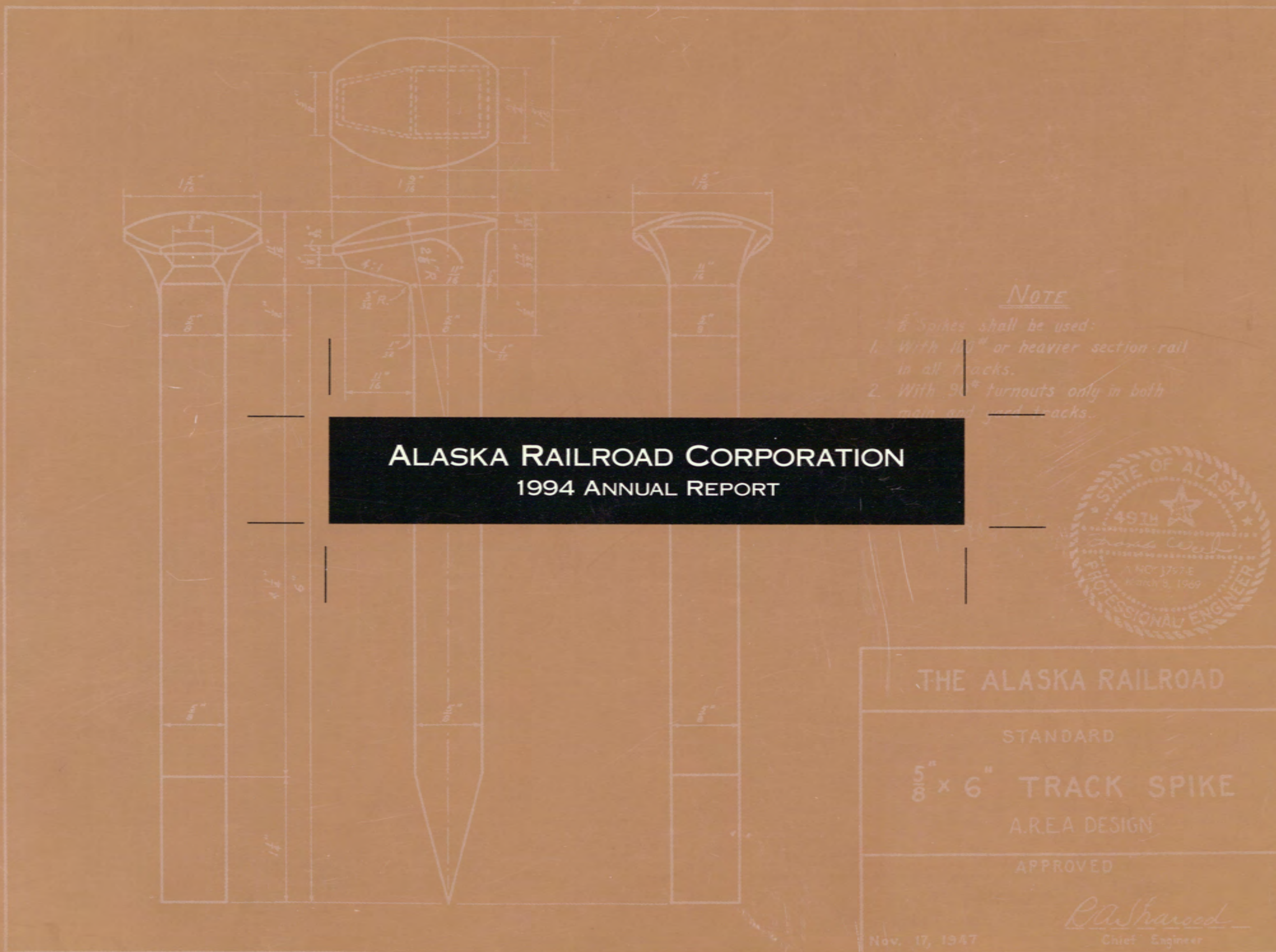
Alaska Railroad Corporation

1994 Annual Report



Mission Statement

The mission of the Alaska Railroad Corporation and its employees is to provide high-quality, safe, cost-effective freight, passenger and real estate services for our customers.

Construction of the Alaska Railroad began in 1915. | The Alaska Railroad has 525 miles of main track. | Railroads can move a typical ton of freight 350 miles on a gallon of diesel fuel.

1994 YEAR IN REVIEW

A shrinking freight market and competitive pricing contributed to the railroad's overall losses in 1994. The company showed a net loss of $3.2 million, on revenues of $59.6 million. This represents a 7 percent reduction from 1993 revenues of $63.9 million.

While the loss is significant, it is balanced by several decisions regarding long-term operating improvements that should provide savings in the future. The railroad spent $1.3 million on a rail-grinding program that will save the railroad $5.3 million over the next decade.

The disposal of a mainframe computer, while creating a loss this year, will save approximately $1 million a year for the next five years. A write-off for devalued inventory amounted to $750,000.

Rail/barge service between the Lower 48 and Whittier was a major disappointment in 1994, and the primary cause of the corporation's overall losses. In addition, continued reductions in Alaskan oil production contributed to the decline in freight business. This situation has created an overabundance of shippers, driving freight rates down and reducing the number of railcars being shipped.

Several key segments of the freight business failed to meet expectations. Coal and gravel shipments in 1994 were lower than anticipated. Petroleum and pipe shipments showed a slight increase.

Passenger services and real estate were financial bright spots once again, showing increases in revenue and proving their ability to make the railroad a stronger company. Passenger services registered a modest revenue increase to $9 million. Ridership matched 1993.

A steady market helped the railroad's real estate department reach 1994 projections. Right-of-way agreements with fiber optic and electric power companies contributed to revenue.

In 1994, the railroad invested $6.1 million in capital projects. Crews finished installing communications cable in the two tunnels of the Whittier Branch. Other capital projects in 1994 included:

- 18,815 ties replaced,
- 28,080 feet of new rail installed,
- 35,645 feet of rail turned/transposed,
- 172.7 miles of surfacing completed (raised, aligned and tamped),
- 58,947 cubic yards of ballast dumped.

The railroad hosted the International Railroad Vegetation Control Symposium in June. The event brought experts from Canada, Europe, and the United States to present the latest technologies and innovations for vegetation control and removal. More than 75 participants attended the three-day event, including representatives from environmental preservation groups.

The symposium enhanced the reputation of the Alaska Railroad and brought new ideas on how to solve vegetation problems at the railroad.

President's Message

As I write this year's message, I find myself analyzing the railroad in a somewhat different light these days. Admittedly, we've had some tough times, and those times have called for some serious changes. But the real question, after stripping away the myriad operational, economic and political issues that affect our ability to achieve a profitable bottom line, is a question of service. As a state-owned, self-sustaining corporation are we meeting our charter of providing affordable, safe, quality transportation services?

Meeting that mandate is a tall order. Without the railroad, many Alaskans could not get to and from their communities; indeed, much of the bulk material used to literally build Alaska is moved by rail.

Railroading, like every other transportation business, is subject to the fluctuations of the marketplace. Downturns in the petroleum industry, particularly in the declining Prudhoe Bay fields, construction cutbacks which limit both gravel and construction material freight business and competition from a number of sources have made for a difficult year.

The costs of repair and restoration following a major derailment, equipment upgrades and other capital improvements were unavoidable costs of doing business in 1994. Yet many of these costs were incurred as a way of saving money long into the future. For example, a rail-grinding project last year cost $1.3 million, yet that decision alone will save the railroad $5.3 million over the next 10 years, extend the life of the track, and significantly improve safety for our employees and passengers.

Implementing cost efficiencies today, and applying similar standards to future decisions will be the key to producing sound financial conditions down the line.

We've also found that our employees want to do more than just work with the railroad. Groups of volunteers are actively engaged in the community, providing many forms of financial and moral support, as explained in the community service section of this report.

What's in store for 1995? Fine-tuning our operations to be profitable, and providing the necessary services for Alaska will be a priority. Supporting our employees and their efforts to improve railbelt communities and the Corporation will be right up there as well. Finally, our commitment to be Alaska's railroad, to meet the transportation needs of Alaska's people and industries, will be at the top of the list. That is our mission, and our people are up to the task.

Robert S Hatfield

Robert S. Hatfield, Jr.
President and Chief Executive Officer

There are 3,250 ties in a mile of track. | There are 19,500 spikes in a mile of track. | The distance between two rails is 56.5 inches. | A 3-foot section of our main rail weighs 115 pounds. | A rail is →

Community Service

The return on our investment in community service is as intangible as a look of wonder in a child's eyes, the improvement of a life, or the knowledge that a community is a safer place to live.

In 1994, the railroad participated in United Way fund-raising drives, supported public radio programming, worked with our public schools, and assisted many charitable organizations with funding or in-kind donations and services.

Cash donations from the railroad totaled $54,698 in 1994. Organizations receiving assistance included the Seward Community Library, Camp Fire, Boys & Girls Club, Talkeetna Youth Hockey Association, Alaska Junior Theater, Fairbanks Summer Arts Festival, Wesley Rehabilitation and Care Center, Alpine Alternatives, Alaska Native Foundation and Alaska Children's Services.

Many organizations ask the railroad to donate door prizes and items for auctions. Last year the railroad provided 3,063 tickets worth $318,711.

The railroad also supports a community grant program. Applications are reviewed by a citizens advisory board, composed of representatives from communities served by the railroad. The advisory board meets in May and November to discuss the funding proposals and determine recipients.

One of the railroad's most successful programs is the school/business partnership with Government Hill Elementary School in Anchorage. Now in its second year, the program includes weekly classroom visits by railroad employees. Individual tutoring by the employees helps children build skills in math, reading, social studies and other areas where teachers see a need for improvement.

Our employees also help the school with special projects, including the back-to-school barbecue. The railroad's involvement allows teachers to spend their time talking with parents and children about the forthcoming school year. As an end-of-the-year treat, the railroad gave every student at the school a train ride from Anchorage to Wasilla. Many of the students had never ridden a train before, and the smiles on their faces were more than worth the price.

Railroad employee Althea Clapp works with a Government Hill Elementary student as part of the railroad's School Business Partnership program.

Chairman's Message

The year began with promise, but yielded to disappointment as the company recorded an overall loss for the second consecutive year.

In the past, the railroad's keys to success were innovation, creative thinking, desire and hard work. We must pick up these tools again and resume our tradition of business leadership.

During the past year, I have seen numerous examples of our ability to change and grow, and these should go a long way toward improving the financial picture in 1995. For example, the rail-grinding program, which cost us in the short run, should produce significant savings over the next 10 years. Individual efforts have also made a profound impact. Employees in our shops have created new tools to perform jobs more quickly and safely. Others along the line have developed new ideas with their co-workers to help make our corporation more efficient.

In the past, all of America's railroads worked to improve efficiency in order to compete with other forms of transportation. In the natural evolution of a free market, some of the railroads succeeded, and some failed.

Today, the Alaska Railroad offers an economically and environmentally viable transportation option. Consider the fact that a train can move a typical ton of freight 350 miles on a single gallon of diesel fuel. We can all be proud of the fact that we give value to our customers while minimizing the environmental impact.

Everyone at the railroad plays a part in our long-term success. The Alaska Railroad board members oversee business operations. For the last several years, it's been a difficult job. We've made some tough decisions, and we'll continue to make them. Nevertheless, we will not waver from the promise that everyone at the railroad has kept since our beginnings in 1914: to ensure that the Alaska Railroad provides the best service to its customers and to Alaska's communities.

Loren H. Lounsbury

Loren H. Lounsbury
Chairman, Board of Directors

Alaska Railroad Corporation Board of Directors
(Left to right)

Willie Hensley, *Commissioner of Commerce and Economic Development.* Jack Burton, *Track Inspector, Alaska Railroad Corporation.* Robert S. Hatfield Jr., *President and Chief Executive Officer, Alaska Railroad Corporation.* Loren H. Lounsbury, *Chairman, Board of Directors, Chairman, International Management Group.* Dale R. Lindsey, *President, Harbor Enterprises, Inc.* Joe Perkins, *Commissioner of Transportation and Public Facilities.* Paul Massey, *Publisher, Fairbanks Daily News-Miner.*

7 INCHES HIGH. | IT COSTS $75 TO INSTALL A RAILROAD TIE. | AN AVERAGE RAILROAD TIE IS 8.5 FEET LONG. | A RAILROAD SPIKE COSTS 37 CENTS. | A LENGTH OF RAIL IS 39 FEET. | WARREN G. HARDING DROVE THE FINAL SPIKE →

COMMODITIES

The railroad links Alaska to the rest of the world. Raw materials are taken to markets around the globe via rail/barge networks. The railroad also delivers finished products to communities all along the railbelt.

Petroleum

Transportation of petroleum products is a mainstay of the Alaska Railroad, generating 44 percent of our freight revenue in 1994. The products originate in North Pole, near Fairbanks, and are shipped to markets in Anchorage and other parts of western Alaska. Products transported by the railroad include gasoline, heating oil, naphtha, and aviation and diesel fuels.

In 1994, the railroad moved 1.3 million tons of petroleum products, totaling 17,600 carloads.

Coal

The railroad transports coal north and south from the Usibelli Coal Mine in Healy. Northbound coal is used to generate power for Fairbanks and nearby military bases. Southbound coal is purchased at Healy by the Sun Eel Shipping Company, Ltd. The coal is carried to the port of Seward, where it is transferred onto ships bound for Korea.

In 1994, the railroad transported 13,652 carloads of coal, weighing 1.3 million tons. This represents a decline from 1.4 million tons in 1993. The decline can be attributed to military bases depleting their existing coal stockpiles, and mild winter weather in northern communities. Coal revenue was 26 percent of all freight revenue.

Gravel

Railcars are loaded with gravel in the Matanuska Valley and hauled 50 miles south to Anchorage. As the commercial construction boom of 1993 subsided, revenues from gravel shipments were predictably lower.

In 1994, the railroad moved 19,600 carloads of gravel, totaling 1.9 million tons, a decrease of 24 percent from the 2.5 million tons of gravel shipped in 1993.

Pipe

Pipe shipments were up slightly in 1994. The railroad hauled more than 37,000 tons of pipe, carried in 443 carloads. Pipe shipments generated 12 percent of all freight revenue. The pipe, consisting primarily of well casing, is carried by rail from Seward to Fairbanks, where it is stored or hauled by truck to the oil fields of Prudhoe Bay.

Interline

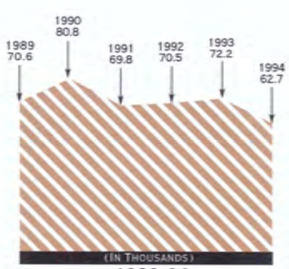
Interline transportation carries freight to and from Alaska via rail-equipped barges docking at the port of Whittier. Traffic is moved by two barges: the Alaska Rail Marine Service out of Seattle, and the Canadian National, originating in Prince Rupert, British Columbia.

The railroad's interline traffic volume increased in 1994. The railroad transported a total of 4,790 carloads. While tonnage and carloads were up, stiff competition pushed rates down.

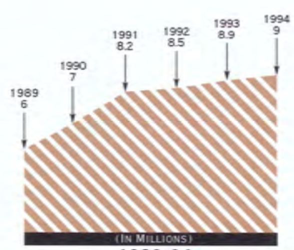
Intermodal

In 1994, the railroad moved 80,384 tons of intermodal freight in 4,881 carloads. This represents a significant decrease from 1993.

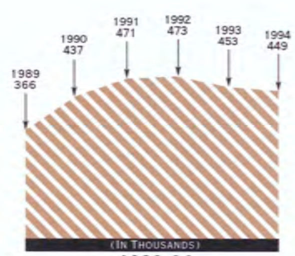
Midway in the year, our intermodal service was changed from a retail operation to a



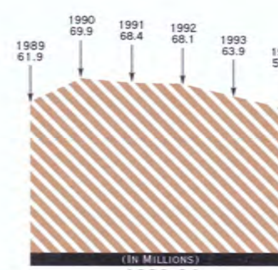
1989-94
CARLOADS



1989-94
PASSENGER REVENUE



1989-94
PASSENGER RIDERSHIP



1989-94
REVENUE

wholesale operation. Prior to the change, as many as four additional trains per week were required to transport about 6,000 trailers per year overnight between Anchorage and Fairbanks. Now, eighteen trailers, which have been "presold" to three different companies are transported nightly between Anchorage and Fairbanks, producing nearly the same volume at similar rates but at substantially reduced cost.

All Other Freight

In addition to petroleum, coal, gravel and pipe, the railroad transports miscellaneous industrial freight, including paper, building materials and logs.

In 1994, the railroad carried 1,446 carloads of assorted freight, nearly 600 cars more than in 1993. Tonnage was 75,577 tons, a 60 percent increase over 1993 tonnage of 46,000 tons.

Passenger Services

With the last flag-stop service in the United States, and express trains that travel through Alaska's most beautiful country, our passenger services are the jewel in the railroad's crown.

For passenger services, the highlight of the year was the installation of a new automated reservation system.

While ridership at 449,230 remained equal with 1993 levels, passenger service revenues went up to $9 million, a 1.75 percent increase over 1993. Additional revenues were generated by higher ticket prices and by increased sales of add-on tours. Revenue from the Seward route was up 5 percent. The trip has risen steadily in popularity, and is taking some business away from the express train to Denali Park and Fairbanks.

Passengers were surveyed during the 1994 season. Survey respondents gave the railroad staff an "A" grade for friendly, helpful service. The high school tour guides also received an "A" grade from the passengers for their attitude, attentiveness, professional appearance, and the informative content of their presentations.

Real Estate

The railroad's real estate department oversees the use and development of 36,000 acres of corporation property.

The department has successfully managed the railroad's real estate assets to generate revenue for a variety of capital projects. Real estate revenues in 1994 totaled $4.7 million.

In recent years, several communications and power companies have recognized the value and convenience of the railroad's right-of-way properties. In 1994, permits were signed for power and fiber optic cables for the north and south ends of the railroad. In 1995, the real estate department expects to build on past success, with several new contracts and the renegotiation of older contracts.

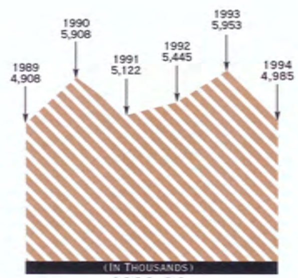
The Ship Creek Development, being developed by LoPatin and Company, acquired zoning approval for a visitor center following a year-long hearing process. The development firm also secured authorization from the Alaska Legislature to issue tax-exempt bonds to finance the visitor center.

During the past year, the railroad's real estate department also negotiated a multi-use lease for a piece of prime railroad real estate located

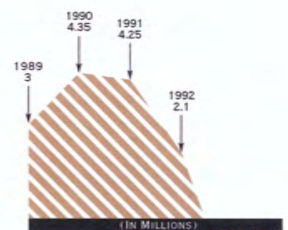
THAT SIGNALED COMPLETION OF THE ALASKA RAILROAD IN JULY OF 1923. | THE TRANSFER OF OWNERSHIP FROM THE FEDERAL GOVERNMENT TO THE STATE OF ALASKA WAS ON JANUARY 5, 1985. | THE STATE OF ALASKA →

on the Chena River in Fairbanks. Construction of a hotel and RV park will begin in the spring of 1995.

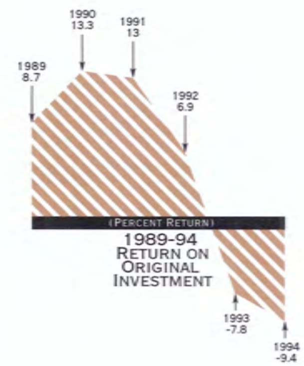
The project plans include a footbridge over the Chena River. This addition will enhance access to two of Fairbanks' most popular tourist attractions, the Carlson Center and Alaskaland.



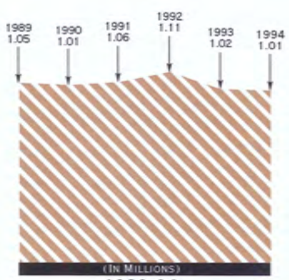
1989-94
Revenue Tons



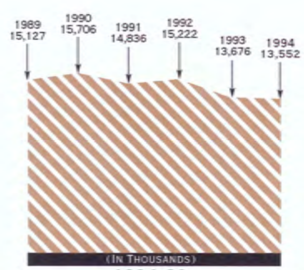
1989-94
Net Income



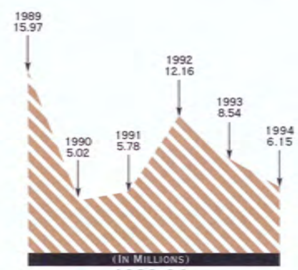
1989-94
Return on Original Investment



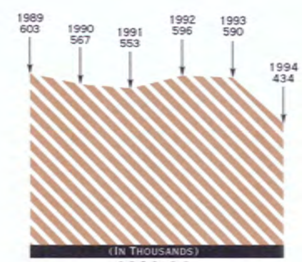
1989-94
Revenue Ton Miles



1994-89
Freight Car Miles, Loaded



1989-94
Capital Investment



1989-94
Freight Train Miles

Management Statement

Management is responsible for the preparation, integrity and objectivity of the Corporation's financial statements and other financial information appearing in this report. The financial statements are prepared in conformity with generally accepted accounting principles and, in the judgment of management, present fairly and consistently the Corporation's financial position and the results of operations.

The Corporation has established and maintained an internal control structure which is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized by management and are recorded in conformance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

The Alaska Railroad Board of Directors pursues its oversight responsibilities for the financial statements and corporate conduct through its Audit Committee. The committee meets regularly with members of management and independent accountants to discuss the adequacy of the Alaska Railroad's internal controls and financial statements.

The Corporation's financial statements are audited by KPMG Peat Marwick LLP, independent certified public accountants, who are appointed by the Board of Directors. Their audit is conducted in accordance with generally accepted auditing standards which include a study and evaluation of the Corporation's system of internal accounting controls. The report of the independent auditors begins on the following page.

John O'Meara
Vice President, Finance/Administration

BOUGHT THE ALASKA RAILROAD FOR $22,271,000. | TYPICAL AGES FOR A GROUP RIDING THE ALASKA RAILROAD IS 55-64. | THE LAST STEAM LOCOMOTIVE ON THE ALASKA RAILROAD RODE THE RAILS IN 1962.

Independent Auditors' Report

The Board of Directors
Alaska Railroad Corporation:

We have audited the accompanying balance sheets of the Alaska Railroad Corporation as of December 31, 1994 and 1993, and the related statements of loss, equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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.

In our report dated April 15, 1994, we expressed an opinion on the Corporation's 1993 financial statements qualified for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the Corporation's investment in a partnership. Since that date, the Corporation has provided us with such evidence and we were able to satisfy ourselves as to the carrying value of its investment and the equity in its earnings. Accordingly, our present opinion on the 1993 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Railroad Corporation as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

February 7, 1995
Anchorage, Alaska

Alaska Railroad Corporation Balance Sheets

	December 31, (In Thousands) 1994	1993
Assets		
Current Assets		
Cash and Cash Equivalents	$1,569	1,221
Accounts Receivable, Net of Allowance for Doubtful Accounts of $576,000 in 1994 and $534,000 in 1993	13,617	11,826
Materials and Supplies	3,038	3,503
Other Current Assets	297	450
Total Current Assets	18,521	17,000
Operating Property And Equipment		
Road and Roadway Structures	63,887	59,032
Equipment	41,258	42,974
Road Materials and Supplies	1,536	3,072
Construction in Progress	--	532
Accumulated Depreciation and Amortization	(38,201)	(35,087)
	68,480	70,523
Land (Note 4)	13,850	13,850
Restricted Assets (Note 7)	11,993	11,878
Other Assets	285	107
Total Assets	$113,129	$113,358

	December 31, (In Thousands) 1994	1993
Liabilities And Equity		
Current Liabilities		
Notes Payable (Note 5)	2,000	2,900
Current Portion of Long-term Debt (Note 5)	5,179	5,449
Current Portion of Capital Lease Obligations (Note 3)	28	26
Accounts Payable and Accrued Liabilities	11,834	9,201
Payroll Liabilities	4,275	6,177
Deferred Revenues	1,208	329
Total Current Liabilities	24,524	24,082
Long-term Debt, Less Current Portion (Note 5)	15,568	14,584
Capital Lease Obligations, Less Current Portion (Note 3)	3	31
Accrued Post Retirement Benefits (Note 6)	3,471	2,003
Deferred Revenue (Note 7)	11,993	11,878
Total Liabilities	55,559	52,578
Equity		
Investment by the State of Alaska	34,174	34,174
Retained Earnings	23,396	26,606
Total Equity	57,570	60,780
Commitments and Contingencies (Notes 3, 5, 6, 8, 9, 10 and 11)	--	--
Total Liabilities And Equity	$113,129	$113,358

See Accompanying Notes to Financial Statements.

Statements of Loss

	Years Ended December 31, (In Thousands) 1994	1993
Operating Revenue		
Freight (Note 9)	$41,658	$47,066
Passenger	9,012	8,855
Other	4,165	3,590
	54,835	59,511
Operating Expense		
Transportation	17,925	20,788
Engineering	14,978	14,303
Equipment	8,781	9,839
General and Administrative	12,887	14,207
Depreciation and Amortization	6,204	5,785
	60,775	64,922
Loss From Operations	(5,939)	(5,411)
Other Income (Expense)		
Real Estate Income Less Direct Expenses Of $813,000 in 1994 and $578,000 in 1993	3,941	3,799
Interest Income	45	53
Interest Expense	(1,256)	(1,114)
	2,730	2,738
Net Loss	($3,210)	($2,673)

Statements of Equity

Years Ended December 31, 1994 and 1993
(In Thousands)

	Investment by the State of Alaska	Retained Earnings	Total Equity
Balance at December 31, 1992	$34,174	$29,279	$63,453
Net Loss for the Year Ended December 31, 1993	-	(2,673)	(2,673)
Balance at December 31, 1993	34,174	26,606	60,780
Net Loss for the Year Ended December 31, 1994	-	(3,210)	(3,210)
Balance at December 31, 1994	$34,174	$23,396	$57,570

See Accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31, (In Thousands) 1994	1993
Operating Activities		
Net loss	$ (3,210)	$ (2,673)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,204	5,785
Loss on disposal of assets	360	56
Increase in accounts receivable	(1,791)	(2,768)
Decrease in operating material and supplies	465	250
Decrease (Increase) in other assets	(25)	223
Decrease in accounts payable and payroll liabilities	893	7,004
Decrease in accrued environmental claims	(162)	(145)
Increase (Decrease) in current deferred revenues	879	(99)
Increase in accrued post retirement benefits	1,468	1,007
Net Cash Provided By Operating Activities	5,081	8,640
Investing Activities		
Net proceeds from temporary investments	--	543
Purchases, net of disposal of property and equipment	(6,589)	(8,537)
(Increase) Decrease in road materials and supplies	1,536	(1,288)
Net decrease in construction in progress	532	133
Net Cash Used In Investing Activities	(4,521)	(9,149)

(Continued on next column)

	1994	1993
Financing Activities		
Proceeds from short-term notes payable	3,675	4,800
Payments on short-term notes payable	(4,575)	(4,900)
Proceeds from long-term debt	5,749	12,232
Payments on long-term debt	(5,035)	(9,194)
Payments on capital lease obligations	(26)	(2,700)
Net Cash Provided By (Used In) Financing Activities	(212)	238
Net Increase (Decrease) In Cash And Cash Equivalents	348	(271)
Cash And Cash Equivalents At Beginning Of Year	1,221	1,492
Cash And Cash Equivalents At End Of Year	$1,569	$1,221
Interest Paid	$1,194	$1,059

See Accompanying Notes to Financial Statements.

Notes to Financial Statements December 31, 1994 and 1993

Note 1—Organization And Operations

The United States Congress authorized construction of the Alaska Railroad (ARR) in 1914 and operations began in 1923. The federal government operated the railroad until its sale to the State of Alaska in January 1985. The sale of the ARR to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982 (ARTA P.L. 97-468), which was signed into law on January 14, 1983. The Alaska Railroad Corporation (ARRC) is a public corporation created by the State of Alaska legislature to own and operate the railroad and manage the railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985.

The ARRC operates 525 route miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks as well as the ports of Whittier, Seward, and Anchorage; Denali National Park; and military installations. Vessel and rail barge connections are provided from Seattle, Washington, and Prince Rupert, British Columbia.

Note 2—Significant Accounting Policies

Basis of Accounting: The ARRC is subject to the jurisdiction of the Interstate Commerce Commission (ICC). Accordingly, the ARRC has prepared the accompanying financial statements in accordance with the ICC rules and regulations (US CFR Title 49), which are generally consistent with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board.

Materials and Supplies: Materials and supplies inventories are carried at the lower of cost (average cost) or market. Road materials and supplies include rail, ties, ballast, and other track materials. These items will generally be capitalized when placed into service, and accordingly are included in operating property and equipment.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets.

Capitalized Interest: The ARRC capitalizes interest costs as part of the cost of constructing major facilities and equipment. No interest cost was capitalized in 1994; $63,000 was capitalized in 1993.

Income Taxes: As a public corporation, the ARRC is exempt from Federal and State income taxes.

Cash and Cash Equivalents: For purposes of the statements of cash flows, cash and cash equivalents include time deposits, money market accounts and repurchase agreements with original maturities of three months or less.

Note 3—Leases

ARRC leases its headquarters and certain operating equipment under operating leases. Operating lease payments totaled $1,389,000 and $1,027,000 in 1994 and 1993, respectively. The ARRC leases certain vehicles under capital leases. Future minimum lease payments as of December 31, 1994 are summarized as follows:

		Capital Leases	Operating Leases
Year Ending December 31,	1995	$ 28	$ 1,391
(in thousands):	1996	3	1,372
	1997	—	1,328
	1998	—	1,239
	1999	—	842
	Thereafter	—	9,810
Total minimum lease payments		$ 31	$15,982
Less interest		(3)	
Present value of net minimum lease payments (classified as current)		$ 28	

The cost of equipment held under capital leases totaled $103,000 at December 31, 1994 and 1993. The related accumulated amortization was $75,000 and $46,000 at December 31, 1994 and 1993, respectively. Amortization expense is included in depreciation expense in the statements of loss.

Note 4—Land

A significant portion of ARRC's land is leased under agreements, certain of which are cancelable upon 90 days notice by the lessee. The lease terms vary from 2 to 55 years. Annual rental income on these leases was approximately $4,754,000 in 1994 and $4,377,000 in 1993.

NOTE 5—LONG-TERM DEBT

Long-term debt at December 31, 1994 and 1993 consists of the following:

	December 31, (In Thousands) 1994	1993
Note payable, secured by equipment, due in monthly payments of $132,699 including interest at 4.6%, matures August 1998. ARRC has met all debt covenants at December 31, 1994.	$5,363	$6,675
Note payable, secured by equipment, due in semi-annual payments of $203,397 plus interest at the two year Treasury Note rate of 6.47%, matures April 2004. ARRC has met all debt covenants at December 31, 1994.	3,865	4,271
Note payable, secured by various assets, due in monthly payments of $118,882, including interest at 7.947%, matures July 1995. Requires ARRC to meet various debt covenants, ARRC is not in compliance with one covenant. The bank has not granted a waiver, therefore the entire balance due has been classified as current at December 31, 1994 and 1993.	668	1,958
Note payable, secured by equipment, due in monthly payments of $82,066 including interest at 4.50%, matures October 1998. ARRC has met all debt covenants at December 31, 1994.	3,461	4,270
Note payable, secured by equipment, due in quarterly payments of $115,500 plus interest at 68% of the prime rate, matures December 1996. ARRC has met all debt covenants at December 31, 1994.	925	1,387
Note payable, secured by equipment, due in monthly payments of $33,008, including interest at 6.22%, matures May 1997, debt agreement has no debt covenants.	864	1,196
Note payable, secured by equipment, due in monthly payments of $4,073, including interest at 5.85%, matures January 1998, debt agreement has no debt covenants.	138	--

(Continued on next column)

Note payable, secured by equipment, due in monthly payments of $88,066 including interest at 5.8125%, matures November 1999. ARRC has met all debt covenants at December 31, 1994.	4,510	--
Note payable, secured by equipment, due in monthly payments of $18,616 including interest at 4.44%, matures February 1999. ARRC has met all debt covenants at December 31, 1994.	848	--
Other note payable, secured by equipment, due in annual payments of $20,965 matures August 1997. The agreement has no debt covenants.	105	276
	20,747	20,033
Less Current Portion	(5,179)	(5,449)
	$15,568	$14,584

Long-term debt maturities are as follows at December 31, 1994:

Year Ending December 31, (in thousands)		
	1995	$5,179
	1996	4,718
	1997	4,187
	1998	3,446
	1999	1,385
	Thereafter	1,832
		$20,747

ARRC has arrangements for short-term unsecured borrowing of up to $15,000,000 with one bank. Notes Payable at December 31, 1994 and 1993, are summarized below:

	Line 1	Line 2
Description of Line of Credit	For General Purposes	For Self-Insurance Purposes (Note 10)
Amount Available	$5,000,000	$10,000,000
Outstanding at December 31, 1994	$2,000,000	-
Outstanding at December 31, 1993	$2,900,000	-
Interest Rate	74% of prime rate of a major bank	76% of prime rate of lending bank

(Continued on next page)

	Line 1	Line 2
Covenants	ARRC has met all debt covenants.	ARRC is not in compliance with a covenant. ARRC received a waiver through December 31, 1994.
Due Date	July 15, 1995	July 15, 1995

The Corporation believes that these lines will be renewed when they mature or that additional commitments will be obtained on similar terms.

NOTE 6—EMPLOYEE BENEFITS

ARRC has a defined benefit pension plan that covers all regular represented and nonrepresented employees who are not covered by the Civil Service Retirement System. Benefits under this plan are based upon the employee's years of service and final average compensation. The ARRC's funding policy is to contribute each year an amount equal to the net periodic pension cost. Contributions are made continuously throughout the year.

The funded status of the plan at December 31, 1994 and 1993 is as follows:

	December 31, (In Thousands) 1994	1993
ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS:		
Accumulated benefit obligation-vested	$ (8,976)	$ (5,562)
Accumulated benefit obligation-nonvested	(557)	(1,240)
	$(9,533)	$ (6,802)
Projected benefit obligation for service rendered to date	$(11,712)	$(11,074)
Plan assets at fair value	13,755	13,006
PROJECTED BENEFIT OBLIGATION LESS THAN PLAN ASSETS	2,043	1,932
Unrecognized prior service cost	261	280
Unrecognized net transition obligation	426	487
Unrecognized Net Gain	(2,569)	(2,566)
PENSION PREPAYMENT	$161	$133

	December 31, (In Thousands) 1994	1993
Actuarial assumptions used in 1994 and 1993 to measure the projected benefit obligation and the expected return on Plan assets were:		
Assumed discount rate	8.25%	7.25%
Assumed salary increase rate	5.75%	4.75%
Expected long-term rate of investment return	8.00%	8.00%

Net pension costs at December 31, 1994 and 1993 include the following components:

	1994	1993
Service cost-benefits earned during the period	$378	$249
Interest cost on projected benefit obligation	846	805
Return on plan assets	336	(1,211)
Net Amortization And Deferral	(1,483)	262
NET PERIODIC PENSION COSTS	$77	$105

Actuarial assumptions used in 1994 and 1993 to measure net pension costs were:

	1994	1993
Assumed discount rate	7.25%	8.00%
Assumed salary increase rate	4.75%	5.50%
Expected long-term rate of investment return	8.00%	8.00%

Plan assets are composed of fixed income securities and common stocks.
Federal employees who transferred to the ARRC continue to participate in the Civil Service Retirement System (CSRS). ARRC is required to contribute 7% of the transferred employees' base pay. Pension expense related to CSRS was $732,000 and $793,000 for the years ended December 31, 1994 and 1993, respectively.

In addition to the defined benefit pension plan, ARRC sponsors a defined benefit health care plan that provides post retirement medical benefits to employees receiving retirement under the corporate retirement plan, and retired CSRS employees who do not qualify for the federal medical insurance.

The plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with ARRC's expressed intent to increase the retiree contribution rate by the amount of that year's premium increase. ARRC's policy is to fund the cost of medical benefits in amounts determined at the discretion of management. At December 31, 1994, ARRC has not designated any assets for the funding of these benefit costs.

The following table presents the plan's funded status:

	December 31, (In Thousands) 1994	1993
ACCUMULATED POST RETIREMENT BENEFIT OBLIGATION:		
Retirees	$ 1,829	$1,287
Fully eligible active plan participants	562	235
Other active employees	4,349	4,084
TOTAL ACCUMULATED POST RETIREMENT BENEFIT OBLIGATION	6,740	5,606
UNRECOGNIZED TRANSITION OBLIGATION	(3,288)	(3,481)
UNRECOGNIZED NET GAIN	100	38
ACCRUED POST RETIREMENT BENEFIT COST	$ 3,552	$2,163
Net periodic post retirement benefit cost includes the following components:		
Service cost	$ 765	$624
Interest cost	482	400
Amortization of transition obligation over 20 years	193	193
NET PERIODIC POST RETIREMENT BENEFIT COST	$ 1,440	$1,217

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is 12% for 1995 and is assumed to decrease approximately 1% per year to 6.25% in 2001 and after. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated post retirement benefit obligation as of December 31, 1994 by $1,200,000, and the aggregate service and interest components of net periodic post retirement benefit cost for 1994 by $290,000. The assumed discount rate used to measure the accumulated post retirement benefit obligation was 8.25% at December 31, 1994.

NOTE 7—RESTRICTED ASSETS

The ARRC received $9,000,000 from the State of Alaska in 1990 for the purchase of locomotives and coal hopper cars for the Wishbone Hill Coal Project. Any remaining funds, along with interest earned on the $9,000,000 while in the possession of the ARRC, may be used to purchase other equipment and improvements related to the project. This contribution from the State is accounted for as deferred revenue, which will be amortized over the life of the project. Since 1991, the funds have been invested in U.S. Government securities, corporate notes and money market accounts. At December 31, 1994 and 1993, these investments had a carrying value, including accrued interest, of $11,603,000 and $11,481,000, respectively, at amortized cost and a market value of $11,301,000 and $11,408,000, respectively. According to the current agreement, ARRC is to refund the $9,000,000 plus interest earned during the holding period if the Wishbone Hill Coal Project is canceled.

Also included in restricted assets is $390,000 received in 1990 from the Department of Natural Resources. These funds are being managed by the ARRC in anticipation of future capital projects. If no capital projects are undertaken, the funds, including accrued interest, would be returned to the Department of Natural Resources. At December 31, 1994 and 1993, these investments had a carrying value, including accrued interest, of $372,355 and $397,105, respectively, at amortized cost and a market value of $386,000 and 400,343, respectively.

Securities at December 31, 1994 consist of the following (in thousands):

DESCRIPTION OF SECURITY	ESTIMATED MARKET VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	AMORTIZED COST
Corporate Notes	$2,880	–	$12	$2,892
US Gov't Agency Strips	92	–	1	93
US Agency Notes	6,748	–	177	6,925
US Treasury Strips	1,392	–	111	1,503
Money Market Accounts	18	–	–	18
US Treasury Notes	371	--	5	376
US Treasury Bills	186	--	--	186
TOTAL	$11,687	--	306	11,993

NOTE 8—MAJOR CUSTOMERS

Two ARRC customers accounted for 34% and 11% of freight revenue for the year ended December 31, 1994. In 1993 two customers accounted for 38% and 12% of freight revenue.

NOTE 9—COMMITMENTS AND CONTINGENCIES

Effective March 1, 1993, the ARRC entered into a five year agreement with another entity for rail barge services between Washington and Alaska and related administrative responsibilities. The rail barge operation, which is a significant portion of the ARRC's interline traffic, provides a substantial minimum annual level of utilization and becomes profitable for the ARRC after it achieves a barge capacity utilization of 66-2/3 percent. Payments under the agreement are accounted for as a reduction of freight revenue.

During 1991, the ARRC was named as a potentially responsible party in a lawsuit brought by the U.S. Environmental Protection Agency (EPA) to recover money spent to date and to be spent in the future cleaning up a superfund site at the Anchorage Terminal Reserve. ARRC believes the contamination occurred prior to the transfer of the Railroad from the federal government to the State of Alaska and that liability for contamination will be ultimately imposed on the federal government under the transfer act and a 1990 agreement between the federal government and ARRC.

On February 6, 1992, the EPA filed a complaint seeking to fine the ARRC for alleged violations of the Resource Conservation and Recovery Act in relation to storing hazardous wastes at the Anchorage rail yard. A consent agreement was executed on April 14, 1994 settling the alleged violations. The accrual for this item was reduced to $755,000 in 1993 to reflect this consent agreement and has since been reduced to $590,000 to reflect costs incurred. The accrual does not reflect any costs to clean up any contamination in the area covered by the settlement. No contamination has been discovered, but ARRC believes that most, if not all, contamination in this area would have occurred prior to the transfer of the ARRC from the federal government and therefore be covered by the agreement referred to above.

The ARRC is a defendant in various legal proceedings related to the conduct of its business. Provision has been made in the financial statements for possible losses from litigation. In the opinion of management, the outcome of the litigation will not have a material effect on the financial position of the ARRC.

NOTE 10—INSURANCE

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims which are funded by a line of credit (Note 5). The ARRC is also self-insured against workers' compensation claims.

NOTE 11—INVESTMENT IN PARTNERSHIP

Effective August 22, 1992, the ARRC entered into a general partnership agreement to develop and operate a hotel complex in the Ship Creek area. The ARRC entered into a 35 year lease with the partnership for the land on which the hotel is located for $1 per year. In return for this, the ARRC received a 40% interest in the partnership. The ARRC has no cash investment in the partnership and the investment in and equity in earnings of the partnership are immaterial. The ARRC is jointly and severally liable on a $500,000 line of credit (with an outstanding balance of $300,000) which is renewable annually.

EMPLOYEES

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