

Board of Trustees, Cincinnati Southern Railway

Independent Accountants'

Report on Applying Agreed-Upon Procedures



CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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 and 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

Observe the documentation maintained by the City, which supports the City’s review of the rent computation for the years ended December 31, 2019 and 2018.

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 29, 2018	Receipt of quarterly payment for \$5,451,184.25	(A)
April 3, 2018	Receipt of quarterly payment for \$5,451,184.25	(A)
April 4, 2018	New IPD-GNP index and rent calculation	(B)
July 2, 2018	Receipt of quarterly payment for \$5,740,315.25 and New IPD-GNP index and rent calculation	(C)
October 2, 2018	Receipt of quarterly payment for \$5,547,561.25	(A)

<u>Date of Letter</u>	<u>Purpose of Letter</u>	<u>Discussion Reference</u>
January 3, 2019	Receipt of quarterly payment for \$5,547,561.25	(E)
April 3, 2019	Receipt of quarterly payment for \$5,547,561.25	(E)
April 17, 2019	New IPD-GNP index and rent calculation	(D)
July 3, 2019	Receipt of quarterly payment \$5,918,527.00 and New IPD-GNP index and rent calculation	(F)
October 3, 2019	Receipt of quarterly payment for \$5,671,216.50	(E)

(A) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules dated January 29, 2018, April 3, 2018, and October 2, 2018, for the receipt of the quarterly rent payments of \$5,451,184.25, \$5,451,184.25 and \$5,547,561.25, respectively were received from Norfolk Southern Corporation.

(B) Calculation of 2018 Cincinnati Southern Railway Rent Memo prepared on April 4, 2018 by Sam Stephens, Debt Manager, was sent to the Norfolk Southern Corporation advising the Corporation of the annual rental increase to \$22,190,245 (\$5,547,561.25 per quarter) and the adjustment to the quarterly rental payment of \$192,754 for July.

The letter presented the calculation for the 2018 rent as follows:

$$\begin{array}{r} \text{IPD-GNP March 2018} \quad 113.500 \\ \hline \text{IPD-GNP March 2017} \quad 111.528 \end{array} = 1.01768$$

$$1.01768 \times \$21,804,737 \text{ (2017 rent)} = \$22,190,245 \text{ (2018 rent)}$$

$$\$22,190,245 \div 4 = \$5,547,561.25 \text{ (2018 quarterly rent)}$$

The adjustment for the first and second quarter 2018:

Quarterly rent 2018 x 2	\$ 11,095,122.50
Rent received January and April	<u>10,902,368.50</u>
Rent adjustment received July 2018	\$ <u>192,754.00</u>

(C) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules quarterly rental payment of \$5,740,315.25 received on July 2, 2018 includes \$5,547,561.25 for the current quarter and an adjustment in the amount of \$192,754.00 for the first and second quarter amounts.

- (D) Calculation of 2019 Cincinnati Southern Railway Rent Memo prepared on April 17, 2019 by Sam Stephens, Debt Manager, was sent to the Norfolk Southern Corporation advising the Corporation of the annual rental increase to \$22,684,866 (\$5,671,216.50 per quarter) and the adjustment to the quarterly rental payment of \$247,310.50 for July.

The letter presented the revised calculation for the 2019 rent increase as follows:

$$\begin{array}{r} \text{IPD-GNP March 2019} \quad 110.308 \\ \hline \text{IPD-GNP March 2018} \quad 107.903^{**} \end{array} = 1.02229$$

$$1.02229 \times \$22,190,245 \text{ (2018 rent)} = \$22,684,866 \text{ (2019 rent)}$$

$$\$22,684,866 \div 4 = \$5,671,216.50 \text{ (2019 quarterly rent)}$$

**IDP-GNP for 2017 used in 2019 calculate does not match the figured used in the 2018 calculation due to the fact the Bureau of Economic Analysis changed the base index number from 2009 to 2012.

The adjustment for the first and second quarter 2019:

Quarterly rent 2019 x 2	\$ 11,342,433.00
Rent received January and April	<u>11,095,122.50</u>
Rent adjustment received July 2019	\$ <u>247,310.50</u>

- (E) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules dated January 3, 2019, April 3, 2019, and October 3, 2019, for the receipt of the quarterly rent payments of \$5,547,561.25, \$5,547,561.25 and \$5,671,216.50, respectively were received from Norfolk Southern Corporation.
- (F) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules quarterly rental payment of \$5,918,527.00 received July 3, 2019 includes \$5,671,216.50 for the current quarter and an adjustment in the amount of \$247,310.50 for the first and second quarter amounts.

2. Procedure Performed

Reperformed 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, 2019 and 2018.

Results of Procedures Performed

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

2019 Fee Increase

CPI – December 2018	251.233		
	<u> </u>	=	1.01910
CPI – December 2017	246.524		
1.01910 x \$223,099 (2018 Fee) = \$227,360 (2019 Fee)			
2019 Fee	\$ 227,360		
2018 Fee	<u>223,099</u>		
Increase	\$ <u>4,261</u>		

2018 Fee Increase

CPI – December 2017	246.524		
	<u> </u>	=	1.02109
CPI – December 2016	241.432		
1.02109 x \$218,490 (2017 Fee) = \$223,099 (2018 Fee)			
2018 Fee	\$ 223,099		
2017 Fee	<u>218,490</u>		
Increase	\$ <u>4,609</u>		

Reperformed the calculations of Norfolk Southern Corporation without exception.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Board's rent or fee collections. Accordingly, we do not express such an opinion or conclusion. 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 is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
September 14, 2020

