

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

Review the documentation maintained by the City, which supports the City’s review of the rent computation for the years ended December 31, 2017 and 2016.

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 5, 2016	Receipt of quarterly payment for \$5,298,617.75	(A)
April 4, 2016	Receipt of quarterly payment for \$5,298,617.75	(A)
April 27, 2016	New IPD-GNP index and rent calculation	(B)
July 5, 2016	Receipt of quarterly payment for \$5,512,893.50 and New IPD-GNP index and rent calculation	(C)
October 4, 2016	Receipt of quarterly payment for \$5,370,043.00	(A)
January 5, 2017	Receipt of quarterly payment for \$5,370,043.00	(E)
April 4, 2017	Receipt of quarterly payment for \$5,370,043.00	(E)
April 24, 2017	New IPD-GNP index and rent calculation	(D)
June 12, 2017	Revised rent calculation	(D)

<u>Date of Letter</u>	<u>Purpose of Letter</u>	<u>Discussion Reference</u>
July 5, 2017	Receipt of quarterly payment \$5,613,466.75 and New IPD-GNP index and rent calculation	(F)
October 3, 2017	Receipt of quarterly payment for \$5,451,184.25	(E)
(A)	City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules dated January 5, 2016, April 4, 2016, and October 4, 2016, for the receipt of the quarterly rent payments of \$5,298,617.75, \$5,298,617.75 and \$5,370,043.00, respectively were received from Norfolk Southern Corporation.	
(B)	Calculation of 2016 Cincinnati Southern Railway Rent Memo prepared on April 27, 2016 by Bill Berger, Bond Retirement, was sent to the Norfolk Southern Corporation advising the Corporation of the annual rental increase to \$21,480,172 (\$5,370,043 per quarter) and the adjustment to the quarterly rental payment of \$142,850.50 for July.	

The letter presented the calculation for the 2016 rent as follows:

$$\begin{array}{r}
 \text{IPD-GNP March 2016} \quad 109.868 \\
 \hline
 \text{IPD-GNP March 2015} \quad 108.407
 \end{array}
 = 1.01348$$

$1.01348 \times \$21,194,471 \text{ (2015 rent)} = \$21,480,172 \text{ (2016 rent)}$
 $\$21,480,172 \div 4 = \$5,370,043 \text{ (2016 quarterly rent)}$

The adjustment for the first and second quarter 2016:

Quarterly rent 2016 x 2	\$ 10,740,086.00
Rent received January and April	<u>10,597,235.50</u>
Rent adjustment received July 2016	\$ <u><u>142,850.50</u></u>

- (C) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules quarterly rental payment of \$5,512,893.50 received on July 5, 2016 includes \$5,370,043 for the current quarter and an adjustment in the amount of \$142,850.50 for the first and second quarter amounts.
- (D) Original calculation of 2017 Cincinnati Southern Railway Rent Memo was prepared on April 24, 2017 by Chadrian Johnson, Bond Retirement, and was sent to the Norfolk Southern Corporation, advising the Corporation of the annual rental increase to \$21,788,412. However, an error was subsequently discovered by the City in the calculation. A revised calculation of 2017 Cincinnati Southern Railway Rent Memo was prepared on June 12, 2017 by Chadrian Johnson, Bond Retirement, and was sent to Norfolk Southern Corporation, advising the Corporation of the revised annual rental increase to \$21,804,737 (\$5,451,184.25 per quarter) and the adjustment to the quarterly rental payment of \$162,282.50 for July.

The letter presented the revised calculation for the 2017 rent increase as follows:

$$\begin{array}{r} \text{IPD-GNP March 2017} \quad 111.528 \\ \hline \text{IPD-GNP March 2016} \quad 109.868 \end{array} = 1.01511$$

$$1.01511 \times \$21,480,172 \text{ (2016 rent)} = \$21,804,737 \text{ (2017 rent)}$$

$$\$21,804,737 \div 4 = \$5,451,184.25 \text{ (2017 quarterly rent)}$$

The adjustment for the first and second quarter 2017:

Quarterly rent 2017 x 2	\$ 10,902,368.50
Rent received January and April	<u>10,740,086.00</u>
Rent adjustment received July 2017	\$ <u>165,282.50</u>

- (E) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules dated January 5, 2017, April 4, 2017, and October 3, 2017, for the receipt of the quarterly rent payments of \$5,370,043.00, \$5,370,043.00 and \$5,451,184.25, respectively were received from Norfolk Southern Corporation.
- (F) City of Cincinnati Department of Finance, Division of Treasury, Cash Receipts Schedules quarterly rental payment of \$5,613,466.75 received July 5, 2017 includes \$5,451,184.25 for the current quarter and an adjustment in the amount of \$162,282.50 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, 2017 and 2016.

Results of Procedures Performed

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

2017 Fee Increase

CPI – December 2016	241.432		
	<u> </u>	=	1.02075
CPI – December 2015	236.525		
1.02075 x \$214,050 (2016 Fee) = \$218,490 (2017 Fee)			
2017 Fee	\$ 218,490		
2016 Fee	<u>214,050</u>		
Increase	\$ <u>4,440</u>		

2016 Fee Increase

CPI – December 2015	<u>236.525</u>	=	1.00730
CPI – December 2014	234.812		
1.00730 x \$212,498 (2015 Fee) = \$214,050 (2016 Fee)			
2016 Fee	\$ 214,050		
2015 Fee	<u>212,498</u>		
Increase	\$ <u>1,552</u>		

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

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
June 15, 2018

