PIONEER RAILCORP

Consolidated Financial Report
December 31, 2013

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
Pioneer Railcorp
Peoria, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pioneer Railcorp and Subsidiaries (the Company) which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity'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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Railcorp and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Peoria, Illinois
March 26, 2014

Pioneer Railcorp and Subsidiaries

Consolidated Balance Sheets
December 31, 2013 and 2012

Assets	**2013**	2012
Current Assets:		
Cash	**$ 50,155**	$ 51,002
Trade receivables, less allowance for doubtful accounts of 2013 $114,605 and 2012 $85,022	**3,445,567**	3,112,381
Inventories	**441,584**	576,665
Prepaids and other assets	**673,865**	1,028,536
Prepayment of income tax	**631,235**	234,373
Deferred income taxes	**112,000**	657,000
Total current assets	**5,354,406**	5,659,957
Property and equipment, net	**44,588,832**	39,025,334
Intangible assets, net	**811,260**	386,909
Goodwill	**559,255**	559,255
Total assets	**$ 51,313,753**	$ 45,631,455

Liabilities and Equity	**2013**	2012
Current Liabilities:		
Notes payable and current maturities of long-term debt	**$ 642,243**	$ 495,743
Current maturities of salary continuation liability and option obligation	**390,838**	362,682
Accounts payable	**2,832,999**	2,523,529
Accrued expenses	**2,729,487**	2,436,168
Total current liabilities	**6,595,567**	5,818,122
Long-Term Liabilities:		
Line-of-credit	**11,197,677**	14,130,866
Long-term debt	**447,700**	375,159
Deferred revenue	**5,520,397**	3,314,451
Salary continuation liability and option obligation, net of current maturities	**4,208,451**	4,599,287
Interest rate swap	**62,355**	-
Deferred income taxes	**7,826,000**	5,897,000
Total long-term liabilities	**29,262,580**	28,316,763
Commitments and Contingencies (Notes 6, 8, 11 and 12)		
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	**4,181**	4,181
In treasury 331,450 shares in 2013 and 2012	**(331)**	(331)
Outstanding 3,850,393 shares in 2013 and 2012	**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	**(349,504)**	(426,875)
Subsidiary's investment in Pioneer Class A common stock (shares 2013 1,683,640 and 2012 1,633,640)	**(9,372,931)**	(9,057,560)
Retained earnings	**24,156,100**	19,899,180
Accumulated other comprehensive loss	**(49,884)**	-
Total Pioneer Railcorp stockholders' equity	**14,836,478**	10,867,442
Noncontrolling interest	**619,128**	629,128
Total equity	**15,455,606**	11,496,570
	$ 51,313,753	$ 45,631,455

See Notes to Consolidated Financial Statements.

Pioneer Railcorp and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2013 and 2012

	2013	2012
Railway operating revenue	**$ 21,636,976**	$ 20,359,115
Operating expenses:		
Maintenance of way and structures	**2,170,840**	2,074,076
Maintenance of equipment	**2,376,305**	2,095,601
Transportation	**5,743,870**	5,242,150
General and administrative	**7,554,937**	6,991,384
Depreciation and amortization	**3,046,865**	2,630,738
Gain on sale of property and equipment	**(1,777,789)**	(630,342)
Gain from involuntary conversions of property and equipment	**(1,580,566)**	-
	17,534,462	18,403,607
Operating income	**4,102,514**	1,955,508
Other income (expenses):		
Lease income	**606,487**	522,662
Interest expense	**(712,428)**	(623,739)
Sale of income tax credits	**3,212,365**	-
Other, net	**106,732**	209,245
	3,213,156	108,168
Income before provision for income taxes	**7,315,670**	2,063,676
Provision for income taxes	**2,706,000**	1,078,000
Net income	**4,609,670**	985,676
Less: noncontrolling interest in preferred stock dividends of consolidated subsidiaries	**(66,075)**	(66,855)
Net income attributable to Pioneer Railcorp	**4,543,595**	918,821
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 ($12,471)	**(49,884)**	-
Comprehensive income	**$ 4,493,711**	$ 918,821
Basic earnings per Class A common share	**$ 1.18**	$ 0.24

See Notes to Consolidated Financial Statements.

Pioneer Railcorp and Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended December 31, 2013 and 2012

	Common Stock Issued and Outstanding Class A (Voting)		Additional Paid-In	Subsidiary's Option to Purchase Pioneer Class A	Subsidiary's Investment in Pioneer Class A	Retained	Accumulated Other Comprehensive	Noncontrolling	
	Shares	Amount	Capital	Common Stock	Common Stock	Earnings	Income (Loss)	Interest	Total
Balance at December 31, 2011	3,850,393	$ 3,850	$ 448,847	$ (504,246)	$ (8,746,689)	$ 19,091,197	$ -	$ 640,128	$ 10,933,087
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	-	-	(11,000)	(11,000)
Dividends on common stock, $0.05 per share	-	-	-	-	-	(110,838)	-	-	(110,838)
Exercise of subsidiary's option to repurchase 50,000 shares of Pioneer common stock pursuant to stock repurchase agreements (Note 6)	-	-	-	77,371	(77,371)	-	-	-	-
Purchase of 50,000 shares of Pioneer Railcorp common stock by subsidiary	-	-	-	-	(233,500)	-	-	-	(233,500)
Net income attributable to Pioneer Railcorp	-	-	-	-	-	918,821	-	-	918,821
Balance at December 31, 2012	3,850,393	3,850	448,847	(426,875)	(9,057,560)	19,899,180	-	629,128	11,496,570
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	-	-	(10,000)	(10,000)
Dividends on common stock, $0.10 per share	-	-	-	-	-	(216,675)	-	-	(216,675)
Exercise of subsidiary's option to repurchase 50,000 shares of Pioneer common stock pursuant to stock repurchase agreements (Note 6)	-	-	-	77,371	(77,371)	-	-	-	-
Purchase of 50,000 shares of Pioneer Railcorp common stock by subsidiary	-	-	-	-	(238,000)	-	-	-	(238,000)
Net income attributable to Pioneer Railcorp	-	-	-	-	-	4,543,595	-	-	4,543,595
Redemption of Heartland Class B member units	-	-	-	-	-	(70,000)	-	-	(70,000)
Other comprehensive loss	-	-	-	-	-	-	(49,884)	-	(49,884)
Balance at December 31, 2013	**3,850,393**	**$ 3,850**	**$ 448,847**	**$ (349,504)**	**$ (9,372,931)**	**$ 24,156,100**	**$ (49,884)**	**$ 619,128**	**$ 15,455,606**

See Notes to Consolidated Financial Statements.

Pioneer Railcorp and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Net income	**$ 4,609,670**	$ 985,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,046,865**	2,630,738
Gain on sale of property and equipment	**(1,777,789)**	(630,342)
Deferred taxes	**2,486,471**	453,000
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Trade receivables	**(333,186)**	(31,119)
Inventories	**135,081**	(12,877)
Prepaid expenses and other assets	**350,167**	(450,302)
Prepayment of income taxes	**(396,862)**	58,088
Increase (decrease) in liabilities:		
Accounts payable	**309,470**	246,121
Accrued expenses	**293,319**	(145,963)
Deferred revenue	**2,205,946**	370,047
Net cash provided by operating activities	**10,929,152**	3,473,067
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	**1,951,273**	703,707
Purchase of property and equipment	**(8,553,694)**	(3,719,105)
Cash paid for business acquisitions	**(325,000)**	(5,390,562)
Net cash used in investing activities	**(6,927,421)**	(8,405,960)
Cash Flows from Financing Activities		
Proceeds from line-of-credit	**32,692,579**	31,254,891
Proceeds from short-term notes payable	**585,482**	649,231
Proceeds from long-term debt	**-**	73,716
Principal payments on line-of-credit	**(35,625,768)**	(26,013,276)
Principal payments on short-term notes payable	**(601,486)**	(963,801)
Principal payments on long-term debt	**(89,955)**	(133,130)
Common stock dividend payments	**(216,675)**	(110,838)
Redemption of Heartland Class B member units	**(70,000)**	-
Purchase of subsidiaries shares from noncontrolling interest	**(10,000)**	(11,000)
Preferred stock dividend payments to noncontrolling interest	**(66,075)**	(66,855)
Payments under salary continuation agreement	**(177,062)**	(164,307)
Payments under agreement to purchase common stock	**(185,618)**	(172,247)
Purchase of common stock by subsidiary	**(238,000)**	(233,500)
Net cash provided by (used in) financing activities	**(4,002,578)**	4,108,884

(Continued)

Pioneer Railcorp and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Net decrease in cash	**$ (847)**	$ (824,009)
Cash:		
Beginning of year	**51,002**	875,011
End of year	**$ 50,155**	$ 51,002
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	**$ 706,520**	$ 628,229
Income taxes, net of refunds of 2013 $43,771 and 2012 $8,554	**$ 617,583**	$ 566,916
Supplemental Disclosure of Noncash Investing and Financing Activity:		
Change in fair value of interest rate swap, net of deferred taxes of ($12,471)	**$ (49,884)**	$ -
Supplemental Schedule of Other Investing and Financing Activities:		
Business acquisitions (see Note 16)		
Assets acquired:		
Roadbed and rail structures	**$ -**	$ 4,960,912
Real estate	**-**	529,650
Transportation equipment	**135,000**	-
Machinery and equipment	**25,000**	-
Intangible assets	**490,000**	-
Liabilities assumed:		
Note payable to seller	**(325,000)**	-
Accrued expenses	**-**	(100,000)
Net cash paid for business acquisition	**$ 325,000**	$ 5,390,562

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: Pioneer Railcorp (Pioneer) is the parent company of 18 short-line common carrier railroad operations, an equipment leasing company, two service companies and a contract services switching company. Pioneer Railcorp and its subsidiaries (the Company) operate in the following states: Alabama, Arkansas, Georgia, Illinois, Indiana, Iowa, Kansas, Michigan, Mississippi, Missouri, Ohio, Oklahoma, Pennsylvania and Tennessee.

The Company's subsidiaries and affiliates include the following:

Alabama & Florida Railroad Co. DBA Ripley & New Albany Railroad Co.
Decatur Junction Railway Co.
Elkhart & Western Railroad Co.
Fort Smith Railroad Co.
Gettysburg & Northern Railroad Company
Georgia Southern Railway Co.
Heartland Rail Investments, LLC
Indiana Southwestern Railway Co.
Kendallville Terminal Railway Co.
Keokuk Junction Railway Co. and its subsidiary, Keokuk Union Depot Company
Michigan Southern Railroad Company and its subsidiary, Michigan Southern Railroad Company also DBA Napoleon, Defiance & Western Railway
Mississippi Central Railroad Co.
Pioneer Air, Inc.
Pioneer Industrial Railway Co.
Pioneer Railroad Equipment Co., Ltd.
Pioneer Railroad Services, Inc.
Rail Switching Services, Inc.
Alabama Railroad Co., Inc. also DBA Shawnee Terminal Railroad Co., Inc.
The Garden City Western Railway, Inc.
Vandalia Railroad Company
West Michigan Railroad Co.

Pioneer Railroad Equipment Co., Ltd. holds title to a majority of the Company's operating equipment, and Pioneer Air, Inc. previously owned an airplane utilized by the Company for business purposes. Pioneer Railroad Services, Inc. provides management, administrative and agency services to the Company's subsidiary railroads. Rail Switching Services, Inc. performs contract switching services in Georgia and Missouri. Except as noted below, all other subsidiaries are short-line common carrier railroad operations.

Heartland Rail Investments, LLC (Heartland), is an Illinois limited liability company. See Notes 6 and 11 to the consolidated financial statements for a more complete description of Heartland and its activities.

A summary of the Company’s significant accounting policies is as follows:

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Pioneer Railcorp and its consolidated subsidiaries, comprised of those entities in which Pioneer Railcorp has an investment of 50 percent or more, and Heartland for which it has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated.

Cash and cash equivalents: For the purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2013 and 2012.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Concentration of credit risk: Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. Periodically throughout the year, the Company has amounts on deposit with financial institutions that exceed the FDIC insurance limits. The Company has not experienced any loss as a result of those deposits and does not expect any in the future. The Company's trade receivables are concentrated with a major customer. Reference should be made to Note 9 for additional information regarding the major customer.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate for uncollectible trade receivables. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Provisions are made for estimated uncollectible trade receivables. Each month, management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Trade receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. The Company generally does not charge interest on past due amounts.

Revenue recognition: Railroad shipping revenues are recognized when inbound shipments move onto the Company's tracks, or when outbound shipments move off the Company's tracks, which, due to the relatively short length of the hauls, is not materially different from the recognition of revenues as shipments progress. Industrial switching and other service revenues are recognized as such services are provided.

Revenue from the lease of railcars and locomotives held by subsidiaries, including Pioneer Railroad Equipment Co., Ltd., is included in railroad operating revenue and is recognized monthly as earned.

The Company also leases certain easements and right of way to Company-owned property which is included in other income. This lease income is recognized monthly as earned.

Inventories: Inventories consisting of various mechanical parts, track materials, locomotive supplies and diesel fuel are stated at the lower of cost (determined by the average cost method) or market. Inventories are used on a daily basis for normal operations and maintenance.

Property and equipment: Property and equipment is stated at cost. Depreciation is generally computed on a straight-line basis over the following estimated useful lives:

	Years
Roadbed	20
Transportation equipment	10 - 15
Railcars	10 - 50
Buildings	20 - 40
Machinery and equipment	5 - 10
Office equipment	5 - 10

Leasehold improvements are depreciated over the lesser of the lease term or the life of the improvements.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Maintenance and repair expenditures, which keep the rail facilities in operating condition, are charged to operations as incurred. Expenditures considered to be renewals and betterments are capitalized if such expenditures improve the track conditions and benefit future operations with more efficient use of the rail facilities.

Capital projects primarily represent transportation equipment or roadbed modification projects which have either been purchased and the Company is in the process of modifying and upgrading prior to placing the assets into service, or roadbed modification projects which are not yet complete. As the assets have not yet been placed into service, the Company does not depreciate these assets.

The Company reviews applicable assets on an annual basis to determine potential impairment by comparing carrying value of underlying assets with the anticipated future cash flows and does not believe that any impairment existed as of December 31, 2013 or 2012.

Intangible assets: Intangible assets relate to track access rights. The track asset rights are amortized on a straight-line basis over the remaining lease terms as more fully described in Note 3.

Segment reporting: The Company's operations are principally in the rail transportation industry. Segment information is not presented since all of the Company's revenue is attributed to a single reportable segment.

Goodwill: The Company records as goodwill the excess of acquisition purchase price over the fair value of identifiable net assets acquired. The carrying value of goodwill is evaluated at each year end and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to, (1) a significant adverse change in legal factors or in business climate or (2) unanticipated competition. When evaluating whether goodwill is impaired, accounting standards allow for evaluation of qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than the carrying value amount, including goodwill. If it is determined that it is more likely than not, the fair value of the reporting unit to which the goodwill is assigned to is compared to the reporting unit's carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. No indicators of impairment were identified for the years ended December 31, 2013 and 2012.

Fair value of financial instruments: The carrying amounts of financial instruments, including cash and cash equivalents, trade receivables, accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments. The carrying amount of notes payable and long-term debt is estimated to approximate fair value because the interest rates fluctuate with market interest rates, or the fixed rates are based on estimated current rates offered to the Company for debt with similar terms and maturities. Interest rate swap contracts are reported at fair value in the balance sheet.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Derivative financial instruments: Interest rate swap contracts are derivatives and are recognized on the balance sheet at their estimated fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability "cash flow" hedge. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as a cash flow hedge, are recorded in accumulated other comprehensive income (loss), until earnings are affected by the variability of cash flows (*e.g.*, when periodic settlements on a variable-rate asset or liability are recorded in earnings).

When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when *(a)* it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); *(b)* the derivative expires or is sold, terminated, or exercised; *(c)* the derivative is designated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or *(d)* management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income (loss) will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with subsequent changes in its fair value recognized in current-period earnings.

Deferred revenue: At times, the Company incurs costs related to track rehabilitation projects. The track rehabilitation projects are required in order to improve the functionality of the track structure and/or to service a particular customer. The Company records deferred revenue for any amounts related to the track rehabilitation projects that are reimbursed by governmental entities and capitalizes the same amount for the related track rehabilitation projects in the capital projects category of property and equipment. Commensurate with the completion of the projects, the Company begins depreciating the capitalized assets on a straight-line basis over their estimated useful lives, with deferred revenue being amortized to income over the same lives.

Earnings per common share: The Company follows the guidance of FASB ASC Topic 260, *Earnings per Share*, which requires the presentation of earnings per share by all entities that have common stock or potential common stock, such as options, warrants and convertible securities outstanding, that trade in a public market. Those entities that have only common stock outstanding are required to present basic earnings per-share amounts. Basic per-share amounts are computed by dividing net income (the numerator) by the weighted-average number of common shares outstanding (the denominator). All other entities are required to present basic and diluted per-share amounts. Diluted per-share amounts assume the conversion, exercise or issuance of all potential common stock instruments, unless the effect is to reduce the loss or increase the net income per common share.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties, if any, that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the consolidated statements of income. The Company maintains no material uncertain tax positions for tax reporting purposes and accordingly, no liability is required to be recorded.

Government grants: From time to time, the Company, through its subsidiary railroads, enters into agreements with state agencies in the form of federal or state aid projects or grant agreements which are designed to aid the Company with labor, material and other costs relating to the rehabilitation and repair of track and bridge structures belonging to the Company.

The grant funds are applied as a reduction of the related capital additions for rehabilitating and repair of the applicable track and bridge structures in determining the carrying value of the assets. The grant is recognized as income by way of reduced depreciation charges over the estimated useful lives of the underlying property and equipment.

Involuntary conversions: When an involuntary conversion occurs, such as the destruction of property and equipment by means of an accident or a natural disaster, a gain or loss is recognized to the extent that the cost basis of the asset destroyed differs from any proceeds received or to be received as recovery for the loss (i.e. through insurance reimbursement). An asset relating to recovery is recognized only when realization of the claim for recovery of a loss recognized in the consolidated financial statements is deemed probable. Losses are accrued by a charge to income if the amount of the loss can be reasonably estimated. Gains are recognized in the consolidated financial statements when realization of recovery in excess of the cost basis of the asset destroyed is deemed probable.

Use of estimates in the preparation of the consolidated financial statements: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in the accompanying consolidated financial statements as of and for the year ended December 31, 2012, have been reclassified, with no effect on stockholders' equity or net income, to be consistent with classifications adopted as of and for the year ended December 31, 2013.

Note 2. Property and Equipment

Property and equipment consist of the following as of December 31, 2013 and 2012:

	2013	2012
Land	$ 4,450,096	$ 4,458,118
Roadbed	40,633,669	34,943,764
Transportation equipment	9,004,061	8,713,630
Railcars	7,039,042	9,125,470
Buildings	5,531,697	5,515,288
Machinery and equipment	3,547,330	3,283,876
Office equipment	797,180	750,539
Leasehold improvements	2,016,895	1,762,156
Capital projects	2,319,422	291,829
	75,339,392	68,844,670
Less accumulated depreciation	30,750,560	29,819,336
	$ 44,588,832	$ 39,025,334

The total depreciation expense was approximately $2,977,000 and $2,564,000 for the years ended December 31, 2013 and 2012, respectively.

Note 3. Intangible Assets

As more fully described in Note 16, in September 2013, the Company's subsidiary, Mississippi Central Railroad Co., acquired rights to a 42 mile rail line lease from Corinth, Mississippi to Red Bay, Alabama, and also acquired certain railroad equipment in a transaction accounted for as a business combination. The lease expires on September 25, 2023. The Company determined the fair value of the rights to the rail line lease to be $490,000 as of the acquisition date and recorded that amount as a track rights intangible asset. The Company is amortizing the balance over the 20 year term of the lease agreement which represents managements estimated life of the intangible asset.

The remainder of the track rights intangible assets acquired in a December 2009 transaction are being amortized monthly through June 2019.

Intangible assets as of December 31, 2013 and 2012 consist of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		2013	
Track rights	$ 1,098,450	$ 287,190	$ 811,260
		2012	
Track rights	$ 608,450	$ 221,541	$ 386,909

Note 3. Intangible Assets (Continued)

The changes in the net carrying amount of intangible assets subject to amortization for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Balance, beginning	$ 386,909	$ 446,434
Additions	490,000	-
Amortization	(65,649)	(59,525)
Balance, ending	$ 811,260	$ 386,909

Estimated aggregate annual amortization expense in future years, on amortizable intangible assets, as of December 31, 2013, is as follows:

	Amount
Year Ending December 31,	
2014	$ 84,025
2015	84,025
2016	84,025
2017	84,025
2018	84,025
Thereafter	391,135
	$ 811,260

Note 4. Line-of-Credit, Pledged Assets, Notes Payable and Long-Term Debt

The Company has two unsecured notes payable with combined balances of $389,791 and $405,795 as of December 31, 2013 and 2012, respectively, for the financing of insurance premiums. The notes are payable in two quarterly installments of approximately $196,000, including interest at 2.1 percent through May 2014.

The Company’s credit agreement with Wells Fargo provides a line-of-credit not to exceed $18,000,000, subject to increases up to $20,000,000, such additional amount being available in the event the Company wishes to use the line of credit to finance future business acquisitions. The line of credit, with a balance of $11,197,677 and $14,130,866 as of December 31, 2013 and 2012, respectively, bears interest at LIBOR plus a spread (effective rate of 2.00 percent at December 31, 2013) and requires monthly interest only payments throughout the term of the agreement. The credit agreement, which expires August 11, 2015, contains a provision allowing the credit agreement maturity date to be extended annually. The agreement is generally collateralized by various assets and stock of each of the Company’s subsidiaries, except for real estate and roadbed assets. The credit agreement contains certain restrictive loan covenants including a tangible net worth ratio, a funded debt to EBITDA ratio, and a minimum net income requirement.

Note 4. Line-of-Credit, Pledged Assets, Notes Payable and Long-Term Debt (Continued)

Long-term debt at December 31, 2013 and 2012 consists of the following:

	2013	2012
Noninterest bearing note payable, State of Mississippi, due in 10 annual installments of $50,000, final payment due October 2017, collateralized by track structure	$ 200,000	$ 250,000
Unsecured noninterest bearing note payable, State of Iowa, due in annual installments of $7,653 through January 2012, one additional required payment of $10,206 in 2012, and annual installments of $6,868 from January 2013 through January 2025	82,419	89,287
Noninterest bearing note payable, GMAC, due in monthly installments of $1,229, final installment due September 2017, collateralized by a vehicle	55,283	70,029
Noninterest bearing notes payable, Ford Credit, each due in monthly installments of $765, final installments due November 2015, collateralized by vehicles	37,450	55,791
Acquisition note payable, Redmont Railway Company, Inc., due in two annual installments of $162,500 plus interest at 0.23%, final installment due in September 2015, collaterized by all assets acquired (see Note 16)	325,000	-
	700,152	465,107
Less current portion	252,452	89,948
	$ 447,700	$ 375,159

Aggregate maturities required on long-term debt as of December 31, 2013, are due in future years as follows:

	Amount
Year Ending December 31,	
2014	$ 252,452
2015	251,732
2016	73,114
2017	67,910
2018	6,868
Thereafter	48,076
	$ 700,152

Effective July 19, 2013, the Company entered into an interest rate swap contract with Wells Fargo for an original notional principal amount of $6,500,000 that reduces by $1,000,000 each year beginning in August 2015. The interest rate swap has an effective date beginning on August 1, 2014 and a maturity date of August 1, 2018. Under the swap contract, beginning on the effective date, the Company will pay interest at a fixed rate of 1.88 percent and any differences between the fixed interest rate and a variable interest rate (LIBOR) based on the notional amount will be settled with the bank on a monthly basis. The swap contract is intended to be used to reduce the Company's exposure to market risk associated with changes in interest rates by converting a portion of its variable-rate debt to fixed-rate debt. As of December 31, 2013, the fair value of the interest rate swap contract was a liability of $62,355.

Note 5. Income Tax Matters

The Company and all but one of its subsidiaries file a consolidated federal income tax return. The subsidiary not included in the consolidated federal income tax return files separate federal and state income tax returns.

The provision (benefit) for income taxes charged (credited) to operations for the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Current:		
Federal	$ (24,000)	$ 366,000
State	244,000	259,000
	220,000	625,000
Deferred:		
Federal	2,182,000	542,000
State	304,000	(89,000)
	2,486,000	453,000
	$ 2,706,000	$ 1,078,000

The income tax provision (benefit) differs from the amount of income tax determined by applying the federal income tax rate to pretax income from operations for the years ended December 31, 2013 and 2012, due to the following:

	2013	2012
Computed "expected" U.S. tax expense	35.0 %	35.0 %
Increase (decrease) in income taxes resulting from:		
State income taxes, net of federal tax benefit	4.7	5.5
Railroad tax credits	(2.8)	-
Effective rates different than statutory	(1.0)	(1.0)
Other	1.0	12.7
	36.9 %	52.2 %

The railroad tax credits include those specifically available to companies operating as Class II or III railroads and may or may not be available to the Company on an ongoing basis. In January, 2013 the American Taxpayer Relief Act of 2012 was signed into law. This new law included an extension of the Internal Revenue Code (IRC) Section 45G short line railroad maintenance tax credit through December 31, 2013. This legislation included language retroactively amending the previous IRC Section 45G effective date to apply to maintenance expenditures paid or incurred in the 2012 taxable year.

The Company evaluated its ability to utilize the retroactively applied credits against its 2012 income tax liabilities and determined that selling the credits (as was done in 2011 and earlier years) as opposed to using the credit was an appropriate measure. Accordingly, in December 2012, the Company entered into agreements for the sale of the railroad maintenance tax credits that generated approximately $1,436,000 of cash proceeds that were received in 2013. For the consolidated financial statement reporting purposes, this amount was recognized as income in the 2013 consolidated financial statements since the legislation was not effective until 2013. For income tax reporting purposes, this amount was recognized as income in the 2012 income tax return.

Note 5. Income Tax Matters (Continued)

In December 2013, the Company entered into similar agreements for the sale of the railroad maintenance tax credits that generated approximately $1,776,000 of cash proceeds that were received in 2013. For the consolidated financial statement reporting purposes, this amount was recognized as income in the 2013 consolidated financial statements. For income tax reporting purposes, this amount will be recognized as income in the 2013 income tax return.

Deferred tax assets and liabilities consist of the following components as of December 31, 2013 and 2012:

	2013	2012
Deferred tax assets:		
Minimum tax and general business credit carryforwards	$ 1,220,000	$ 1,087,000
Interest rate swap	12,000	-
State NOL carryforwards	140,000	101,000
Deferred compensation	1,436,000	1,513,000
Heartland Rail investment basis	182,000	157,000
Tax credit income recognized for tax purposes	-	589,000
Other	642,000	623,000
	3,632,000	4,070,000
Deferred tax liabilities:		
Property and equipment	(11,126,000)	(9,087,000)
Prepaid expenses	(220,000)	(223,000)
	(11,346,000)	(9,310,000)
	$ (7,714,000)	$ (5,240,000)

The alternative minimum tax credit generated in 2013 will carry forward with no expiration. General business credit carry forwards will expire at various times between 2027 and 2033. State NOL carry forwards will expire at various times between 2019 and 2033.

The components giving rise to the deferred tax assets and liabilities described above have been included in the consolidated balance sheets as of December 31, 2013 and 2012, as follows:

	2013	2012
Net current deferred tax asset	$ 112,000	$ 657,000
Net noncurrent deferred tax (liability)	(7,826,000)	(5,897,000)
Net deferred tax liability	$ (7,714,000)	$ (5,240,000)

The Company or one of its subsidiaries files income tax returns in the U.S. federal and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2010.

Note 6. Agreements with Former Chief Executive Officer and Another Major Stockholder

The Company's Board of Directors and the Company's former chief executive officer (CEO), upon the recommendations of an independent third-party consultant, agreed to the terms of several agreements related to the CEO's retirement from the Company, effective March 21, 2006. The agreements between the former CEO and the Company include a salary continuation agreement and a chairmanship agreement.

The former CEO passed away in September 2013; accordingly, per the terms of the agreements, the salary continuation agreement continued with his beneficiary and the chairmanship agreement terminated effective with his death.

The salary continuation agreement provides retirement benefits to the former CEO. Monthly payments of $38,150 will be paid to the former CEO, or upon his death, to his beneficiary for 20 years commencing March 21, 2006. The Company recorded the approximate present value of this liability of $4,765,000 and corresponding charge to operations in its 2006 consolidated financial statements, discounted at the Company's 7.50 percent incremental borrowing rate then in effect. Interest expense is recorded with each monthly payment over the 20 year life of the agreement. Interest expense totaling approximately $281,000 and $293,000, respectively, was recognized during the years ended December 31, 2013 and 2012, related to these retirement benefits.

Future minimum payments due under the salary continuation agreement together with the present value of the minimum salary continuation payments as of December 31, 2013, are as follows:

	Amount
Year Ending December 31,	
2014	$ 457,800
2015	457,800
2016	457,800
2017	457,800
2018	457,800
Thereafter	3,280,901
Total minimum salary continuation payments	5,569,901
Less the amount representing interest	1,923,742
Present value of minimum salary continuation payments (of which $190,809 is included in current liabilities)	$ 3,646,159

The chairmanship agreement provides that the Company pay the former CEO an annual fee of $220,000 in 120 equal monthly payments through March 21, 2016, for the former CEO's continued service to the Company in his capacity as chairman of the Board of Directors. This agreement terminated upon the former CEO's death in September 2013. The Company recognized the monthly payments in its consolidated financial statements as services pursuant to this agreement were provided. The Company’s recorded expense under the agreement is $165,000 and $220,000 for each of the years ended December 31, 2013 and 2012, respectively.

Note 6. Agreements with Former Chief Executive Officer and Another Major Stockholder (Continued)

On March 21, 2006, Heartland entered into a stock purchase agreement with the former CEO and another major stockholder. Heartland obtained an option to purchase 860,350 and 853,690 shares, respectively, of Pioneer's Class A common stock owned by the former CEO and the other major stockholder. The stock purchase agreements require Heartland to pay to each of the Company's former CEO and the other major stockholder, or their beneficiaries, 168 equal monthly payments of approximately $12,768 from March 21, 2006 through February 21, 2020, except as noted below, for the right to purchase at various times, at various prices ranging from $4.15 to $5.48 per share and in various annual quantities, 1,714,040 shares of Pioneer's Class A common stock owned by the former CEO and the other major stockholder. Heartland recorded the present value of the stock purchase agreements of $2,667,958 as a liability in the 2006 consolidated financial statements, discounted at the Company's 7.50 percent incremental borrowing rate then in effect, and as a charge to the contra-equity account subsidiary's option to purchase Pioneer Class A common stock. Interest expense is recorded with each monthly payment over the 14 year lives of the agreements. During the years ended December 31, 2013 and 2012, the Company recognized approximately $121,000 and $134,000, respectively, of interest expense related to these transactions.

The stock purchase agreements give Heartland the option, but not an obligation, to purchase a scheduled number of shares of Pioneer Class A common stock from the two individuals, or their beneficiaries, each year. For any options not exercised as scheduled, Heartland has the option of exercising the right to purchase shares in a later year at predetermined higher share prices.

During 2010, Heartland and the former CEO mutually agreed to accelerate payout of certain future option or purchase obligations and to accelerate the Company's purchase of stock from the former CEO. As such, during 2010, Heartland retired option obligations for 125,000 shares attributable to the period December 2015 through February 2020 (the final five years of option purchase obligations). Heartland also exercised its right to purchase 125,000 shares of stock from the former CEO, representing shares Heartland would have been eligible to purchase during the period from December 2015 through February 2020.

During the years ended December 31, 2013 and 2012, Heartland exercised options to purchase the following shares of Pioneer Class A common stock from the former CEO and the other major stockholder as follows:

	Number of Shares			
	Former CEO	Other Major Stockholder	Price Per Share	Aggregate Amount
March 2013	25,000	25,000	$ 4.76	$ 238,000
March 2012	25,000	25,000	$ 4.67	$ 233,500

The stock purchases described above were funded via cash transfers from Pioneer Railcorp. In the event of the death of either the former CEO or the other major stockholder, all provisions of each of the stock purchase agreements remain in effect to the individuals' estates.

Note 6. Agreements with Former Chief Executive Officer and Another Major Stockholder (Continued)

Future minimum payments due under the stock purchase agreements together with the present value of the minimum stock purchase payments as of December 31, 2013, are as follows:

	Amount
Year Ending December 31,	
2014	$ 306,440
2015	293,673
2016	153,220
2017	153,220
2018	153,220
Thereafter	178,757
Total minimum stock purchase payments	1,238,530
Less the amount representing interest	285,400
Present value of minimum stock purchase payments (of which $200,029 is included in current liabilities)	$ 953,130

Furthermore, see Note 11 regarding Heartland's investment in Pioneer's Class A common stock.

Note 7. Defined Contribution Retirement Plan

The Company has a defined contribution 401(k) plan covering substantially all employees. Employees are eligible to participate in the plan upon completion of one year of service and may elect to contribute, on a tax deferred basis, up to the lesser of 15 percent of their salary, or the Internal Revenue Service maximum deferral limit. The plan requires safe harbor matching contributions equal to 6 percent of eligible participant compensation. In addition to the Company matching contribution, the Company can, but did not in 2013 or 2012, make discretionary matching contributions outside of the safe harbor provisions. The Company contributed approximately $164,000 and $159,000 for the years ended December 31, 2013 and 2012, respectively.

Note 8. Lease Commitments and Total Rental Expense

The Company has lease agreements covering certain of its railroad properties. For leased railroad properties, the Company ordinarily assumes, upon the commencement date, all operating and financial responsibilities, including maintenance, payment of property taxes, and regulatory compliance. Payments on leased railroad properties are generally based upon a per car basis for traffic on the segment each year, or an annual stated amount reduced by a credit for the carload traffic each year. The leases expire between December 2016 and September 2023 and are generally subject to renewal options.

The Company has a land lease for the corporate office building. This lease expires in September 2018 and is renewable for one additional successive period of five years with annual rents equal to 10 percent of the appraised value of the land, payable in monthly installments, and with appraisal value reviews every five years following the origination date. The Company is responsible for costs of maintenance, utilities, taxes and insurance.

Note 8. Lease Commitments and Total Rental Expense (Continued)

The total approximate minimum rental commitment as of December 31, 2013, required under noncancelable leases and excluding executory costs and per car rentals, is due in future years as follows:

	Amount
Year Ending December 31,	
2014	$ 107,000
2015	107,000
2016	107,000
2017	107,000
2018	99,000
Thereafter	74,000
	$ 601,000

The total rental expense under the leases was approximately $105,000 and $79,000 for the years ended December 31, 2013 and 2012, respectively.

Note 9. Major Customers

Major railroad customers with 10 percent or more of total railroad operating revenue for the years ended December 31, 2013 and 2012, and related accounts receivable as of December 31, 2013 and 2012, are as follows:

	Railroad Operating Revenue		Accounts Receivable	
	2013	2012	2013	2012
Customer A	$4,818,000	$5,134,000	$ 302,000	$ 687,000

Note 10. Noncontrolling Interest

Two of the Company's subsidiaries have preferred stock, owned by investors other than Pioneer Railcorp, outstanding as of December 31, 2013 and 2012. This stock is accounted for as a noncontrolling interest in subsidiaries, and dividends on the stock are accounted for as a current expense. Furthermore, Heartland Rail Investments, LLC's Class B units for nonvoting members constitute a noncontrolling interest in that entity. There are no dividends applicable to those units.

Following is a summary of the noncontrolling interest in subsidiaries as of December 31, 2013 and 2012:

	2013	2012
Preferred stock of Alabama Railroad Co.		
Par value - $1,000 per share		
Authorized - 700 shares		
Issued and outstanding 330 and 332 shares (cumulative 12% dividend; callable at Company's option at 150% of face value) at December 31, 2013 and 2012, respectively	$ 330,000	$ 332,000
Preferred stock of Alabama & Florida Railway Co., Inc.		
Par value - $1,000 per share		
Authorized - 500 shares		
Issued and outstanding 289 and 297 shares (cumulative 9% dividend; callable at Company's option at 150% of face value) at December 31, 2013 and 2012, respectively	289,000	297,000
Class B units of Heartland Rail Investments, LLC	160	167
	$ 619,160	$ 629,167

Note 11. Investment in Heartland Rail Investments, LLC

Heartland entered into an operating agreement (the Agreement) with its Class A and Class B members effective March 21, 2006. The Class A voting member is Pioneer and the Class B nonvoting members are officers and employees of the Company. Heartland's primary purpose is to purchase and own shares of Class A common stock of Pioneer and to provide opportunities for Class B members to participate, through the services they provide to Pioneer, in the future appreciation of the Class A common stock of Pioneer. Heartland will be an investment vehicle for acquiring outstanding shares of Pioneer's Class A common stock from the former CEO and another major stockholder. The agreement defines, among other things, Heartland's purpose and terms with its members including: initial capital accounts determination and maintenance thereafter, additional capital contributions of members, allocation of profits and losses, cash flow distributions and liquidation and dissolution distributions, transfer of ownership interests and withdrawals of members, voting and nonvoting units issued and rights, deadlock resolution actions in the event of material disagreements among voting members, covenants with respect to transactions with affiliates, information rights, advisory fees and other, and manager powers, authority and governance.

The term of Heartland shall continue perpetually, unless its existence is sooner terminated pursuant to terms as specified in the Agreement.

Pursuant to the Agreement, the Class A member has the sole ability to designate the manager of Heartland. All significant actions of Heartland are subject to the approval of the Class A member.

Note 11. Investment in Heartland Rail Investments, LLC (Continued)

Authorized, issued and outstanding voting and nonvoting membership units of Heartland are summarized as follows as of December 31, 2013 and 2012, respectively:

		Issued and Outstanding	
	Authorized	2013	2012
Class A voting units	12,000,000	10,026,952	9,450,817
Class B non-voting units	1,500	160	167

Allocation of net profit and loss: Pursuant to the Agreement, the net profit of Heartland is allocated to its members (a) first, to the extent of any negative capital accounts; (b) second, to Class A members to the extent of all prior losses allocated in excess of all prior profits allocated; (c) third, to Class A members based on their average capital account balance multiplied by the short-term rate in effect under Internal Revenue Code of 1986, as amended, Section 1274; and (d) fourth, to Class B members.

Pursuant to the Agreement, the net loss of Heartland is allocated to its members (a) first, in proportion to and to the extent of positive account balances; and (b) second, to members in accordance with the members' respective units owned.

Distribution rights: Pursuant to the Agreement, Heartland's cash flow shall be first applied to the payment of expenses and debt service and then to the maintenance of adequate reserves determined by the manager.

Any cash remaining after the payment of expenses and debt service may be distributed to members for payment of income tax on their allocation of income. This tax distribution shall not exceed the maximum rate for a member as if the member were an Illinois resident.

Any remaining funds may be distributed as follows: (a) first, a fixed return equal to Class A units in an amount equal to 5 percent of the total Class A investment (there shall only be one fixed return payment per year); (b) second, to Class A members until the total of all distributions equals the Class A investment; (c) third, 20 percent to Class A members and 80 percent to Class B members (amount distributed to a Class B member shall not exceed $10,000 per Class B unit owned by the member); and (d) fourth, any remaining funds shall be distributed to Class A members.

Pursuant to the Agreement, a distribution can only be made in the event that (a) Heartland is dissolved; (b) a Class B member retires at age 62 or older; or (c) upon the death of a Class B member.

The Agreement contains an interpretive Section 5.03 specifically stating the distribution and redemption of units provisions are intended to provide the Class A members with a first priority such that the entire Class A investment is returned before any Class B distribution or redemption.

During the year ended December 31, 2013, a qualifying Class B member with 7 units retired and received a capital distribution of $70,000 in exchange for the redemption of his units.

As of December 31, 2013, no distribution obligation exists for Heartland since no Class B members have reached retirement age of 62.

Note 12. Commitments and Contingencies

Commitments and contingencies: In the course of its business, the Company's subsidiaries experience crossing accidents, employee injuries, delinquent or disputed accounts and other incidents which give rise to claims that may result in litigation. Management vigorously pursues settlement of such claims, but at any one time, some such incidents, which could result in lawsuits by and against the Company and its subsidiary railroads, remain unresolved. Management believes it has valid claims for, or good defenses to, these actions.

Management considers such claims to be a routine part of the Company's business and, as of the date of this statement, management believes that no incidents not otherwise considered have the potential to result in a liability that would materially affect the Company's consolidated financial position or results of operations.

Self-insurance: The Company self-insures a portion of the risks associated with medical expenses incurred by its employees and their dependents. Under the terms of the self-insurance agreement, the Company is responsible annually for the first $70,000 and $65,000 in 2013 and 2012, respectively, of qualifying medical expenses per person, limited to an aggregate excess amount computed under the terms of the insurance contract using specified participant rates. An insurance contract with an insurance company covers individual claims in excess of $70,000 and $65,000 in 2013 and 2012, respectively, on an annual basis and total claims exceeding the aggregate excess, subject to a maximum lifetime reimbursement of $2,000,000 per person. The expenses under the Company's self-insured medical plan for the years ended December 31, 2013 and 2012, were approximately $868,000 and $850,000, respectively. The Company has recorded a liability of approximately $170,000 and $175,000 at December 31, 2013 and 2012, respectively, for claims incurred but not reported.

Note 13. Earnings Per Share – Class A Common Stock

Following is information about the computation of the earnings per share (EPS) data for the years ended December 31, 2013 and 2012:

	Income (Numerator)	Average Shares Outstanding (Denominator)	Per Share Amount
		2013	
Earnings per share			
Net income available to common stockholders	$ 4,543,595	3,850,393	$ 1.18
		2012	
Earnings per share			
Net income available to common stockholders	$ 918,821	3,850,393	$ 0.24

There were no items of a dilutive nature applicable to the 2013 or 2012 calculations.

Note 14. Class A Common Stock Repurchases

The Company's Board of Directors approved a plan to repurchase up to 1,000,000 shares of the Company's Class A common stock from stockholders. No repurchases were made in 2013 or 2012 under this plan. The Class A common stock acquired by repurchase is accounted for as treasury stock in the Company's consolidated balance sheets and statements of changes in equity. As such, treasury shares held reduce the number of shares of Class A common stock outstanding as of December 31, 2013 and 2012, and the value of the treasury stock reduces equity.

Reference should also be made to Note 6 for stock repurchase agreements with the former CEO and another major stockholder.

Note 15. Fair Value Disclosures

The following information is designed to enable the reader of the consolidated financial statements to assess the inputs used to develop fair value measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are carried at fair value. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

There were no assets or liabilities requiring valuation pursuant to the aforementioned fair value hierarchy as of December 31, 2012.

The table below presents the balances of liabilities measured at fair value, by level within the hierarchy, as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Interest rate swap	$ -	$ 62,355	$ -	$ 62,355

The Company’s interest rate swap is a pay-fixed, receive-variable interest rate swap based on the LIBOR swap rate. The LIBOR swap rate is observable at commonly quoted intervals for the full term of the swaps and therefore is considered a Level 2 item. For the interest rate swaps in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset. FASB issued accounting guidance states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of the Company’s creditworthiness has also been factored into the fair value measurement of the interest rate swap in a liability position. For the year ended December 31, 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The valuation methodologies used for interest rate swaps (measured at fair value) are that these swaps are valued by means of a mathematical model that calculates the present value of the anticipated cash flows from the transaction using mid-market prices and other economic data and assumptions.

Note 16. Business Acquisitions

On September 25, 2013, the Company through its Mississippi Central Railroad C. subsidiary, acquired for consideration of $650,000, rights to a 42 mile rail line lease for a rail line from Corinth, Mississippi to Red Bay, Alabama and certain railroad equipment in a transaction accounted for as a business combination. The Company paid $325,000 in cash and issued a promissory note payable for $325,000 (see Note 4). The acquisition was made by the Company to expand its portfolio of short-line railroads. The results of operation have been included in the consolidated financial statements since the date of the acquisition. The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition:

Assets acquired:	2013
Transportation equipment	$ 135,000
Machinery and equipment	25,000
Intangible assets	490,000
Liabilities assumed:	
Note payable to seller	(325,000)
	$ 325,000

On December 28, 2012, the Company, through its Michigan Southern Railroad Company subsidiary, acquired the track and roadbed assets and certain real estate from a seller and assumed certain liabilities in a business combination. The acquisition was made by the Company to expand its portfolio of short-line railroads. The new entity, doing business as the Napoleon, Defiance, and Western Railway, consists of 51 miles of track in Indiana and Ohio and was acquired for cash proceeds of $5,390,562. The results of operations have been included in the consolidated financial statements since the acquisition date. The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	2012
Roadbed and rail structures	$ 4,960,912
Real estate	529,650
Liabilities assumed:	
Accrued expenses	(100,000)
	$ 5,390,562

Note 17. Subsequent Events

The Company has evaluated events occurring subsequent to December 31, 2013, as to their potential impact to the consolidated financial statements through March 26, 2014, which is the date the consolidated financial statements were available to be issued.