Alaska Railroad Corporation

2000

Annual Report

Chairman's Message

Johne Binkley
Chairman of the Board

Last year was among our finest ever. We instituted a host of programs to improve our operational safety, implement capital improvements and bring the Railroad back into the black. We made more than $94 million in revenues, brought our total assets up to $251 million, and were able to put $16.7 million to the bottom line. The Railroad accomplished that in the face of a ferocious winter that saw more track closures than any year on record.

The man who lead the Railroad through some dramatic changes retired in January of this year. I would like to thank Governor Bill Sheffield for his tireless leadership in helping to bring the Railroad up to national standards. The Railroad is a far better railroad than it was when he took over. We are safer, we serve our customers better, and we are more profitable. I admire and appreciate the lifelong dedication Governor Sheffield has given to Alaska.

Governor Sheffield's dedication will certainly be missed, but I'm pleased to report we have a new President and CEO, General Patrick Gamble, who will join the Railroad in April. A former leader of the Air Force's Alaskan Command, General Gamble served as Commander of all Air Forces in the Pacific until his recent retirement.

General Gamble has a track record as a national and international leader who has managed large budgets and work forces, and specialized in the development of safety programs and strategic plans. He will set high standards for the Railroad and help us continue to achieve the safety objectives the board has established.

As detailed elsewhere in this report, safety is an area where we are making excellent progress. The Railroad's board of directors and employees are committed to serving Alaskans and continually improving the Railroad's safety, customer service and profitability. Last year we made great strides in meeting those goals.

It was a very good year and I would like to thank our employees who worked hard to make it possible.

Johne Binkley

President's Message


President/CEO
Gov. Bill Sheffield

The year 2000 was one of the most important years for the Alaska Railroad since the state purchased the system in 1985. The Railroad came on strong in 2000 spending more on capital improvements than any year since state ownership. Our efforts in rebuilding this Railroad have set the stage for its success in the next decade.

With the help of our congressional delegation in Washington, D.C., we've received more than $250 million in federal funds to accomplish in five years what we had not been able to do for the past 20. Our last major renovation occurred in the 1950s following World War II. We needed to replace thousands of ties, tons of ballast, miles of rail, purchase new equipment and build new depots.

Today, many critical capital projects are underway including completing a new freight dock in Seward and renovating the existing dock into a passenger service facility and building new rail depots at Ted Stevens Anchorage International Airport, Fairbanks and Denali Park. At the same time, we are upgrading and realigning track between Anchorage and the Matanuska-Susitna Valley and installing improved signalization along that corridor.

"...rebuilding this Railroad has set the stage for its success in the next decade."

The Railroad embarked on a three-year, $60 million program to install remote-controlled heated switches and extended sidings along the rail line. The upgrades are designed to improve safety and efficiency and will enable the Railroad to move more and longer trains in meet and pass situations.

My tenure at the Railroad is now over, having retired as president in January of 2001. The Railroad has an excellent team of professionals at every level of the company and a dedicated board of directors. It has been my pleasure to serve with each and every one for the past six years.

Bill Sheffield

Year in Review

Net income for the year 2000 was $16.7 million compared to a net loss in 1999 of $3.8 million. This significant increase is largely attributable to a timing difference between when expenses were booked and when revenue and certain reimbursements were received.

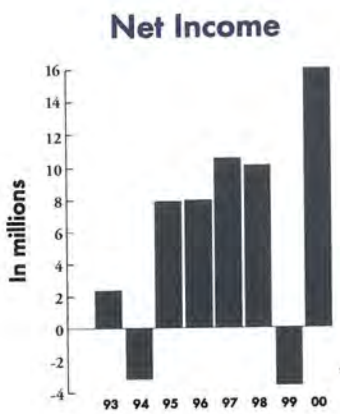
Actual and estimated expenses for the Gold Creek and Canyon derailments were booked in 1999. In 2000, the Railroad received federal assistance for some expenses for Gold Creek and severe winter storm damage. Due to the fact that the expenses were booked in 1999 and the federal disaster revenues were received in 2000, a comparison of year-to-year business results is not readily determinable. If 1999 and 2000 are recalculated, eliminating derailment expenses and federal disaster revenues, then the net income for each year would be $6.1 million and $6.4 million, respectively.

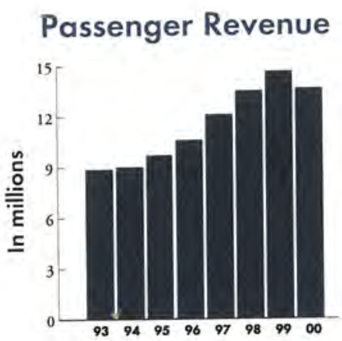
Freight revenue continues to be a cornerstone of the Railroad's bottom line. In 2000, freight revenue increased 7 percent over 1999 continuing a 10-year trend between 1990 and 2000, when total freight revenue rose 31 percent. Petroleum products, gravel and interline freight accounted for 75 percent of the Railroad's gross revenue in 2000. In a year when tonnage was down nearly 15 percent, revenue per-ton increased 26 percent. Petroleum shipments were up 13 percent.

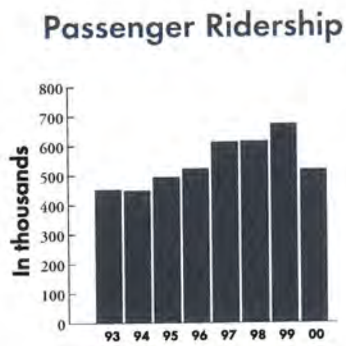
The Railroad negotiated a new rail barge service contract in 2000 that features three new barges built exclusively for Railroad use. Two runs between Seattle and Whittier at the end of 2000 demonstrated that the new barges are very efficient, reducing the transit time by nearly 30 hours over the old barges.

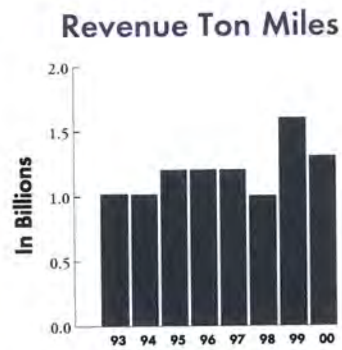
Passenger Services generated approximately 15 percent of gross revenue, serving 501,138 passengers. The decrease is primarily due to the suspension of the Whittier shuttle as vehicular traffic began using the tunnel. Passenger Services added 12 new coaches to the fleet and began new service between Seward and Anchorage to serve the cruise ship industry in moving its passengers between those destinations. That ridership should increase in 2001.

Real Estate continues to provide solid revenue representing 10 percent of gross revenue, but contributing 38 percent of net income. Real estate revenue increased 8 percent in 2000 and that trend is expected to continue in 2001. A master plan for the Ship Creek area was completed, providing guidance for the broad redevelopment of the area over the next 20 years.









After finishing its second year of an intensified safety program, the Railroad's efforts in this area are paying off. Employees conducted 2,000 safety audits to help identify existing safety hazards and unsafe practices. The injury frequency in 2000 dropped 25 percent from 1999 and almost 45 percent from the end of 1997. Lost time days dropped a solid 60 percent, proving the Railroad's safety program is moving in the right direction.

The Railroad created a new Capital Projects Department in 2000 to manage the schedule of capital projects currently underway. This year, the department focused on completing project designs and obtaining permits for the 2001 construction season.

"A renewed effort to improve employee safety."

Track maintenance continued with an aggressive schedule of replacing aging ties and laying new rail. To keep its track in good condition, the Railroad used special equipment this fall to grind and recondition 632 miles of rail. The Mechanical Department created a new unit exclusively to service passenger equipment.

The Railroad's board of directors and employees are committed to serving Alaskans and improving the Railroad's safety, customer service and profitability. In 2000, the Railroad made great strides in meeting those goals.

Safety

The Railroad is entering its third year of a renewed effort to improve employee safety and all indications are that the effort is successful. Specific indicators the Railroad uses to track its safety program are: reportable injuries per 200,000 man hours, "lost-time" days (days employees are away from work due to injury) and train accidents per million train miles.

The injury frequency for 2000 was 5.97 per 200,000 man-hours. This is almost a 25 percent drop from 1999 and down almost 45 percent from the end of 1997. Lost-time days in 2000 totaled 375, almost a 60 percent drop from 1999. This indicates that the severity of injuries is decreasing and that fewer are occurring.

The year 2000 ended with a remarkable frequency of 1.49 train accidents per million train miles, compared to the national average of 3.8. (A reportable "train accident" to the Federal Railroad Administration is one that results in damage greater than $6,600.) The Railroad's rate averaged approximately 5.0 from 1996 through 1998 and was 4.58 in 1999. The Railroad's ultimate goal is zero accidents and zero incidents.

Employees also conducted 2,000 safety audits during the year, observing how employees work and how they can work more safely.

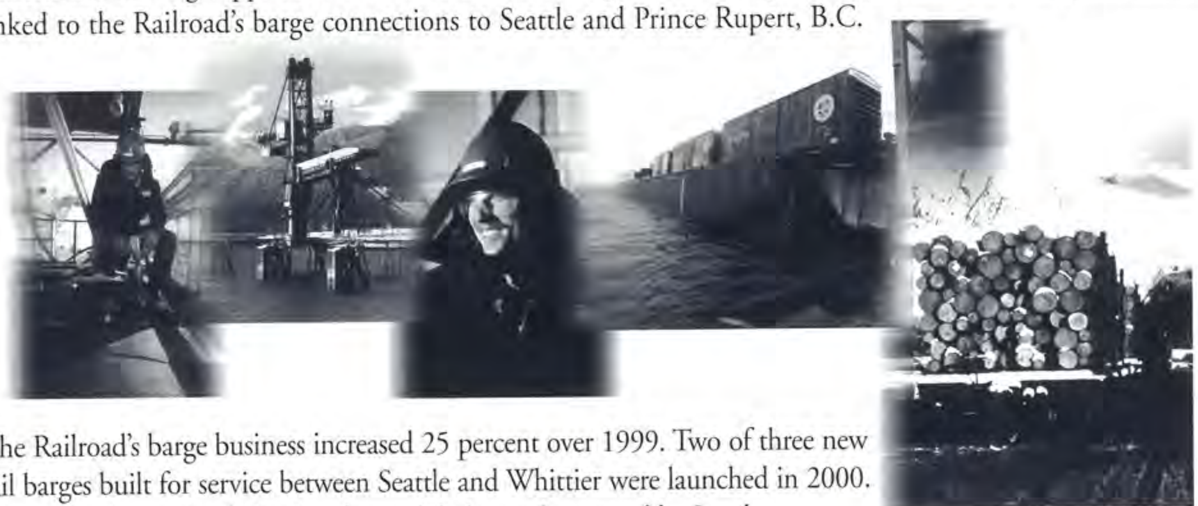
Finally, the Railroad hired Rail Sciences, Inc., an industry leader in operational safety and derailment prevention, to do a complete system safety audit. The company found that the Railroad's track is vastly improved from 1995, when they had inspected it last. Tie condition, turnouts, switches and rail anchoring were considerably above federal standards as was the Railroad's freight car fleet. Rail Sciences recommended the Railroad expand its training and certification programs and implement more aggressive operational testing in the field. Those recommendations are being implemented in the current year.

Commodities

Rail Freight

In 2000, freight revenue increased 7 percent over 1999, continuing a trend where freight revenue has increased an aggregate of 31 percent over the past ten years. Although actual tonnage was down nearly 15 percent in 2000, revenue per-ton increased 26 percent.

More than 74 percent of the Railroad's business is in hauling freight, including petroleum products, coal, gravel, oilfield and mining supplies, chemicals and consumer goods. An important portion of the freight business is linked to the Railroad's barge connections to Seattle and Prince Rupert, B.C.



The Railroad's barge business increased 25 percent over 1999. Two of three new rail barges built for service between Seattle and Whittier were launched in 2000. These new barges, built by Gunderson Marine and operated by Lynden, Incorporated, began service in March 2001. In a trial run, the first barge, Anchorage Provider, demonstrated the value of its design by picking up nearly 30 hours of sailing time over the old equipment on just its second voyage.

That efficiency translates into more reliable service for Railroad customers and, in good weather, presents an opportunity to add extra voyages during the year. With better speed and efficiency, the Railroad has additional capacity without adding more equipment. Alaska Cargo Transport/Jore Marine will continue to be a major customer and partner, leasing deck space on the barge. The company signed a contract with the Railroad through March 2004.

Petroleum shipments from the Williams Alaska Petroleum refinery in North Pole are up 13 percent. The business is expected to remain stable, although shipments of naphtha should increase revenue somewhat during 2001.

The oil field business is starting to move forward at a quicker pace as compared to the past two years. The addition of the pipe yard in Fairbanks providing unloading, packaging and truck loading for Phillips Alaska, Inc. has been successful. The yard is scheduled to produce more than twice the revenue of 1999 and almost ten times what the Railroad earned in 2000.

The Railroad transports coal between the Usibelli Coal Mine and Seward for export to Korea. While export coal revenue increased 36 percent in 2000, it is still substantially lower than 1995. That overall trend is expected to continue as international coal markets keep prices competitive and low. Local coal revenue to Fairbanks and northern military bases is up slightly at 2 percent, due to a rate adjustment. Overall, local coal continues to be flat with little variation in volume from year to year.

Gravel revenue in 2000 was significantly lower than 1999 due to fewer construction projects in the Anchorage bowl. The gravel business is expected to grow relative to last year and possibly approach the record volumes the Railroad established in 1999.

Passenger Services

While several passenger segments performed well in 2000, overall ridership dipped, following the tourism industry trend as a whole. Total passenger ridership in 2000 was down to 501,138. Much of that loss can be attributed to the suspension of the Whittier Shuttle as the tunnel opened for vehicle traffic. Low airfares to Europe proved to be irresistible to many travelers in 2000, affecting land-based tourism nationwide.

Nevertheless, travel on the Alaska Railroad is proving to be an increasingly popular element of the Alaska visitor experience. Ridership increased on the Anchorage to Seward segment and with non-stop travelers between Anchorage and Fairbanks. The Railroad purchased two vista dome cars and added a new bistro diner to serve that segment.

Old coaches in the fleet also got a facelift with new upholstery, new flooring and new paint in 2000. This work, along with work done in the past, is giving the Railroad's passenger fleet a uniform look.

The Railroad began running a new passenger train between Anchorage and Seward in order to serve the growing cruise ship industry. The additional service proved to be a challenge matching connecting flights at Ted Stevens Anchorage International Airport with dock departure times as well as coordinating with the existing passenger trains between these cities.

Despite the challenges the new cruise ship service was a success and is expected to grow to five trains a week in 2001. With an ever-increasing number of cruise ships coming across the Gulf of Alaska to berth in Southcentral, it is expected that passenger revenue will make up 20 percent of Railroad revenue within five years.

Real Estate

The Railroad's Real Estate Department has aggressively marketed its properties in the past few years, resulting in increased revenue in 2000 and continuing a trend begun five years ago. Improved leasing practices and management, as well as a strong economy, have bolstered the department's return.

Real estate revenue increased 8 percent in 2000 and has increased nearly 40 percent since 1996. It is anticipated that gross revenue will exceed $10 million for the first time in 2001.

Revenue sources include long-term lease revenue, corridor revenue, revenue for Seward and Whittier docks and permit revenue for short-term uses of ARRC land. Historically, land leases have provided the greatest portion of real estate revenue; however, in the past four years corridor revenue has increased substantially with the growth of the fiber optic industry in Alaska. While land lease revenue has increased more than 40 percent since 1996, corridor revenue has tripled. Dock revenue increased approximately 18 percent during this same period.

The Alaska Railroad Corporation owns real estate holdings of approximately 36,000 acres of land. Of this amount, 14,000 acres, or 38 percent, are devoted to right-of-way and another 8,000 acres (22 percent) are used for Railroad operations. The remaining 14,000 acres (40 percent) is available for lease. Under state statute, ARRC may lease non-operational land for up to 35 years.

Maintenance of Way

Maintenance crews had one of their busiest seasons on record installing 68,485 new ties, 109,745 feet of new rail and resurfacing 273 miles of mainline track, nearly a third of the Railroad's total length.

Surfacing is the equivalent of grading a road to take out the potholes. Equipment lifts the rails and redistributes ballast to correct the track geometry and smooth out the rail. This procedure keeps trains moving at track speed and improves overall safety. More than 72,000 cubic yards of ballast were moved in conjunction with this effort.

Complementing the resurfacing was the use of a contract railgrinder during the fall. This 800-foot long machine grinds the rail smooth to reduce wear on both equipment and rail. A total of 632 miles of track underwent this process.

The Hurricane Siding, a crucial siding for trains to meet and pass, was lengthened to 16,000 feet. The rail at Hurricane and at two other areas was upgraded from 70 lb. rail to 115. lb rail. Other projects in 2000 included routine bridge maintenance and rehabilitation of the Whittier barge slip.

Mechanical

The Mechanical Department successfully met the challenge of servicing a fleet of new equipment in 2000. Sixteen new 4,000 horsepower, computer-controlled SD70MAC locomotives began service with the Railroad in late 1999 and 2000. After working out software problems in the new systems, maintenance staff raised the availability of these engines from 70 percent at the beginning of the year to 88 percent by year's end.

Nine new passenger cars and three stainless steel dome coach cars were purchased and put into service on the Fairbanks and Seward routes. This new equipment represents a 34 percent increase in the Railroad's passenger fleet, the equivalent of an entire passenger train.

In order to maintain the growing fleet of passenger equipment, a dedicated passenger train maintenance staff was created within the Mechanical Department. Crews successfully kept the fleet available for service 100 percent of the time during the summer passenger season. On the freight car side, the department maintained a count of fewer than 100 freight cars out-of-service throughout 2000, a successful effort given the Railroad's total fleet of 1,870 cars.

Capital Improvement Program Review

Over the past five years, the Alaska Railroad has received more than $250 million in federal grant money. Of that, $110 million has been directly invested in new rail, ties and ballast to aggressively improve the Railroad's infrastructure. Another portion of the funds is being used to build new passenger facilities and purchase new passenger equipment. The remainder of the grant money is being used for safety and efficiency upgrades, including straightening track between Anchorage and Wasilla, constructing longer sidings and installing signalized and heated switches.

Seward

To improve safety and better meet passenger needs in Seward, the Railroad has built a new freight dock and is renovating the existing dock as a passenger-only facility.

Moving freight and passengers across the same dock at the same time created unsafe conditions. In addition, new Coast Guard regulations require passengers to pass through a security zone before boarding a cruise ship to safeguard against terrorists and hijackers. Sharing the dock with freight operations interfered with those efforts. Finally, the passenger facility needed to be upgraded to meet all building and safety codes, which wasn't possible while combining it with freight operations.

Current passenger dock improvements include connection to sewer service, an increase in interior floor square footage by covering the depressed rail track with decking, a concrete overlay floor surface to include radiant heat, new lighting and miscellaneous electrical and mechanical upgrades. Future passenger dock improvements will include paving of the dock surface, dockside lighting improvements, a facelift for the existing terminal facility and improved access to the uplands area.

The new freight dock is a bulkhead fill dock located east of the Railroad's passenger-only dock. The dock is 640 feet long, 200 feet wide and includes a mooring dolphin and catwalk at the seaward end. The dock facility will accommodate both truck and rail transport.

The Railroad is also upgrading the existing Seward roundhouse facility to accommodate new cruise train services based in that location. The refurbished roundhouse will facilitate maintenance and custodial services for the passenger trains running between Seward and Anchorage.

Whittier

ARRC has contracted with an engineering firm to create a master plan for Whittier land holdings. The Railroad operates a large rail yard in Whittier as well as freight and passenger trains. The Railroad also operates marine facilities including a freight barge slip and two docks. Finally, the Alaska Marine Highway Whittier Terminal is located on ARRC land nearby.

The primary focus of this study is to identify improvements to passenger-related amenities in order to facilitate tourism growth. The study will also consider present and future freight operations, evaluation of existing facilities and conceptual development of rehabilitated or new marine facilities, including the potential for large cruise ships to call in Whittier. Major goals for future development include: increased rail passenger and pedestrian safety, increased passenger service, segregation of freight and passenger operations and construction of a new passenger terminal and maintenance facilities.

The Railroad is considering alternative pedestrian routes to connect the town of Whittier with the waterfont. Our goal is to provide pedestrians safe egress through the rail yard.

Anchorage

Line Changes

The Anchorage-Eagle River project involves realignment of the existing mainline track and construction of an additional track from the north end of the Anchorage rail yard to the Eagle River Bridge. Construction on this project will straighten 28 curves and move the right-of-way away from the east-west runway on Elmendorf Air Force Base.

"The improvements will also reduce track and equipment wear."

The Eagle River-Wasilla project includes bridge rehabilitation and curve straightening on 42 curves between those two locations. Combined with improvements to the Anchorage to Eagle River section, these projects will contribute to a decrease in train travel time between Anchorage and Wasilla from 90 minutes to approximately 58 minutes. The improvements will also reduce track and equipment wear, provide more consistent train handling abilities and improve safety for Railroad personnel and the public.

The South Anchorage Double Track project will increase the Railroad's capacity by adding approximately five miles of new mainline track between Klatt Road and International Airport Road in Anchorage.

Airport Depot

The Railroad is constructing a new rail terminal at the Ted Stevens Anchorage International Airport. The terminal will provide a passenger assembly area, offices and lease space and an underground pedestrian tunnel connecting to Concourse C.

Tracks to the terminal will be elevated on a concrete trestle system over parking lots and access roads, meeting the terminal at a covered, elevated pedestrian platform.

The Alaska Department of Transportation and Public Facilities, in cooperation with the Railroad, has performed a reconnaissance study to determine options that would resolve future conflicts between road and rail traffic on International Airport Road. The Railroad has seven at-grade crossings in this short 2.5 mile stretch of road. The expected increase in traffic volumes due to the airport expansion, as well as the development of the ARRC rail terminal station, requires a thorough investigation of alternatives to resolve vehicle and train conflicts.

Anchorage Yard

The Railroad has an expanding fleet of passenger equipment and has vastly outgrown its current car shop facilities. Passenger cars require servicing each night for cleaning, restocking of supplies such as food and water, removal of sewage and inspection of the operating equipment. In addition, these cars require repairs that must be accomplished quickly in order to keep the cars in service.

A passenger car facility will be up to 1,000 feet long and contain up to six tracks. It will contain the facilities needed to service, inspect and repair passenger equipment. The proposed location is in the Anchorage Yard east of the C Street overpass.

Ship Creek Redevelopment

The Municipality of Anchorage, in cooperation with the Railroad, is improving pedestrian amenities in the Ship Creek area by adding a plaza at the corner of Ship Creek Avenue and C Street. The plaza will complement recently constructed sidewalks in the same area. The project includes benches, landscaping and a central gathering place for visitors to the Ship Creek area.

An intermodal transportation center is funded and is currently in preliminary engineering. The expanded development will include a parking garage across from the Railroad Depot with bus transit stop and elevated walkways connecting E Street to the depot.

Denali Depot

Passenger traffic and accompanying support facilities have far exceeded the capacity of the current depot. This project includes a larger passenger assembly area, additional seating and improved baggage handling area. Site improvements include improved bus loading/unloading areas and queuing shelters. A new access road alignment will be built by the National Park Service, to allow separated, landscaped parking areas for both tour buses, shuttle vans and taxis as well as private automobiles.

Fairbanks

Fairbanks Intermodal Facility

Current plans are to locate the new Fairbanks Intermodal Facility on a 16.1 acre site adjacent to the current Railroad operations yard. Located at the intersection of Johansen Expressway and Danby Road, the new site has easy access from the downtown core and the airport. The new facility will feature a state-of-the-art train depot, as well as parking and safe transfer areas to ensure smooth and safe movement of passengers making travel connections on trains, buses, taxis and automobiles.

Fairbanks - North Pole Bypass

The Railroad is studying the relocation of its mainline from Sheep Creek Road to the median of the Parks Highway and continue down the median until just east of the University Avenue/Parks Highway Interchange. The new alignment will move onto the Tanana River Dike and stay on the dike until it reaches the Moose Pass Road Interchange. This project will eliminate 48 at-grade road/rail crossings.

System-wide Improvements

Passenger Locomotive and Car Upgrades

The Railroad has a fleet of 45 passenger-related rail cars and a number of locomotives and other equipment to support passenger operations. This equipment varies in age and condition. The Railroad is actively upgrading older equipment in order to improve and expand passenger service operations in Alaska.

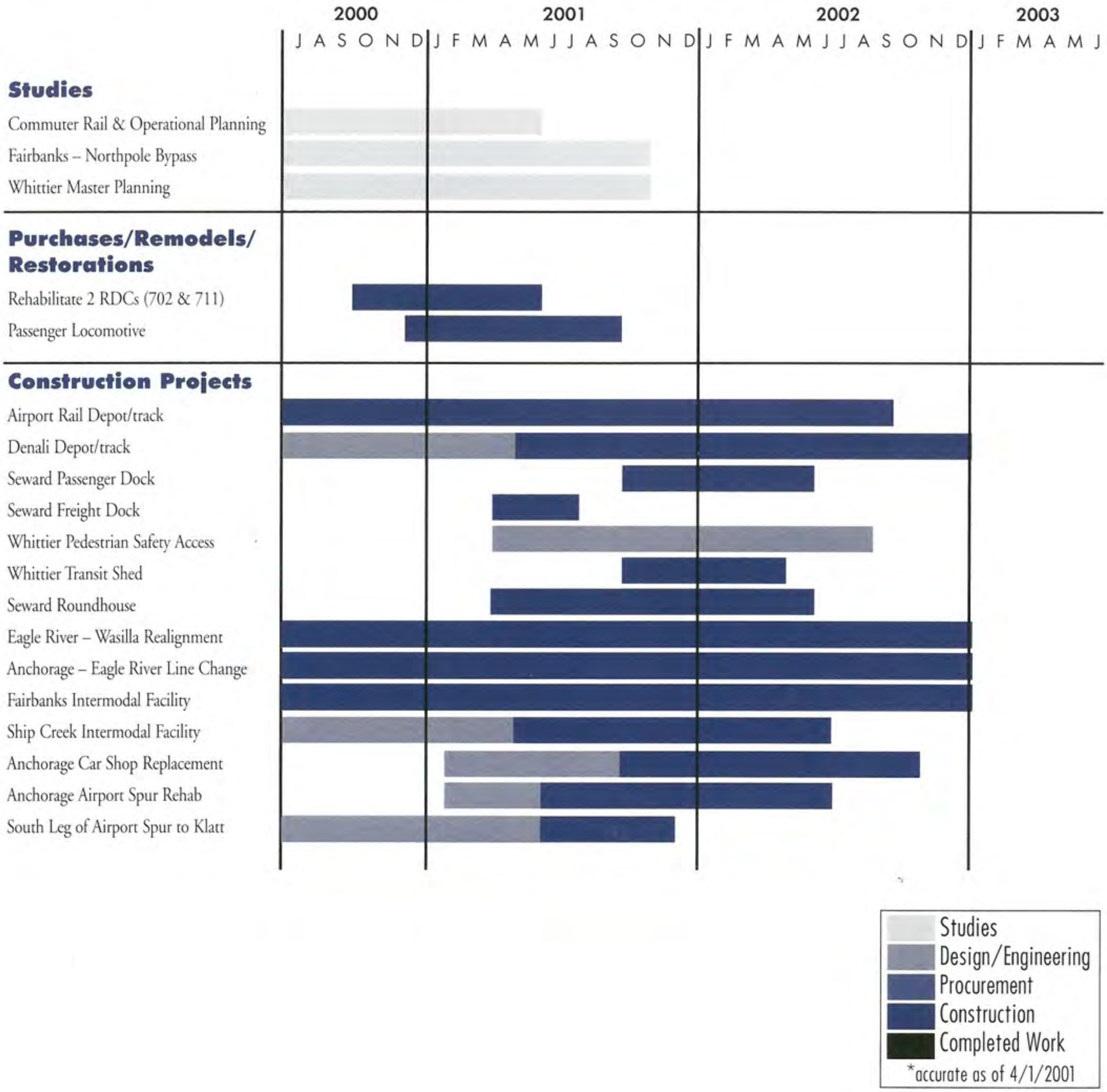
Typical upgrade projects include the repainting and interior restoration of coaches, refurbishment of power generation cars, rehabilitation of railcar trucks and rebuilding of passenger locomotives.

Improved Siding Access Project

The Railroad is making its operation safer and more efficient by improving signalization and siding access. The Railroad is improving access to sidings by adding remote controlled switches, providing heat at switch locations, improving track turnout speeds and building longer sidings.

Through these upgrades, the Railroad will be able to reduce crew sizes and more easily maintain siding switches in the winter. The upgrades provide additional capacity for freight and passenger business, enabling the Railroad to move more and longer trains in meet and pass situations. These improvements to the Railroad's main line will reduce the risk of injuries and incidents by providing a fail-safe system to determine status of switches.

Timeline*


2000
2001
2002
2003
J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J
Studies
Commuter Rail & Operational Planning
Fairbanks – Northpole Bypass
Whittier Master Planning
Purchases/Remodels/Restorations
Rehabilitate 2 RDCs (702 & 711)
Passenger Locomotive
Construction Projects
Airport Rail Depot/track
Denali Depot/track
Seward Passenger Dock
Seward Freight Dock
Whittier Pedestrian Safety Access
Whittier Transit Shed
Seward Roundhouse
Eagle River – Wasilla Realignment
Anchorage – Eagle River Line Change
Fairbanks Intermodal Facility
Ship Creek Intermodal Facility
Anchorage Car Shop Replacement
Anchorage Airport Spur Rehab
South Leg of Airport Spur to Klatt
Studies
Design/Engineering
Procurement
Construction
Completed Work
*accurate as of 4/1/2001

Management Statement

The management of the Alaska Railroad Corporation is responsible for the fair statement of the accompanying financial statements and all other information contained in the annual report. The financial statements were prepared in conformity with generally accepted accounting principles and prevailing railroad industry practices and reflect Management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed. The financial information contained elsewhere in the annual report is consistent with that in financial statements.

The Alaska Railroad Corporation maintains accounting systems that are supported by internal accounting controls. These systems and controls provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the related benefits. Management believes the company's system provides this appropriate balance in all material respects.

The financial statements have been audited by KPMG 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 an objective, outside review of operating results, financial condition, and the Corporation's system of internal controls. The opinion of the independent auditors is contained in this annual report.

The audit committee of the board of directors, composed solely of outside directors, meets with independent auditors and management periodically to discuss audit findings and other accounting and financial matters. The committee reviews the scope and results of the audit effort with the independent auditors as well as the annual financial statements and recommends their approval by the board of directors.

Jerry Anderson

Vice President, Finance and Administration

ALASKA RAILROAD CORPORATION

Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

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, 2000 and 1999, and the related statements of operations, equity and comprehensive income, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2001 on our consideration of the Alaska Railroad Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

February 23, 2001

ALASKA RAILROAD CORPORATION

Balance Sheets

December 31, 2000 and 1999

(In Thousands)

Assets	2000	1999
Current assets:		
Cash and cash equivalents	$ 9,980	4,846
Accounts receivable, net of allowance for doubtful accounts of $388 in 2000 and $508 in 1999	11,378	8,464
Materials and supplies	4,547	4,593
Board designated assets (note 3)	95	13,215
Prepaid expenses and other current assets	289	427
Total current assets	26,289	31,545
Operating property and equipment		
Road and roadway structures	115,401	114,519
Equipment	92,726	51,938
Road materials and supplies	4,486	3,171
Construction in progress	56,269	20,237
Accumulated depreciation and amortization	(76,965)	(66,888)
Total operating property and equipment, net	191,917	122,977
Land and improvements (note 10)	16,080	15,879
Board designated assets (note 3)	944	1,038
Restricted assets (note 4)	13,743	51,452
Investments (note 5)	1,508	—
Other assets	252	777
	$ 250,733	223,668

Liabilities and Equity	2000	1999
Current liabilities:		
Current portion of long-term debt (note 6)	$ 2,088	2,018
Accounts payable and accrued liabilities (note 13)	8,293	12,529
Payroll liabilities	5,585	6,579
Unearned revenues	1,740	1,683
Total current liabilities	17,706	22,809
Long-term debt, less current portion (note 6)	19,963	22,051
Accrued postretirement and pension benefits (note 7)	9,033	9,018
Environmental remediation reserve (note 13)	2,658	3,150
Deferred grant revenue (note 8)	92,104	60,577
Deferred revenue (note 4)	2,136	15,514
Total liabilities	143,600	133,119
Equity:		
Investment by the State of Alaska	34,174	34,174
Retained earnings	72,727	56,043
Accumulated other comprehensive income – net unrealized gain on securities available for sale	232	332
Total equity	107,133	90,549
Commitments and contingencies (notes 6, 7, 9, 11, 12 and 13)		
	$ 250,733	223,668

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Operations

Years ended December 31, 2000 and 1999

(In Thousands)

		2000	1999
Operating revenue:			
Freight (note 9)	$	70,084	65,677
Passenger		13,163	14,571
Other		726	304
		83,973	80,552
Grant revenue (note 8)		14,448	1,648
		98,421	82,200
Operating expense:			
Transportation		42,033	39,837
Engineering (note 8)		21,010	22,202
Mechanical		12,482	10,763
General and administrative		11,935	19,282
		87,460	92,084
Income (loss) from operations		10,961	(9,884)
Other income (expense):			
Real estate income, less direct expenses of $2,915 in 2000 and $3,121 in 1999 (note 10)		6,373	5,505
Interest income		913	1,161
Interest expense		(1,563)	(541)
		5,723	6,125
Net income (loss)	$	16,684	(3,759)

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Equity and Comprehensive Income

Years ended December 31, 2000 and 1999

(In Thousands)

		Investment by the State of Alaska	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at December 31, 1998	$	34,174	59,802	152	94,128
Comprehensive income:					
Net loss		—	(3,759)	—	(3,759)
Change in unrealized holding gain on securities available for sale		—	—	180	180
Total comprehensive income					(3,579)
Balance at December 31, 1999		34,174	56,043	332	90,549
Comprehensive income:					
Net income		—	16,684	—	16,684
Change in unrealized holding gain on securities available for sale		—	—	(100)	(100)
Total comprehensive income					16,584
Balance at December 31, 2000	$	34,174	72,727	232	107,133

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Cash Flows

Years ended December 31, 2000 and 1999

(In Thousands)

		2000	1999
Operating activities:			
Net income (loss)	$	16,684	(3,759)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization		10,303	8,076
(Gain) loss on disposal of assets		(822)	273
Gain on sale of investment		—	(223)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable, net of allowance for doubtful accounts		(2,914)	2,528
(Increase) decrease in materials and supplies		46	(754)
(Increase) decrease in prepaid expenses and other assets		663	(254)
Increase (decrease) in accounts payable and accrued liabilities		(4,236)	7,764
Increase (decrease) in payroll liabilities		(994)	1,258
Increase in unearned revenues		57	5
Increase (decrease) in environmental reserve		(492)	3,150
Increase in accrued postretirement and pension benefits		15	981
Increase (decrease) in deferred revenue		(13,378)	841
Net cash provided by operating activities		4,932	19,886
Investing activities:			
Purchases of operating property and equipment		(78,780)	(33,541)
Purchases of land improvements		(201)	(2,029)
Proceeds from sales of operating property and equipment		359	90
Proceeds from sale of investment		—	100
(Increase) decrease in board designated assets, net of unrealized gain on available-for-sale securities		13,114	(4,907)
Purchase of investments		(1,508)	—
(Increase) decrease in restricted assets		37,709	(24,702)
Increase in deferred grant revenue		31,527	25,836
Net cash provided by (used in) investing activities		2,220	(39,153)
Financing activities:			
Payments on long-term debt		(2,018)	(1,096)
Proceeds from long-term debt		—	20,000
Net cash provided by (used in) financing activities		(2,018)	18,904
Net increase (decrease) in cash and cash equivalents		5,134	(363)
Cash and cash equivalents at beginning of year		4,846	5,209
Cash and cash equivalents at end of year	$	9,980	4,846
Supplemental disclosure of cash activity:			
Interest paid	$	1,569	455

See accompanying notes to financial statements.

(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, which was signed into law on January 14, 1983. The Alaska Railroad Corporation (the ARRC) is a 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 535 route miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks, the ports of Whittier, Seward, and Anchorage as well as Denali National Park and military installations. Vessel and rail barge connections are provided from Seattle, Washington, and Prince Rupert, British Columbia.

(2) Summary of Significant Accounting Policies

In preparing the financial statements in accordance with generally accepted accounting principles management is required to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses for the reporting period. Actual results could differ from these estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

(a) Basis of Accounting

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

(b) 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.

(c) Materials and Supplies

Materials and supplies inventories are carried at the lower of 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.

(d) Operating Property and Equipment

Operating property and equipment are stated at cost. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the related assets, ranging from 3 to 32 years.

(e) Board Designated Assets

Board designated assets represent investment securities held by the ARRC in anticipation of funding future postretirement benefits and equipment purchases. Management has both the ability and intent to hold the investment securities designated for equipment purchases to maturity, and accordingly, has

(Continued)

elected to account for them at amortized cost under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Investment securities designated for postretirement benefits are invested in equity mutual funds and are accounted for as available for sale securities under SFAS No. 115. Available for sale securities are stated at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of other comprehensive income.

(f) Restricted Assets

Restricted assets represent investment securities held by the ARRC in anticipation of the approval of future capital projects. Management has both the ability and intent to hold the investment securities to maturity, and accordingly has elected to account for them at amortized cost under SFAS No. 115. Funds received but not yet expended are recorded as deferred revenue.

(g) Grants

Grant revenue is recorded in the same period as expenses related to the grant. Grant funds received but not yet expensed are recorded as deferred grant revenue.

(h) Income Taxes

As a corporation owned by the State of Alaska, the ARRC is exempt from Federal and State income taxes.

(i) Environmental Remediation Costs

The Corporation accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Costs of future expenditures for environmental remediation liabilities are not discounted to their present value.

(j) Fair Value of Financial Instruments

Fair values of financial instruments, as defined under SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, are estimated by the ARRC's management. Fair values of restricted assets and related deferred revenue are based on quoted market prices, when available, and quoted market prices of comparable instruments, when not available. Fair values for accounts receivable are estimated using cash flows in comparison to assets with similar estimated average lives but bearing current market interest rates. Fair values of long-term debt are based on the discounted value of contractual cash flows and interest rates being offered for similar debt. ARRC has determined the fair values of financial instruments do not differ significantly from their carrying amounts with the exception of investments which are discussed in notes 3, 4 and 5.

(k) Comprehensive Income

Comprehensive income consists of net income and net unrealized gains and losses on securities and is presented in the statement of equity and comprehensive income.

(l) Reclassifications

Certain reclassifications not affecting net income have been made to 1999 numbers in order to conform them to current presentation.

(Continued)

(3) Board Designated Assets

Through December 31, 2000, the ARRC Board of Directors has designated investments for the purchase of equipment and for postretirement benefits (note 7) as follows (in thousands):

Description of Security		Amortized cost	Unrealized gains	Unrealized losses	Market value
2000:					
Available for sale –					
Equity mutual fund	$	712	232	—	944
Held to maturity –					
Money market accounts	$	95	—	—	95
1999:					
Available for sale –					
Equity mutual fund	$	706	332	—	1,038
Held to maturity:					
Money market accounts		4,538	—	—	4,538
U.S. Agency notes (maturing within one year)		6,456	—	(151)	6,305
Corporate notes (maturing within one year)		2,221	—	—	2,221
	$	13,215	—	(151)	13,064

(4) 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 of Alaska is accounted for as deferred revenue, which will be amortized over the life of the project. At December 31, 1999, these restricted assets totaled $15,263,000. During 2000 the ARRC reached an agreement with the State of Alaska where $8,191,000 was returned to the State of Alaska and $5,489,000 was authorized for the purchase of equipment (note 8). The remaining balance and interest thereon totals $1,869,000 and is reported as restricted assets and deferred revenue.

Also included in restricted assets is $267,000 and $251,000 at December 31, 2000 and 1999, respectively, 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.

As part of the 1997 Taxpayer Relief Act passed by the U.S. Congress, states without Amtrak service are due a benefit to be spent on passenger service improvements in lieu of the tax benefits received through Amtrak subsidies over the years. The ARRC received Alaska's $23,230,000 share of this benefit. The unspent portion of the amount received, along with investment income thereon, is reported as deferred grant revenue (note 8). These restricted assets totaled $11,607,000 and $15,579,000 at December 31, 2000 and 1999, respectively.

To finance the purchase of sixteen new locomotives, the ARRC incurred debt in the amount of $20 million during 1999 (note 6). At December 31, 1999, these restricted loan proceeds and accrued interest total $20,359,000. The locomotives were delivered and paid for in early 2000.

(Continued)

Restricted assets considered held to maturity at December 31, 2000 and 1999 consisted of the following (in thousands):

Description of Security	Amortized cost	Unrealized gains	Unrealized losses	Market value
2000:				
Money market accounts	$ 2,588	—	—	2,588
U.S. Agency notes (maturing within one year)	7,080	—	(56)	7,024
U.S. Agency notes (maturing in 1-5 years)	4,075	—	(39)	4,036
Total	$ 13,743	—	(95)	13,648
1999:				
Money market accounts	$ 9,353	—	—	9,353
U.S. Agency notes (maturing within one year)	3,990	—	(56)	3,934
U.S. Agency notes (maturing in 1-5 years)	21,046	13	(203)	20,856
Corporate notes (maturing within one year)	14,246	—	(214)	14,032
Corporate notes (maturing in 1-5 years)	2,817	16	(9)	2,824
Total	$ 51,452	29	(482)	50,999

(5) Investments

Investments considered held to maturity at December 31, 2000 consisted of the following (in thousands):

Description of Security	Amortized cost	Unrealized gains	Unrealized losses	Market value
2000:				
U.S. Agency notes (maturing in 1-5 years)	1,136	—	(24)	1,112
Corporate notes (maturing in 1-5 years)	372	18	—	390
Total	$ 1,508	18	(24)	1,502

(6) Long-Term Debt and Notes Payable

Long-term debt at December 31, 2000 and 1999 consists of the following (in thousands):

	2000	1999
Note payable, secured by equipment, due in monthly payments of \$165,936, including interest at 5.38%, matures September 2014.	$ 19,086	20,000
Note payable, secured by equipment, due in monthly payments of \$74,173, including interest at 4.28%, matures September 2003.	2,305	3,078
Note payable, secured by equipment, due in monthly payments of \$30,603, including interest at 4.28%, matures October 2003.	660	991
	22,051	24,069
Less current portion	2,088	2,018
	$ 19,963	22,051

ARRC has met all debt covenants at December 31, 2000.

(Continued)

Long-term debt maturities are as follows at December 31, 2000 (in thousands):

Year ending December 31		Amount
2001	$	2,088
2002		2,043
2003		1,888
2004		1,132
2005		1,195
2006 and beyond		13,705
	$	22,051

The ARRC has arrangements for short-term unsecured lines of credit of up to $10,000,000 each with two banks. The general purpose line of credit allows borrowing up to $10,000,000 at a rate of 56% of the prime rate of a major bank. The self-insurance line of credit allows borrowing up to $10,000,000 at a rate of 65% of the prime rate of a major bank. Neither line of credit had an outstanding balance as of December 31, 2000.

(7) Employee Benefits

(a) Defined Benefit Plan

The ARRC has a defined benefit pension plan (Plan) covering 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. In 2000 and 1999, the ARRC contributed an amount for the periodic pension cost which was net of a prepaid pension amount. Employees contribute an amount equal to 9% of compensation. Contributions are made continuously throughout the year. Plan assets are comprised of fixed income securities and common stocks.

The following table sets forth the Plan's funded status at December 31 (in thousands):

		2000	1999
Change in benefit obligation:			
Benefit obligation at beginning of year	$	24,072	24,223
Service cost		379	858
Interest cost		1,890	1,677
Participant contributions		1,836	1,649
Actuarial (gain) loss		1,073	(3,760)
Benefits paid		(692)	(575)
Benefit obligation at end of year		28,558	24,072
Change in plan assets:			
Fair value of plan assets at beginning of year		31,974	27,026
Actual return on plan assets		806	3,874
Participant contributions		1,836	1,649
Benefits paid		(692)	(575)
Fair value of plan assets at end of year		33,924	31,974
Funded status		5,366	7,902
Unrecognized net actuarial gain		(7,091)	(10,442)
Unrecognized prior service cost		881	954
Unrecognized transition asset		61	122
Accrued benefit cost	$	(783)	(1,464)

The following table sets forth the Plan's weighted average assumptions used in determining the actuarial present value of the projected benefit obligation at December 31:

	2000	1999
Discount rate	7.50%	8.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.25%

Components of net pension costs are as follows (in thousands):

		2000	1999
Service cost	$	379	858
Interest cost		1,890	1,677
Expected return on plan assets		(2,602)	(2,197)
Amortization of prior service costs		73	73
Amortization of unrecognized transition obligation		61	61
Recognized net actuarial gain		(482)	(83)
Net periodic benefit cost	$	(681)	389

(Continued)

(b) *Defined Contribution Plan*

Federal employees who transferred to the ARRC continue to participate in the Civil Service Retirement System (CSRS). ARRC is required to contribute 8.5% of the transferred employees' base pay. Pension expense related to CSRS was $765,000 and $779,000 for the years ended December 31, 2000 and 1999, respectively.

(c) *Postretirement Benefits Other Than Pension*

The ARRC sponsors a defined benefit health care plan (Plan) that provides postretirement 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, 2000 and 1999, the ARRC has designated assets with a market value of $944,000 and $1,038,000 respectively for the funding of these benefits (note 3).

The ARRC accounts for postretirement health care by accruing these benefits over the period in which active employees become eligible for such postretirement benefits. The following table sets forth the Plan's funded status at December 31 (in thousands):

		2000	1999
Change in benefit obligation:			
Benefit obligation at beginning of year	$	4,595	5,807
Service cost		584	528
Interest cost		417	344
Actuarial (gain) loss		1,659	(1,884)
Benefits paid		(200)	(200)
Benefit obligation at end of year		7,055	4,595
Funded status		(7,055)	(4,595)
Unamortized prior service costs		(245)	(271)
Unrecognized net actuarial gain		(950)	(2,688)
Accrued benefit cost	$	(8,250)	(7,554)

The components of net periodic cost for these postretirement benefits are as follows (in thousands):

		2000	1999
Service costs	$	584	528
Interest costs		417	345
Recognized prior service costs		(27)	(27)
Recognized net actuarial gains		(78)	(53)
Net periodic cost	$	896	793

(Continued)

For measuring the 2000 expected postretirement benefit obligation, a 9.25% annual rate of increase in the per capita claims cost was utilized. This rate was assumed to decrease over a three-year period to an ultimate rate of 5.50% in 2003.

For measuring the 1999 expected postretirement benefit obligation, a 9.25% annual rate of increase in the per capita claims cost was utilized for all participants. This rate was assumed to decrease over a three-year period to an ultimate rate of 5.25% in 2002.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	2000		1999	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on total service and interest cost components	$ 260	(197)	243	182
Effect on postretirement benefit obligation	1,719	(1,313)	1,459	(1,113)

(8) Grants

The ARRC has spent grant funding on a variety of operating property and equipment. Grant revenue will be recognized equal to depreciation on these assets each year. The original cost of assets constructed with grant funding as of December 31, 2000 consists of the following (in thousands):

Road and roadway structures	15 – 25 year life	$ 30,621
Equipment	3 – 25 year life	12,547
Construction in process		49,168
		$ 92,336

(Continued)

Deferred grant revenue as of December 31 consists of the following (in thousands):

	2000	1999
Federal Railroad Administration:		
Net book value of assets constructed	$ 26,533	27,904
Construction in process	32,882	8,886
Amount receivable from grantor	(3,362)	(1,087)
Taxpayer Relief Act:		
Net book value of assets purchased	5,039	—
Construction in process	9,112	6,638
Grant funding received in advance	8,937	16,591
Investment earnings on funding	2,136	1,407
Federal Transit Administration:		
Net book value of assets purchased	1,782	—
Construction in process	6,866	2,823
Amount receivable from grantor	(3,458)	(2,823)
Federal Emergency Management Agency:		
Net book value of assets constructed	230	238
Grant funding received in advance	31	—
Department of Interior:		
Grant funding received in advance	2,313	—
Accrued derailment expense (note 13)	(2,313)	—
State of Alaska Wishbone Hill Coal Project:		
Net book value of assets purchased	5,376	—
Construction in process	308	—
Amount receivable from grantor	(308)	—
	$ 92,104	60,577

(Continued)

The ARRC recognized the following grant revenue during the years ended December 31:

		2000	1999
Federal Railroad Administration:			
Depreciation on assets constructed	$	1,472	1,043
Grant funded engineering expense		—	597
Taxpayer Relief Act:			
Depreciation on assets purchased		141	—
Grant funded project planning expense		1	—
Federal Transit Administration –			
Depreciation on assets purchased		96	—
Federal Emergency Management Agency:			
Depreciation on assets constructed		8	8
Grant funding of 1999 derailment expense (note 13)		3,323	—
Department of Interior:			
Grant funding of 1999 derailment expense (note 13)		6,981	—
Grant funding of accrued derailment expense (note 13)		2,313	—
State of Alaska Wishbone Hill Coal Project –			
Depreciation on assets purchased		113	—
	$	14,448	1,648

(9) Major Customer

One ARRC customer accounted for 48% and 45% of freight revenue in 2000 and 1999 respectively.

(10) Land

The ARRC leases a significant portion of its land to various parties under long-term agreements. Rental income on these leases, which is included in Real Estate income, was $7,831,000 and $6,872,000 in 2000 and 1999, respectively.

The following table summarizes future minimum lease payments receivable as of December 31, 2000 (in thousands):

Year ending December 31		Amount
2001	$	7,666
2002		7,223
2003		7,059
2004		6,920
2005		6,766
Thereafter		128,797
	$	164,431

The ARRC has $963,000 in rent credits outstanding on these leases at December 31, 2000.

(Continued)

(11) Operating Leases and Agreements

The ARRC leases its headquarters, certain operating equipment, and barge services under operating leases and agreements. Payments under the leases and agreements totaled $15,355,000 and $15,730,000 in 2000 and 1999, respectively. Future minimum lease payments as of December 31, 2000 are summarized as follows (in thousands):

Year ending December 31	Amount
2001	$ 11,365
2002	10,054
2003	9,607
2004	9,514
2005	9,514
Thereafter	49,965
	100,019
Amounts to be received under non-cancelable sub-leases	(6,986)
	$ 93,033

(12) Insurance

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims and establishes reserves for the estimated losses of such claims. The ARRC is also self-insured against workers' compensation claims. The ARRC carries commercial insurance policies limiting their exposure for health benefits to $4.6 million, for casualty/liability to $5 million and for property to $10 million at December 31, 2000.

(Continued)

(13) Commitments and Contingencies

During 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 during 1994 settling the alleged violations. The accrual included in the financial statements does not reflect any costs to clean up any contamination in the area covered by the settlement. No contamination has been discovered, but the ARRC believes most, if not all, contamination in this area would have occurred prior to the transfer of the ARRC from the federal government to the State of Alaska. 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 the ARRC.

During 1999, two derailments resulted in fuel spills along the ARRC tracks at Canyon and at Gold Creek. The ARRC is responsible for the remediation, restoration and monitoring of environmental contamination at these sites. The ARRC has accrued its best estimate of its remaining obligation with respect to the sites which was $5,067,000 and $11,376,000 at December 31, 2000 and 1999, respectively. Of the amount accrued at December 31, 2000, $2,409,000 is expected to be paid during 2001 and is included in accounts payable and accrued liabilities. The remaining $2,658,000 is expected to be incurred through 2004 and is reported as environmental remediation reserve. The total expense relating to these derailments and reflected in the statement of operations was $12,853,000 during 1999. During 2000 management reviewed the reasonableness of the estimated remaining obligation and recorded additional expense of $2,313,000. Also during 2000 the ARRC received two federal grants to cover costs associated with the Gold Creek derailment and the 1999/2000 winter storm disaster. These grants, totaling $12,647,000, are reflected in the 2000 statement of operations as grant revenue. $10,304,000 of these grants were to reimburse ARRC for 1999 expenses and the remaining $2,313,000 is reserved to cover a portion of the ARRC's remaining obligation. The aggregate undiscounted amount has been recorded since it represents management's best estimate of the cost, but the payments are not considered to be fixed and reliably determinable. The estimate of costs and their timing of payment could change as a result of changes to the remediation plan, changes in technology available to treat the site and unforeseen circumstances existing at the site. It is not possible to estimate the amount losses may exceed amounts accrued at this time as a result of these factors.

Approximately 82% of the ARRC's labor force is subject to one of five collective bargaining agreements. Three of the agreements, representing 42% of the labor force, expired on December 31, 2000 and are being renegotiated. Another agreement, representing 2% of the labor force, expires in 2001.

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 probable losses, if any, from such litigation. In the opinion of management, the outcome of the litigation will not have a material effect on the financial position of the ARRC.

Board of Directors

(L to R back row)
Jacob Adams
President and CEO, Arctic Slope Regional Corporation

Ed Bauer
Professional Railway Consultant

Jack Burton
Track Inspector, Alaska Railroad Corporation

(L to R front row)
Johne Binkley, Chairman
Chairman and CEO, Alaska Riverways, Inc.

Deborah Sedwick
Commissioner of Community and Economic Development

Joe Perkins, Vice Chairman
Commissioner of Transportation and Public Facilities

Officers

Governor Bill Sheffield, President and CEO

Jerry Anderson, Vice President, Finance and Administration

James B. Blasingame, Vice President, Corporate Affairs

Tom Brooks, Chief Engineer

Laurie Herman, Director, Passenger Services

Phyllis C. Johnson, Vice President, General Counsel

James M. Kubitz, Vice President, Real Estate and Facilities

Wendy Lindskoog, Director, External Affairs

Loren Mueller, Chief Operating Officer

Ernie Piper, Assistant Vice President, Safety and Environmental Services

Eileen Reilly, Vice President, Capital Projects

Patrick C. Shake, Superintendent, Transportation

Robert Stout, Vice President and Chief Mechanical Officer

Employees of the Alaska Railroad

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T HUNT • MARTIN A HUPE • WILLIAM R HUPPRICH • BRIAN E HUSSEY • KENT A IHDE • JAMES F INFANTE • RANDY ISAACSON • GLENN E JACKSON II • JASON L JACOBS • PHILIP B JACOBY • GERHARD JAKITS • SEAN A JANES • ROBERT L JEFFERSON • BRAD W JENKS • DOUGLAS L JOHNSON • VIRGINIA R JOHNSON • PHYLLIS C JOHNSON • DOUGLAS E JOHNSON • SAMUEL L JOHNSON • GRANT M JOHNSON • JEFF D JOHNSON • JEANNE M JOHNSON • TROY S JOHNSON • CHARLES H JOHNSON • PHILIP A JOHNSTON • MICHAEL E JOHNSTON • FORREST U JOHNSTON • CHARLES W JONES • CLINT P JONES • KEITH L JONES • DONALD W JUBB • VINCENT C JUDY • BRIAN M JULSEN • DAVID J KAMPSEN • MARK R KANESKI • DUANE J KAUKE • DONALD F KEEFE • DANIEL J KEIM • HERFF L KEITH • SAMUEL K KELLEY • TIMOTHY J KELLY • DAVID G KELLY • KAROLANN KEMENOSH • THOMAS B KENDALL • JOHN F KENNEDY • WILLIAM C KENNEDY • DIANE C KENNEDY • CONNOR D KEOGH • CHRISTOPHER P KEOGH • JASON L KERKOVE • CHRISTOPHER R KERR • STEPHAN M KESTER • JOSEPH K KETZLER • SUSAN C KIGER • MELVIN J KILGORE • ROBERT S KILLOUGH • STEVE D KIM • JOHN E KINCAID • DUSTIN J KINCAID • BENJAMIN D KING • NATHAN E KING • KRIS F KINNEY • SHAWN O KIRKPATRICK • KYLE W KLEPINGER • BYRON D KLOCKNER • BRADLEY KNAPP • HEATHER A KNIEFEL • PEGGY S KNOLL • CHRISTOPHER KNOX • DENNIS W KNUTH • GERALD H KNUTSON • W. 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