

Pioneer Railcorp and Subsidiaries

Consolidated Balance Sheet
September 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash	\$ 50,376	\$ 50,286
Trade receivables, less allowance for doubtful accounts of \$178,243 and \$119,732 respectively	3,404,157	4,786,089
Inventories	460,607	438,355
Prepays and other assets	1,364,952	1,346,092
Deferred income tax	231,889	127,926
Prepayment of income tax	510,236	332,787
Total current assets	6,022,217	7,081,535
Property and equipment, net	54,916,415	51,176,143
Intangible assets	580,192	664,217
Goodwill	559,255	559,255
	\$ 62,078,079	\$ 59,481,150
LIABILITIES AND EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 403,249	\$ 272,592
Current maturities of salary continuation liability and option obligation	337,730	411,886
Note payable	1,071,411	1,126,616
Accounts payable	1,483,720	2,577,684
Accrued expenses	3,047,423	3,220,181
Deferred income taxes	-	-
Total current liabilities	6,343,533	7,608,959
Long-Term Liabilities:		
Line-of-credit	13,520,802	13,385,029
Long-term debt	1,292,720	1,149,365
Deferred revenue	6,763,138	6,459,894
Salary continuation liability, net of current maturities	2,863,516	3,096,961
Option obligation, net of current maturities	344,401	386,689
Deferred income taxes	10,105,000	8,926,000
Interest rate swap	417,383	299,354
Total long-term liabilities	35,306,960	33,703,292
Commitments and Contingencies		
Equity:		
Pioneer Railcorp stockholders' equity		
Common stock, Class A (voting), par value \$0.001 per share, authorized 20,000,000 shares, issued 4,181,843 shares in 2016 and 2015	4,181	4,181
In treasury 331,450 shares 2016 and 2015	(331)	(331)
Outstanding 3,850,393 shares 2016 and 2015	3,850	3,850
Common stock, Class B (nonvoting), no par value, authorized 20,000,000 shares	-	-
Additional paid-in capital	448,847	448,847
Subsidiary's option to purchase Pioneer Class A common stock	(156,077)	(272,133)
Subsidiary's investment in Pioneer Class A common stock (shares 2016 1,808,640 and 2015 1,733,640)	(10,183,859)	(9,695,803)
Retained Earnings	30,040,250	27,321,844
Accumulated other comprehensive loss	(286,553)	(209,834)
Total Pioneer Railcorp stockholders' equity	19,866,458	17,596,771
Noncontrolling interest	561,128	572,128
Total equity	20,427,586	18,168,899
	\$ 62,078,079	\$ 59,481,150

Pioneer Railcorp and Subsidiaries

Consolidated Statement of Income

Nine Months Ended September 30, 2016 and 2015

	2016	2015
Railway operating revenue	\$ 17,430,264	\$ 17,901,477
Operating expenses:		
Wages and benefits	6,293,903	6,126,969
Fuel and travel	738,931	1,120,336
Transportation, car hire and joint facility expenses	358,706	1,044,362
Liability, property and vehicle insurance	973,931	950,754
Health and dental costs	955,695	756,063
Maintenance of way, materials and purchased services	800,542	772,400
Professional fees	548,383	745,947
Purchased switching services	423,917	524,631
Equipment maintenance	424,182	444,185
Real estate taxes	295,789	262,441
Licenses and fees	251,353	280,218
Other expenses	971,934	892,850
Depreciation and amortization	2,834,106	2,626,756
Gain on sale of property and equipment	(53,943)	(23,000)
	15,817,429	16,524,912
Operating income	1,612,835	1,376,565
Other income (expenses):		
Lease income	499,280	532,811
Interest expense	(534,690)	(556,559)
Sale of income tax credits	756,543	-
Other, net	(34,763)	15,325
	686,370	(8,423)
Income before provision (benefit) for income taxes	2,299,205	1,368,142
Provision (benefit) for income taxes		-
Net income	2,299,205	1,368,142
Less: noncontrolling interest in preferred stock dividends of consolidated subsidiaries	(30,045)	(30,900)
Net income attributable to Pioneer Railcorp	2,269,160	1,337,242
Other comprehensive income (loss), net of tax expense (benefit):		
Adjustment applicable to change in fair value of interest swap contract, net of deferred taxes of (\$130,830) and (\$89,520) respectively	(76,719)	(127,922)
Comprehensive income	\$ 2,192,441	\$ 1,209,320

Pioneer Railcorp and Subsidiaries

Consolidated Statement of Cash Flow Nine Months Ended September 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Net income	\$ 2,299,205	\$ 1,368,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,834,106	2,626,756
Gain on sale of property and equipment	(44,443)	(23,000)
Deferred taxes	-	-
Provision for doubtful accounts	23,249	-
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Trade receivables	875,784	(992,167)
Prepayment of income taxes	13,329	(215,174)
Inventories	(1,757)	(4,431)
Prepaid expenses and other assets	(346,715)	(480,765)
Increase (decrease) in liabilities:		
Accounts payable	(529,008)	241,551
Accrued expenses	(778,505)	530,986
Deferred revenue	173,054	321,797
Net cash provided by operating activities	4,518,299	3,373,695
Cash Flows from Investing Activities:		
Proceeds from sale of property and equipment	54,908	23,000
Purchase of property and equipment	(5,848,578)	(5,100,265)
Investment in intangible assets	-	-
Net cash used in investing activities	(5,793,670)	(5,077,265)
Cash Flows from Financing Activities:		
Proceeds from line-of-credit	23,735,042	23,562,537
Proceeds from short-term notes payable	1,071,411	447,075
Proceeds from long-term debt	129,814	25,370
Principal payments on line-of-credit	(22,644,894)	(22,702,015)
Principal payments on short-term notes payable	(753,072)	-
Principal payments on long-term debt	153,602	878,470
Common stock dividend payments	-	-
Purchase of subsidiaries shares from noncontrolling interest	(9,000)	(40,000)
Preferred stock dividend payments to noncontrolling interest	(30,045)	(30,900)
Payments under salary continuation agreement	(164,626)	(152,766)
Payments under agreement to purchase common stock	(86,291)	(160,148)
Purchase of common stock by subsidiary	(126,501)	(124,000)
Net cash used in financing activities	1,275,440	1,703,622
Cash:		
Beginning of period	50,307	50,234
End of period	<u>\$ 50,376</u>	<u>\$ 50,286</u>
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Change in fair value of interest rate swap contract, net of deferred taxes of 2016 (\$130,830) and 2015 (\$89,520)	\$ (26,358)	\$ (58,734)