Florida East Coast Railway, L.L.C.

Independent Auditors' Unmodified Opinion on the Schedule of Expenditures of State Financial Assistance of State of Florida Program when using the Program-Specific Audit option to Satisfy Section 215.97, *Florida Statutes* Requirements; Independent Auditors' Report on Compliance For a State of Florida Program and Report on Internal Control over Compliance when using the Program-specific Audit option to satisfy the Section 215.97, *Florida Statutes* Requirements; and Schedule of Expenditures of State Financial Assistance for the year ended December 31, 2017.

FLORIDA EAST COAST RAILWAY, L.L.C.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' UNMODIFIED OPINION ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE OF STATE OF FLORIDA PROGRAM WHEN USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY SECTION 215.97, *FLORIDA STATUTES* REQUIREMENTS	1–2
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR A STATE OF FLORIDA PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE WHEN USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY THE SECTION 215.97, *FLORIDA STATUTES* REQUIREMENTS.	3–4
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE - YEAR ENDED DECEMBER 31, 2017	5
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE - YEAR ENDED DECEMBER 31, 2017	6
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017	7
SUMMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2017	8

Deloitte & Touche LLP
Certified Public Accountants
Suite 3400
50 North Laura Street
Jacksonville, FL 32202
USA
Tel: 904 665 1400
Fax: 904 665 1600
www.deloitte.com

INDEPENDENT AUDITORS' OPINION ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE OF STATE OF FLORIDA PROGRAM WHEN USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY SECTION 215.97, *FLORIDA STATUTES* REQUIREMENTS

To the Stockholders of
Florida East Coast Railway, L.L.C.
Jacksonville, Florida

Report on the Schedule of Expenditures of State Financial Assistance

We have audited the accompanying schedule of expenditures of state financial assistance (the "Statement") for the Railway Development Grants of Florida East Coast Railway, L.L.C. (the "Company") for the year ended December 31, 2017, and the related notes to the schedule of expenditures of state financial assistance.

Management's Responsibility for the Schedule of Expenditures of State Financial Assistance

Management is responsible for the preparation and fair presentation of this Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, (the "Standards") issued by the Comptroller General of the United States; and the Section 215.97, *Florida Statute* requirements (the "Statute"). Those Standards and the Statute require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Statement 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, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the expenditures of state financial assistance for the Florida East Coast Railway, L.L.C. for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 24, 2018

Deloitte & Touche LLP
Certified Public Accountants
Suite 3400
50 North Laura Street
Jacksonville, FL 32202
USA
Tel: 904 665 1400
Fax: 904 665 1600
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR A STATE OF FLORIDA PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE WHEN USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY THE SECTION 215.97, FLORIDA STATUTES REQUIREMENTS

To the Stockholders of
Florida East Coast Railway, L.L.C.
Jacksonville, Florida

Report on Compliance for Railway Development Grants

We have audited Florida East Coast Railway, L.L.C.'s (the "Company") compliance with the types of compliance requirements described in the Department of Financial Services State Projects Compliance Supplement that could have a direct and material effect on the Railway Development Grants for the year ended December 31, 2017.

Management's Responsibility

Management is responsible for compliance with the State statutes, regulations, and the terms and conditions of State awards applicable to Railway Development Grants.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Company's Railway Development Grants based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (collectively, the "Standards"); and Section 215.97, *Florida Statutes* (the "Statute"). Those Standards and the Statute require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a Railway Development Grants occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for Railway Development Grants. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Compliance for Railway Development Grants

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Railway Development Grants for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on its Railway Development Grants to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its Railway Development Grants and to test and report on internal control over compliance in accordance with the Statute, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies *in internal control* over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Statute. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

August 24, 2018

Florida East Coast Railway, L.L.C.

Schedule of Expenditures of State Financial Assistance

Year Ended December 31, 2017

Grantor agency / Project	State CSFA Number	Contract No.	State Financial Assistance Expenditures
Florida Department of Transportation:			
Rail Development Grants	55.021	G0061	$ 4,327,424
Rail Development Grants	55.021	G0063	4,139,981
Rail Development Grants	55.021	G0J21	3,515,390
Total expenditures of state financial assistance			$11,982,795

The accompanying notes are an integral part of the Schedule of Expenditures of State Financial Assistance.

Florida East Coast Railway, L.L.C.

Notes to Schedule of Expenditures of State Financial Assistance

Year Ended December 31, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of Florida East Coast Railway, L.LC. (the Company) for the year ended December 31, 2017 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Section 215.97, *Florida Statutes*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

2. Contingency

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the Company. In the opinion of management, all grant expenditures are in material compliance with the terms of the grant agreements and applicable state laws and regulations.

3. Relationship to State Financial Reports

The regulations and guidelines governing the preparation of state financial reports vary by state agency and among programs administered by the same agency. Accordingly, the amounts reported in the state financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared as explained in Note 1 above.

FLORIDA EAST COAST RAILWAY, L.L.C.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. SUMMARY OF AUDITORS' RESULTS

Schedule of Expenditures of State Financial Assistance:

Type of auditors' report issued — unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes _X__ no
- Significant deficiency(ies) identified? reported ___ yes _X_ none
- Noncompliance material to Schedule of Expenditures of State Financial Assistance noted? ___ yes _X__ no

State Awards:

Internal Control Over Railway Development Grants:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(ies) identified? _____ yes __X__ none reported

Type of auditor's report issued on compliance for Railway Development Grants: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with section 215.97, *Florida Statutes*? _____ yes __X__ no

Identification of State Program:

Rail Development Grants — CSFA 55.021

2. SECTION II—STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by Section 215.97, *Florida Statutes* (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving state financial assistance programs that are material to a Railway Development Grants.

No findings.

FLORIDA EAST COAST RAILWAY, L.L.C

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Not applicable since none reported.