ALASKA RAILROAD

ANNUAL REPORT

Fostering possibility. Fullfilling potential.

2019

by Michael Sullivan

by Steven McKay

MISSION

Through excellent customer service and sound business management practices, provide safe, efficient, and economical transportation and real estate services that support and grow economic development opportunities for the State of Alaska.

© Judy Patrick

CONTENTS

LEADERSHIIP

MANAGEMENT TEAM

Bill O'Leary
President and CEO

Clark Hopp
Chief Operating Officer

Barbara Amy
Chief Financial Officer

Andy Behrend
Chief Counsel

Jennifer Haldane
Chief Human Resources Officer

Jim Kubitz
VP Real Estate

Brian Lindamood
VP Engineering

Dale Wade
VP Marketing & Customer Service

BOARD OF DIRECTORS

In 2019, Gov. Mike Dunleavy appointed Bill Sheffield as Chair Emeritus, allowing ARRC to continue to benefit from his considerable railroad experience.

Craig Campbell
Chair

Judy Petry
Vice Chair

Julie Anderson
Commissioner

John Binkley
Director

Jack Burton
Director

John MacKinnon
Commissioner

John Shively
Director

by Martin Truemper


by Jennifer Pezzi

Fostering promise. Fulfilling potential.

YEAR IN REVIEW

2019 was a year of emerging and anticipation, as we looked beyond persistent fiscal uncertainty to foster and fulfill potential.

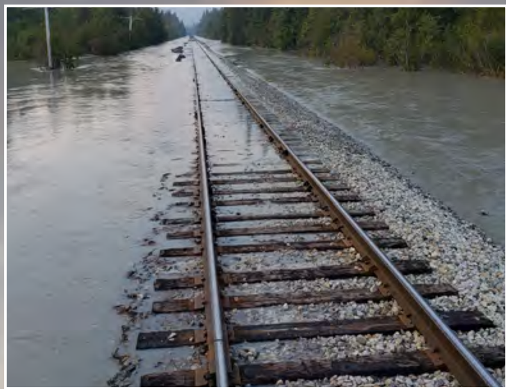
During a decade marked by recession, the Alaska Railroad Corporation (ARRC) has primarily managed reduction — lower revenues, decreased spending, less investment, fewer employees. We reached a turning point in 2019, as we saw stronger earnings and cash flow from emerging and expanding business lines. We've fostered that potential by marketing to our strengths, investing in infrastructure and technology, and encouraging private-sector development.

We finished 2019 with a net income of $21.6 million and an operating ratio of 0.97 — signs that our core business lines are healthy and ripe with potential. The year was particularly good for freight, which generated the best total revenues since 2014, and nearly $14 million more than 2018. Our rail-barge business contributed the most, with growth driven in large part by oil and gas activity on the North Slope. To accommodate the increased demand, we added six charter barges to the normal schedule of weekly Alaska Rail Marine barges traveling between Seattle and Whittier. Given customer-promoting investments in 2019, our freight business has the potential to continue an upward trend.

On the passenger side, even natural disaster service interruptions did not keep total passenger revenues from surpassing 2018 revenues. Overall, our total passenger ridership remained well above a half million guests, and for the second year, the *Coastal Classic* train between Anchorage and Seward carried more passengers than our other trains.

Infrastructure investments

Throughout the year, we prepared for growth in areas of greatest potential and need, pumping railroad dollars into projects that could open economic doors. For example, in Anchorage, we're transforming a gravel access road into a commercial roadway leading west from the Historic Depot. In addition to enhancing rail passenger operations, the new sidewalk-lined roadway supports nearby condo construction, a new brewery and future retail developments on leased railroad land in the Ship Creek area. Near our transportation hubs in Anchorage and Fairbanks, we developed the rail-related infrastructure to support PetroStar's new fuel distribution system, which will come online in 2020. We bought equipment to support our trailer/container-on-flat-car (TOFC/COFC) operations as the backbone to future growth in rail-barge and other containerized freight. For Seward, we pursued a public-private partnership to replace the aging passenger dock and cruise terminal. Outreach efforts have captured the interest of several well-resourced potential partners.



CONTINUED...

Millions spent on right-of-way infrastructure is an investment in train operations far into the future. It's why we focused on several track and bridge projects in 2019, including pier replacement on the Ferry Bridge over the Nenana River, and replacing the entire bridge over the Knik River in the Mat-Su Valley. With an eye to the very long-term, we also agreed to support the Alaska to Alberta (A2A) Railway Development Corporation's quest to build a 1,500-mile rail connection between the two countries.

The long view drives our considerable investment in the Positive Train Control (PTC) project. This monumental project is on track to meet federally mandated milestones. In 2019, we made excellent headway in testing the PTC system using regularly scheduled trains along our busiest stretch. While there is some fine-tuning to go, we are confident we'll make the Dec. 31, 2020, completion deadline.

Beyond planned projects, the railroad responded repeatedly to restore infrastructure struck by a series of destructive natural forces. The 7.1 magnitude earthquake on Nov. 30, 2018, caused significant damage to the track, right-of-way and facilities. Throughout 2019, crews worked on permanent repairs, which will continue into 2020.

In mid-summer, near simultaneous rain, fire and ice events wreaked havoc, disrupting freight and passenger rail service, and dispatching crews to address one crisis after another. When saturating rains caused a track retaining wall to fail in erosion-prone Healy Canyon (north of Denali National Park), maintenance crews moved quickly to fix and fortify the structure. Days later, wildfires ignited between Willow and Talkeetna. The rapidly growing McKinley Fire caused vehicle and train traffic delays as flames burned on either side of highway and railway corridors. Railroaders helped with the emergency response by ferrying supplies through the scorched and smoke-clogged landscape, and by removing hundreds of trees that had toppled onto the tracks. Meanwhile, on the railroad's south end, water rose on Snow River from ice melting on the glacier-dammed lake that feeds it. Known as a Jökulhlaup, the phenomenon resulted in an outburst flood (pictured inset) that halted passenger train service between Moose Pass and Seward for several days. Once flood waters receded, crews were back at work restoring the track and service.

Railroaders make the difference

Our people absolutely made the difference in how quickly we recovered from multiple natural disasters, while also meeting regular business demands,

by Ben Traylor

by Judy Patrick

CONTINUED...

and complying with an array of regulatory requirements.

Our emergency response was nothing short of extraordinary in 2019. Highly skilled and hard-working track and bridge maintenance crews spent long hours rebuilding infrastructure. Facility technicians collaborated with our engineering experts to address post-earthquake damage to work areas. Our incident response teams exercised crisis management skills in real time and real life.

Meanwhile, railroaders across every department showed equally remarkable resolve and skill and they went about the business of railroading. A smart, talented team continued to incorporate the highly complex and advanced PTC system into our everyday operations. Skilled problem-solving mechanics kept our equipment going with ingenuity. Determined train crews viewed and pursued efficiency and safety as compatible priorities.

Employees in finance, technology, communications and administration roles worked their magic to maintain and upgrade systems behind the scenes. Our Communications and Signals department replaced our old phone system with a more resilient internet-based system designed to enhance collaboration and telecommunication. Our technology teams ushered in an era of far less machinery, along with greater automation and standardization. The result: superior performance, security, redundancy and flexibility. An added bonus: energy efficiency. For example, one Anchorage data center has one-quarter the number of servers it used to have (pictured inset), equating to a facility energy savings of $50,000 annually.

We were, and are, grateful for our employees' everyday grit and grace under fire. And, we made a point of saying so. In 2019, railroaders used our Spike Award employee recognition program to appreciate everyday heroic efforts along the track, aboard the trains, in the shops and in offices. Our employees presented a record 378 Spike Awards throughout the year, including 29 Gold Spikes — the highest honor — at year's end.

Land: an asset for economic growth

Through legislatively-approved land sales and other real estate transactions, we paved the way for communities and private-sector developers to create more economic opportunity.

In Seward, ARRC extended public utilities to a new land lease customer, enabling construction of a new marine service building near the railroad's freight dock. In Whittier, we sold railroad land under the Whittier Manor Condominiums

CONTINUED...

to the condo homeowners association, a move that provides more certainty for investing residents and which was supported by the City of Whittier. In Anchorage we sold land near the Port of Alaska to the Municipality of Anchorage, concluding another step in the city's efforts to address critical port improvements. We worked with the legislature to fix a technical error, thereby allowing railroad land near Healy's Otto Lake to be sold to a developer with plans for building a resort. In Fairbanks, more houses are under construction in the Chena Landings subdivision, thanks to the sale of several plots of railroad land to homeowners.

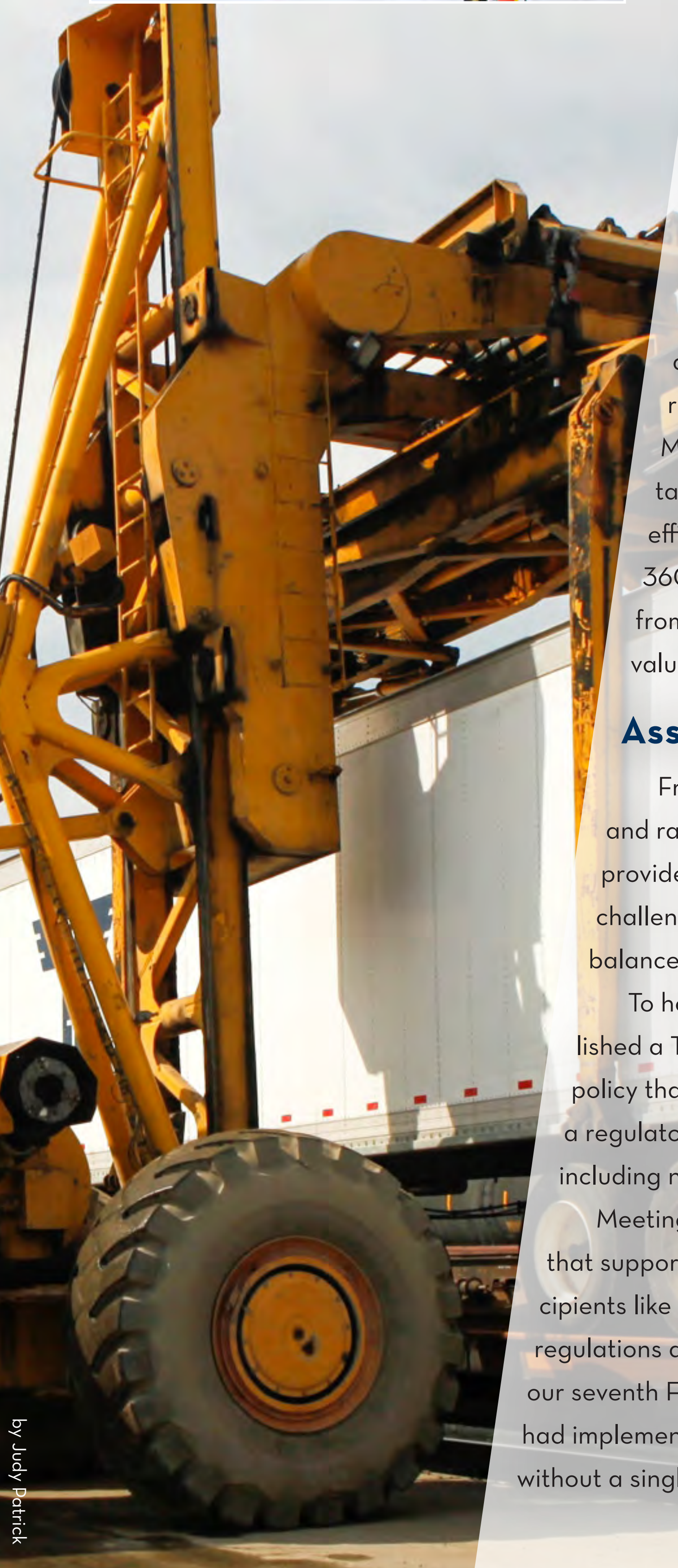
Real estate actions in 2019 also promise enhanced railroad operations. Leased land near the intersection of Whitney and Post roads reverted to railroad control, and a 60-year-old warehouse was removed, making room to expand ARRC's TOFC/COFC operations. We launched a long-sought project to replace the locomotive refueling facility in the Anchorage Yard. With completion expected in May 2020, the new facility features modern above-ground storage tanks and piping, and 11 fueling stations (pictured inset) to enable more efficient locomotive servicing operations. Finally, Real Estate completed 360-degree street view photography of the yard tracks and right-of-way from Seward to North Pole. This provides all ARRC departments with valuable visual information available on desktop or handheld devices.

Asset protection

From computers and telecommunication networks, to heavy equipment and railcars, to tracks and docks, buildings and land — the railroad's assets provide a springboard for growth and potential. Despite the continuing challenges in the state's economic environment, ARRC maintains a strong balance sheet with excellent liquidity, with total assets valued at $1.1 billion.

To help protect this billion-dollar investment, in 2018 the railroad established a Transit Asset Management Plan (TAMP) and State of Good Repair policy that meet the requirements of the Federal Transit Administration (FTA), a regulatory and grant agency. In 2019, we continued to fine-tune our TAMP, including new asset reporting requirements for the National Transit Database.

Meeting regulatory requirements is a prerequisite to receiving FTA grants that support passenger-related capital improvements. Every three years, FTA recipients like ARRC undergo a rigorous review to prove we are complying with FTA regulations and are good stewards of FTA funding. In August 2019, we underwent our seventh FTA Triennial Review (our first was in 2001), which also validated we had implemented a TAMP as required. We emerged from the three-day scrutiny without a single deficiency finding. A remarkable feat!



by Judy Patrick

CONTINUED...

Our people assets

Of course, the railroad's greatest assets are our people, and their safety is paramount. In 2019, we initiated several new programs, or new phases to existing programs, in order to enhance employee safety. Comparing 2019 to 2018, we've made some progress, realizing a 13% decrease in FRA reportable casualty rate (related to reportable injuries) and a 5% reduction in the lost time rate (related to injuries).

In January, we launched a new short video series, covering common safety infractions — dubbed the ***Dirty Dozen***. Produced in-house, these videos were emailed and posted regularly throughout the year and used in safety briefings.

We launched the Smith Driver Training Program that teaches a proven approach to reducing accidents and injuries, as well as saving maintenance and fuel costs. In 2019, we focused first on railroaders who regularly drive company vehicles.

The new Hazard Recognition Process program trains employees to spot hazards in their environments. Our Maintenance of Way ranks received this training first, followed by Mechanical employees.

Nearly 100 train and engine crew members attended Comprehensive Attention Performance Training (CAPT) workshops. This specialized training offered proven techniques for maintaining a high level of attention on the job.

Finally, the Incident Free Culture (IFC) program rolled out in early 2019. Approximately 100 managers learned ways to improve how we relate to one another, particularly in how we correct unsafe habits.

To help us track training requirements and attendance, the railroad launched a new learning management system (LMS) in 2019. Railroaders can log in to the system to confirm new training requirements and completed courses, and even to access training available online. For example, several OSHA-based safety training programs were redesigned and migrated into the LMS to offer computer-based training options.

Part of the community

As Alaskans, railroaders are woven into the state's fabric of communities. Our employees care about their neighbors, and that care shows in employee grassroots efforts. For example, in 2019, railroaders conducted two employee-led food drives as opposed to one. In January and February, Fairbanks and Anchorage employees donated money and food to help meet a greater community need following the earthquake (pictured inset). The second drive was in conjunction with the fall United Way campaigns.

by Judy Patrick

CONTINUED...

During 2019, the railroad was humbled by several communities and organizations that recognized our commitment to Alaska's economic wellbeing. The Kenai Borough presented ARRC with its ***2019 Outstanding Support Business in Tourism Award*** (pictured inset) during the borough's annual Industry Appreciation Day in late August. In early November, ARRC and Empower won a ***2019 Hermes Creative Award*** from the Association of Marketing and Communication Professionals. Efforts to educate railroaders about pending benefit provider changes earned a platinum award in the *Communications/Marketing Campaign* category. Also in November, the Association of Fundraising Professionals (AFP) presented ARRC with its annual ***Outstanding Business/ Corporation/Foundation in Philanthropy Award*** on National Philanthropy Day 2019 (Nov. 15). The award recognizes an organization that demonstrates exceptional commitment through financial support and through encouraging others to take leadership roles toward philanthropy and community involvement. Finally, the Building Owners and Managers Association of Anchorage (BOMA) named ARRC its *2019 Company of the Year* during its January 2020 meeting.

by Richard B. Kelly

A Foundation for the future

At the time of this report, the 2019 novel coronavirus (COVID-19) pandemic has again thrown a good measure of uncertainty into the mix. We recognize COVID-19 is weighing heavily on the global economy, and we are responding with the ingenuity and durability that are the Alaska Railroad's hallmarks.

Whatever the outcome of COVID-19, one thing is certain — we are stronger for the gains, triumphs and investments made during 2019. And, we remain realistic and optimistic that the railroad can bank on that strength, foster growth where it is most plausible, and help fellow Alaskans weather the challenges ahead.

Bill O'Leary | President and CEO

Craig Campbell | Board Chair

Capital Infrastructure HIGHLIGHTS

by Judy Patrick

EMERGENCY RESPONSE

Track maintenance crews responding to one natural disaster after another in 2019. The year began with continued work on permanent repairs to infrastructure damaged by the late 2018 earthquake.

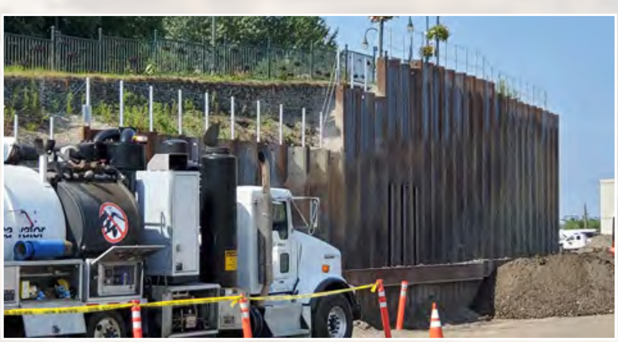
High water on Snow River scours bridge infrastructure along the track between Moose Pass and Seward.

An excavator clears felled trees along a wildfire-scorched, smoke-clogged area.

During the summer, crews repaired a crumbling retaining wall in Healy Canyon where drenching rain fell, followed by repairs to track scorched by wildfires between Willow and Talkeetna, followed by rebuilding track washed out from Snow River flooding near Seward.

STRUCTURAL REPLACEMENTS

The Alaska Railroad's 2019 capital bridge program included completion of three bridge replacements. Crews finished replacing multiple pony-truss spans at bridge 147.5 over the Knik River, as part of a pony-truss bridge replacement program funded primarily by ARRC. At MP 370.7, the project to replace the center pier on Ferry Bridge was finished, with funding from the Federal Emergency Management Agency. The 126-foot timber bridge over Whittier Creek (MP F1.2 on the Whittier Branch) was replaced with a timber bridge on steel bents. In Anchorage, the railroad funded replacement of a retaining wall along Christensen Drive to the west of the Anchorage Historic Depot. This widened a corridor to accommodate a 2019-2020 project to replace a gravel access road with a sidewalk-lined commercial-industrial roadway.



A new retaining wall along Christensen Drive is completed during summer 2019, creating more space to build a commercial roadway west of the Anchorage Historic Depot.

The project to replace the center pier on the bridge over the Nenana River at MP 370.7 was completed in 2019. Bridge infrastructure was damaged during the floods of 2012.

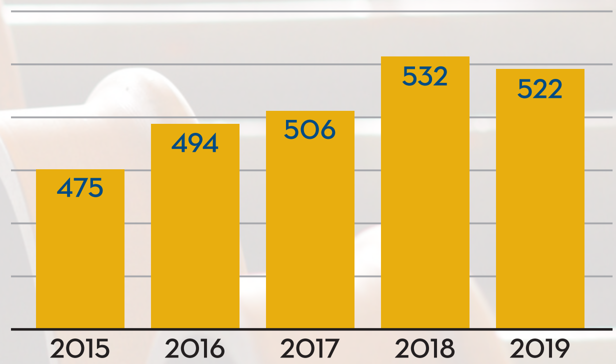
BUSINESS HIGHLIGHTS

by Judy Patrick

PASSENGER BUSINESS

ARRC's passenger train business transports more than half a million passengers each year. During 2019, ridership totaled 522,101. This represents a slight (< 2 %) decrease from the 2018 passenger total, due in large part to service disrupted during flooding and wildfire events.

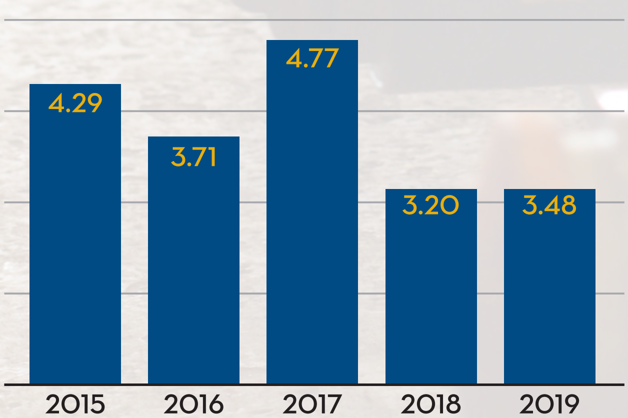
Passenger Ridership (in thousands)

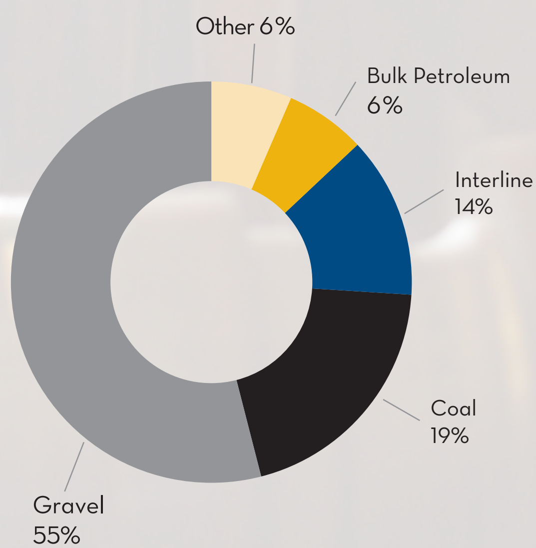


FREIGHT BUSINESS

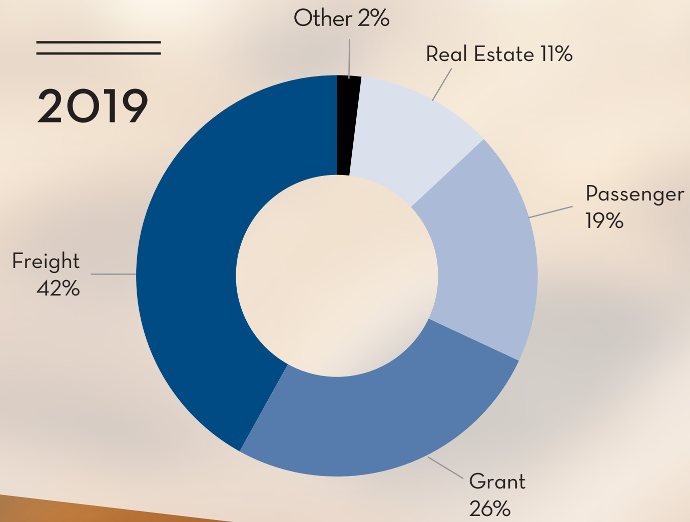
A freight train hauls fracking sand packaged in super sacks that arrived in Seward, where they were loaded into rail flatcars and covered with blue tarps for transport north. Hauling oil and gas supplies was a key contributor to solid freight revenues in 2019.

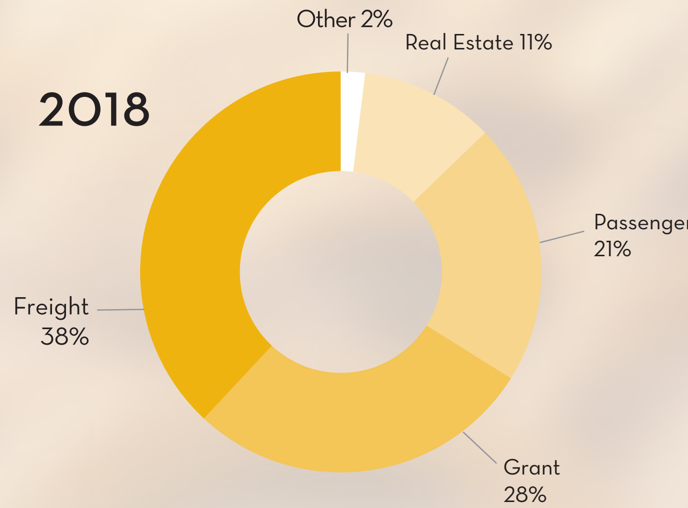
Total Freight Tonnage (millions of tons)



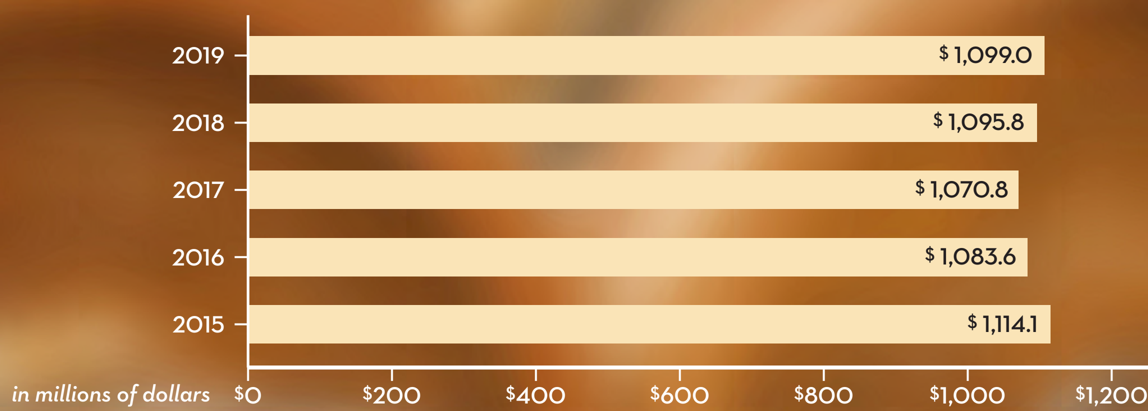


REVENUES

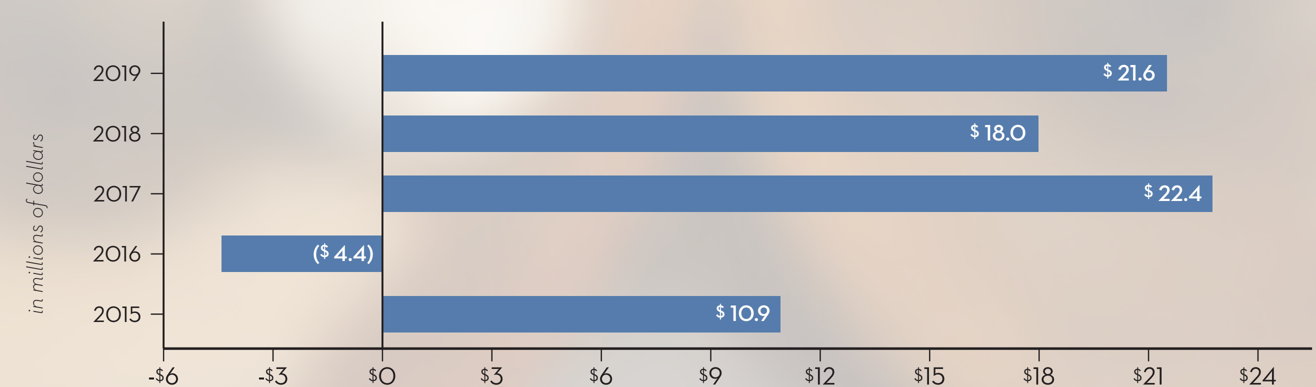




TOTAL ASSETS



NET INCOME



by Judy Patrick

BUSINESS HIGHLIGHTS

EARNINGS
(IN THOUSANDS)

	2019	2018
Operating Revenues		
Freight	$ 85,340	$ 71,470
Passenger	39,571	38,985
Other	540	431
Grant	52,141	52,540
TOTAL OPERATING REVENUE	**177,592**	**163,426**
Operating Expenses	172,889	161,916
OPERATING INCOME	**4,703**	**1,510**
Non-Operating Revenues (Expenses):		
Net Real Estate Income	14,041	13,030
Gain on Sale of Capital Assets	1,794	2,165
Investment Income	1,575	1,338
Interest Expense	(1,947)	(946)
Grant Revenue	1,451	878
NET INCOME	**21,617**	**17,975**
Net Position, Beginning of Year	356,673	338,698
NET POSITION, END OF YEAR	**$ 378,290**	**$ 356,673**
OPERATING RATIO	**0.97**	**0.99**

STATEMENTS OF NET POSITION
(IN THOUSANDS)

Assets:		
Current Assets	$ 155,543	$ 147,956
Capital Assets	882,042	892,447
Restricted Assets	8,867	3,981
Other Assets	35,251	29,934
Deferred Outflows:		
Pension and Postretirement Actuarial	17,335	21,519
TOTAL ASSETS & DEFERRED OUTFLOWS	**$ 1,099,038**	**$ 1,095,837**
Liabilities:		
Current Liabilities	43,433	44,359
Other Liabilities	102,097	117,039
TOTAL LIABILITIES	**145,530**	**161,398**
Deferred Inflows:		
Pension and Postretirement Actuarial	15,569	7,531
Unearned Grant Revenue	559,649	570,235
TOTAL LIABILITIES & DEFERRED INFLOWS	**720,748**	**739,164**
NET POSITION	**378,290**	**356,673**
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 1,099,038**	**$ 1,095,837**

March 31, 2020

In accordance with Alaska Statute (AS) 42.40.260, it is our pleasure to present the financial section of the Alaska Railroad Corporation's (ARRC) Annual Report for the fiscal year ending December 31, 2019.

The financial section of the Annual Report is presented in four parts:

- Management's Discussion and Analysis (MD&A) – provides an introduction, overview, and analysis of the basic financial statements
- The independent auditor's report on the basic financial statements
- The basic financial statements and accompanying notes
- Required supplementary information relating to the ARRC's defined benefit pension and other post-employment benefit plans

Whether an ARRC customer, creditor, or other resident of the State of Alaska, we hope you find this section of the Annual Report useful.

Sincerely,

Barbara Amy
Chief Financial Officer

Wendy Richerson, CPA
Controller

ALASKA RAILROAD CORPORATION

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

ALASKA RAILROAD CORPORATION

Table of Contents

This section of the Alaska Railroad Corporation's (ARRC's) annual financial report presents management's discussion and analysis of the ARRC's financial performance during the years ended December 31, 2019 and 2018. Please read it in conjunction with the ARRC's financial statements, which follow this section.

Financial Highlights

The ARRC's total net position increased 6.1% during the course of this year's operations and increased 5.3% over the course of 2018 operations.

- During 2019, the ARRC's operating revenue was greater than operating expenses by $4.7 million, yielding an operating ratio of 0.97. Last year, operating revenue was greater than operating expenses by $1.5 million, yielding an operating ratio of 0.99.
- The total 2019 operating costs of the ARRC's programs were $172.9 million, an increase of 6.8% compared to last year. The total 2018 operating costs of the ARRC's programs were $161.9 million, an increase of 2.0% compared to 2017.
- Expenditures on capital assets totaled $50.0 million during 2019, a decrease of 14.6% compared to last year. Expenditures on capital assets totaled $58.5 million during 2018, an increase of 10.6% compared to 2017.
- Grant funding was used for $13.5 million, or 26.9%, of the 2019 capital expenditures. Grant funding was used for $31.8 million, or 54.4%, of the 2018 capital expenditures. These amounts were recorded as unearned revenue in the regulatory liabilities section of the statements of net position. Revenue associated with capital grants is recognized when the assets are depreciated. Grant revenue for capital assets equals grant depreciation expense in operations and real estate. More detailed information can be found in notes 4 and 8 to the financial statements.

Overview of the Financial Statements

The ARRC is a component unit of the State of Alaska and operates like a stand-alone business. The ARRC is subject to the jurisdiction of the Surface Transportation Board (STB), and the ARRC's rates for services are established by its board of directors and designed to recover the cost of providing the service. The financial statements report information about the ARRC using accounting methods similar to those used by private sector companies. This annual report consists of two parts – *management's discussion and analysis (this section)* and the *basic financial statements*. The basic financial statements consist of five statements that present information about the ARRC's overall financial status:

- Statement of net position – The statement of net position reports assets, deferred outflows, liabilities, deferred inflows, and net position of the ARRC. Assets and liabilities are segregated into current and noncurrent; that is, assets and liabilities that are expected to be received or liquidated within one year (current), and those that are not expected to be received or liquidated within one year (noncurrent). Net position, the difference between the ARRC's assets, liabilities, deferred outflows, and deferred inflows is one way to measure the ARRC's financial health. Over time, increases or decreases in the ARRC's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- Statement of revenues, expenses, and changes in net position – This statement reflects revenue earned from services and expenses incurred to operate the ARRC, as well as the activities of the ARRC not considered to be operations. All of the current year's revenue and expenses are accounted for in this statement, regardless of when cash is received or paid.

- Statement of cash flows – This statement reports activities of the ARRC as they affect cash balances.
- Statement of fiduciary net position – The statement of fiduciary net position reports assets, deferred outflows, liabilities, deferred inflows, and net position of the Defined Benefit Pension Plan and Defined Benefit Postretirement Medical Plan. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government wide financial statements because the resources of those funds are not available to support the ARRC's own programs.
- Statement of changes in fiduciary net position – This statement reflects additions to and deductions from the fiduciary net position. All of the current year's additions and reductions are accounted for in this statement, regardless of when cash is received or paid.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

In addition to the basic financial statements and accompanying notes, the financial statements present certain required supplementary information regarding the Defined Benefit Pension Plan and Defined Benefit Postretirement Medical Plan. The statements also include notes to the required supplementary information.

Financial Analysis of the Alaska Railroad Corporation

Net position – ARRC's net position increased 6.1% between fiscal years 2018 and 2019 to approximately $378.3 million. ARRC's net position increased 5.3% between fiscal years 2017 and 2018 to approximately $356.7 million.

		2019	2018	2017
			(In thousands)	
Assets:				
Current assets	$	155,543	147,956	133,967
Capital assets		882,042	892,447	894,851
Other noncurrent assets		44,118	33,915	36,539
Total assets		1,081,703	1,074,318	1,065,357
Deferred outflows -				
Pension and postretirement		17,335	21,519	5,453
Total	$	1,099,038	1,095,837	1,070,810

(Continued)

		2019	2018	2017
			(In thousands)	
Liabilities:				
Current liabilities	$	43,433	44,359	42,508
Notes payable outstanding, less current installments		10,341	4,380	8,332
Revenue bonds payable, less current portion, net of unamortized premiums		57,844	74,624	90,386
Net pension liability		30,190	34,452	15,385
Other liabilities		3,722	3,583	4,399
Deferred inflows:				
Pension and postretirement		15,569	7,531	6,029
Regulatory liability unearned - grant revenue		559,649	570,235	565,073
Total liabilities and deferred inflows	$	720,748	739,164	732,112
Net position:				
Net investment in capital assets	$	235,322	225,344	215,559
Restricted for reinvestment in infrastructure		142,968	131,329	123,139
Total net position	$	378,290	356,673	338,698

Capital assets – Capital assets, net of accumulated depreciation decreased $10.4 million in 2019 and $2.4 million in 2018, as depreciation expense continued to exceed expenditures on capital additions. During 2019 and 2018, the ARRC continued an extensive capital improvement plan, including bridge rehabilitations and track refurbishing. Also during this time period, ARRC continued developing the federally mandated positive train control system. Capital expenditures also funded dock and slip work, and vehicle and equipment fleet replacements.

Long-term debt – Notes payable increased $5.6 million and decreased $4.5 million in 2019 and 2018, respectively. During 2019, ARRC issued new debt for freight cars. During 2018, ARRC retired a long-term loan for real property.

Regulatory liabilities – The STB regulate the ARRC's operations and has specific accounting requirements. The ARRC's board of directors establishes rates for services that are designed to recover the cost of providing the services. The ARRC records regulatory assets and liabilities, as allowed by Governmental Accounting Standards Board Codification Section Re. 10, *Regulated Operations*. The regulatory liability consists of unearned grant revenue relating to capital assets funded with federal grants. Unearned grant revenue decreased $10.2 million and $5.2 million in 2019 and 2018, respectively. The changes in unearned grant revenue reflects the grant revenue received and/or recognized as the related capital assets are depreciated, partially offset by capital assets constructed with grant funding.

Net other postemployment benefit assets and net pension liabilities – The postretirement benefits assets increased $5.3 during 2019, primarily as a result of $2.0 million favorable difference between expected and actual experience, offset by $1.2 million changes in assumptions. The accrued pension benefit liability

(Continued)

decreased $4.3 million during 2019 as a result of favorable investment returns on plan assets and differences between expected and actual plan experience and changes in assumptions. The postretirement benefits assets increased $441,000 during 2018, primarily as a result of $4.5 million favorable difference between expected and actual experience, offset by $1.5 million changes in assumptions. The accrued pension benefit liability increased $19.1 million during 2018 as a result of unfavorable investments returns on plan assets and differences between expected and actual plan experience.

Deferred outflows and inflows – Deferred outflows or inflows of resources relating to pension and postretirement plans increase or decrease based on the net difference between actual and projected plan earnings, variances in plan activity versus projected activity, or changes in plan assumptions. The deferred outflows of resources will be recognized as expense and the deferred inflows of resources will be recognized as income during the years 2019 and later, as reflected in note 7. Deferred outflows of resources decreased $4.2 million and increased $16.1 million during 2019 and 2018, respectively. Deferred inflows of resources increased $8.0 million and $1.5 million during 2019 and 2018, respectively.

Deferred inflows of resources related to unearned grant revenue decreased $10.6 million and increased $5.2 million during 2019 and 2018, respectively, for the recognition of grant revenue equal to depreciation and other grant activities, as discussed in note 8.

		2019	2018	2017
			(In thousands)	
Deferred outflows:				
Postretirement actuarial	$	3,032	5,415	1,410
Pension actuarial		14,303	16,104	4,043
Total deferred outflows	$	17,335	21,519	5,453
Deferred inflows:				
Postretirement actuarial	$	7,053	5,405	1,582
Pension actuarial		8,516	2,126	4,447
Regulatory liability – unearned grant revenue		559,649	570,235	565,073
Total deferred inflows	$	575,218	577,766	571,102

(Continued)

Change in net position – During 2019, ARRC reported net income of $21.6 million, an increase of $3.6 million from ARRC's reported net income in 2018 of $18.0 million. ARRC's 2018 net income of $18.0 million was a $4.4 million decrease from the prior year net income of $22.4 million.

	2019	2018	2017
		(In thousands)	
Operating revenue:			
Freight	$ 85,340	71,470	71,824
Passenger	39,571	38,985	35,427
Other	540	431	520
Total transportation revenue	125,451	110,886	107,771
Grant revenue	52,141	52,540	57,380
Total	177,592	163,426	165,151
Operating expense:			
Transportation	33,991	34,720	33,455
Passenger	15,098	14,455	13,516
Advanced train control systems	204	268	310
Marketing and customer service	22,947	18,181	15,807
Mechanical	24,707	24,222	24,339
Engineering	50,815	50,121	49,489
Facilities	11,355	11,044	11,641
General and administrative	13,772	8,905	10,139
Total	172,889	161,916	158,696
Operating income	4,703	1,510	6,455
Nonoperating revenue (expenses):			
Real estate, net of expenses	14,041	13,030	12,546
Gain on sale of capital assets	1,794	2,165	—
Investment income	1,575	1,338	1,128
Interest expense	(1,947)	(946)	(2,219)
Grant revenue	1,451	878	4,450
Net income	$ 21,617	17,975	22,360

Revenue – The ARRC's total revenue increased approximately 7.5% and totaled $203.9 million in 2019. The ARRC's total revenue decreased approximately 0.9% and totaled $189.6 million in 2018. Approximately 41.9% and 37.7% of the ARRC's revenue comes from freight revenue during 2019 and 2018, respectively, and 19.4% and 20.6% of the revenue comes from passenger services during 2019 and 2018, respectively. The majority of the remaining income relates to real estate activities and federal grant revenue.

(Continued)

Total transportation revenue for 2019 was $14.6 million greater than 2018. The increase in transportation revenue is attributed to increased freight volume to the North Slope oilfields and continued growth in passenger revenue.

Total transportation revenue for 2018 was $3.1 million greater than 2017. The increase in transportation revenue is attributed to a strong road construction season and continued growth in passenger revenue.

Grant revenue – Generally, federal grant revenue is recognized as the capital assets funded by the grants are depreciated. The ARRC also recognizes grant revenue associated with maintenance expense and grant funded bond principal, interest, and issuance costs.

Operating expenses were $172.9 million in 2019, $161.9 million in 2018, and $158.7 million in 2017, an increase of $11.0 million, or 6.8%, from 2018 to 2019 and an increase of $3.2 million, or 2.0%, from 2017 to 2018.

Real estate expenses were $8.9 million in 2019, $8.7 million in 2018, and $8.0 million in 2017, an increase of 1.8% from 2018 to 2019 and an increase of 8.8% from 2017 to 2018.

Capital Asset and Debt Administration

Capital Assets

At the end of 2019, the ARRC had invested $882.0 million in a broad range of capital assets (net of accumulated depreciation) including land, road and roadway structures, equipment, and leasehold improvements. This amount represents a net decrease (including additions and deductions) of $10.4 million, or 1.2%, over last year. Grants have funded $441.3 million and $464.3 million of the assets, net of accumulated depreciation at the end of 2019 and 2018, respectively.

		2019	2018	2017
			(In thousands)	
Land and improvements	$	33,088	32,717	32,744
Road materials and supplies		9,869	10,342	9,712
Road and roadway structures		598,303	610,863	632,450
Equipment		112,363	124,587	135,076
Leasehold improvements		12	96	179
Quarry improvements		3,272	3,272	3,272
Construction in progress		125,135	110,570	81,418
Total capital assets, net of accumulated depreciation	$	882,042	892,447	894,851

The ARRC's fiscal year 2020 capital budget approved spending another $51.8 million for capital projects, principally for continued track and bridge rehabilitation, planned replacement of vehicles and equipment, and other infrastructure improvements. The ARRC intends to use federal grant funding for $14.2 million of the capital additions. The remaining capital projects will be funded out of current and prior year earnings and cash flow. Additional detailed information about the ARRC's capital assets is presented in note 4 to the financial statements.

(Continued)

Long-Term Debt

At the end of 2019, the ARRC had $12.4 million in notes payable outstanding, an increase of 83.3% from 2018, and $72.8 million in revenue bonds payable outstanding, a decrease of 18.1% from 2018. At the end of 2018, the ARRC had $6.8 million in notes payable outstanding, a decrease of 40.2% from 2017, and $88.9 million in revenue bonds payable outstanding, a decrease of 14.5% from 2017. More detailed information about the ARRC's long-term debt is presented in note 6 to the financial statements.

Bond Rating

During June 2015, Moody's issued an "A3" rating with a stable outlook and Standard & Poor's issued an "A" rating with a stable outlook in association with the ARRC's Capital Grant Receipts Bonds, Series 2015A and 2015B.

More detailed information about ARRC's bond-funded activities is presented in note 6 to the financial statements.

Next Year's Budget

The 2020 budgets for freight and passenger revenue are $89.3 million and $41.0 million, respectively. As a result, the ARRC's net position is expected to increase $22.0 million, or approximately 5.8%, by the close of 2020.

During March 2020, after the budget was established, the U.S. Center for Disease Control and the World Health Organization declared the novel coronavirus (COVID-19) outbreak as a pandemic. As the virus continues to spread globally, in addition to significant declines in the investment securities markets, there have been disruptions in ARRC's operations resulting from extensive travel restrictions, stay at home orders for many employees, supply chain management issues, and other related factors. While disruption is expected to be temporary, there continues to be uncertainty in the duration of the outbreak. ARRC expects COVID-19 will negatively impacts its financial position, results from operations, and liquidity; however, the ultimate impact is not presently determinable and may be mitigated by federal grant assistance in the form of operating and capital assistance.

Contacting the ARRC's Financial Management

This financial report is designed to provide residents of the state of Alaska and customers and creditors with a general overview of the ARRC's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Alaska Railroad Corporation, P.O. Box 107500, Anchorage, Alaska 99510-7500, 907-265-2300, or visit the Web site at www.alaskarailroad.com.

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Directors
Alaska Railroad Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Alaska Railroad Corporation (the Corporation), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Alaska Railroad Corporation, as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2(n) to the basic financial statements, in 2019, the Alaska Railroad Corporation adopted new accounting guidance contained in Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities.*

Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1–7 and the schedules and notes thereon relating to the Alaska Railroad Corporation's defined-benefit pension plan and other postemployment benefit plans on pages 51-61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alaska Railroad Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alaska Railroad Corporation's internal control over financial reporting and compliance.

KPMG LLP

March 31, 2020

ALASKA RAILROAD CORPORATION

Statements of Net Position

December 31, 2019 and 2018

(In thousands)

Assets and Deferred Outflows		**2019**	**2018**
Current assets:			
Cash and cash equivalents (note 3)	$	82,401	85,675
Accounts receivable, net of allowance for doubtful accounts of $711 in 2019 and $693 in 2018		17,607	14,789
Grants receivable		17,635	10,736
Materials and supplies		12,108	11,706
Prepaid expenses and other current assets		1,994	1,693
Under recovery of vehicle and equipment allocated costs (note 2(k))		324	86
Restricted assets (note 3)		23,474	23,271
Total current assets		155,543	147,956
Capital assets, net (notes 4 and 8)		882,042	892,447
Restricted assets (note 3)		8,867	3,981
Net other postemployment benefit (OPEB) asset (note 7)		35,233	29,916
Other assets		18	18
Total assets		1,081,703	1,074,318
Deferred outflows:			
Postretirement actuarial (note 7)		3,032	5,415
Pension actuarial (note 7)		14,303	16,104
Total deferred outflows		17,335	21,519
Total assets and deferred outflows	$	1,099,038	1,095,837
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Current portion of notes payable (notes 5 and 6)	$	2,039	2,373
Accounts payable and accrued liabilities (notes 5 and 12)		9,703	10,991
Payroll liabilities		11,579	11,137
Environmental remediation reserve (notes 5 and 13)		480	411
Interest payable		1,364	1,656
Unearned revenue		3,308	3,541
Current portion of revenue bonds payable (notes 5 and 6)		14,960	14,250
Total current liabilities		43,433	44,359
Notes payable, less current portion (notes 5 and 6)		10,341	4,380
Revenue bonds payable (net of unamortized premiums), less current portion (notes 5 and 6)		57,844	74,624
Environmental remediation reserve, less current portion (notes 5 and 13)		2,154	2,036
State of Alaska advances (notes 3 and 5)		1,568	1,547
Net pension liability (note 7)		30,190	34,452
Total liabilities		145,530	161,398
Deferred inflows:			
Postretirement actuarial (note 7)		7,053	5,405
Pension actuarial (note 7)		8,516	2,126
Regulatory liability – unearned grant revenue		559,649	570,235
Total deferred inflows		575,218	577,766
Total liabilities and deferred inflows		720,748	739,164
Net position:			
Net investment in capital assets (note 4)		235,322	225,344
Restricted for reinvestment in infrastructure (notes 2(a) and 2(l))		142,968	131,329
Total net position		378,290	356,673
Commitments and contingencies (notes 5, 6, 7, 11, 12,13, and 14)			
Total liabilities, deferred inflows, and net position	$	1,099,038	1,095,837

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues:			
Freight (note 9)	$	85,340	71,470
Passenger		39,571	38,985
Other		540	431
		125,451	110,886
Grant revenue (note 8)		52,141	52,540
		177,592	163,426
Operating expenses:			
Transportation		33,991	34,720
Passenger		15,098	14,455
Advanced train control systems		204	268
Marketing and customer service		22,947	18,181
Mechanical		24,707	24,222
Engineering		50,815	50,121
Facilities		11,355	11,044
General and administrative, net of indirect cost recovery of $2,106 in 2019 and $2,163 in 2018		13,772	8,905
		172,889	161,916
Operating income		4,703	1,510
Nonoperating revenues (expenses):			
Real estate income, less direct expenses of $8,889 in 2019 and $8,732 in 2018 (notes 6 and 10)		14,041	13,030
Gain on sale of capital assets		1,794	2,165
Investment income		1,575	1,338
Interest expense		(1,947)	(946)
Grant revenue (notes 6 and 8)		1,451	878
Total nonoperating revenues		16,914	16,465
Net income		21,617	17,975
Net position, beginning of year		356,673	338,698
Net position, end of year	$	378,290	356,673

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Receipts from customers	$	122,633	108,033
Operating grants received		12,991	12,651
Payments to suppliers		(51,187)	(43,484)
Payments to employees		(61,672)	(56,401)
Net cash provided by operating activities		22,765	20,799
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(18,459)	(19,636)
Proceeds from long-term debt		8,000	—
Interest payments on long-term debt		(2,239)	(1,249)
Grant received for interest expense		1,451	878
Purchases and construction of capital assets		(50,982)	(57,040)
Proceeds from sales of capital assets		1,818	2,815
Grants and advances received for construction of capital assets		21,702	51,398
Net cash used for capital and related financing activities		(38,709)	(22,834)
Cash flows from investing activities:			
Real estate income and related cash flows		22,697	21,842
Real estate direct expenses paid		(6,513)	(6,341)
Net sales (purchases) of restricted investments		(5,089)	(397)
Interest received		1,575	1,338
Net cash provided by investing activities		12,670	16,442
Net increase (decrease) in cash and cash equivalents		(3,274)	14,407
Cash and cash equivalents at beginning of year		85,675	71,268
Cash and cash equivalents at end of year	$	82,401	85,675
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	4,703	1,510
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		57,537	58,536
Bond issuance cost amortization		16	16
Grant revenue associated with capital assets		(39,166)	(39,905)
Changes in operating assets and liabilities that provided (used) cash:			
Materials and supplies		(402)	62
Accounts receivable		(2,818)	(2,853)
Prepaid expenses and other assets		(301)	(282)
Accounts payable and accrued liabilities		162	(985)
Under recovery of vehicle and equipment allocated costs		(238)	(404)
Payroll liabilities		442	1,050
Environmental remediation reserve		187	(8)
Accrued postretirement and pension benefits		2,643	4,062
Net cash provided by operating activities	$	22,765	20,799
Supplemental schedule of noncash investing and capital and related financing activities:			
Depreciation included in real estate activity	$	2,376	2,474
Capital assets acquired through accounts payable		1,921	3,371

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Fiduciary Net Position

December 31, 2019 and 2018

(In thousands)

Assets		2019	2018
Cash and cash equivalents (note 3)	$	1,099	689
Investments (note 3), at fair value:			
Mutual funds		193,594	152,650
Investment trust funds		68,301	51,621
Collective investment fund		—	18,334
Total assets	$	262,994	223,294
Liabilities and Net Position			
Accrued expenses	$	110	105
Claims payable		130	71
Total liabilities		240	176
Net position:			
Restricted for pension benefits and postemployment healthcare benefits		262,754	223,118
Total net position		262,754	223,118
Total liabilities and net position	$	262,994	223,294

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Changes in Fiduciary Net Position

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Additions:			
Contributions:			
Employer	$	5,220	3,555
Employee		4,477	4,341
Total contributions		9,697	7,896
Investment income:			
Net increase (decrease) in fair value of investments (Note 3)		29,981	(16,953)
Interest, dividends, and other		9,421	8,275
Total investment income (loss)		39,402	(8,678)
Investment costs		677	488
Net investment income (loss)		38,725	(9,166)
Total additions		48,422	(1,270)
Deductions:			
Pension and postemployment benefits		8,458	7,412
Administrative		328	250
Total deductions		8,786	7,662
Net increase (decrease)		39,636	(8,932)
Net position restricted for pension benefits and postemployment healthcare benefits:			
Beginning of year		223,118	232,050
End of year	$	262,754	223,118

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 State of Alaska legislature created the Alaska Railroad Corporation (ARRC), a component unit of the State of Alaska, to own and operate the railroad and to manage the railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985. The investment by the State of Alaska as of December 31, 2019 and 2018 was $34.17 million.

The ARRC operates 683 track 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 accounting principles generally accepted in the United States of America, 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

As a component unit of the State of Alaska and for the purpose of preparing financial statements in accordance with accounting principles generally accepted in the United States of America, the ARRC is subject to the accounting requirements as set forth by the Governmental Accounting Standards Board (GASB).

The ARRC is an enterprise fund of the State of Alaska. Accordingly, the financial activities of the ARRC are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The ARRC acts as trustee or fiduciary for its employee pension and other postemployment benefit (OPEB) plans. In addition, it is also responsible for other assets that, because of trust arrangements, can be used only for the trust beneficiaries. The ARRC's fiduciary activities are reported in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. These funds, which include pension and OPEB are reported using accrual accounting. Since fiduciary assets are restricted in purpose and are not available to support ARRC's activities, these fiduciary assets are not presented in ARRC's financial statements.

The ARRC is subject to the jurisdiction of the Surface Transportation Board (STB) and the ARRC's rates for services are established by the board of directors and designed to recover the cost of providing the service. Accordingly, the ARRC follows the provisions of GASB Codification Section Re. 10, *Regulated Operations*.

The ARRC's board of directors has adopted a resolution requiring a measure of net income in the statement of revenues, expenses, and changes in net position. The ARRC's board of directors has also adopted a resolution restricting net position for reinvestment in infrastructure.

(b) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include time deposits, money market accounts, money market mutual funds, and repurchase agreements with original maturities of three months or less at the time of purchase. Restricted assets are excluded from cash and cash equivalents for purposes of the statements of cash flows.

Money market accounts are valued at amortized cost. Money market mutual funds are recorded at fair value, which is determined by management based on published market prices and quotations from national exchanges.

(c) Materials and Supplies

Materials and supplies inventories are carried at the lower of weighted 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 capital assets.

(d) Capital Assets

Capital assets are stated at cost. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the related assets, ranging from 3 to 32 years.

(e) Restricted Assets

Restricted assets include interest bearing savings, money market mutual fund accounts, and receivable from Healthcare Trust, and are reported at fair value. These assets are restricted as to use by Trust or other third-party agreements.

(f) Regulatory Assets and Liabilities

The ARRC's rates for services are established by the board of directors and are designed to recover the cost of providing the service. For purposes of establishing rates, the ARRC defers the recognition of grant revenue relating to depreciable capital assets funded with grants and amortizes the unearned amounts over the life of the related capital assets.

(g) Operations

The ARRC considers all revenues and expenses related to the transportation of freight and passengers, including general and administrative costs, to be operating revenues and expenses. Revenues and expenses associated with leasing and permitting ARRC property are not considered a part of the ARRC's primary operations and are reported as non-operating activities.

(Continued)

(h) Grants

Grant revenue is recognized when all eligibility requirements have been met; however, revenue for grants expended for depreciable capital assets is recognized over the period in which the asset is depreciated, as described in note 2(f).

(i) Income Taxes

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

(j) Environmental Remediation Costs

The ARRC accrues for losses, including legal fees, associated with environmental remediation obligations based on obligating events as defined under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Costs of future expenditures for environmental remediation liabilities are not discounted to their present value.

(k) Vehicle and Equipment Allocated Costs

The ARRC's vehicle and equipment costs for maintenance, fuel, depreciation, and leases are recorded in the vehicle and equipment cost pool. These costs are recovered through various responsibility centers through a fixed charge rate based on usage of vehicles and equipment. Any over recovery or under recovery of actual vehicle and equipment cost is applied against fixed charge rates in subsequent years.

(l) Net Position

As of December 31, 2019 and 2018, the ARRC's board of directors has restricted $142,968,000 and $131,329,000, respectively, of net position for reinvestment in infrastructure.

(m) Pensions and Defined-Benefit Postretirement Medical Plan

For purposes of measuring the net pension liability, net other post-employment benefit asset (OPEB), deferred outflows of resources and deferred inflows of resources related to pensions and OPEB asset, and pension and OPEB expense, information about the fiduciary net position of the ARRC's defined-benefit plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The fair value for mutual fund investments is determined based on published market prices and quotations from national security exchanges. The fair value of real estate and collective funds is determined based on the net asset value per share of the fund.

(n) Recently adopted Accounting Pronouncements

GASB Statement No. 83*, Certain Asset Retirement Obligations* (GASB 83) was adopted effective January 1, 2019. This Statement establishes uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported, and requires disclosures related to those AROs. There was no impact to the ARRC's financial statements as a result of adoption of this standard.

(Continued)

GASB Statement No. 84*, Fiduciary Activities* (GASB 84) was adopted effective January 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. As a result of adopting this standard, the ARRC is reporting comparative combining statements of fiduciary net position and changes in fiduciary net position as of and for the years ended December 31, 2019 and 2018.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88) was adopted effective January 1, 2019. There was no impact to the ARRC's financial statements as a result of adoption of this standard.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89) was adopted effective January 1, 2019. This Statement requires interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. Beginning January 1, 2019, ARRC recognizes interest cost incurred before the end of a construction period as an expense in the period in which the cost is incurred.

(o) Recently Issued Accounting Pronouncements Not Yet Adopted

GASB Statement No. 87, *Leases* (GASB 87) was issued in June 2017. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB 87 is effective for reporting periods beginning after December 15, 2019. The ARRC is currently evaluating the impact GASB 87 will have on its future financial statements.

(p) Reclassifications

Certain reclassifications not affecting net income have been made to the 2018 financial statements to conform to the 2019 presentation.

(3) Deposits and investment risk

ARRC's restricted assets are reported on the statements of net position as follows at December 31, 2019 and 2018:

		2019	2018
		(In thousands)	
Restricted assets – current:			
Money market mutual funds	$	22,019	21,907
Receivable from Healthcare Trust		1,455	1,364
		23,474	23,271
Restricted assets – non-current:			
Interest bearing savings		130	136
Money market mutual funds		8,737	2,821
Receivable from Healthcare Trust		—	1,024
		8,867	3,981
	$	32,341	27,252

The assets are restricted by the terms of grant, trust, bond, debt service, or other agreements and are summarized as follows at December 31, 2019 and 2018:

Description of restriction		2019	2018
		(In thousands)	
Capital assets as authorized by the Department of Natural Resources	$	130	136
Advance grant funding		442	433
Freight car purchase		8,002	—
State of Alaska advance funding for Northern Rail Extension		1,447	1,417
Projects authorized by bond agreements		34	2,130
Welfare benefits plan		1,455	2,388
Debt service reserve 2015A and 2015B		20,572	20,490
Debt service reserve 2012A and 2012B for notes payable		259	258
	$	32,341	27,252

(a) ARRC Investments and Deposits

ARRC's cash and cash equivalents consist of the following at December 31, 2019 and 2018:

		2019	2018
		(In thousands)	
Cash	$	8,700	5,852
Money market deposit accounts		10,143	10,108
Money market mutual funds		63,558	69,715
	$	82,401	85,675

(i) Custodial Credit Risk

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the ARRC's deposits may not be returned to it. For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the ARRC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The ARRC's Investment Policy requires that all investments be collateralized and/or insured.

At December 31, 2019, the ARRC's carrying amount of cash and cash equivalents was $82.4 million and the bank balance was $82.9 million. Of the bank balance, $250,000 was covered by federal depository insurance, $73.7 million represents money market funds held by the ARRC's agent in the ARRC's name, and the remaining balance is uncollateralized. At December 31, 2019, the ARRC's carrying amount and bank balance of restricted assets was $32.3 million, all of which was held by a custodian bank in ARRC's name.

At December 31, 2018, the ARRC's carrying amount of cash and cash equivalents was $85.7 million and the bank balance was $86.1 million. Of the bank balance, $250,000 was covered by federal depository insurance, $79.8 million represents money market funds held by the ARRC's agent in the ARRC's name, and the remaining balance is uncollateralized. At December 31, 2018, the ARRC's carrying amount and bank balance of restricted assets was $27.3 million, all of which was held by a custodian bank in ARRC's name.

(ii) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The ARRC's Investment Policy limits investment maturities to five years or less as a means of managing its exposure to fair value losses arising from increasing interest rates. The ARRC uses the specific identification method to report maturities of investments.

(iii) Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. The ARRC's Investment Policy authorizes the ARRC to invest in U.S. Treasury and agency obligations, state and local government obligations, corporate bonds, certificates of deposit, bankers' acceptances, commercial paper, asset-backed securities, and money market funds. The ARRC's cash and cash equivalents and its restricted assets consist primarily of money market funds, which are excluded from credit risk disclosure requirements.

(iv) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The ARRC Investment Policy places no limit on the amount the ARRC may invest in any one issuer.

(v) Foreign Currency Risk

Foreign currency risk arises when changes in foreign exchange rates will adversely affect the fair value of an investment. ARRC does not have a policy to limit foreign currency risk associated with investment funds. ARRC does not have exposure to foreign currency risk in its investment funds at December 31, 2019 or 2018.

(vi) Fair Value Measurements

The ARRC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The ARRC has the following recurring fair value measurements as of December 31, 2019 and 2018:

			Fair value measurements using		
		December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In thousands)		
Investments by fair value level:					
Cash and cash equivalents:					
Money market mutual funds	$	63,558	63,558	—	—
Restricted assets:					
Money market mutual funds		30,756	30,756	—	—
Total investments by fair value level	$	94,314	94,314	—	—

		Fair value measurements using		
	December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Investments by fair value level:				
Cash and cash equivalents:				
Money market mutual funds	$ 69,715	69,715	—	—
Restricted assets:				
Money market mutual funds	24,728	24,728	—	—
Total investments by fair value level	$ 94,443	94,443	—	—

Mutual funds are recorded at fair value, which is determined by management based on published market prices and quotations from national exchanges.

(b) Fiduciary funds deposits and investment risk

Cash and cash equivalents consist of $1,099,000 and $689,000 at December 31, 2019 and 2018, respectively.

(i) Custodial Credit Risk

The fiduciary funds Investment Policies require that all investments be collateralized and/or insured.

At December 31, 2019, the fiduciary fund's carrying amount of cash and cash equivalents and the bank balance was $1.099 million. Of the bank balance, $500,000 was covered by federal depository insurance held by the fiduciary's trustee in the fiduciary's name, and the remaining balance is uncollateralized.

At December 31, 2018, the fiduciary fund's carrying amount of cash and cash equivalents and the bank balance was $689,000. Of the bank balance, $500,000 was covered by federal depository insurance held by the fiduciary's trustee in the fiduciary's name, and the remaining balance is uncollateralized.

(ii) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fiduciary Fund's Investment Policies require five year rolling time-weighted rates of return, on a risk-adjusted basis which are tied to plan benchmarks. The Fiduciary Fund's Investment Manager's monitor, report and evaluate all variances against the benchmarks and the strategies to manage its exposure to fair value losses arising from increasing interest rates.

(iii) Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. The Fiduciary Fund's Investment Policies authorizes investments in domestic and international equities, real estate, commodities and fixed income. The Fiduciary Fund's cash and cash equivalents consist primarily of deposit accounts, which are excluded from credit risk disclosure requirements.

(iv) Concentration of Credit Risk

The Fiduciary Funds have 10 investments that exceed 5% of their total investment balances as follows (in thousands):

Investment		Amount
MFS International Equity	$	34,328
Vanguard		29,443
T Rowe Price		27,962
Rothschild		19,848
Metropolitan West		18,828
RREEF America REIT II		18,786
Morgan Stanley		18,468
Hotchkins and Wiley		18,424
Vanguard Mid Cap		16,330
JP Morgan		14,108

(v) Foreign Currency Risk

Foreign currency risk arises when changes in foreign exchange rates will adversely affect the fair value of an investment. The Fiduciary Fund's do not have policies to limit foreign currency risk associated with investment funds. The Fiduciary Funds do not have exposure to foreign currency risk in their investment funds.

(vi) Fair Value Measurements

The Fiduciary Fund’s categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Fiduciary Funds have the following recurring fair value measurements as of December 31, 2019 and 2018:

		Fair value measurements using		
	December 31, 2019	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	(In thousands)			
Investments by fair value level:				
Pension trust fund:				
Mutual funds	$ 158,025	158,025	—	—
OPEB trust fund:				
Mutual funds	35,569	35,569	—	—
Total investments by fair value level	193,594	193,594	—	—
Investments measured at net asset value (NAV):				
Investment trust funds	68,301			
Total investments measured at the NAV	68,301			
Total investments	$ 261,895			

		Fair value measurements using		
	December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		
Investments by fair value level:				
Pension trust fund:				
Mutual funds	$ 117,472	117,472	—	—
OPEB trust fund:				
Mutual funds	35,178	35,178	—	—
Total investments by fair value level	152,650	152,650	—	—
Investments measured at net asset value (NAV):				
Common collective funds	18,334			
Investment trust funds	51,621			
Total investments measured at the NAV	69,955			
Total investments	$ 222,605			

Mutual funds are recorded at fair value, which is determined by management based on published market prices and quotations from national exchanges.

The valuation method for investments measured at NAV per share (or its equivalents) is presented as follows for December 31, 2019 and 2018:

	December 31, 2019 Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period
	(in thousands)			
Investment trust funds:				
Equities/Equity funds (a)	$ 31,055	—	Monthly	None
Real estate trust funds (b)	37,246	—	Quarterly	45-90 days
Total trust funds	$ 68,301	—		

		December 31, 2018 Fair value (in thousands)	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period
Investment trust funds:					
Equities/Equity funds (a)	$	16,554	—	Monthly	None
Real estate trust funds (b)		35,067	—	Quarterly	45-90 days
Total trust funds	$	51,621	—		
Collective funds:					
Common collective funds (c)	$	18,334	—	Monthly	None

(a) ***Equities and equity funds***. This type includes a fund that trades and invests in securities. These are investments in funds that speculate in equities. They buy securities in expectation of capital gains and potential dividend income.

(b) ***Real estate trust funds***. This type includes investments in two real estate funds. These funds make direct investments in real-estate holdings as well as indirect investments in real estate related mortgages and other securities. These funds invest in a range of commercial and residential real estate markets in the United States, Asia, and Europe. These investments cannot be redeemed from the funds, without special circumstances. Distributions from each fund will be received as the underlying investments of the fund receive cash flows or are liquidated. It is expected that the underlying investments of the fund will be liquidated over the next 5-10 years, gradually, with realizations expected in each year. The fair value of each underlying investment is determined using the NAV per share (or its equivalent) of the ARRC's ownership interest in net equity. Once it has been determined that an underlying investment will be sold, the investment is typically sold in a competitive market process. The fund managers review offers and approve of the buyer prior to completion.

(c) ***Common collective funds***. This type includes an investment in a common collective fund. This funds make investments in fixed income and equity securities. They are valued using NAV daily.

(4) Capital Assets

During 2002, the ARRC received initial approval from its federal cognizant agency, which was updated in 2005, of its indirect cost rate agreement. In compliance with Federal Transit Administration (FTA) Circulars, ARRC will continue to update its indirect cost rate proposal but will retain it on site and make it available for review during its annual financial audit. This agreement allows ARRC to allocate certain general and administrative expenses to grant-funded capital assets. Indirect costs allocated to capital assets under this agreement totaled $2,106,000 and $2,163,000 during the years ended December 31, 2019 and 2018, respectively.

The following tables summarize activity in the capital assets accounts during the years ended December 31, 2019 and 2018:

	Balance at December 31, 2018	Increases	Decreases	Balance at December 31, 2019
		(In thousands)		
Capital assets not being depreciated:				
Land and improvements	$ 32,717	395	(24)	33,088
Road materials and supplies	10,343	9,647	(10,121)	9,869
Construction in progress	110,570	50,005	(35,440)	125,135
Total capital assets not being depreciated	153,630	60,047	(45,585)	168,092
Capital assets being depreciated:				
Road and roadway structures	1,119,475	27,482	—	1,146,957
Equipment	424,063	7,564	(2,129)	429,498
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,545,710	35,046	(2,129)	1,578,627
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	508,612	40,042	—	548,654
Equipment	299,477	19,787	(2,129)	317,135
Leasehold improvements	2,076	84	—	2,160
Total accumulated depreciation	810,165	59,913	(2,129)	867,949
Less accumulated depletion for:				
Quarry improvements	842	—	—	842
Capital assets being depreciated and depleted, net	738,817	(24,867)	—	713,950
Net capital assets	$ 892,447	35,180	(45,585)	882,042

	Balance at December 31, 2017	Increases	Decreases	Balance at December 31, 2018
		(In thousands)		
Capital assets not being depreciated:				
Land and improvements	$ 32,744	278	(305)	32,717
Road materials and supplies	9,712	8,600	(7,969)	10,343
Construction in progress	81,418	58,543	(29,391)	110,570
Total capital assets not being depreciated	123,874	67,421	(37,665)	153,630
Capital assets being depreciated:				
Road and roadway structures	1,101,621	19,067	(1,213)	1,119,475
Equipment	415,966	10,045	(1,948)	424,063
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,519,759	29,112	(3,161)	1,545,710
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	469,171	40,320	(879)	508,612
Equipment	280,890	20,524	(1,937)	299,477
Leasehold improvements	1,993	83	—	2,076
Total accumulated depreciation	752,054	60,927	(2,816)	810,165
Less accumulated depletion for:				
Quarry improvements	842	—	—	842
Capital assets being depreciated and depleted, net	770,977	(31,815)	(345)	738,817
Net capital assets	$ 894,851	35,606	(38,010)	892,447

(Continued)

Depreciation was charged to the following departments during the years ended December 31, 2019 and 2018:

	2019		2018	
	Grant-funded depreciation	Nongrant-funded depreciation	Grant-funded depreciation	Nongrant-funded depreciation
	(In thousands)			
Transportation	$ 6,180	660	6,906	739
Passenger	—	105	—	104
Marketing and customer service	—	766	—	846
Mechanical	3,198	6,619	3,075	6,566
Engineering	26,086	7,367	26,087	7,262
Facilities	3,511	1,819	3,661	1,894
General and administrative	191	1,035	176	1,220
Real estate	491	1,885	491	1,900
	$ 39,657	20,256	40,396	20,531

Net investment in capital assets is as follows at December 31, 2019 and 2018:

	2019	2018
	(In thousands)	
Net capital assets	$ 882,042	892,447
Capital assets acquired through accounts payable	(1,921)	(3,371)
Notes payable (note 6)	(12,380)	(6,753)
Outstanding balance of revenue bonds (note 6)	(72,804)	(88,874)
Assets restricted for projects authorized by revenue bond agreements (note 3)	34	2,130
Unearned grant revenue	(559,649)	(570,235)
	$ 235,322	225,344

(5) Long-Term Liabilities

Long-term liability activity is summarized as follows during the years ended December 31, 2019 and 2018:

	Balance at December 31, 2018	Additions	Reductions	Balance at December 31, 2019	Due within one year
			(In thousands)		
Long-term debt:					
Notes payable	$ 6,753	8,000	(2,373)	12,380	2,039
Revenue bonds payable	78,720	—	(14,250)	64,470	14,960
Plus (less) unamortized amounts:					
Issuance premiums	10,154	—	(1,820)	8,334	—
Total revenue bonds payable	88,874	—	(16,070)	72,804	14,960
Environmental remediation reserve	2,448	808	(622)	2,634	480
State of Alaska advances	1,547	21	—	1,568	—
Total long-term liabilities	$ 99,622	8,829	(19,065)	89,386	17,479

	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018	Due within one year
			(In thousands)		
Long-term debt:					
Notes payable	$ 11,286	—	(4,533)	6,753	2,373
Revenue bonds payable	92,295	—	(13,575)	78,720	14,250
Plus (less) unamortized amounts:					
Issuance premiums	11,666	—	(1,512)	10,154	—
Total revenue bonds payable	103,961	—	(15,087)	88,874	14,250
Environmental remediation reserve	2,455	584	(591)	2,448	411
State of Alaska advances	2,255	—	(708)	1,547	—
Total long-term liabilities	$ 119,957	584	(20,919)	99,622	17,034

(Continued)

The ARRC has arrangements for three short-term unsecured lines of credit. The two general purpose lines of credit allow borrowing up to $20,000,000 at rates of 78.5% to 100% of London Interbank Offered Rate (LIBOR) plus 1.45% to 1.85%. The self-insurance line of credit allows borrowing up to $10,000,000 at rates of 78.5% to 100% of LIBOR plus 1.45% to 1.85%. None of the lines of credit had an outstanding balance at December 31, 2019 or 2018.

(6) Long-Term Debt

Long-term debt at December 31, 2019 and 2018 consists of the following:

	2019	2018
	(In thousands)	
Notes payable:		
Note payable, secured by real estate revenue, due in monthly payments of $36,210, including interest at 2.65%, matures on April 21, 2023	$ 1,385	1,777
Note payable, secured by real estate revenue, due in monthly payments of $48,538, including interest at 2.65%, matures on April 21, 2023	1,856	2,381
Note payable, secured by equipment, due in monthly payments of $136,842, including interest at 1.71%, matures on August 1, 2019	—	1,088
Note payable, secured by equipment, due in monthly payments of $74,376, including interest at 2.21%, matures on December 17, 2029	8,000	—
Note payable, secured by equipment, due in monthly payments of $32,469, including interest at 1.67%, matures on December 18, 2022	1,139	1,507
	12,380	6,753
Less current portion	2,039	2,373
	$ 10,341	4,380
Revenue bonds:		
Revenue Bonds – Series 2015A and 2015B, interest at 4.0%–5.0%, payable semiannually on February 1 and August 1, secured by 5307 and 5337 FTA Formula Funds, matures on August 1, 2023	$ 72,804	88,874
Less current portion	14,960	14,250
	$ 57,844	74,624

Annual payments on debt are scheduled as follows at December 31, 2019:

	Notes payable		Revenue bonds payable		
	Principal	Interest	Principal	Interest	Total
			(In thousands)		
Years ending December 31:					
2020	$ 2,039	260	14,960	2,909	20,168
2021	2,086	212	15,705	2,147	20,150
2022	2,135	164	16,490	1,347	20,136
2023	1,109	122	17,315	505	19,051
2024	790	103	—	—	893
2025-2029	4,221	242	—	—	4,463
	12,380	$ 1,103	64,470	6,908	84,861
Current portion of principal	(2,039)		(14,960)		(16,999)
Unamortized premium	—		8,334		8,334
Total noncurrent portion	$ 10,341		57,844		76,196

Federal Transit Program – ARRC Participation in Section 5307 Urbanized Area Formula Program and Section 5337 State of Good Repair Formula Program

In association with the issuance of the 2015 revenue bonds, Moody’s issued an “A3” rating with a stable outlook and Standard & Poor’s issued an “A” rating with a stable outlook. These ratings have not changed through December 31, 2019. The following table sets forth the authorized funding allocation of the FTA Section 5307 Formula Program Funds and Section 5337 Formula Program Funds to ARRC in Federal Fiscal Years (FFY) 2019 and the estimated apportionments for FFY 2020 through 2024:

FFY	Section 5307 formula program	Section 5337 formula program	Total
2019 Apportionments	$ 14,038,341	32,007,190	46,045,531
2020 Estimated apportionments	14,347,185	31,207,010	45,554,195
2021 Estimated apportionments	14,562,393	31,675,115	46,237,508
2022 Estimated apportionments	14,780,828	32,150,242	46,931,070
2023 Estimated apportionments	15,002,541	32,632,496	47,635,037
2024 Estimated apportionments	15,227,579	33,121,983	48,349,562

The ARRC expended $1.15 million and $2.74 million during 2019 and 2018, respectively, of the 2015B bond proceeds on eligible capital costs relating to the development of the federally mandated Positive Train Control.

(Continued)

Effective January 1, 2019, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89) was adopted. No interest was capitalized or applied to the long-term capital construction projects during 2019. During 2018, interest capitalized or applied to long-term construction projects was $2,006,000.

State of Alaska Authorizations

Chapter 8, SLA 2015, authorized the ARRC to issue up to $37 million in revenue bonds to finance a positive train control rail transportation safety project that qualifies for federal financial participation and associated costs. To date, $34.7 million in bonds have been issued, with a premium of $5.1 million.

Chapter 65, SLA 2007, authorized the ARRC to issue up to $2.9 billion in revenue bonds to finance all or a portion of the Kenai gasification project and Port MacKenzie rail spur project, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued.

Chapter 28, SLA 2006, authorized the ARRC to issue up to $165 million in revenue bonds to finance rail transportation projects that qualify for federal financial participation and associated costs. To date, $165 million in bonds were issued and were fully refunded subsequent to issuance.

Chapter 46, SLA 2004, authorized the ARRC to issue up to $500 million in revenue bonds, subject to an agreement with a third party to pay the debt service and other related bond costs, to finance the cost of extending its rail line to Fort Greely, Alaska. To date, no bonds have been issued.

Chapter 71, SLA 2003, authorized the ARRC to issue up to $17 billion in revenue bonds to finance the construction of a natural gas pipeline and related facilities, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued. This authorization was repealed in July 2018 by Chapter 64, SLA 2018.

Chapter 77, SLA 1994, authorized the ARRC to issue up to $55 million in revenue bonds to finance the construction and acquisition of the Alaska Discovery Center for the Ship Creek Project in Anchorage. To date, no bonds have been issued.

(7) Employee Benefits

(a) Alaska Railroad Corporation Pension Plan

The ARRC has a single-employer defined-benefit-pension plan (the Plan) administered by the Tax Deferred Savings and Pension Committee covering all regular represented and non-represented employees who are not covered by the Civil Service Retirement System (CSRS). Benefits provided by the Plan include retirement, disability, and death benefits. Benefit terms and contribution rates are established and amended under the authority of the Board of Directors. 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 actuarially determined contribution rate recommended by an independent actuary. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees contribute an amount equal to 9% of eligible compensation.

As of December 31, 2019, the Plan assets consist of cash and cash equivalents of less than 1%, fixed-income securities of 23.1%, equities of 59.6%, commodities of 1.5%, and real estate investments of 15.4%.

At December 31, the plan membership consisted of the following:

		2019	2018
Inactive plan members or beneficiaries currently receiving benefits	$	311	293
Inactive plan members entitled to but not yet receiving benefits		374	367
Active plan members		680	685
	$	1,365	1,345

The components of the net pension liability for the Plan at December 31, 2019 and 2018 were as follows:

		2019	2018
		(in thousands)	
Total pension liability	$	242,030	212,322
Fiduciary net position		(211,840)	(177,870)
Net pension liability	$	30,190	34,452
Plan fiduciary net position as a percentage of the total pension liability		87.53 %	83.77 %

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2019 and 2018, the ARRC reported a liability for the pension plan. The net pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the ARRC recognized pension expense of $9,150,000 and $8,240,000, respectively.

(Continued)

At December 31, the ARRC reported deferred outflows of resources and deferred inflows of resources related to pension as follows:

Deferred outflows and (inflows) of resources		2019 Deferred outflows of resources	2019 Deferred inflows of resources	2018 Deferred outflows of resources	2018 Deferred inflows of resources
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	1,284	(1,937)	2,555	(2,126)
Changes of assumptions		13,019	—	161	—
Net difference between actual and projected earnings on investments		—	(6,579)	13,388	—
Total	$	14,303	(8,516)	16,104	(2,126)

The deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

		Amount
		(In thousands)
Year ending December 31:		
2020	$	2,455
2021		1,355
2022		3,464
2023		(1,487)
2024		—
Thereafter		—
	$	5,787

Actuarial Assumptions: The total pension liability in the January 1 actuarial valuation was determined using the following actuarial assumptions:

Actuarial assumption	2019	2018
Inflation	2.8%	2.8%
Salary increases	2.8% CPI plus merit based rates	3.0% CPI plus merit based rates
Long term rate of return	7.25%	7.50%
Cost of living allowance	1.4%	1.4%
Retirement, disablement, and termination	Based on 2010-2014 experience study	Based on 2010-2014 experience study
Administrative expenses	0.55% of payroll, based on current year actual expense	0.65% of payroll, based on current year actual expense

Mortality rates were based on the Society of Actuaries RP-2014 healthy annuitant mortality table adjusted 91% for males and 96% for females and the Scale MP-2018 generational mortality improvement in longevity that management expects to occur in the future.

The long-term expected rate of return on pension plan investments of 7.25% was determined by management using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the intermediate-term and long-term expected rates of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Intermediate-term expected real rate of return	Long-term expected real rate of return
Cash	— %	— %	— %
U.S. Treasury Inflation Protected Securities (TIPS)	5.00	2.80	1.94
Total return bond	13.00	2.70	2.43
Global bond	5.00	3.05	2.43
High yield bond	7.00	4.72	3.88
Domestic large cap	20.00	4.87	6.80
Domestic mid cap	12.00	5.60	7.77
Domestic small cap	8.00	5.85	8.74
International equity	13.00	5.36	7.04
Commodities	2.00	4.62	1.46
Real estate	15.00	5.11	4.61
Total	100.00 %		

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the ARRC contributions will be made based on the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current rate:

		1% Decrease (6.25)%	Current discount rate (7.25)%	1% Increase (8.25)%
			(In thousands)	
Net pension liability as of:				
December 31, 2019	$	66,566	30,190	481

		1% Decrease (6.5)%	Current discount rate (7.5)%	1% Increase (8.5)%
			(In thousands)	
Net pension liability as of:				
December 31, 2018	$	64,523	34,452	9,704

The annual money-weighted rate of return, net of investment expense, was 18.47% and (4.45)% for the years ended December 31, 2019 and 2018, respectively.

Changes in the net pension liability are as follows:

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
			(In thousands)	
Balances at January 1, 2019	$	212,322	177,870	34,452
Changes for the year:				
Service cost		5,835	—	5,835
Interest		16,059	—	16,059
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(496)	—	(496)
Changes of assumptions		16,396	—	16,396
Contributions – employer		—	5,220	(5,220)
Contributions – employee		—	4,477	(4,477)
Net investment income		—	32,628	(32,628)
Benefit payments, including refunds of employee contributions		(8,086)	(8,086)	—
Administrative expenses		—	(269)	269
Net changes		29,708	33,970	(4,262)
Balances at December 31, 2019	$	242,030	211,840	30,190

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
			(In thousands)	
Balances at January 1, 2018	$	200,808	185,423	15,385
Changes for the year:				
Service cost		5,676	—	5,676
Interest		15,221	—	15,221
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(2,321)	—	(2,321)
Changes of assumptions		—	—	—
Contributions – employer		—	3,555	(3,555)
Contributions – employee		—	4,341	(4,341)
Net investment loss		—	(8,075)	8,075
Benefit payments, including refunds of employee contributions		(7,062)	(7,062)	—
Administrative expenses		—	(312)	312
Net changes		11,514	(7,553)	19,067
Balances at December 31, 2018	$	212,322	177,870	34,452

Additional required supplementary information for ARRC's defined-benefit pension plan can be found on pages 51 through 53.

(b) Alaska Railroad Corporation Health Care Trust

The ARRC sponsors a single-employer, defined-benefit retiree health care plan (Plan) administered by the Non-Represented Tax Deferred Saving, 457 and Health Care Trust Plan Committee covering non-represented and Alaska Railroad Workers (ARW) represented employees, who became employed prior to November 4, 2014. The Plan also covers regular represented employees hired before April 2, 2015 for Carmen's Division of Transportation Communication International Union (TCU), March 4, 2016 for United Transportation Union (UTU), April 26, 2016 for International Brotherhood of Teamsters Local 959 (IBT), and June 28, 2019 for American Train Dispatchers Association (ATDA) as specified in the labor agreements.

The Plan provides postretirement medical benefits to employees receiving retirement under the pension plan and retired CSRS employees who do not qualify for the federal medical insurance, and who move directly from active coverage to retiree coverage. The Plan is contributory with retiree premiums adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The ARRC's funding policy is to contribute each year an amount equal to the actuarially determined contribution. Benefit terms and contribution rates are established and amended under the authority of the Board of Directors and management.

There were no contributions recognized or due by the Plan from the ARRC during the year ended December 31, 2019 or 2018. As of December 31, 2019, the Plan assets are held in trust and consist of cash and cash equivalents of less than 1%, fixed-income securities of 41.7%, equities of 35.3%, and real estate investments of 23.0%. The value of trust assets used for GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* excludes certain Trust assets segregated for use toward the ARRC Welfare Benefit Plan.

At December 31, the Plan membership consisted of the following:

		2019	2018
Inactive plan members or beneficiaries currently receiving benefits	$	35	39
Inactive plan members entitled to but not yet receiving benefits		—	—
Active plan members		376	404
	$	411	443

The components of the net other postemployment benefit (OPEB) asset for the Plan at December 31, 2019 and 2018 were as follows:

		2019	2018
		(In thousands)	
Total OPEB liability	$	15,681	15,332
Fiduciary net position		(50,914)	(45,248)
Net OPEB asset	$	(35,233)	(29,916)
Plan fiduciary net position as a percentage of the total OPEB asset		(324.7)%	(295.1)%

OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At December 31, 2019 and 2018, the ARRC reported an asset for the OPEB plan. The net OPEB asset was measured as of December 31, 2019 and 2018, and the total OPEB asset used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 and 2018. For the years ended December 31, 2019 and 2018, the ARRC recognized net OPEB income of $1,286,000 and $623,000, respectively.

At December 31, the ARRC reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

		2019		2018	
Deferred outflows and (inflows) of resources		**Deferred outflows of resources**	**Deferred inflows of resources**	**Deferred outflows of resources**	**Deferred inflows of resources**
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	—	(6,503)	—	(5,405)
Changes of assumptions		3,032	—	2,281	—
Net difference between actual and projected earnings on investments		—	(550)	3,134	—
Total	$	3,032	(7,053)	5,415	(5,405)

The deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense or income as follows:

		Amount
		(In thousands)
Year ending December 31:		
2020	$	(532)
2021		(543)
2022		(258)
2023		(1,076)
2024		(466)
Thereafter		(1,146)
	$	(4,021)

Actuarial Assumptions: The total OPEB liability in the January 1 actuarial valuation was determined using the following actuarial assumptions.

Actuarial assumption	2019	2018
Discount rate	6.75% based on crossover test	6.75% based on crossover test
Inflation	2.8%	2.8%
Salary increases	2.8% CPI plus merit based rates	3.0% CPI plus merit based rates
Cost of living allowance	Not Applicable	Not Applicable
Long-term rate of return	6.75%	6.75%
Retirement, disablement, and termination	Based on 2010-2014 experience study	Based on 2010-2014 experience study
Administrative expenses	0.15% of payroll, based on current actual year expenses	0.18% of payroll, based on current actual year expenses
Participation rates	Varies from 35% to 85%	Varies from 35% to 85%
Medical trend	Non medicare 7.5%, decreasing to an ultimate rate of 4.0% in 2076 Medicare 6.5%, decreasing to an ultimate rate of 4.0% in 2076	Non medicare 7.5%, decreasing to an ultimate rate of 4.0% in 2076 Medicare 6.5%, decreasing to an ultimate rate of 4.0% in 2076

Mortality rates were based on the Society of Actuaries RP-2014 healthy annuitant table adjusted 91% for males and 96% for females and the Scale MP-2018 generational mortality improvement in longevity that management expects to occur in the future.

The long-term expected rate of return on OPEB plan investments of 6.75% was determined by management using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the intermediate-term and long-term expected rates of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Intermediate-term expected real rate of return	Long-term expected real rate of return
Cash	— %	— %	— %
U.S. TIPS	5.00	2.80	1.94
Total bond return	30.00	2.70	2.43
Global bond	5.00	3.05	2.43
High yield bond	10.00	4.72	3.88
Domestic large cap	15.00	4.87	6.80
Domestic mid cap	5.00	5.60	7.77
Domestic small cap	4.00	5.85	8.74
U.S. healthcare (equity)	5.00	5.26	7.28
International equity	6.00	5.36	7.04
Real estate	15.00	5.11	4.61
Total	100.00 %		

Discount Rate: The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, and contributions from employers will be made based on the actuarially determine contribution rate. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB asset to changes in the discount rate: The following presents the net OPEB asset calculated using the discount rate of 6.75%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current rate:

		1% Decrease (5.75)%	Current discount rate (6.75)%	1% Increase (7.75)%
			(In thousands)	
Net OPEB liability (asset) as of:				
December 31, 2019	$	(32,694)	(35,233)	(37,265)
December 31, 2018		(27,601)	(29,916)	(31,805)

Sensitivity of the net OPEB asset to changes in the Medical Cost Trend Rate: The following presents the net OPEB asset calculated using the medical cost trend rate of 7.5% beginning in 2020, decreasing to an ultimate rate of 4.0% in 2076+, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or higher than the current rate:

		1% Decrease (6.5)%	Medical cost trend rate (7.5)%	1% Increase (8.5)%
			(In thousands)	
Net OPEB liability (asset) as of:				
December 31, 2019	$	(37,723)	(35,233)	(32,031)
December 31, 2018		(32,270)	(29,916)	(26,936)

Changes in the OPEB liabilities (asset) are as follows:

		Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB asset (a) – (b)
			(In thousands)	
Balances at January 1, 2019	$	15,332	45,248	(29,916)
Changes for the year:				
Service cost		529	—	529
Interest		1,003	—	1,003
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(1,998)	—	(1,998)
Changes in assumptions		1,186	—	1,186
Contributions – employer		—	—	—
Net investment income		—	6,096	(6,096)
Benefit payments, net of retiree premiums		(371)	(371)	—
Administrative expenses		—	(59)	59
Net changes		349	5,666	(5,317)
Balances at December 31, 2019	$	15,681	50,914	(35,233)

		Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB asset (a) – (b)
			(In thousands)	
Balances at January 1, 2018	$	17,152	46,627	(29,475)
Changes for the year:				
Service cost		599	—	599
Interest		981	—	981
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(4,511)	—	(4,511)
Changes in assumptions		1,461	—	1,461
Contributions – employer		—	—	—
Net investment loss		—	(958)	958
Benefit payments, net of retiree premiums		(350)	(350)	—
Administrative expenses		—	(71)	71
Net changes		(1,820)	(1,379)	(441)
Balances at December 31, 2018	$	15,332	45,248	(29,916)

Additional required supplementary information for ARRC's OPEB plan can be found on pages 54 through 56.

(c) Civil Service Retirement System (CSRS)

Federal employees who transferred to the ARRC continue to participate in the CSRS, a multiemployer, defined-benefit plan. ARRC is required to contribute 7% of the transferred employees' eligible compensation. Benefit expense related to CSRS was $17,000 and $35,000 for the years ended December 31, 2019 and 2018, respectively.

(d) Alaska Railroad Corporation 401(k) Tax Deferred Savings Plan

The ARRC sponsors a defined contribution plan (Plan) under Section 401(k) of the Internal Revenue Code (IRC) for employees. All regular employees are eligible to contribute to the Plan. Under the terms of certain collective bargaining agreements and the plan document for non-represented employees, representing 80% of employees, the ARRC will match a portion of employee contributions. The maximum amount of matching required under the agreements is 66% of employee contributions for the first 9% of salary. Benefit expense related to the Plan was $772,000 and $744,000 for the years ended December 31, 2019 and 2018, respectively.

(e) Alaska Railroad Corporation 457 Deferred Compensation Plan

ARRC sponsors a Section 457 deferred compensation plan (Plan) under Section 457(b) of the IRC for non-represented employees. There are no benefit expenses related to the Plan for the years ended December 31, 2019 or 2018.

(8) Grants

The ARRC has spent grant funding on a variety of operating property, right-of-way acquisition, and equipment. Generally, grant revenue will be recognized equal to depreciation on these assets each year.

The original cost of assets constructed or acquired with grant funding as of December 31, 2019 and 2018 consists of the following:

			2019	2018
			(In thousands)	
Land and improvements		$	8,729	8,729
Road and roadway structures	15–32 year life		680,987	670,863
Equipment	5–25 year life		185,431	185,424
Construction in process			48,774	45,434
		$	923,921	910,450

Grant revenue earned during the years ended December 31, 2019 and 2018 consisted of the following:

		2019	2018
		(In thousands)	
Depreciation on assets constructed with grant funds	$	39,657	40,396
Grant funded maintenance expense		12,975	12,635
Grant funded bond principal, interest, and issuance costs		1,451	878
		54,083	53,909
Less grant revenue included in real estate nonoperating revenues		(491)	(491)
Less grant funded interest on Series 2015A revenue bonds included in nonoperating revenues		(1,451)	(878)
	$	52,141	52,540

(Continued)

The original cost of assets constructed or acquired with Capital Grant Receipts Bonds consists of the following:

			2019	2018
			(In thousands)	
Road and roadway structures	15–32 year life	$	163,779	163,779
Equipment	5–25 year life		18,960	18,960
Construction in process			43,025	41,878
		$	225,764	224,617

(9) Concentrations

During 2019, there was no Internal Revenue Code §45G agreement negotiated.

During 2018, ARRC entered into an agreement with a customer under the Internal Revenue Code §45G signed into law for tax year 2017. Under the 2018 agreement, ARRC received $4.8 million for qualified track maintenance expenses and gave the customer a rebate of $2.5 million. The qualified track maintenance expenses and the rebate are recorded as net reductions in operating expenses.

A significant portion of ARRC's funding comes from the federal government in the form of grants. Federal grant funding was used for 26.9% and 54.4% of capital expenditures in 2019 and 2018, 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 $17,906,000 and $17,274,000 in 2019 and 2018, respectively. The following table summarizes future minimum lease receipts contractually due under long-term agreements as of December 31, 2019:

		Amount
		(In thousands)
Year ending December 31:		
2020	$	15,128
2021		14,665
2022		13,649
2023		12,220
2024		11,208
Thereafter		176,109
	$	242,979

(11) Operating Leases and Agreements

The ARRC leases certain operating equipment and barge services under operating leases and agreements. Payments under the leases and agreements totaled $9,515,000 and $9,445,000 in 2019 and 2018, respectively. Future minimum lease payments as of December 31, 2019 are summarized as follows:

	Amount (In thousands)
Year ending December 31:	
2020	$ 11,213
2021	1,743
2022	—
2023	—
2024	—
Thereafter	—
	$ 12,956

(12) Insurance

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims, and workers' compensation claims, and establishes reserves for the estimated losses of such claims, including estimates of losses incurred but not reported, based on historical experience adjusted for current trends. The ARRC uses third-party administrators that process claims based on the provisions of the employee health plan, or for on-the-job injuries, in compliance with the State of Alaska Workers' Compensation Act. ARRC's commercial insurance policies with self-insured retention limits are summarized as follows at December 31, 2019 and 2018:

	2019	2018
	(In thousands)	
Casualty/liability	$ 300,000	300,000
Property damage	100,000	100,000
Casualty/liability retention	5,000	5,000
Property damage retention	10,000	10,000

Self-insurance activity is summarized as follows during the years ended December 31, 2019 and 2018:

		Balance at December 31, 2018	Incurred claims	Claim payments	Balance at December 31, 2019
			(In thousands)		
Employee health benefits	$	701	11,531	(10,538)	1,694
Workers' compensation		2,424	379	(1,282)	1,521
	$	3,125	11,910	(11,820)	3,215

		Balance at December 31, 2017	Incurred claims	Claim payments	Balance at December 31, 2018
			(In thousands)		
Employee health benefits	$	1,213	8,508	(9,020)	701
Workers' compensation		1,396	2,315	(1,287)	2,424
	$	2,609	10,823	(10,307)	3,125

(13) Environmental Remediation Reserve

The ARRC has accrued certain environmental pollution remediation liabilities for its properties. ARRC has estimated the liability for pollution remediation by estimating a reasonable range of potential outlays and multiplying those outlays by the probability of occurrence, reduced by the allocation of liability to other potentially responsible parties, where applicable. The liabilities associated with these sites could change over time due to changes in costs of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation efforts.

(14) Commitments and Contingencies

Approximately 71% of the ARRC's labor force is subject to one of five collective bargaining agreements with various expiration dates. The representative unions are:

United Transportation Union (UTU),
International Brotherhood of Teamsters Local 959 (IBT),
American Train Dispatchers Association (ATDA),
Carmen's Division of Transportation Communication International Union (TCU), and the
Alaska Railroad Workers (ARW)

The ATDA labor agreement was ratified on June 28, 2019 and will expire on June 28, 2023. The ARW and TCU labor agreements were ratified on April 25, 2019 and will expire on April 25, 2022. The IBT labor agreement expired April 2019, and the parties have opened negotiations. The UTU labor agreement will expire on February 26, 2021.

The ARRC has certain other contingent liabilities resulting from lawsuits, contract disputes, and claims incident to the ordinary course of business. Provision has been made in the financial statements for probable losses, if any, from such contingencies. In the opinion of management, the resolution of such contingencies will not have a material effect on the financial position of the ARRC.

During March 2020, the U.S. Center for Disease Control and the World Health Organization declared the novel coronavirus (COVID-19) outbreak as a pandemic. As the virus continues to spread globally, in addition to significant declines in the investment securities markets, there have been disruptions in ARRC's operations resulting from extensive travel restrictions, stay at home orders for many employees, supply chain management issues, and other related factors. While disruption is expected to be temporary, there continues to be uncertainty in the duration of the outbreak. ARRC expects COVID-19 will negatively impacts its financial position, results from operations, and liquidity; however, the ultimate impact is not presently determinable.

(15) Related Party Transactions

The State of Alaska awarded ARRC appropriations for two capital improvement projects totaling $116,500,000. The ARRC incurred $208,000 and $2,344,000 of costs during 2019 and 2018 under these appropriations. The State of Alaska awarded grants for a 2012 disaster declaration. Under these disaster grant awards, the ARRC incurred $453,000 and $3,523,000 of costs in 2019 and 2018, respectively. These amounts are included in accounts receivable, construction in progress, and unearned grant revenue as of December 31, 2019 and December 31, 2018. Consistent with other grants, revenue from these appropriations will be deferred and recognized over the life of the related capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Changes in Plan Net Pension Liability and Related Ratios – Defined-Benefit Pension Plan

Last 10 Fiscal Years*

(In thousands)

	2019	2018	2017	2016	2015
Total pension liability:					
Service cost	$ 5,835	5,676	5,777	5,853	5,834
Interest	16,059	15,221	14,230	13,244	11,832
Changes of benefit terms	—	—	154	—	—
Differences between expected and actual experience	(496)	(2,321)	(482)	6,368	—
Changes of assumptions	16,396	—	272	—	—
Benefit payments, including refunds of member contributions	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Net change in total pension liability	29,708	11,514	13,754	19,924	12,746
Total pension liability – beginning	212,322	200,808	187,054	167,130	154,384
Total pension liability – ending (a)	242,030	212,322	200,808	187,054	167,130
Plan fiduciary net position:					
Contributions – employer	5,220	3,555	4,051	4,163	3,571
Contributions – employees	4,477	4,341	4,302	4,383	4,290
Total net investment income (loss)	32,628	(8,075)	22,088	11,774	(199)
Benefit payments, including refunds of member contributions	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Administrative expenses	(269)	(312)	(409)	(593)	(550)
Net change in plan fiduciary net position	33,970	(7,553)	23,835	14,186	2,192
Plan fiduciary net position – beginning	177,870	185,423	161,588	147,402	145,210
Plan fiduciary net position – ending (b)	211,840	177,870	185,423	161,588	147,402
Plan's net pension liability (a) – (b)	$ 30,190	34,452	15,385	25,466	19,728
Plan fiduciary net position as a percentage of the total pension liability	87.53 %	83.77 %	92.33 %	86.39 %	88.20 %
Covered payroll	$ 49,739	48,228	47,804	48,705	47,660
Net pension liability as a percentage of covered payroll	60.70 %	71.44 %	32.18 %	52.29 %	41.39 %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of ARRC Contributions – Defined-Benefit Pension Plan

Last 10 Fiscal Years*

(In thousands)

		2019	2018	2017	2016	2015
Actuarially determined contribution	$	5,220	3,555	4,051	4,163	3,571
Contributions in relation to the actuarially determined contribution		5,220	3,555	4,051	4,163	3,571
Contribution deficiency (excess)	$	—	—	—	—	—
Covered payroll	$	49,739	48,228	47,804	48,705	48,705
Contributions as a percentage of covered payroll		10.49 %	7.37 %	8.47 %	8.55 %	7.33 %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors’ report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Defined-Benefit Pension Plan

Last 10 Fiscal Years *

	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	18.47 %	(4.45)%	14.05 %	8.10 %	1.00 %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to the required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Changes in Plan Net OPEB Liability and Related Ratios –
Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

(In thousands)

		2019	2018	2017	2016	2015
Total OPEB liability:						
Service cost	$	529	599	700	699	633
Interest		1,003	981	1,095	985	1,021
Changes of benefit terms		—	—	526	—	—
Differences between expected and actual experience		(1,998)	(4,511)	(165)	(1,832)	—
Changes of assumptions		1,186	1,461	—	1,442	—
Changes in benefit terms		—	—	—	—	—
Benefit payments, net of retiree premiums		(371)	(350)	(331)	(506)	(193)
Net change in total OPEB liability		349	(1,820)	1,825	788	1,461
Total OPEB liability – beginning		15,332	17,152	15,327	14,539	13,078
Total OPEB liability – ending (a)		15,681	15,332	17,152	15,327	14,539
Plan fiduciary net position:						
Contributions – employer		—	—	—	—	—
Total net investment income (loss)		6,096	(958)	4,295	2,670	(384)
Benefit payments, net of retiree premiums		(371)	(350)	(331)	(506)	(193)
Administrative expenses		(59)	(71)	(77)	(66)	(48)
Net change in plan fiduciary net position		5,666	(1,379)	3,887	2,098	(625)
Plan fiduciary net position – beginning		45,248	46,627	42,740	40,642	41,267
Plan fiduciary net position – ending (b)		50,914	45,248	46,627	42,740	40,642
Plan's net OPEB liability (asset) (a) – (b)	$	(35,233)	(29,916)	(29,475)	(27,413)	(26,103)
Plan fiduciary net position as a percentage of the total OPEB liability		(324.69)%	(295.12)%	(271.85)%	(278.85)%	(279.54)%
Covered payroll	$	32,154	33,444	35,292	46,941	47,660
Net OPEB liability as a percentage of covered payroll		(109.58)%	(89.45)%	(83.52)%	(58.40)%	(54.77)%

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of ARRC Contributions – Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

(In thousands)

		2019	2018	2017	2016	2015
Actuarially determined contribution	$	—	—	—	—	—
Contributions in relation to the actuarially determined contribution		—	—	—	—	—
Contribution deficiency (excess)	$	—	—	—	—	—
Covered payroll	$	32,154	33,444	35,292	46,941	47,660
Contributions as a percentage of covered payroll		— %	— %	— %	— %	— %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	13.52 %	(2.39)%	10.55 %	3.50 %	0.70 %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to the required supplementary information.

(1) Actuarial Assumptions and Methods Defined-Benefit Pension

The significant actuarial assumptions used in the defined-benefit pension valuation as of December 31, 2019 are as follows:

(a) Actuarial Valuation Date: January 1, 2019

(b) Amortization Period: The Unfunded Actuarial Accrued Liability is amortized as a level dollar payment over a rolling (open) 30-year period.

(c) Actuarial Determined Contribution: Sum of (1) employer normal cost (2) amortization of unfunded actuarial accrued liability and (3) expected administrative expenses

(d) Asset valuation method: Actuarial value of assets, 5-year smoothed market value, gains/losses recognized over 5 years

(e) Inflation: 2.8%

(f) Investment rate of return: 7.25%

(g) Administrative Expenses: $87,000 payable as of the last day of the plan year

(h) Cost of Living Allowance: 1.4% (1/2 assumed inflation Tier 1, none for Tier 2)

(i) Mortality: Society of Actuaries RP-2014 healthy annuitant table adjusted 91% for males and 96% for females and Scale MP-2018 generational mortality improvement

(j) Termination: Based on Alaska Railroad Corporation Pension and Postretirement Health Care Plans 2010-2014 Experience Study.

(k) Disability: Alaska PERS disablement rates for members other than Police and Firefighters as there is little Plan experience.

(Continued)

(l) Retirement: Rates vary based on age. Sample rates follow. Tier 1 deferred vested members are assumed to retire at age 58 for Tier 1 and age 62 for Tier 2:

Age	Tier 1 rate	Tier 2 rate
55	6.0 %	N/A
56	6.0	N/A
57	12.5	N/A
58	12.5	N/A
59	20.0	N/A
60	20.0	10.0 %
61	20.0	10.0
62	25.0	15.0
63	15.0	15.0
64	20.0	20.0
65	15.0	25.0
66	15.0	25.0
67	25.0	25.0
68	25.0	25.0
69	25.0	25.0
70	100.0	100.0

(m) *Changes in Actuarial Methods since the prior Valuation:*

The discount rate and the long term rate of return were changed from 7.5% to 7.25%.

The salary inflation was changed from 3.0% to 2.8%.

The mortality table and mortality improvement projection were updated.

The deferral age for vested terminated participants who have terminated in the last two years and are calculated to elect the lump sum was updated.

(n) Administrative expenses: The administrative expenses changed from 0.65% to 0.55% of payroll, based on actual expenses paid, which decreased by 12.9%.

(2) Actuarial Assumptions and Methods OPEB Healthcare Plan

The significant actuarial assumptions used in the actuarially determined contribution for the OPEB healthcare plan as of December 31, 2019 are as follows:

(a) Actuarial Valuation Date: January 1, 2019

(b) Amortization Period: The Overfunded Actuarial Accrued Liability is amortized as a level dollar payment over a rolling (open) 6-year period

(c) Actuarially Determined Contribution: Sum of (1) employer normal cost (2) amortization of unfunded actuarial accrued liability and (3) Expected administrative expenses.

(d) Asset valuation method: Actuarial value of assets, 5-year smoothed market value: gains/losses recognized over 5 years, reduced by Trust payments expected to be made for non-OPEB medical benefits.

(e) Inflation: 2.8%

(f) Investment rate of return: 6.75%

(g) Administrative Expenses: $20,900 payable as of the last day of the plan year

(h) Mortality: Society of Actuaries RP-2014 employee mortality table adjusted 91% for males and 96% for females and mortality projected fully generational with Scale MP-2018

(i) Termination: Based on ARRC 2010-2014 Experience Study

(j) Disability: Based on Alaska PERS as there is little Plan experience

(k) Retirement: Rates vary based on age. Sample rates:

Age	Tier 1 rate	Tier 2 rate
55	6.0 %	N/A
56	6.0	N/A
57	12.5	N/A
58	12.5	N/A
59	20.0	N/A
60	20.0	10.0 %
61	20.0	10.0
62	25.0	15.0
63	15.0	15.0
64	20.0	20.0
65	15.0	25.0
66	15.0	25.0
67	25.0	25.0
68	25.0	25.0
69	25.0	25.0
70	100.0	100.0

(Continued)

(l) Health Care Trend:

Year	Increase from Prior Year Non-Medicare	Increase from Prior Year Medicare
2019	Actual Premiums	
2020	7.50 %	6.50 %
2021	7.25	6.30
2022	7.00	6.10
2023	6.75	5.90
2024	6.50	5.70
2025	6.25	5.50
2026	6.00	5.30
2027	5.80	5.15
2028	5.60	5.00
2029	5.40	4.85
2030	5.20	4.70
2031-2035	5.05	4.60
2036-2045	4.90	4.50
2046-2055	4.75	4.45
2056-2065	4.60	4.40
2066-2075	4.30	4.20
2076+	4.00	4.00

(m) Affordable Care Act Excise Tax: The ACA Excise Tax was removed during 2019

(n) Participation Rates: 45% of future retirees elect coverage, 85% of future disabled retirees to elect coverage, 35% of disabled retirees under age 65 are Medicare eligible, all retirees over age 65 are assumed Medicare eligible, 55% of nondisabled retirees continue coverage at first Medicare eligibility.

(o) Per capita claims costs:

Age		Old plan Male	Old plan Female	Blue plan Male	Blue plan Female	Gold plan Male	Gold plan Female
50	$	10,316	12,139	9,603	11,376	9,120	10,840
55		13,607	14,101	12,805	13,290	12,230	12,706
60		18,452	17,078	17,550	16,204	16,862	15,549
64		20,770	18,418	19,832	17,520	19,095	16,834
65		7,147	5,985	6,212	5,103	5,476	4,431
70		8,234	6,749	7,156	5,754	6,309	4,997
75		9,786	7,909	8,506	6,744	7,498	5,856
80		11,764	9,442	10,224	8,051	9,013	6,991
85		13,826	11,096	12,017	9,461	10,593	8,215

Age		Blue Essentials Plan Male	Blue Essentials Plan Female	Gold Essentials Plan Male	Gold Essentials Plan Female
50	$	9,291	10,995	8,807	10,466
55		12,368	12,835	11,803	12,263
60		16,927	15,635	16,263	15,001
64		19,116	16,897	18,409	16,236
65		5,501	4,511	4,796	3,863
70		6,338	5,087	5,525	4,356
75		7,532	5,962	6,567	5,104
80		9,054	7,117	7,893	6,094
85		10,642	8,364	9,277	7,161

(p) Changes in Actuarial Methods since the prior Valuation:

The mortality tables and mortality improvement projection were updated.

The salary inflation was changed from 3.0% to 2.8%.

The Affordable Care Act Excise Tax was removed.

(q) Administrative expenses: The administrative expenses changed from 0.13% to 0.18% of payroll, based on actual expenses paid, which increased by 35.3%.

OFFICE LOCATIONS

ALASKA RAILROAD OFFICES	PHYSICAL LOCATION	PHONE	FAX
ANCHORAGE, ALASKA (99501)			
Headquarters Offices	327 W. Ship Creek Avenue	907.265.2300	907.265.2312
Reservations & Depot	411 W. 1st Avenue	907.265.2494	907.265.2509
Operations Center	825 Whitney Road	907.265.2434	907.265.2643
FAIRBANKS, ALASKA (99701)			
Passenger Depot	1031 Railroad Depot Road	907.458.6025	907.458.6068
Freight Customer Service	1888 Fox Avenue	907.458.6022	907.458.6034
Freight House	230 Jack Lindsey Lane	907.458.6048	907.458.6061
SEWARD, ALASKA (99664)			
Dock Operations / Terminal	913 Port Avenue	907.224.5550	907.265.2660
SEATTLE, WASHINGTON (98134)			
Barge Operations Office	1140 SW Massachusetts Street	206.767.1100	206.767.1112

TOLL FREE NUMBERS			
Corporate Information 1.800.321.6518	Freight Marketing/Customer Service 1.800.321.6518	Passenger Customer Service 1.800.544.0552	Seattle Office 1.800.834.2772

www.AlaskaRailroad.com

Headquarters Mailing Address | P.O. Box 107500 | Anchorage, AK 99510-7500