ANNUAL REPORT

2021

NORTH CAROLINA RAILROAD COMPANY

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2021 ANNUAL REPORT

MISSION, VISION & VALUES

MISSION

To benefit the people of North Carolina by aggressively leveraging the unique strengths and capabilities of the North Carolina Railroad Company.

VISION

A modernized railroad that meets the needs of the future, expanding North Carolina's competitive advantage.

CORE VALUES

- **Collaborate** to forge meaningful partnerships built on mutual respect and identifying solutions.
- **Earn trust** by delivering, act with integrity.
- **Innovate** through fostering growth, conscientious listening, challenging assumptions and encouraging new ideas.
- Cultivate **inclusivity** by welcoming feedback, removing barriers to success, and providing a safe space for transparent communication.
- Encourage **diversity**, creating strength by learning from others and welcoming all points of view and perspectives.
- Constantly **engage**, centered around the well-being of our employees and the protection & enhancement of our resources as the company grows.

WHO IS NORTH CAROLINA RAILROAD COMPANY?

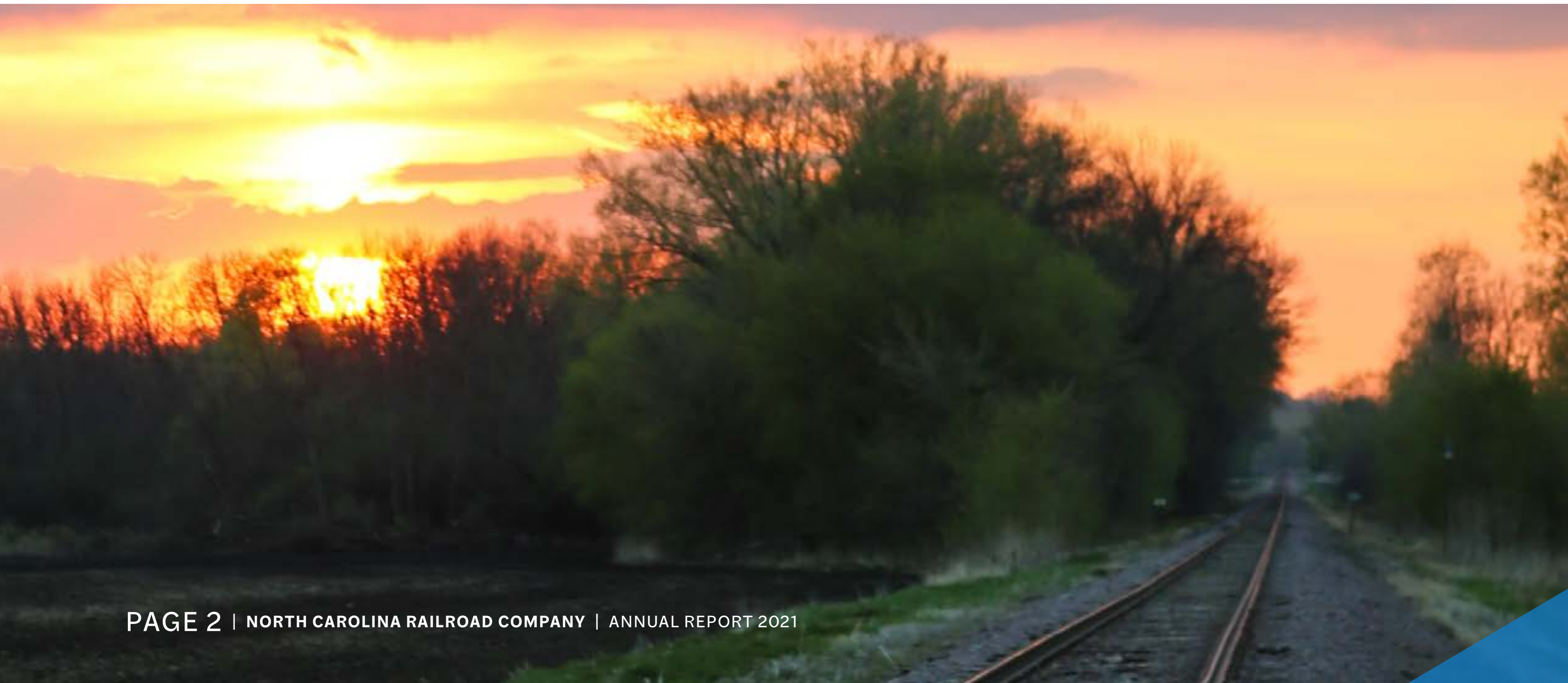
The North Carolina Railroad Company (NCRR) owns and manages the 317-mile rail corridor that stretches from Charlotte to the Port Terminal in Morehead City. Our rail corridor is a vital route for freight moving east to west, and north to south. It connects to routes carrying freight and people throughout the eastern United States. The railroad corridor is a rich asset, which we proudly protect and manage for the benefit of North Carolina's citizens.

NCRR is a private business corporation with 100 percent of the stock owned by the state of North Carolina. It was chartered in 1849 for the purpose of economic development, and we continue to invest in rail infrastructure and increased freight rail capacity to recruit new and expanding industry to our state.

Norfolk Southern Corporation, a Class I freight rail company, leases the tracks through a long-standing agreement. NCRR reinvests this lease and other revenue in the railroad and in the state of North Carolina, to ensure the state maintains its competitive advantage, resulting in job creation.

In addition to our partnership with Norfolk Southern, CSX, also a Class I freight railroad, uses a portion of our corridor. We also work closely with the North Carolina Department of Transportation (NCDOT) on capital improvement projects and through passenger rail service offered on our line via Amtrak.

The North Carolina Railroad is an asset like no other in the state. We have a rich heritage in North Carolina and NCRR is committed to continuing to invest in opportunities that lead to job growth. We work closely with local, regional and state government and we partner closely with the economic development community. Our goal is to ensure North Carolina's rail infrastructure continues to meet the demands of business and industry looking to expand or locate to our state.



LETTER FROM THE CHAIRMAN

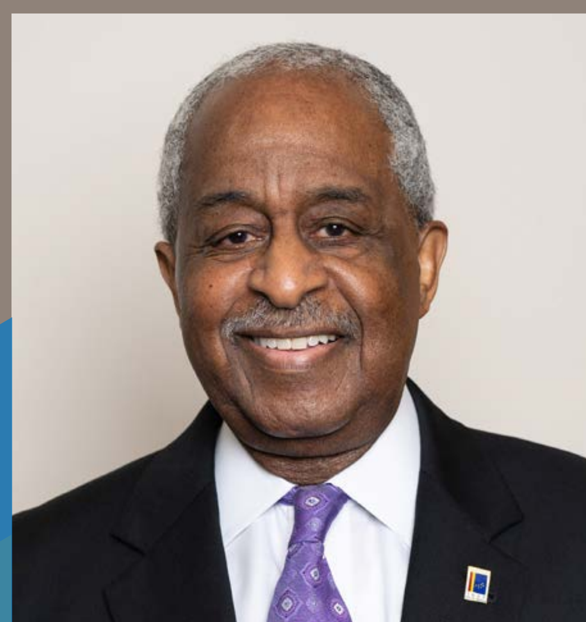
On behalf of the Board of Directors and staff of North Carolina Railroad, I am pleased to say that 2021 was a transformative year for NCRR and the State of North Carolina. The Greensboro-Randolph County Megasite announcement highlighted a decade of partnership between local governments and private partners that worked together to bring Toyota to the Triad region. This opportunity will add 1,750 jobs with an investment of $1.29 billion to build the state's first electric vehicle battery manufacturing plant.

The company continued its economic development initiatives through NCRR Invests and NCRR Build Ready Sites, assisting in the recruitment and retention of major rail-served employers who are making considerable investments in the state. Many of these investments will create thousands of jobs across North Carolina continuing to make the state a national competitor for industry and rail served industrial sites.

The successes of 2021 are truly remarkable and will be celebrated for years to come. As we are working toward the goals of 2022, NCRR will continue to be a proactive partner, committed to its mission and vision to continually expand economic opportunities across the state of North Carolina. NCRR will also remain an active participant working with NCDOT and GoTriangle in the preparation of a commuter rail to connect the cities and people living in the Triangle.

William "Bill" V. Bell

Chairman
North Carolina Railroad Company
Board of Directors



Bill Bell

MEET THE NORTH CAROLINA RAILROAD COMPANY

EXECUTIVE TEAM

CARL WARREN
President & CEO

MICHELLE JENG
Chief Financial Officer

ROBERT DOBRONSKI
General Counsel

CATHERINE KNUDSON
Chief of Staff

TRISH HAVER
Sr. Vice President, Business Development & Head of Strategy

STAFF

DONALD ARANT, P.E.
Vice President, Engineering

ILAN WAJSMAN
Vice President, Information Technology

AMY SANDIDGE
Corridor Manager

TERESA STERLING
Controller

LLOYD BEDFORD
Communications Manager

MONIQUE BOOKER
Administrative Assistant

TEDDI BURNETT
Real Estate Representative

CONNOR CHRISTENSEN
Economic Development Coordinator

TAELOR FIELDS
Facilities Manager

KRISTIAN FORSLIN, GISP, PLS
GIS & Survey Manager

HILARY KANUPP, C.A.
Archivist

DAVINA KILLINGSWORTH
Administrative Assistant

MASHAL AL KIRDASI
Systems Manager

JUSTIN MADIGAN
Infrastructure Manager

JAMAR NIXON
Real Estate Representative

NANCY PICKETT
Accounting Manager

JASMIN PRIDE
Paralegal & Contract Specialist

SUSAN WISNIEWSKI
Accounting Manager

EDWARD WU
Director of Engineering

NCRR Executive Team (pictured left to right): Catherine Knudson, Robert Dobronski, Carl Warren, Trish Haver, Michelle Jeng

BOARD OF DIRECTORS

WILLIAM "BILL" V. 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.

CHARLES BOWMAN
Charlotte
Retired, Bank of America

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

MALCOMB COLEY
Charlotte
Central Region Private Leader & Charlotte Managing Partner, EY

STEVE LERNER
Chapel Hill
Founder & Managing Partner, Blue Hill Group

JAMES E. NANCE
Albemarle
Managing Member, North State Acquisitions, LLC

TOMMY GLASGOW
Morehead City
Retired, Clancy & Theys Construction 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

BUILD READY SITES

NEED

North Carolina has a substantial amount of land available for development along active railroad corridors. The state offers multiple funding opportunities for development needs (i.e. infrastructure, building demo, etc.) when there is an active economic development client.

Often, companies aren't able to wait on these improvements—thus having a ready site becomes a key differentiator between a community and its competitors when working to attract a new company.

For more information, contact EconDev@ncrr.com or visit ncrr.com.

GOALS

- Position N.C. with a distinct competitive advantage: offer development-ready rail industrial sites in varying sizes and geographies
- Partner to remove development barriers which are currently reasons for site elimination
- Improve site development timeline predictability through advancements in readiness

SELECTION

Priority will be given to:

- Level of economic distress
- Rural nature of site location
- Access to industrial-grade utility infrastructure at site (e.g. power, water/sewer, gas)
- Transportation access (e.g. rail, highway, interstate, ports)
- Ability for NCRR funding to impact overall development readiness of site

SITE REQUIREMENTS

SIZE

50-100

CONTIGUOUS, DEVELOPABLE ACRES

OWNERSHIP

Owned by a willing seller with an established asking price, zoned industrial or able to be rezoned to industrial or local equivalent within

90 days

ENVIRONMENTAL

Must be outside of FEMA 100-year floodplain, free of wetlands, endangered species, or other environmentally unacceptable conditions that significantly impact or delay development

**insufficient or missing due diligence studies will have to be completed prior to grant award*

INFRASTRUCTURE

Must be served by industrial-grade infrastructure (e.g. power, water/sewer, gas) within

two years

of a potential prospect selecting the location.

Documentation from utility providers required.
**Preference given to sites with natural gas access*

RAIL

Must be located within

0.5 mile *or less*

and potential for rail service confirmed by operating railroad.

FUNDING

AVAILABILITY

Up to **$500,000**

($750,000 if site located along NCRR corridor) or 60 percent of total proposed project cost, whichever is less. Must demonstrate ability to secure balance of funding through financial or in-kind contributions from railroads, private, non-profit, or public partners.

USES

Land preparation, speculative building construction, critical water and/or sewer service. Proposed funding improvement must be completed within

18 months

of grant award.

APPLICANTS

Economic development team via county or local municipality.

SUPPORT

Demonstration of community support from relevant county commissions and/or municipal councils required.

NCRR INVESTS UPDATE

Spurring Growth, Tracking Progress

The North Carolina Railroad Company partners with the state's economic development community and railroads on initiatives designed to drive job creation, freight rail use, and economic growth. Through *NCRR Invests* we evaluate requests for investments to address the freight rail infrastructure needs of companies considering location or expansion in the state.

INVESTMENT CONSIDERATIONS

NCRR will evaluate requests for investments in the engineering, design, construction or other costs associated with the rail infrastructure needs of a company's potential location or expansion. Eligible rail-related needs include, but are not limited to:

- Design/Engineering
- Site grading & drainage for tracks
- Lead, siding & other railroad track construction
- Railroad signals
- Rail loading facilities

SUBMISSION REQUIREMENTS

PROJECT SUMMARY

- Company overview
- Job creation schedule & wages
- Investment schedule
- Anticipated rail volume

PROJECT CONCEPTUAL

Aerial of proposed rail layout for site(s) under consideration from railroad or engineering firm

COST ESTIMATE

Estimate of rail infrastructure needs that corresponds with the project conceptual from railroad or engineering firm

INVESTMENT EXAMPLES

BOREALIS COMPOUNDS
Alexander County

47
jobs

$225,000
investment by NCRR

$15M
company investment

MOUNTAIRE FARMS
Scotland County

65
jobs

$650,000
investment by NCRR

$44M
company investment

NESTLÉ PURINA
Rockingham County

300
jobs

$1,810,000
investment by NCRR

$580M
company investment

WEITRON
Martin County

31 jobs

$527,000
investment by NCRR

$12.8M
company investment

NCRR invested in land preparation for a lead track that not only provides rail access for Weitron but also connects a new rail-served industrial park.

EGGER WOOD PRODUCTS
Davidson County

770 jobs

$6.4M
investment by NCRR, in partnership with Norfolk Southern

$700M
company investment

NCRR & Norfolk Southern constructed a lead track to serve EGGER and connect additional industrial park sites to rail.

COOPERATION & PARTNERSHIP YIELD TRANSFORMATIONAL WIN

The Greensboro-Randolph Megasite, Triad, and North Carolina

On December 6, 2021, after nearly a decade of building partnerships and readying the site for a major tenant, the Greensboro-Randolph Megasite partners announced a transformative win for the region and state with Toyota's plans to add 1,750 direct jobs and indirect jobs by investing $1.29 billion in a next-generation battery production facility on the site.

This project has been especially noteworthy for the level of cooperation demonstrated among an array of organizations including Randolph County, the City of Greensboro, the Joseph M. Bryan Foundation, North Carolina Department of Transportation (NCDOT) and the North Carolina Railroad Company (NCRR), all of which have or will be making major investments in the site's completion. This partnership gave North Carolina the competitive advantage it needed to land the state's first automotive battery plant.

"The people of this region have long needed a big boost in economic opportunity that could only come from a project as transformational as the one that Toyota will bring to this megasite...And it's only through intense cooperation among a loyal set of partners along with the unwavering support from Governor Cooper, Senator Berger and Speaker Moore that this announcement could have been made."

— Jim Melvin, *CEO of the Joseph M. Bryan Foundation*

"Toyota's decision to build a facility at the Greensboro-Randolph Megasite validates the strength of this region's labor force, infrastructure and our ability to build regional partnerships to get things done...This is an exciting time for our region."

— Brent Christensen, *President & CEO of the Greensboro Chamber of Commerce*

A series of land acquisitions over several years made it possible for the Greensboro-Randolph Megasite Foundation and the Randolph County Economic Development Corporation to ultimately offer a 1,900-acre site. NCRR was integral to the site's success, investing over $35 million to purchase more than 60 percent of the land required for the future home of the automotive battery production plant.

Toyota Motor North America will establish a new company and build an automotive battery plant together with Toyota Tsusho, aiming to start production in 2025. The project includes an investment of approximately $1.29 billion by Toyota, which includes funds that will be used to develop land and build facilities. The next-generation battery plant will be housed in new facilities planned for the Greensboro-Randolph Megasite, located in the Triad region in northern Randolph County near U.S. 421. The site will provide easy access to major interstates, an international airport and first-rate rail and intermodal facilities.

1,750 jobs

$1.29 billion
Toyota investment

$35 million
NCRR investment

The Greensboro-Randolph Megasite was selected over competitive locations in several other states due to its central location, abundant regional workforce and robust transportation infrastructure, among other factors. The decision amounts to a transformative job creation opportunity for North Carolina's Triad region, given that the battery plant operation will likely bring roughly 1,750 direct and indirect jobs to the area.

“This project is indicative of our knack for collaboration to support rail-related opportunities and our long-term commitment to the future growth and prosperity of the State of North Carolina...The North Carolina Railroad Company was excited to play a unique role in the site assembly, infrastructure development and recruitment efforts that were ultimately a catalyst for landing this game-changing investment and employment opportunity for the region and state.”

— Carl M. Warren, *President & CEO of the North Carolina Railroad Company*

Carl Warren, President & CEO of NCRR provides remarks during the Dec. 6, 2021, Greensboro-Randolph Megasite announcement that Toyota is building the first North American electric vehicle battery manufacturing plant in Randolph County, NC

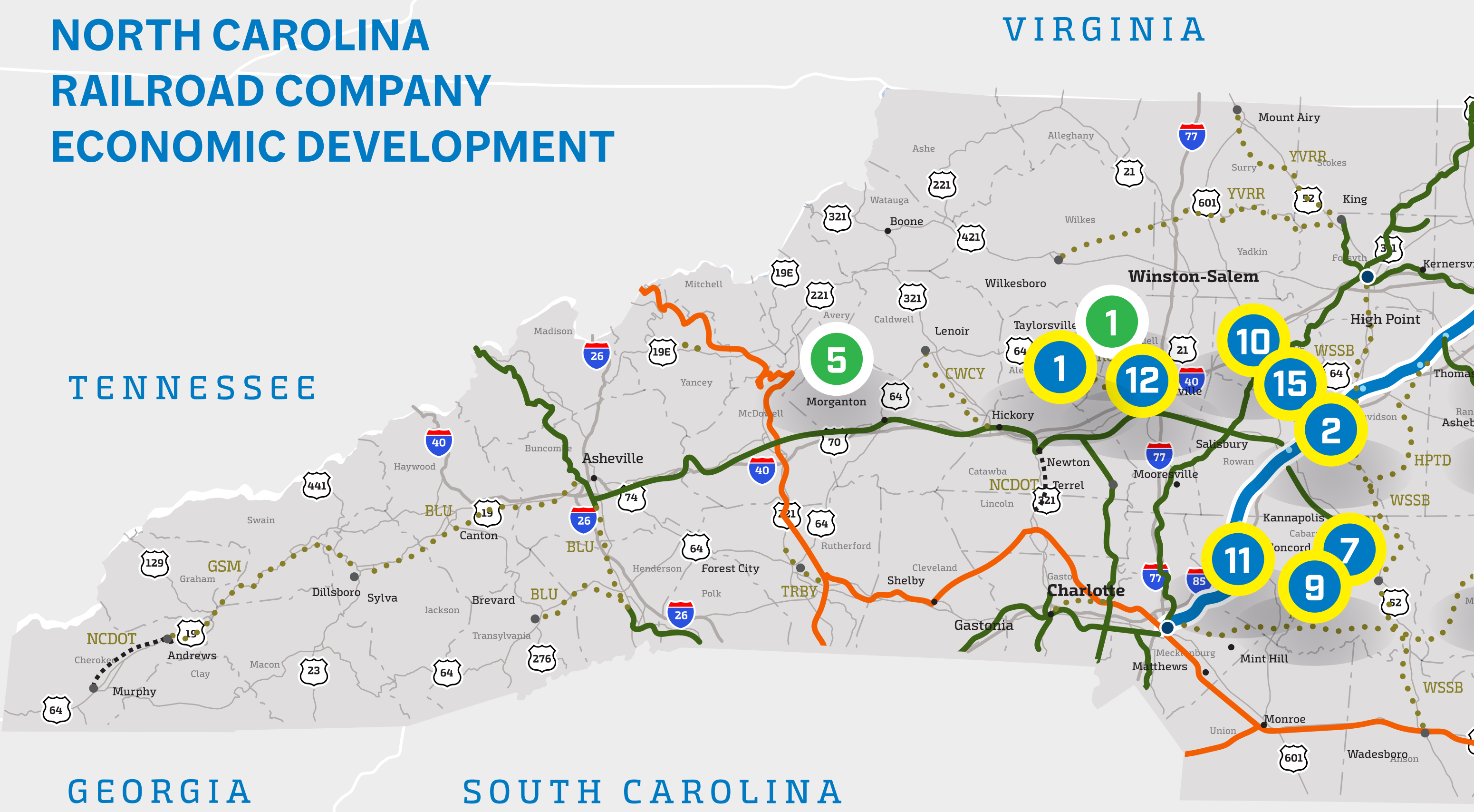
“Randolph County and the people of the surrounding region look forward to welcoming the Toyota team to their new home...Now the important work of readying the region for this once-in-a-lifetime opportunity can begin.”

— Kevin Franklin, *CEO of the Randolph Country Economic Development Corporation*

Aerial drone photographs of the construction progress at the Greensboro-Randolph Megasite, April 2022

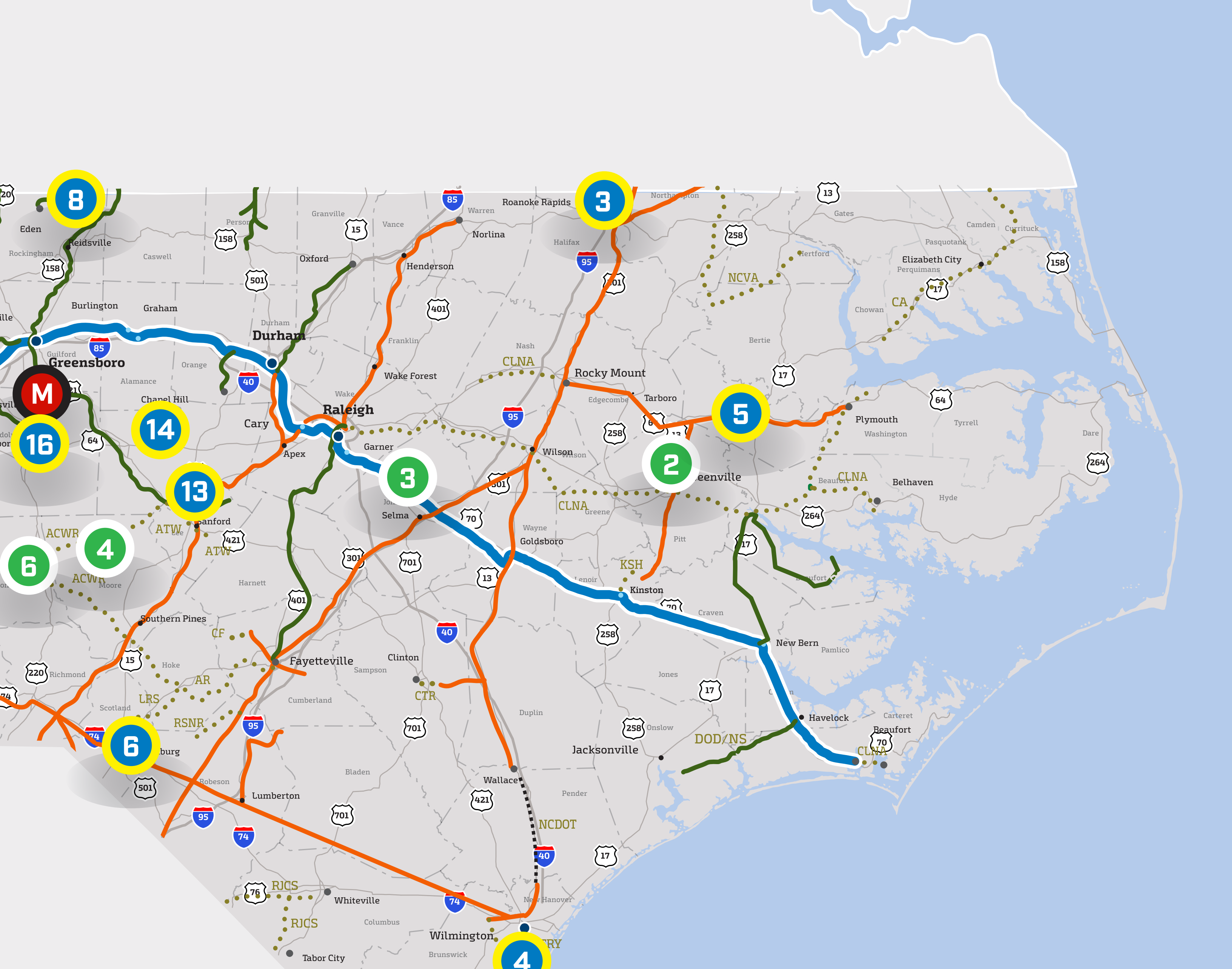
Photos courtesy of Reuben Blakely, NCDOT Division 8 Construction Engineer

NORTH CAROLINA RAILROAD COMPANY ECONOMIC DEVELOPMENT



NCRR INVESTS

Company	Jobs Created	NCRR Invested	Company Invested	Date	County
1. Borealis Compounds	47	$225,000	$15 million	May 2017	Alexander
2. Egger	770	$6.4 million	$700 million	Jul 2017	Davidson
3. JBB Packaging	50	$400,000	$11.9 million	Nov 2018	Halifax
4. Gold Bond Building Products	51	$400,000	$25 million	May 2017	New Hanover
5. Weitron	31	$527,000	$12.8 million	Apr 2017	Martin
6. Edwards Wood Products	91	$450,000	$50 million	Jul 2017	Scotland
7. Mountaire Farms	65	$650,000	$44 million	Jan 2017	Stanly
8. Nestle Purina	300	$1,810,000	$450 million	Oct 2020	Rockingham
9. Charlotte Pipe and Foundry	400	$1.5 million	$325 million	June 2020	Stanly
10. Liberty Storage Solutions	50	$350,000	$8 million	June 2021	Davie
11. Red Bull/Rauch/Ball	633	$700,000	$900 million	July 2021	Cabarrus
12. Sherwin-Williams	183	$300,000	$324 million	Feb 2022	Iredell
13. Service Offsite Solutions	235	$300,000	$18 million	Mar 2022	Lee
14. VinFast	7,500	$1 Million	$4 billion	Mar 2022	Chatham
15. Nucor	180	$750,000	$350 million	April 2022	Davidson
16. Technimark	220	$250,000	$62 million	April 2022	Randolph



BUILD READY SITES

County	NCRR Award Amount	Railroad	Acreage
1. Alexander	$ 500,000	Alexander Railroad Company	88.49
2. Pitt	$ 500,000	CSX	100
3. Johnston	$ 750,000	NCRR/ Norfolk Southern	100
4. Moore	$ 167,000	Aberdeen & Rockfish	72.94
5. Burke	$ 500,000	Norfolk Southern	84.75
6. Montgomery	$ 500,000	ACWR	60

GREENSBORO-RANDOLPH MEGASITE

Company	Jobs Created	NCRR Invested	Company Invested	Date	County
Toyota	1,750	$35 million	$1.29 billion	Dec 2021	Randolph

NCRR RAILROAD MAINTENANCE

Routine maintenance of the railroad includes maintenance of track, roadbed, drainage, railroad structures, and railroad signals along its corridor. It begins with regularly scheduled and periodic visual inspections of all of these elements and overall right-of-way. Supplementary inspections are conducted with the use of technology allowing railroad maintenance personnel to see internal properties of rail and ties.

Per the 1999 Master Agreement with Norfolk Southern (NS), NS maintains the rail infrastructure on the NCRR. However, the costs associated with maintaining any infrastructure constructed for additional passenger service is the responsibility of the North Carolina Department of Transportation (NCDOT) or whatever party might be adding said infrastructure for non-freight purposes. Preparing for these maintenance costs, as well as the time and crews needed, is a critical element in planning for rail improvements.

The maintenance process consists of both required inspections driven by minimum standards to maintain authorized track speeds for both freight and passenger services, and periodic inspections of those areas requiring less frequent maintenance effort.

Kristian Forslin, GIS Coordinator

Track maintenance work generally consists of tie replacement, ballast replenishment, replacement of rail in curves where tonnage creates excessive wear on the rail, and visual inspection of special trackwork for unusual wear patterns. Special trackwork includes items such as turnouts, at grade rail crossings with other railroad tracks (a.k.a. diamonds), and crossovers. Crossovers are groups of turnouts oriented in such a way to allow a train to crossover from one track to another.

Rail conditions are inspected and recommendations for rail replacement are made based upon the annual tonnage, type of rail traffic, and condition of the head of the rail wearing surface. Both visual and ultrasonic testing technology are utilized for inspection and maintenance of rail. Curve rail is typically replaced by local maintenance of way personnel. Overall program rail replacement is typically managed through a system production gang and scheduled as much as a year in advance.

Railroad signal maintenance is done regularly, and as needed based upon observed signal failures, to keep rail traffic moving safely, and to protect the rail corridor from the motoring public at grade crossing locations. Signal maintenance is more intensive on a daily basis as these elements of the corridor are the primary communication type interface between the railroad operation and the general public.

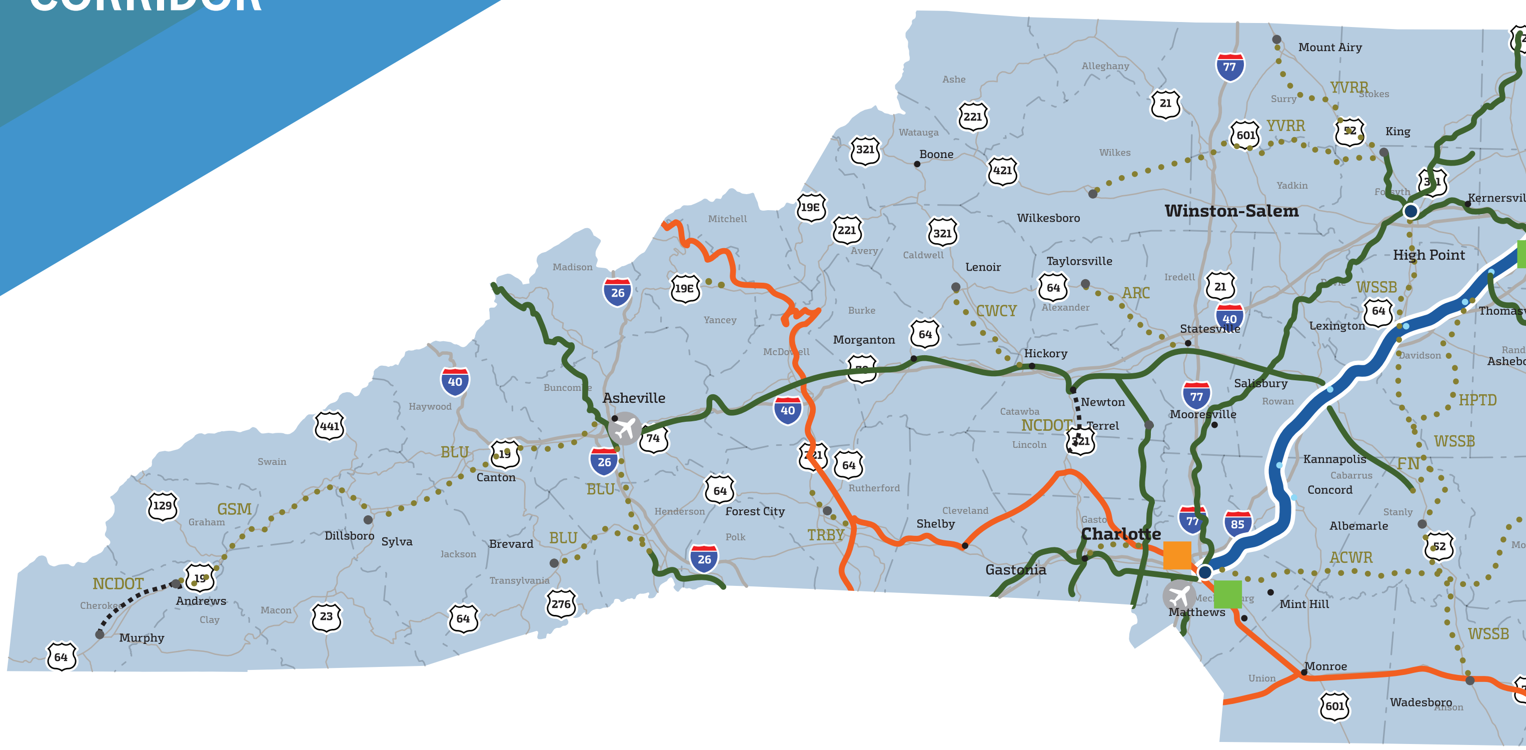
Routine and consistent railroad maintenance is essential for the longevity of the railroad track structure. The primary investment with track maintenance should be to maintain drainage of the roadbed and railroad ditches. Maintaining proper drainage ensures the track surface can be retained and the longevity of track elements such as ties and ballast are feasible. Maintaining track surface means maximum authorized train speeds are ensured and a safe track infrastructure is provided for both rail users and the public.

"**Consistent investment in railroad maintenance is extremely vital to the longevity and success of freight and passenger rail. Routine and regular inspection, correction, and program maintenance work are the backbone for reliable logistics and rail operations across the state of North Carolina.**"

— Donald Arant, P.E., *NCRR VP, Engineering*

CORRIDOR MAP

NORTH CAROLINA RAILROAD COMPANY CORRIDOR



FREIGHT ROUTES

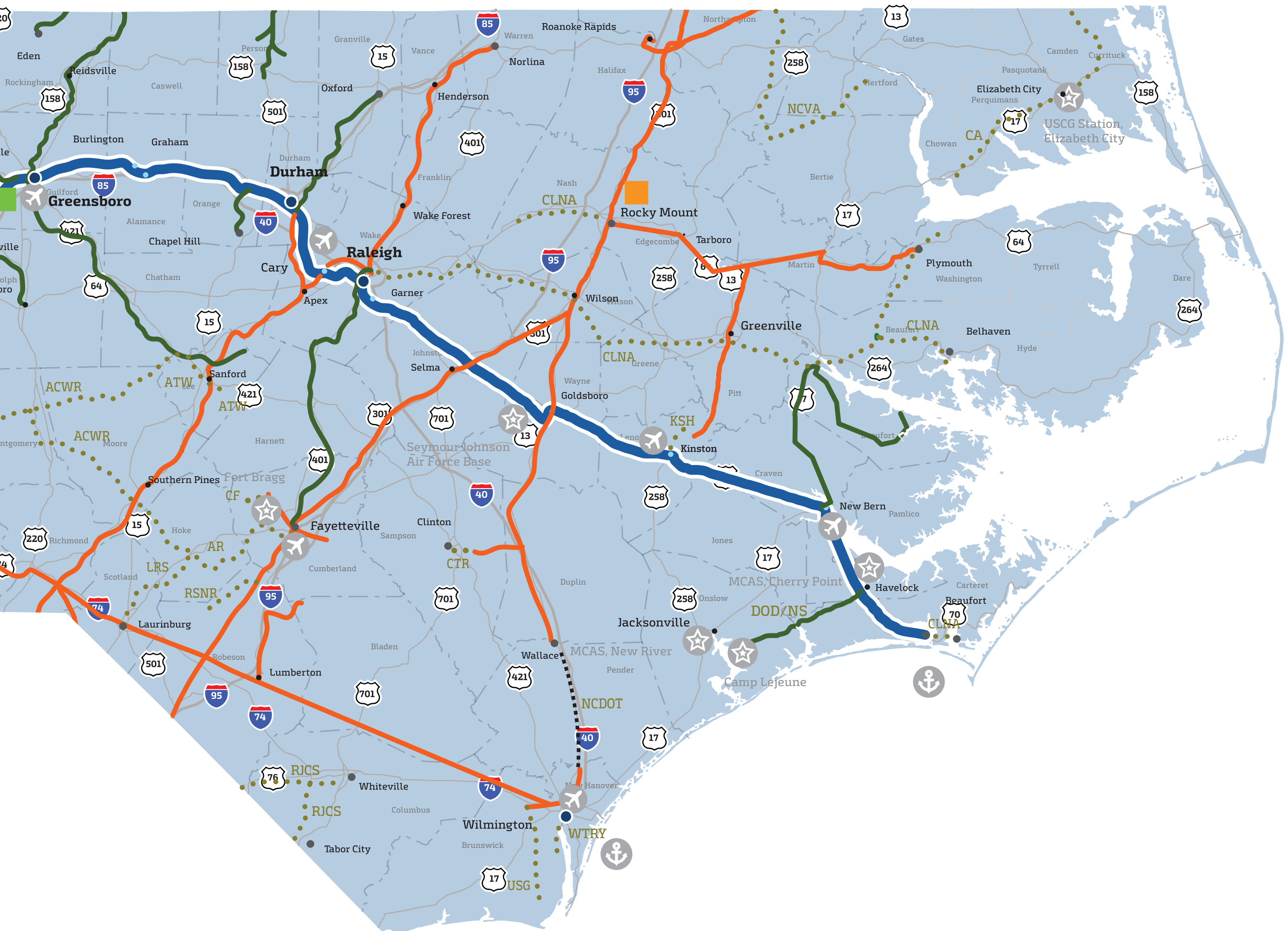
- North Carolina Railroad Company
  *Norfolk Southern Class I Freight Service
- Norfolk Southern
- CSX Transportation
- Various Shortlines

INTERMODAL TERMINALS

- Norfolk Southern
- CSX Transportation

LOGISTICAL CENTERS

- Military Bases
- Seaports
- Airports


Greensboro
Durham
Raleigh
Cary
Apex
Garner
Burlington
Graham
Chapel Hill
Eden
Reidsville
Oxford
Henderson
Norlina
Roanoke Rapids
Wake Forest
Rocky Mount
Tarboro
Wilson
Greenville
Plymouth
Belhaven
Elizabeth City
USCG Station, Elizabeth City
Selma
Goldsboro
Kinston
New Bern
Havelock
Beaufort
Seymour Johnson Air Force Base
Sanford
Southern Pines
Fort Bragg
Fayetteville
Clinton
Laurinburg
Lumberton
Jacksonville
MCAS, Cherry Point
MCAS, New River
Camp Lejeune
Wallace
Whiteville
Tabor City
Wilmington
CLNA
NCVA
CA
KSH
ACWR
ATW
CF
AR
LRS
RSNR
CTR
DOD/NS
NCDOT
RJCS
WTRY
USG


Marriott

North Carolina Railroad Company and Subsidiaries

Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

North Carolina Railroad Company and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

North Carolina Railroad Company and Subsidiaries

Contents

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421 Fayetteville Street
Suite 300
Raleigh, NC 27601

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 sheet as of December 31, 2021, and the related statements of operations and comprehensive income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying 2021 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The 2020 consolidated financial statements of the Company were audited by other auditors, whose report dated June 11, 2021 expressed an unmodified opinion on those statements.

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, LLP

May 18, 2022

Consolidated Financial Statements

North Carolina Railroad Company and Subsidiaries

Consolidated Balance Sheets

December 31,		**2021**		2020
Assets				
Current assets:				
Cash and cash equivalents	**$**	**17,689,209**	$	14,892,467
Certificate of deposit		**-**		4,071,263
Accounts receivable, net of allowance for doubtful accounts of $74,516 and $125,093 for 2021 and 2020, respectively		**704,450**		728,221
Prepaid expenses		**494,816**		105,570
Total current assets		**18,888,475**		19,797,521
Property and equipment:				
Roadway and land		**7,848,742**		7,848,742
Tracks, signals and bridges		**415,167,718**		400,539,314
Land		**36,144,887**		36,144,886
Buildings and improvements		**19,570,087**		19,402,914
Equipment and furniture		**3,348,559**		3,524,326
Construction in progress		**9,226,824**		10,658,675
		491,306,817		478,118,857
Less accumulated depreciation		**(251,527,759)**		(224,553,270)
Property and equipment, net		**239,779,058**		253,565,587
Other assets:				
Investments reserved for capital projects		**122,689,784**		108,457,061
Long-term receivables		**3,602,789**		3,577,166
Other		**66,037**		85,260
Total other assets		**126,358,610**		112,119,487
Total Assets	**$**	**385,026,143**	$	385,482,595

North Carolina Railroad Company and Subsidiaries

Consolidated Balance Sheets (continued)

December 31,		**2021**		2020
Liabilities and Stockholder's Equity				
Current liabilities:				
Accounts payable and accrued expenses	**$**	**2,293,826**	$	8,364,953
Customer deposits		**766,611**		27,166
Current portion of unearned rent		**200,455**		200,455
Total current liabilities		**3,260,892**		8,592,574
Long-term liabilities:				
Other liabilities		**60,565**		57,860
Deferred tax liability		**497,294**		510,000
Unearned rent, less current portion		**9,621,818**		9,822,272
Total long-term liabilities		**10,179,677**		10,390,132
Total liabilities		**13,440,569**		18,982,706
Stockholder's Equity:				
Common stock, $0.50 par value; 10,000,000 shares authorized;				
317 shares issued and outstanding		**159**		159
Additional paid-in capital		**473,812,602**		462,774,353
Accumulated deficit		**(102,142,298)**		(97,221,577)
Accumulated other comprehensive (loss) income:				
Unrealized (loss) gain on available-for-sale securities		**(84,889)**		946,954
Total stockholder's equity		**371,585,574**		366,499,889
Total Liabilites and Stockholder's Equity	**$**	**385,026,143**	$	385,482,595

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income

Years Ended December 31,		2021		2020
Income:				
Lease of roadway and land	$	**16,723,415**	$	16,448,559
Other lease income		**6,616,295**		6,413,521
Total lease income		**23,339,710**		22,862,080
Expenses:				
Wages and benefits		**3,989,313**		3,379,727
Professional fees		**547,855**		718,195
Contracted services		**986,945**		550,226
Franchise and property taxes		**950,800**		950,957
Insurance		**320,204**		282,897
Reporting and public relations		**175,742**		68,148
Depreciation		**27,322,512**		28,057,243
Engineering, surveying and mapping		**762,919**		122,658
Property and corridor management		**304,848**		582,001
Bad debt (recoveries) expense		**(15,109)**		12,198
General and administrative		**1,469,506**		1,120,382
Economic development		**2,732,518**		400,000
Total expenses		**39,548,053**		36,244,632
Operating loss		**(16,208,343)**		(13,382,552)
Other Income (Loss):				
Investment income, net of expenses		**5,482,242**		8,171,376
Unrealized gain on marketable equity securities		**4,773,687**		3,215,008
Other income		**1,170,077**		854,023
Project contributions		**(25,000)**		(5,000,000)
Other income, net		**11,401,006**		7,240,407
Loss before income taxes		**(4,807,337)**		(6,142,145)
Income tax expense		**113,384**		28,694
Net Loss	$	**(4,920,721)**	$	(6,170,839)
Other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding (losses) gains	$	**(888,440)**	$	787,838
Reclassification adjustments for unrealized holding losses included in net loss		**(143,403)**		(290,942)
Other comprehensive (loss) income		**(1,031,843)**		496,896
Comprehensive Loss	$	**(5,952,564)**	$	(5,673,943)

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, 2019	317	$ 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	317	159	462,774,353	(97,221,577)	946,954	366,499,889
Capital contributions	-	-	**11,038,249**	-	-	**11,038,249**
Net loss and other comprehensive loss	-	-	-	**(4,920,721)**	**(1,031,843)**	**(5,952,564)**
Balance, December 31, 2021	**317**	**$ 159**	**$ 473,812,602**	**$ (102,142,298)**	**$ (84,889)**	**$ 371,585,574**

See accompanying notes to consolidated financial statements.

North Carolina Railroad Company and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,		**2021**		2020
Cash Flows from Operating Activities:				
Net loss	$	**(4,920,721)**	$	(6,170,839)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities:				
Bad debt (recoveries) expense		**(15,109)**		12,198
Depreciation		**27,322,512**		28,057,243
Deferred income tax benefit		**(12,706)**		(36,000)
Income from investments reserved for capital projects		**(10,255,929)**		(11,180,444)
Changes in operating assets and liabilities:				
Accounts receivable		**38,880**		(297,870)
Prepaid expenses		**(389,246)**		(22,954)
Long-term receivable		**(25,623)**		436,263
Other assets		**19,223**		(79,095)
Accounts payable and accrued expenses		**(6,725,460)**		5,031,283
Customer deposits		**739,445**		(503)
Unearned rent		**(200,454)**		(200,454)
Other liabilities		**2,705**		(464,344)
Net cash and cash equivalents provided by operating activities		**5,577,517**		15,084,484
Cash Flows from Investing Activities:				
Purchases of property and equipment		**(1,843,401)**		(4,147,170)
Purchase of certificate of deposit, net		**-**		(54,375)
Maturity of certificate of deposit, net		**4,071,263**		-
Transfer of unrestricted cash and cash equivalents to investments reserved for capital projects		**(5,008,637)**		(5,000,000)
Net cash and cash equivalents used in investing activities		**(2,780,775)**		(9,201,545)
Net increase in cash and cash equivalents		**2,796,742**		5,882,939
Cash and Cash Equivalents, at beginning of year		**14,892,467**		9,009,528
Cash and Cash Equivalents, at end of year	**$**	**17,689,209**	$	14,892,467
Supplemental Disclosure of Cash Flows:				
Cash paid for income taxes	**$**	**-**	$	94,535
Supplemental Disclosure of Non-Cash Transactions:				
Property and equipment purchases in accounts payable	**$**	**654,333**	$	2,009,119
Non-cash capital contributions	**$**	**11,038,249**	$	-

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.

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.

Certificate of Deposit

The Company purchased a certificate of deposit during the year ended December 31, 2020 that had a maturity date between three and twelve months from the date of purchase. The certificate matured during the year ended December 31, 2021.

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**
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.

Unearned Rent

The Company's unearned rent consists of payments received in excess of the rent earned 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 840, *Leases*:

> Lease of roadway and land: Revenue received from property that is operated by NSR is reflected in the consolidated statements of operations and comprehensive 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 and comprehensive income 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 $70,782 and $37,715 in advertising costs in 2021 and 2020, respectively.

Reclassifications

Certain amounts reported in the 2020 consolidated financial statements have been reclassified to conform to the 2021 consolidated financial statement presentation, with no effect to total assets, total liabilities, stockholder's equity, net loss or comprehensive loss as previously reported.

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

In February 2016, the FASB issued Accounting Standards Update (“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 of 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. 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, 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Certificate of deposit	$ -	$ -	$ -	$ -
Investments reserved for capital projects:				
Cash and cash equivalents:				
Board designated	**158,188**	-	-	**158,188**
Other	**2,548,344**	-	-	**2,548,344**
Mutual funds:				
Equity securities	**62,608,029**	-	-	**62,608,029**
Fixed income	**17,620,096**	-	-	**17,620,096**
Available for sale:				
U.S Government and federal agencies	-	**16,456,227**	-	**16,456,227**
Mortgage-backed securities	-	**2,481,112**	-	**2,481,112**
Collateralized mortgage obligations	-	**5,537,506**	-	**5,537,506**
Corporate debt securities	-	**12,797,385**	-	**12,797,385**
Foreign bonds	-	**2,482,897**	-	**2,482,897**
Total investments reserved for capital projects	**82,934,657**	**39,755,127**	-	**122,689,784**
Total	$ **82,934,657**	$ **39,755,127**	$ -	$ **122,689,784**

December 31, 2020	Level 1	Level 2	Level 3	Total
Certificate of deposit	$ -	$ 4,071,263	$ -	$ 4,071,263
Investments reserved for capital projects:				
Cash and cash equivalents:				
Board designated	158,074	-	-	158,074
Other	1,481,293	-	-	1,481,293
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
Total investments reserved for capital projects	71,661,103	36,795,958	-	108,457,061
Total	$ 71,661,103	$ 40,867,221	$ -	$ 112,528,324

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, 2021 and 2020.

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, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:				
Board designated	$ 158,188	$ -	$ -	$ 158,188
Other	2,548,344	-	-	2,548,344
Total cash and cash equivalents	2,706,532	-	-	2,706,532
Mutual Funds:				
Equity securities	52,037,318	10,799,108	(228,397)	62,608,029
Fixed income	18,035,873	391	(416,168)	17,620,096
Total mutual funds	70,073,191	10,799,499	(644,565)	80,228,125
Available for Sale:				
U.S. Government and federal agencies	16,524,204	72,081	(140,058)	16,456,227
Mortgage-backed securities	2,415,302	73,644	(7,834)	2,481,112
Collateralized mortgage obligations	5,514,441	56,806	(33,741)	5,537,506
Corporate debt securities	12,872,364	70,283	(145,262)	12,797,385
Foreign bonds	2,375,378	147,664	(40,145)	2,482,897
Total available for sale	39,701,689	420,478	(367,040)	39,755,127
Total investments reserved for capital projects	$ 112,481,412	$ 11,219,977	$ (1,011,605)	$ 122,689,784

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:				
Board designated	$ 158,074	$ -	$ -	$ 158,074
Other	1,481,293	-	-	1,481,293
Total cash and cash equivalents	1,639,367	-	-	1,639,367
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
Total mutual funds	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
Total available for sale	35,854,080	953,276	(11,398)	36,795,958
Total investments reserved for capital projects	$ 102,133,936	$ 953,276	$ (11,398)	$ 108,457,061

Investment management fees, totaling $233,267 and $182,523, respectively, in 2021 and 2020, are netted against investment income.

The Company received total gross proceeds of $58,905,873 on the sale of securities and purchased $66,036,181 of securities during the year ended December 31, 2021. 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 recognized net realized gain of $3,233,399 and $5,672,188 during the years ended December 31, 2021 and 2020, 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, 2021 and 2020 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, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and federal agencies	**$11,548,823**	**$ (115,489)**	**$ 871,265**	**$ (24,569)**	**$12,420,088**	**$ (140,058)**
Mortgage-backed securities	**787,861**	**(7,834)**	**-**	**-**	**787,861**	**(7,834)**
Collateralized mortgage obligations	**3,820,543**	**(33,741)**	**-**	**-**	**3,820,543**	**(33,741)**
Corporate debt securities	**8,636,108**	**(137,856)**	**205,529**	**(7,406)**	**8,841,637**	**(145,262)**
Foreign bonds	**2,052,535**	**(40,145)**	**-**	**-**	**2,052,535**	**(40,145)**
Total	**$28,845,870**	**$ (335,065)**	**$ 1,076794**	**$ (31,975)**	**$27,922,662**	**$ (367,040)**

	Less than 12 Months		More than 12 Months		Total	
December 31, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and federal agencies	$ 3,648,927	$ (6,670)	$ -	$ -	$ 3,648,927	$ (6,670)
Mortgage-backed securities	-	-	209,180	1,629	209,180	1,629
Collateralized mortgage obligations	-	-	167,433	(2,581)	167,433	(2,581)
Corporate debt securities	263,957	(518)	-	-	263,957	(518)
Total	$ 3,912,884	$ (7,188)	$ 376,613	$ (4,210)	$ 4,289,471	$ (11,398)

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, 2021 and 2020 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, 2021 and 2020 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, 2021	Amortized Cost	Fair Value
Available for sale:		
Due within one year	**$ 3,193,641**	**$ 3,188,427**
Due after one year through five years	**31,852,283**	**31,679,454**
Due after five years through ten years	**3,364,370**	**3,441,907**
Due after 10 years	**1,291,395**	**1,445,339**
Total	**$ 39,701,689**	**$ 39,755,127**

December 31, 2020	Amortized Cost	Fair Value
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
Total	$ 35,854,080	$ 36,795,958

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

December 31,	2021	2020
Restricted under contracts	**$ 27,951,220**	$ 28,024,245
Board designated funds	**94,738,564**	80,432,816
Investments reserved for capital projects	**$ 122,689,784**	$ 108,457,061

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 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.

NSR Tax Credits

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

December 31,		**2021**		2020
Tax credits receivable	**$**	**3,416,000**	$	3,416,000
Accrued interest (interest of 3.5%)		**159,330**		161,166
Total tax credits and related accrued interest receivable	**$**	**3,575,330**	$	3,577,166

The tax credits as of December 31, 2021 and 2020 were for the tax years 2018 to 2021 and tax years 2017 to 2020, respectively.

6. Capital Commitments

Project Agreements and Contracts

As of December 31, 2021 and 2020, the Company has commitments under various individual project agreements and other contracts totaling approximately $28 million. 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 2022 and 2026.

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, 2021 and 2020, the Company has expended approximately $16.4 million and $16.1 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, 2021 and 2020, the Company has expended approximately $11.6 million and $10.9 million of its commitments under NCRR Invests project agreements, with an additional $9.9 million and $7.1 million, respectively, committed. 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, 2021 and 2020 were $133,150 and $144,661, respectively.

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 $68,309 and $126,413 related to the plan during the years ended December 31, 2021 and 2020, respectively. The officer retired during 2020 and was the full amount of the deferred compensation liability outstanding at December 31, 2020 of $579,871 (included in accounts payable and accrued expenses in the accompanying consolidated balance sheets) was paid during the year ended December 31, 2021.

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 with a maturity of July 2021 and has a variable interest rate at one-month LIBOR plus 0.85%, with a 1.0% LIBOR floor, and is unsecured. The line of credit was renewed in July 2021, extending the term through July 2023 at the same interest rate. There was no outstanding balance as of December 31, 2021 and 2020. 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, 2021.

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 72% of the lease income during the years ended December 31, 2021 and 2020. Rental income received from this lease during 2021 and 2020 was approximately $16.7 million and $16.4 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, 2021:

Year ending December 31,	**Amount**
2022	**$ 20,211,756**
2023	**20,042,385**
2024	**19,622,710**
2025	**19,588,016**
2026	**19,547,931**
Thereafter	**162,393,903**
Total	**$ 261,406,701**

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, 2021 and 2020.

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,		**2021**		2020
Current portion	**$**	**200,455**	$	200,455
Non-current portion		**9,621,818**		9,822,272
Total unearned rent liability	**$**	**9,822,273**	$	10,027,727

11. Income Taxes

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

Years ended December 31,		**2021**		2020
Loss before income taxes:				
Nontaxable entities	**$**	**(5,297,629)**	$	(6,269,001)
Taxable entity		**490,292**		126,856
Loss before income taxes	**$**	**(4,807,337)**	$	(6,142,145)

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,		**2021**		2020
Income tax at statutory federal income tax rates	**$**	**111,430**	$	26,640
Increase (decrease) attributable to:				
State income tax, net of federal income tax benefit		**3,206**		5,014
Other		**(1,252)**		(2,960)
Total	**$**	**113,384**	$	28,694

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

December 31,	**2021**	2020
Assets:		
Allowance for bad debts	**$ -**	$ 5,500
Charitable contributions	**-**	4,500
Liability:		
Property and equipment	**(497,294)**	(520,000)
Net deferred tax liability	**$ (497,294)**	$ (510,000)

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

Year ended December 31,	**2021**	2020
Current income tax expense	**$ 126,090**	$ 64,694
Deferred income tax benefit	**(12,706)**	(36,000)
Total income tax expense	**$ 113,384**	$ 28,694

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.

13. Subsequent Events

The Company has evaluated subsequent events and their potential effects on the accompanying consolidated financial statements from December 31, 2021 (the date of the most recent consolidated balance sheet presented) through May 18, 2022 (the date the accompanying consolidated financial statements were available to be issued). No material recognizable events were identified.

On December 6, 2021, the Company announced the conveyance of 1,250 acres of land in northern Randolph County to Toyota expected to occur in June 2022 as part of an economic development project. Toyota Motor North America will establish Toyota Battery Manufacturing, North Carolina and build an automotive battery plant together with Toyota Tsusho, aiming to start production in 2025. The project includes an investment of approximately $1.29 billion through 2031, which includes funds that will be used to develop land and build facilities, resulting in the creation of 1,750 new jobs in the region.


WELLS FARGO

Raleigh's skyline lights the night as a train approaches Raleigh Union Station. We still think of Raleigh Union Station (RUS) as new, but it has been welcoming visitors for 4 years now! RUS was constructed as a joint project between NCDOT and the City of Raleigh and replaced an outdated and undersized station that had served the city since 1950.

Photo credit: Richard Barlow

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