**	6,165
Total other assets	**112,119,487**	95,798,812
Total assets	$ **385,482,595**	$ 387,188,344

North Carolina Railroad Company and Subsidiaries
Consolidated Balance Sheets
December 31, 2020 and 2019

(Continued)

	2020	2019
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$ 8,392,119**	$ 3,723,127
Current portion of unearned rent	**200,455**	200,455
Total current liabilities	**8,592,574**	3,923,582
Long-term liabilities:		
Other liabilities	**57,860**	522,204
Deferred tax liability	**510,000**	546,000
Unearned rent, less current portion	**9,822,272**	10,022,726
Total long-term liabilities	**10,390,132**	11,090,930
Total liabilities	**18,982,706**	15,014,512
Stockholder's equity:		
Common stock, $0.50 par value; 10,000,000 shares authorized; 317 shares issued and outstanding	**159**	159
Additional paid-in capital	**462,774,353**	462,774,353
Accumulated deficit	**(97,221,577)**	(91,050,738)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	**946,954**	450,058
Total stockholder's equity	**366,499,889**	372,173,832
Total liabilites and stockholder's equity	**$ 385,482,595**	$ 387,188,344

North Carolina Railroad Company and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income
Years Ended December 31, 2020 and 2019

	2020	2019
Income:		
Lease of roadway and land	**$ 16,448,559**	$ 16,080,320
Other lease income	**6,413,521**	5,937,485
Total lease income	**22,862,080**	22,017,805
Expenses:		
Wages and benefits	**3,379,727**	3,302,033
Professional fees	**718,195**	795,452
Contracted services	**550,226**	382,512
Franchise and property taxes	**950,957**	934,221
Insurance	**282,897**	275,474
Reporting and public relations	**68,148**	195,982
Depreciation	**28,057,243**	30,812,867
Engineering, surveying and mapping	**122,658**	280,064
Property and corridor management	**582,001**	1,098,520
Bad debts	**12,198**	75,622
General and administrative	**1,120,382**	1,092,207
Economic development	**400,000**	1,177,587
Total expenses	**36,244,632**	40,422,541
Operating loss	**(13,382,552)**	(18,404,736)
Other income (loss):		
Investment income, net of expenses	**8,171,376**	10,296,695
Unrealized gain (loss) on marketable equity securities	**3,215,008**	(33,885)
Other income	**854,023**	1,817,958
Project contributions	**(5,000,000)**	(2,372,000)
Total other income	**7,240,407**	9,708,768
Loss before income taxes	**(6,142,145)**	(8,695,968)
Income tax expense	**28,694**	102,720
Net loss	**$ (6,170,839)**	$ (8,798,688)
Other comprehensive income:		
Unrealized gains on securities:		
Unrealized holding gains arising during the period	**$ 787,838**	$ 1,663,282
Reclassification adjustments for unrealized holding gains included in net loss	**(290,942)**	(807,062)
Other comprehensive income	**496,896**	856,220
Comprehensive loss	**$ (5,673,943)**	$ (7,942,468)

North Carolina Railroad Company and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2020 and 2019

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholder's Equity
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
Net loss and other comprehensive income	-	-	(6,170,839)	496,896	(5,673,943)
Balance, December 31, 2020	$ 159	$ 462,774,353	$ (97,221,577)	$ 946,954	$ 366,499,889

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net loss	$ (6,170,839)	$ (8,798,688)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for bad debts	12,198	75,622
Depreciation	28,057,243	30,812,867
Deferred income tax benefit	(36,000)	(21,000)
Income from investments reserved for capital projects	(11,180,444)	(10,119,827)
Changes in operating assets and liabilities:		
Accounts receivable	(297,870)	(331,465)
Long-term receivable	436,263	(1,119,115)
Prepaid expenses	(22,954)	(46,258)
Other assets	(79,095)	(350)
Accounts payable and accrued expenses	5,031,283	(638,675)
Unearned revenues	(200,454)	(280,061)
Other liabilities	(464,344)	129,867
Net cash provided by operating activities	15,084,987	9,662,917
Cash flows from investing activities:		
Purchase of property and equipment	(4,147,170)	(5,921,810)
Purchase of certificate of deposit, net	(54,375)	(4,016,888)
Transfer of unrestricted cash and cash equivalents to investments reserved for capital projects	(5,000,000)	-
Transfers of investments reserved for capital projects to cash, cash equivalents, restricted cash for capital expenditures	-	5,336,296
Net cash used in investing activities	(9,201,545)	(4,602,402)
Cash flows from financing activities:		
Payment of dividend	-	(3,945,123)
Net cash used in financing activities	-	(3,945,123)
Net increase in cash, cash equivalents, and restricted cash	5,883,442	1,115,392
Cash, cash equivalents, and restricted cash at beginning of year	9,167,099	8,051,707
Cash, cash equivalents, and restricted cash at end of year	$ 15,050,541	$ 9,167,099
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 94,535	$ 146,500
Supplemental schedule of noncash investing and financing activities:		
Property and equipment purchases in accounts payable	$ 2,009,119	$ 2,371,410
Cumulative effect of adoption of ASU 2016-01	$ -	$ 2,200,124

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, (“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. 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, 2020 and 2019 is as follows:

	2020	2019
Cash and cash equivalents	**$ 14,892,467**	$ 9,009,528
Restricted cash in investments reserved for capital projects	**158,074**	157,571
Total cash, cash equivalents, and restricted cash	**$ 15,050,541**	$ 9,167,099

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, 2020, 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 $37,715 and $68,808 in advertising costs in 2020 and 2019, respectively.

Income Taxes

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

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

Recently Issued Accounting Standards Not Yet Adopted

ASU 2016-02: *Leases*

In February 2016, the FASB issued Accounting Standards Updated ("ASU") No. 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 income statement 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. Extensive quantitative and qualitative disclosures will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The new standard was originally effective January 1, 2021 for the Company. In June 2020, the FASB issued ASU No. 2020-05, *Revenue From Contracts With Customers (Topic 606) And Leases (Topic 842): Effective Dates For Certain Entities*, which allows certain entities to defer the effective date of Topic 842 by one year. The Company has elected to defer the effective date of Topic 842 to January 1, 2022. The Company is currently evaluating the impact 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, 2020 and 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Mutual Funds:				
Equity securities	$ 41,919,970	$ 4,481,819	$ -	$ 46,801,789
Fixed income	22,720,519	502,673	3,245	23,219,947
	$ 64,640,489	$ 5,384,492	$ 3,245	$ 70,021,736
Available for Sale:				
U.S. Government and federal agencies	$ 20,008,051	$ 278,301	$ 6,670	$ 20,279,682
Mortgage backed securities	2,294,272	123,889	1,629	2,416,532
Collateralized mortgage obligations	4,115,481	185,108	2,581	4,298,008
Corporate debt securities	8,529,309	344,275	518	8,873,066
Foreign bonds	906,967	21,703	-	928,670
	$ 35,854,080	$ 953,276	$ 11,398	$ 36,795,958

	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

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 $1,481,293 and $1,463,627 at December 31, 2020 and 2019, respectively. Investments reserved for capital projects also include restricted cash totaling $158,074 and $157,571 at December 31, 2020 and 2019, respectively. Investment management fees, totaling $182,523 and $162,553, respectively, in 2020 and 2019, are netted against investment income.

The Company received total gross proceeds of $71,130,071 on the sale of securities and purchased $79,684,391 of securities during the year ended December 31, 2020. 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 recognized a gross realized gain of $5,672,188 and gross realized gain of $7,414,515 during the years ended December 31, 2020 and 2019, 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. The Company records gains and losses in the Consolidated Statements of Operations when the mutual funds are 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 on available for sale securities in the amount of $787,838 and $1,663,282 has been included in accumulated other comprehensive income during the year ended December 31, 2020 and 2019, 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, 2020 and 2019 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.

North Carolina Railroad Company and Subsidiaries
Notes to Consolidated Financial Statements

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2020						
Mortgage backed securities	**$ -**	**$ -**	**$ 209,180**	**$ 1,629**	**$ 209,180**	**$ 1,629**
Collateralized mortgage obligations	**-**	**-**	**167,433**	**2,581**	**167,433**	**2,581**
U.S. Government and federal agencies	**3,648,927**	**6,670**	**-**	**-**	**3,648,927**	**6,670**
Corporate debt securities	**263,957**	**518**	**-**	**-**	**263,957**	**518**
Total	**$ 3,912,884**	**$ 7,188**	**$ 376,613**	**$ 4,210**	**$ 4,289,471**	**$ 11,398**

	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

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, 2020 and 2019 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, 2020	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	**$ 46,801,789**	**$ 46,801,789**	**$ -**	**$ -**
Fixed income	**23,219,947**	**23,219,947**	**-**	**-**
Available for sale:				
U.S Government and federal agencies	**20,279,682**	**-**	**20,279,682**	**-**
Mortgage backed securities	**2,416,532**	**-**	**2,416,532**	**-**
Collateralized mortgage obligations	**4,298,008**	**-**	**4,298,008**	**-**
Corporate debt securities	**8,873,066**	**-**	**8,873,066**	**-**
Foreign bonds	**928,670**	**-**	**928,670**	**-**
	$106,817,694	**$ 70,021,736**	**$ 36,795,958**	**$ -**

	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	$ -

The amortized cost and fair values of available for sale securities at December 31, 2020 and 2019 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, 2020		
Available for sale:		
Due within one year	**$ 1,767,914**	**$ 1,789,282**
Due after one year through five years	**29,895,555**	**30,544,014**
Due after five years through ten years	**3,560,563**	**3,809,811**
Due after 10 years	**630,048**	**652,851**
	$ 35,854,080	**$ 36,795,958**

	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

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 $3,577,166, representing $3,416,000 of total tax credit revenue that the Company is due for tax years 2017 to 2020 from NSR, plus accumulated 3.5% interest of $161,166 as of December 31, 2020. As of December 31, 2019 the 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.

5. Capital Commitments

Project Agreements and Contracts

As of December 31, 2020, the Company has commitments under various individual project agreements and other contracts totaling $28 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 2021 and 2024.

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, 2020, the Company has expended approximately $16.1 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, 2020, the Company has expended approximately $10.9 million of its commitments under NCRR Invests project agreements, with an additional $7.1 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:

	2020	2019
Restricted under contracts	**$ 28,024,245**	$ 31,326,606
Board designated funds	**80,432,816**	60,452,612
Investments reserved for capital projects	**$ 108,457,061**	$ 91,779,218

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, 2020 and 2019 were $144,661 and $150,228, respectively, including $80,732 and $81,864, 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 $126,413 and $129,867 related to the plan in 2020 and 2019, respectively. The resulting deferred compensation liability of $579,871 and $469,094 at December 31, 2020 and 2019, respectively, is included in accounts payable and accrued expenses and other long-term liabilities in the accompanying consolidated financial statements. The officer retired during 2020 and is expected to receive full payment in 2021, and as such the total deferred compensation liability balance as of December 31, 2020 is classified as current and presented in accounts payable and accrued expenses in the accompanying consolidated 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 May 27, 2020, and expires on July 24, 2021 and has a variable interest rate at one-month LIBOR plus .85% and is unsecured. There was no outstanding balance as of December 31, 2020 and 2019. 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, 2020.

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 72% and 73% of the lease income during the year ended December 31, 2020 and 2019, respectively. Rental income received from this lease during 2020 and 2019 was approximately $16.4 million and $16.1 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
2021	$ 18,286,680
2022	18,205,118
2023	18,038,209
2024	17,658,187
2025	17,647,519
Thereafter	172,921,764
	$ 262,757,477

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 years ended December 31, 2020 and December 31, 2019.

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 $10,022,727 and $10,223,181 at December 31, 2020 and 2019, respectively, of which $200,455 and $200,455 is included in the current portion of unearned rent at December 31, 2020 and 2019, respectively.

10. Income Taxes

The Company's income (loss) before income taxes for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Income (loss) before income taxes:		
Nontaxable entities	**$ (6,269,001)**	$ (9,138,661)
Taxable entity	**126,856**	442,693
Loss before income taxes	**$ (6,142,145)**	$ (8,695,968)

The difference between the federal income tax computed by the statutory federal income tax rate of 21% for the years ended December 31, 2020 and 2019 and NCRI's income tax expense as reflected in the consolidated financial statements is as follows:

	2020	2019
Income tax at statutory federal income tax rates	**$ 26,640**	$ 93,582
Increase (decrease) attributable to:		
State income tax, net of federal income tax benefit	**5,014**	12,354
Other	**(2,960)**	(3,216)
	$ 28,694	$ 102,720

The Company's taxable subsidiary, NCRI, has deferred income tax balances at December 31, 2020 and 2019 as follows:

	2020	2019
Assets:		
Allowance for bad debts	**$ 5,500**	$ -
Charitable contributions	**4,500**	-
Liability:		
Property and equipment	**(520,000)**	(546,000)
Net deferred tax liability	**$ (510,000)**	$ (546,000)

The Company's total tax expense (benefit) for 2020 and 2019 is summarized as follows:

	2020	2019
Current income tax expense	**$ 64,694**	$ 123,720
Deferred income tax benefit	**(36,000)**	(21,000)
Total income tax expense	**$ 28,694**	$ 102,720

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 11, 2021, which is the date the financial statements were available to be issued.

NORTH CAROLINA RAILROAD COMPANY

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