

Board of Trustees, Cincinnati Southern Railway

Financial Statements and Additional Financial Information
(Relating Solely to the Cash Transactions of the Board of Trustees)

Years Ended December 31, 2010 and 2009

(with Independent Auditors' Report)



CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Cincinnati Southern Railway:

We have audited the accompanying statements of assets and fund balances – cash basis of the Board of Trustees, Cincinnati Southern Railway, (relating solely to the cash transactions of the Board of Trustees) as of December 31, 2010 and 2009, and the related statements of receipts, disbursements and changes in fund balances – cash basis for the years then ended. These financial statements are the responsibility of the Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Board of Trustees, Cincinnati Southern Railway prepares its financial statements on the cash basis of accounting which is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and fund balances arising from cash transactions of the Board of Trustees, Cincinnati Southern Railway as of December 31, 2010 and 2009, and its receipts, disbursements, and changes in fund balances for the years then ended, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have issued our report dated June 14, 2011 on our consideration of the Board of Trustees, Cincinnati Southern Railway's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The summary schedule of cash receipts and disbursements, detailed schedule of cash receipts, detailed schedule of cash disbursements, and detailed schedule of interest received on pages 12 through 15 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Clark, Selinger, Harbott & Co.

Cincinnati, Ohio
June 14, 2011

Board of Trustees, Cincinnati Southern Railway
 Statements of Assets and Fund Balances - Cash Basis
 (Relating Solely to the Cash Transactions of the Board of Trustees)
 December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents (including certificates of deposits)	\$ <u>372,083</u>	<u>299,311</u>
Total assets	<u>372,083</u>	<u>299,311</u>
 Fund Balances:		
Unrestricted:		
Expense Reserve Fund	<u>363,648</u>	<u>290,880</u>
Total unrestricted fund balance	<u>363,648</u>	<u>290,880</u>
Restricted:		
Investment Fund	<u>8,435</u>	<u>8,431</u>
Total restricted fund balances	<u>8,435</u>	<u>8,431</u>
Total fund balances	\$ <u>372,083</u>	<u>299,311</u>

See accompanying notes to financial statements.

Board of Trustees, Cincinnati Southern Railway
 Statements of Receipts, Disbursements and Changes in Fund Balances - Cash Basis
 (Relating Solely to the Cash Transactions of the Board of Trustees)
 For the Year Ended December 31, 2010

	Expense Reserve Fund	Investment Fund	Total
Receipts:			
Payments from lessee	\$ 195,429	-	195,429
Earnings on investments	<u>-</u>	<u>150</u>	<u>150</u>
Total receipts	<u>195,429</u>	<u>150</u>	<u>195,579</u>
Disbursements:			
Professional services	122,782	-	122,782
Miscellaneous	<u>25</u>	<u>-</u>	<u>25</u>
Total expenses	<u>122,807</u>	<u>-</u>	<u>122,807</u>
Excess of cash receipts over disbursements	72,622	150	72,772
Transfers between funds:			
Allocation of earnings on investment	<u>146</u>	<u>(146)</u>	<u>-</u>
Excess of cash receipts over disbursements after transfers between funds	72,768	4	72,772
Fund balances:			
Beginning of year	<u>290,880</u>	<u>8,431</u>	<u>299,311</u>
End of year	\$ <u>363,648</u>	<u>8,435</u>	<u>372,083</u>

See accompanying notes to financial statements.

Board of Trustees, Cincinnati Southern Railway
Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis
(Relating Solely to the Cash Transactions of the Board of Trustees)
For the Year Ended December 31, 2009

	Expense Reserve Fund	Investment Fund	Total
Receipts:			
Payments from lessee	\$ 190,252	-	190,252
Earnings on investments	<u>-</u>	<u>5,463</u>	<u>5,463</u>
Total receipts	<u>190,252</u>	<u>5,463</u>	<u>195,715</u>
Disbursements:			
Professional services	654,814	-	654,814
Public officials liability insurance	10,795	-	10,795
Miscellaneous	<u>62</u>	<u>-</u>	<u>62</u>
Total expenses	<u>665,671</u>	<u>-</u>	<u>665,671</u>
Excess of cash receipts over (under) disbursements	(475,419)	5,463	(469,956)
Transfers between funds:			
Allocation of earnings on investment	<u>5,380</u>	<u>(5,380)</u>	<u>-</u>
Excess of cash receipts over (under) disbursements after transfers between funds	(470,039)	83	(469,956)
Fund balances:			
Beginning of year	<u>760,919</u>	<u>8,348</u>	<u>769,267</u>
End of year	\$ <u>290,880</u>	<u>8,431</u>	<u>299,311</u>

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of the Board of Trustees, Cincinnati Southern Railway ("the Board") are set forth to facilitate the understanding of data presented in the financial statements.

Description of entity

The Trustees of the Cincinnati Southern Railway operated initially under the provisions of the General Assembly of the State of Ohio and the General Code Sections as supplemented or amended by various House Bills. On April 4, 1977, House Bill 69 was passed authorizing the City of Cincinnati to provide legislation for the continuance of a Board of Trustees.

Ordinance #290-1977 provided for the appointment, removal, bonding, and compensation of the Board. The Board of Trustees must consist of five members who shall be appointed by the Mayor with approval of City Council.

Principles of operations

The Board holds title on behalf of the City of Cincinnati to a railroad right-of-way between Cincinnati, Ohio and Chattanooga, Tennessee and leases the property to the Cincinnati, New Orleans and Texas Pacific Railway Company, a wholly-owned subsidiary of the Norfolk Southern Corporation (lessee). The lease expires on December 31, 2026, but has an option for an additional twenty-five years. All funds paid by the Lessee under terms of the various leases are sent directly to the Treasurer of the City of Cincinnati without going through the Board's financial records. The lease also provides that the Board may sell or convey any land or lands included in the lease, which may become unnecessary for the maintenance, use and operation of the railway.

Basis of accounting

The Board prepares its financial statements on the basis of cash receipts and cash disbursements. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. The accompanying financial statements are therefore not intended to be in accordance with accounting principles generally accepted in the United States of America. These financial statements include only those funds that were received and accounted for through the records of the Board, which includes the annual payments by the Lessee for Board expenses, income from trustee investments and income derived from the sale of unneeded right-of-way property.

Property of the Cincinnati Southern Railway, leases, and right-of-ways, etc., are not included in the financial statements because records of the cost and/or fair value of the tangible assets and intangible assets are not available. Additionally, proceeds from bond issues and payments for the principal and interest on bonds are not reported in the financial statements because these items are under the jurisdiction of the City of Cincinnati.

Fund accounting

In order to ensure the observance of limitations and restrictions placed on the use of the resources available to the Board, the accounts are maintained in accordance with the principles of fund accounting. Fund accounting is the procedure by which the resources for various purposes are classified for each fund and all financial transactions are reported by each fund group. A brief description of the funds follows:

Expense Reserve Fund

The Expense Reserve Fund receives revenue from the lease and pays the necessary expenses of the Board in conducting the affairs.

Sale of Property Fund

The Sale of Property Fund receives the proceeds and pays related expenses for the sale of leased property which is deemed to be superfluous and returned to the Trustees in accordance with Section 3(e) of the Supplemental Agreement. Based upon the research of the City of Cincinnati Solicitor's office, the net earnings from the sale of property fund are to be paid to the Treasurer of the City of Cincinnati for bond retirement. In 2010 and 2009, no such payments were made.

In accordance with Section 3(f) of the Supplemental Agreement, proceeds for leased property which is condemned or conveyed under threat of condemnation are excluded from being recorded in the sale of property fund and are held by the Lessee in a property replacement account (see Note 5).

Investment Fund

The Investment Fund receives the proceeds from all investments and allocates these earnings to the other funds based on a calculation derived by the Board (see Note 3).

Income Taxes

The Board is exempt from federal income taxes under Internal Revenue Code Section 115.

Compensation

Section 205-5 of the Cincinnati Municipal Code provides that Trustees may receive compensation, with Board consent, for special assignments related to Board responsibilities that may arise from time to time. For the years ended December 31, 2010 and 2009, no Trustees received compensation.

2. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents include all cash balances and certificates of deposit with an initial maturity of three months or less on deposit with local banks. At December 31, 2010 and 2009, the cash and cash equivalent balances were \$372,083 and \$299,311, respectively. Of the bank deposit balances, the statutory limit was covered by the Federal Deposit Insurance Corporation and the balance was collateralized by pools established by the financial institutions to secure the repayment of all public monies deposited with the institutions as required by Section 135 of the Ohio Revised Code.

3. EARNINGS ON INVESTMENTS:

All interest earned on certificates of deposits are recorded in the Investment Fund. The Expense Reserve Fund is allocated a portion of this revenue, with the remaining balance being deemed excess revenues to be remitted to the City of Cincinnati. For the years ended December 31, 2010 and 2009, the allocation to the Expense Reserve Fund is computed on a pro-rata basis based on the average fund balances of the Expense Reserve Fund and Investment Fund. The amounts allocated are as follows:

Board of Trustees, Cincinnati Southern Railway
Notes to the Financial Statements
(Relating Solely to the Cash Transactions of the Board of Trustees)
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Expense Reserve Fund	\$ 146	5,380
City of Cincinnati	<u>4</u>	<u>83</u>
	\$ <u>150</u>	<u>5,463</u>

4. PAYMENTS FROM LESSEE TO EXPENSE RESERVE FUND:

The Board receives quarterly payments from the lessee to defray the cost of necessary expenses. Since January 1, 1987, the annual base payment was increased to \$100,000 and the payments increase annually based on the change in the consumer price index, but in no event will they be lower than \$100,000. Payments received based on changes in the consumer price index were \$195,429 and \$190,252 in 2010 and 2009, respectively. The Board received the 4th Quarter 2009 payment of \$25,000 on January 5, 2010 and the Board did not receive the 4th Quarter 2010 payment of \$25,000 until January 4, 2011.

5. PROPERTY REPLACEMENT ACCOUNT:

In accordance with Section 3(f) of the Supplemental Agreement, any cash awarded from leased property being condemned or under threat of condemnation is to be deposited into an interest-bearing account in the name of the lessee. This account is not included in the financial statements of the Board. These funds shall be used by the lessee for repairs and improvements of railroad operations. On an annual basis, the Board is to receive an accounting of these funds from the lessee. All monies remaining at the end of the lease will be remitted directly to the Board.

During 1990, a Property Replacement Account was established with a financial institution (since this account was opened, this bank has changed names, U.S. Bank is the current bank) with deposits of \$14,500 from McCreary County, Kentucky and \$500 from Hamilton County, Tennessee.

During 1991, a \$1,550 award from Hamilton County, Tennessee was negotiated and apportioned, with \$748 for permanent drainage easement to be deposited in the Property Replacement Account and \$802 for temporary slope easement to be retained by the Cincinnati, New Orleans and Texas Pacific Railway Company. Also, during 1991, \$9,175 was generated by approving a permanent and temporary easement to the State of Kentucky.

During 1992, \$14,925 was generated by selling three parcels of property that were to be condemned to the Tennessee Department of Transportation. Also, \$2,000 was generated from an adverse possession claim on the Catnip Hill, Kentucky property.

During 1993 and 1994, the only activity in this account was for interest earnings.

During 1995, \$8,880 was generated by selling 1.416 acres in Tennessee to the Tennessee Department of Transportation under threat of condemnation.

During 1996, \$9,500 was generated by selling 1.318 acres in Tennessee to the Tennessee Department of Transportation under threat of condemnation.

Board of Trustees, Cincinnati Southern Railway
Notes to the Financial Statements
(Relating Solely to the Cash Transactions of the Board of Trustees)
December 31, 2010 and 2009

During 1997, \$2,075 was refunded to the Cincinnati, New Orleans and Texas Pacific Railway Company. The Board determined that \$2,075 of the \$9,500 deposit made during 1996 should have been paid to the Company for deprivation of use of land belonging to the Company.

During 1998, \$32,824 was generated by selling 8,604 square feet in Tennessee to the Chattanooga Housing Authority under threat of condemnation and \$800 was generated by selling 0.3 acres to the Tennessee Department of Transportation under threat of condemnation.

During 1999, \$47,468 was generated by selling 2.3 acres in Chattanooga, Tennessee and \$25,000 was generated for conveyance of land to Erlanger, Kentucky.

During 2000, \$7,470 was generated by selling .86 acres in Chattanooga, Tennessee and \$1,001 was generated related to a condemnation award for a wire line crossing in Scott County, Tennessee.

During 2001, 2002, and 2003, the only activity in this account was for interest earnings.

During 2004, \$4,400 was generated by selling 1.309 acres in Whitley City, Kentucky to the Kentucky Department of Transportation under threat of condemnation, \$36,984 was generated by selling 3.05 acres in Tennessee to Hamilton County, Tennessee related to a condemnation award for easements, \$6,825 was generated by selling .512 acres in Chattanooga, Tennessee to the Tennessee Department of Transportation related to a condemnation award for Third Street, and \$3,294 was generated by selling multiple parcels of land in Spring City, Tennessee to the Tennessee Department of Transportation related to a condemnation award.

During 2005, \$9,646 was generated by selling various easements in Pulaski County, Kentucky to East Kentucky Power Cooperative under threat of condemnation, \$7,000 was generated by selling land below the Elm Street Bridge located in Kenton County, Kentucky to the State of Kentucky under threat of condemnation, and \$168,000 was generated by selling 1.68 acres in Fayette County, Kentucky to the University of Kentucky under threat of condemnation.

During 2006, the only activity in this account was for interest earnings.

During 2007, \$3,000 was generated by the sale of a permanent easement for an overhead bridge in Crescent Springs, Kenton County, Kentucky.

During 2008, \$5,000 was generated by the sale of a permanent easement for transmission lines on land located in the Fourth Civil District of Scott County, Tennessee.

During 2009, \$127,220 was generated by the sale of permanent easements for sidewalks and utilities, \$4,443 was generated by the sale of permanent aerial easement for a bridge, \$8,525 was generated by the sale of permanent easements for roadway, \$7,775 was generated by sale of permanent easements, \$8,228 was generated by the sale of permanent easements, and \$351,000 was generated by the sale of 1.17 acres to Kentucky Transportation Cabinet.

During 2010, \$2,700 was generated by the sale of permanent easements. In March, \$7,775 was determined to have been deposited in 2009 into the 3(f) account in error. A transfer of \$7,775 was made from the 3(f) to Norfolk Southern Corporation to correct the error.

Board of Trustees, Cincinnati Southern Railway
Notes to the Financial Statements
(Relating Solely to the Cash Transactions of the Board of Trustees)
December 31, 2010 and 2009

<u>Description of Account Activity</u>	<u>Amount</u>
Hamilton County, Tennessee – permanent easement, 1990	\$ 500
McCreary County, Kentucky – threat of condemnation, 1990	14,500
Hamilton County, Tennessee – permanent drainage easement, 1991	748
State of Kentucky – permanent and temporary easements, 1991	9,175
Tennessee Department of Transportation – threat of condemnation, 1992	14,925
Catnip Hill – adverse possession, 1992	2,000
Tennessee Department of Transportation – threat of condemnation, 1995	8,880
Tennessee Department of Transportation – threat of condemnation, 1996	9,500
Refund of 1996 deposit due to deprivation of land use, 1997	(2,075)
Chattanooga Housing Authority – threat of condemnation, 1998	32,824
Tennessee Department of Transportation – threat of condemnation, 1998	800
Chattanooga, Tennessee – sale of 2.3 acres deemed superfluous, 1999	47,468
Erlanger, Kentucky – sale of 1.573 acres deemed superfluous, 1999	25,000
Chattanooga, Tennessee – sale of .86 acres, 2000	7,470
Scott County, Tennessee – condemnation award, 2000	1,001
State of Kentucky – threat of condemnation, 2004	4,400
Hamilton County, Tennessee – condemnation award, 2004	36,984
Chattanooga, Tennessee – condemnation award, 2004	6,825
Spring City, Tennessee – condemnation award, 2004	3,294
Pulaski County, Kentucky – condemnation award, 2005	9,646
Kenton County, Kentucky – condemnation award, 2005	7,000
Fayette County, Kentucky – condemnation award, 2005	168,000
Kenton County, Kentucky – permanent easement, 2007	3,000
Scott County, Tennessee – permanent easement, 2008	5,000
Grant County, Kentucky – permanent easement, 2009	141,320
Temporary easement to be retained by Norfolk Southern, 2009	(14,100)
Crescent Springs, Kentucky – permanent easement, 2009	4,433
Lexington, Kentucky – permanent easements, 2009	8,525
Lexington, Kentucky – permanent easements, 2009	7,775
Lexington, Kentucky – sale of 1.17 acres – threat of condemnation, 2009	351,000
Pulaski County, Kentucky – permanent easement, 2009	8,228
Wire Fees, 2009	(24)
Nicholasville, Kentucky – permanent easement, 2010	1,000
Scott County, Kentucky – permanent easement, 2010	1,700
Transfer to Norfolk Southern for overpayment account related to easement from 2009	(7,775)
Wire Fees, 2010	(17)
Interest earnings through 2010	<u>29,374</u>
Total	<u>\$ 948,304</u>
Amounts confirmed with both U.S. Bank and Norfolk Southern Corporation	<u>\$ 948,304</u>

Board of Trustees, Cincinnati Southern Railway
Notes to the Financial Statements
(Relating Solely to the Cash Transactions of the Board of Trustees)
December 31, 2010 and 2009

6. CINCINNATI, NEW ORLEANS AND TEXAS PACIFIC RAILWAY COMPANY:

As described in Note 1, the Board leases property to the Cincinnati, New Orleans and Texas Pacific Railway Company, who remits payment under this lease directly to the City of Cincinnati in quarterly installments.

In 1987, a Supplementary Agreement was negotiated in which the basic rent was established at \$11,000,000 per year, coupled with an escalator clause with a formula based upon the Implicit Price Deflator for Gross National Product (IPD-GNP). The use of this formula is reflected in rental payments as shown below:

<u>Year</u>	<u>Rent payments received by the City of Cincinnati</u>
1987	\$ 6,000,000 (A)
1987	11,706,522 (B)
1988	14,159,750 (C)
1989	8,900,706
1990	12,238,082
1991	12,685,453
1992	13,192,871
1993	13,632,589
1994	13,993,444
1995	14,207,684
1996	14,559,892
1997	14,857,993
1998	15,216,901
1999	15,256,161
2000	15,511,244
2001	15,852,336
2002	16,211,233
2003	16,407,065
2004	16,681,555
2005	17,085,916
2006	17,701,180
2007	18,317,889
2008	18,889,407
2009	19,323,674
2010	<u>19,551,307</u>
	<u>\$ 372,140,854</u>

(A) Reflects the agreed upon sum for settlement of past claims under the Supplementary Agreement.

(B) Reflects rent for 1987 plus interest on late payment of rents.

(C) The 1988 rent received includes \$2,831,950 pre-payment of rental income due in 1989.

ADDITIONAL FINANCIAL INFORMATION

Board of Trustees, Cincinnati Southern Railway
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended December 31, 2010

	<u>Amount</u>
Cash account balances:	
US Bank Premium Business Checking with Interest	\$ <u>299,311</u>
 Total cash balances at January 1, 2010	 299,311
Receipts:	
Total receipts for the year	
(See schedule at page 13)	195,579
Disbursements:	
Total disbursements for the year	
(See schedule at page 14)	<u>(122,807)</u>
 Total cash balances at December 31, 2010	 \$ <u>372,083</u>
 Cash account balances:	
US Bank Premium Business Checking with Interest	\$ 72,083
US Bank - Certificate of Deposit	<u>300,000</u>
 Total cash balances at December 31, 2010	 \$ <u>372,083</u>

Board of Trustees, Cincinnati Southern Railway
Detailed Schedule of Cash Receipts
For the Year Ended December 31, 2010

<u>Deposit Date</u>	<u>Transactions</u>	<u>Amount</u>
01/05/10	Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 4th quarter 2009	\$ 25,000
4/2/2010	Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 1st quarter 2010	25,000
06/30/10	Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 2nd quarter 2010	25,000
07/06/10	Norfolk Southern Railway Co. - 2010 fee adjustment	95,429
10/04/10	Norfolk Southern Railway Co. - quarterly payment for Board of Trustees expenses, 3rd quarter 2010	25,000
	Total interest received in 2010 (see schedule at page 15)	<u>150</u>
		\$ <u>195,579</u>

Board of Trustees, Cincinnati Southern Railway
Detailed Schedule of Cash Disbursements
For the Year Ended December 31, 2010

<u>Date</u>	<u>Transactions</u>	<u>Amount</u>
01/13/10	Ennis Knupp - Consulting Fee	\$ 31,549
01/13/10	Vehr Communications - Professional Services	540
01/13/10	K&L Gates - Services provided	3,187
01/28/10	K&L Gates - Services provided	6,931
02/24/10	Vehr Communications - Professional Services provided in 12/26/09 - 1/25/10	1,231
03/17/10	Vehr Communications - Professional Services provided in 1/26/10 - 2/25/10	792
03/31/10	Bank service charge	25
04/14/10	Vehr Communications - Professional Services provided in 2/26/10 - 3/25/10	1,038
04/14/10	Squire, Sanders & Dempsey LLP - Legal Services - Assets Disposition Legislation	37,580
04/14/10	K&L Gates - Services provided	3,037
06/09/10	Vehr Communications - Professional Services provided in 3/26/10 - 4/25/10	1,254
06/09/10	Clark Schaefer Hackett - 2009 Audit	6,450
06/09/10	American Short Line and Regional Railroad Association	5,935
06/09/10	K&L Gates - Services provided	8,860
07/01/10	Vehr Communications - Professional Services provided 5/26/10 - 6/25/10	333
09/10/10	K&L Gates - Services provided	3,498
09/10/10	Vehr Communications - Professional Services provided 6/26/10 - 7/25/10	567
09/10/10	Ennis Knupp - Consulting Fee	<u>10,000</u>
		\$ <u>122,807</u>

Board of Trustees, Cincinnati Southern Railway
Detailed Schedule of Interest Received
For the Year Ended December 31, 2010

	US Bank Premium Business <u>Checking</u>
January	\$ 13
February	11
March	12
April	12
May	11
June	10
July	15
August	15
September	14
October	16
November	15
December	<u>6</u>
Total interest	\$ <u>150</u>

SUPPLEMENTAL REPORT

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees,
Cincinnati Southern Railway:

We have audited the financial statements of the Board of Trustees, Cincinnati Southern Railway (the "Board") as of and for the year ended December 31, 2010 and have issued our report thereon dated June 14, 2011 wherein we noted the Board uses the cash basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
June 14, 2011