

**Board of Trustees,
Cincinnati Southern Railway**

Independent Accountants'

Report on Applying Agreed-Upon Procedures

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Trustees,
 Cincinnati Southern Railway:

We have performed the procedures enumerated below, which were agreed to by the Board of Trustees, Cincinnati Southern Railway (Board), solely to assist you with respect to the evaluation of the rents collected by the City of Cincinnati (City) for the Cincinnati Southern Railway and fees collected by the Board. The Board is responsible for the rents and fees. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures that were performed and the related findings are as follows:

1. Procedure Performed

Review the documentation maintained by the City, which supports the City's review of the rent computation for the years ended December 31, 2013 and 2012.

Results of the Procedure Performed

The City's file contained the following documents:

<u>Date of Letter</u>	<u>Purpose of Letter</u>	<u>Discussion Reference</u>
January 4, 2012	Receipt of quarterly payment for \$4,927,467.00	(A)
April 3, 2012	Receipt of quarterly payment for \$4,927,467.00	(A)
June 6, 2012	New IPD-GNP index and rent calculation	(B)
July 3, 2012	Receipt of quarterly payment for \$5,287,270.50 and New IPD-GNP index and rent calculation	(C)
October 2, 2012	Receipt of quarterly payment for \$5,047,401.50	(A)

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<u>Date of Letter</u>	<u>Purpose of Letter</u>	<u>Discussion Reference</u>
January 3, 2013	Receipt of quarterly payment for \$5,047,401.50	(E)
April 2, 2013	Receipt of quarterly payment for \$5,047,401.50	(E)
May 7, 2013	New IPD-GNP index and rent calculation	(D)
July 2, 2013	Receipt of quarterly payment \$5,319,961.25 and New IPD-GNP index and rent calculation	(F)
October 2, 2013	Receipt of quarterly payment for \$5,138,254.75	(E)

(A) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules dated January 4, 2012, April 3, 2012, and October 2, 2012, for the receipt of the quarterly rent payments of \$4,927,467, \$4,927,467 and \$5,047,401.50 respectively were received from Norfolk Southern Corporation.

(B) Calculation of 2012 Cincinnati Southern Railway Rent Memo prepared on June 6, 2012 by John Walsh, City Treasurer, was sent to the Norfolk Southern Corporation, advising the Corporation of the annual rental increase to \$20,189,606 (\$5,074,401.50 per quarter) and the adjustment to the quarterly rental payment of \$239,869 for July.

The letter presented the calculation for the 2012 rent as follows:

$$\begin{array}{r} \text{IPD-GNP March 2012} \quad 113.347 \\ \hline \text{IPD-GNP March 2011} \quad 110.654 \end{array} = 1.02434$$

$$1.02434 \times \$19,709,868 \text{ (2011 rent)} = \$20,189,606 \text{ (2012 rent)}$$

$$\$20,189,606 \div 4 = \$5,047,401.50 \text{ (2012 quarterly rent)}$$

The adjustment for the first and second quarter 2012:

Quarterly rent 2012 x 2	\$ 10,094,803.00
Rent received January and April	<u>9,854,934.00</u>
Rent adjustment received July 2012	\$ <u>239,869.00</u>

(C) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules quarterly rental payment of \$5,287,270.50 received on July 3, 2012 includes \$5,047,401.50 for the current quarter and an adjustment in the amount of \$239,869 for the first and second quarter amounts.

- (D) Calculation of 2013 Cincinnati Southern Railway Rent Memo prepared on May 7, 2013 by John Walsh, City Treasurer, was sent to the Norfolk Southern Corporation, advising the Corporation of the annual rental increase to \$20,553,019 (\$5,138,254.75 per quarter) and the adjustment to the quarterly rental payment of \$181,706.50 for July.

The letter presented the calculation for the 2013 rent increase as follows:

$$\begin{array}{r} \text{IPD-GNP March 2013} \quad 115.387 \\ \hline \text{IPD-GNP March 2012} \quad 113.347 \end{array} = 1.01800$$

$$1.01800 \times \$20,189,606 \text{ (2012 rent)} = \$20,553,019 \text{ (2013 rent)}$$

$$\$20,553,019 \div 4 = \$5,138,254.75 \text{ (2013 quarterly rent)}$$

The adjustment for the first and second quarter 2013:

Quarterly rent 2013 x 2	\$ 10,276,509.50
Rent received January and April	<u>10,094,083.00</u>
Rent adjustment received July 2013	\$ <u><u>181,706.50</u></u>

- (E) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules dated January 3, 2013, April 2, 2013, and October 2, 2013, for the receipt of the quarterly rent payments of \$5,047,401.50, \$5,047,401.50 and \$5,138,254.75, respectively were received from Norfolk Southern Corporation.
- (F) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules quarterly rental payment of \$5,319,961.25 received July 2, 2013 includes \$5,138,254.75 for the current quarter and an adjustment in the amount of \$181,706.50 for the first and second quarter amounts.

2. Procedure Performed

Review the calculation for the annual fee provided to the Trustees from the lessee to defray the cost of necessary expenses for the years ended December 31, 2013 and 2012.

Results of Procedures Performed

Each year the annual fee is increased based on the change in the consumer price index (CPI)

2013 Fee Increase

CPI – December 2012	<u>229.601</u>	=	1.01741
CPI – December 2011	225.672		

1.01741 x \$204,228 (2012 Fee) = \$207,784 (2013 Fee)

2013 Fee	\$ 207,784
2012 Fee	<u>204,228</u>
Increase	\$ <u>3,556</u>

2012 Fee Increase

CPI – December 2011	<u>225.672</u>	=	1.02962
CPI – December 2010	219.180		

1.02962 x \$198,352 (2011 Fee) = \$204,228 (2012 Fee)

2012 Fee	\$ 204,228
2011 Fee	<u>198,352</u>
Increase	\$ <u>5,876</u>

Based on procedures performed, it appears that Norfolk Southern Corporation correctly calculated the annual fee provided to the Trustee.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Board's rent or fee collections. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Board of Trustees, Cincinnati Southern Railway, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures of their purposes.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2014