ALASKA RAILROAD CORPORATION

ANNUAL REPORT

2015

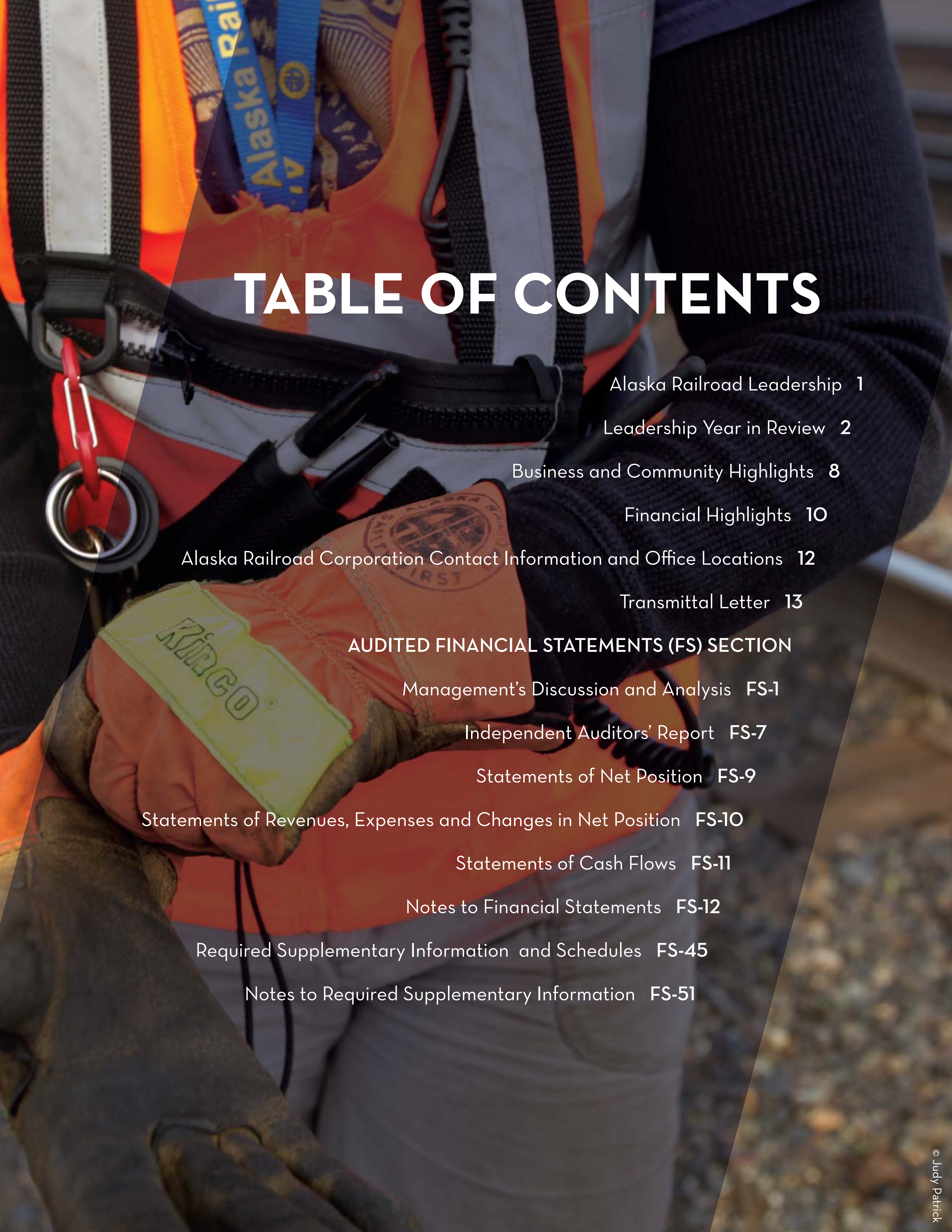
PASSENGER | FREIGHT | REAL ESTATE

ALASKA

RAILROAD

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.



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ALASKA RAILROAD LEADERSHIP

MANAGEMENT TEAM

Bill O'Leary
President & CEO

Doug Engebretson
Chief Operating Officer

Barbara Amy
Chief Financial Officer

Clark Hopp, VP
Engineering & Maintenance

Bill Hupprich, VP
General Counsel & Legal

Jim Kubitz, VP
Corporate Planning & Real Estate

Wendy Lindskoog, VP
Business Management & Corporate Affairs

James Ratchford
Chief Information Officer

Eileen Reilly, VP
Advanced Train Control Systems

Dale Wade, VP
Marketing & Customer Service

BOARD OF DIRECTORS

Linda Leary
Board Chair
(2011 - 2015)

Bill Sheffield
Vice Chair

John Binkley
Director

Jack Burton
Director

Jon Cook
Incoming Chair
(January 2016)

Chris Hladick
Commissioner

Marc Luiken
Commissioner

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2015 LEADERSHIP YEAR IN REVIEW

RAILROAD DELIVERS WITH SAFE, GREEN AND RELIABLE SERVICE

What do these new Alaska Railroad customers know that you may not?

Consider...

- A foam insulation company used rail for the first time in 2015 to move 105 cars of insulation north in support of a highway project.
- An environmental company used rail to remove contaminated soil from Interior Alaska.
- A lumber company railed 65-foot utility poles to the installation site.
- Two tour companies catering to Chinese and independent travelers incorporated rail as a key component of their 2015-2016 winter travel packages.
- Hundreds of new individual customers took advantage of service expansions for the 2015 *Holiday Train* and mid-week *Aurora* winter train.
- A clothing retailer boosted business by moving into ARRC's recently acquired building in south Wasilla.
- An Anchorage Ship Creek business owner is poised to expand his building occupancy, thanks to ARRC's sewer expansion project.
- The 2015 Iron Dog Snowmachine Race featured a first-ever ceremonial start in Anchorage made possible with a permit to move through railroad property.

Despite precipitous declines in export coal and petroleum freight business lines, new customers helped to make 2015 net earnings of $10.87 million possible for the Alaska Railroad Corporation (ARRC). Overall, passenger revenue jumped by over 11%, and real estate revenue increased by about 4%.

New customers choose the railroad for a number of reasons...

REASON 1: A SAFE OPERATION.

The Alaska Railroad's safety statistics tell a story of vigilance. Injury severity — in terms of resulting lost and restricted work days — continue to trend down. The number of days lost in

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2015 was about half (53%) of those lost in 2014. Similarly, there were about a third (38%) fewer injury-restricted days in 2015 compared to 2014.

Fewer and less severe injuries are mirrored in the railroad's Workman's Compensation numbers. Claims decreased 23% between 2014 and 2015. Fewer claims were coupled with a dramatic reduction in injury severity as illustrated by the cost of those claims. In 2014 claims expense was half of 2013 expense, and by 2015, claims cost one-fifth of the 2013 total. Underscoring the lower severity is the number of claims costing $20,000 or more. These claims were cut by three-fourths from 2013 to 2015.

While statistics illustrate how safe operations translate to cost savings, safety sometimes requires investment. For example, we focused considerable resources on community safety through a July-to-December public campaign. The reminder "See Tracks? Think Train" was spread via news media, public service announcements, in editorial columns, radio talk shows, and social media. An even more robust campaign is planned for 2016.

ARRC is also investing heavily to meet the federal mandate for railroads to implement a fail-safe braking system to prevent train accidents due to human error. Fortunately, ongoing efforts to develop a Positive Train Control (PTC) system were assisted by state and federal actions in 2015. Alaska's legislators, governor and Federal Transit Administration (FTA) approved a request to sell FTA formula fund-backed bonds to generate $37 million for PTC, coupled with additional grant funds, this highly technical research and development project is now fully funded. Later in 2015, Congress extended the PTC deadline to the end of 2018. ARRC is now on track to complete PTC on time and on budget.

While regulatory actions often translate to additional restrictions or requirements, one Federal Railroad Administration (FRA) decision lifted restrictions, creating new future business opportunities. In line with Interior Alaska's quest for cheaper, cleaner energy, ARRC submitted a formal request to move Liquefied Natural Gas (LNG) by rail. In 2015, ARRC became the first railroad in the country to gain approval to move LNG in ISO containers. FRA later increased the quantity of LNG that could be moved per train, and modified other provisions to make

CONTINUED...

LNG-by-rail more economical and operationally feasible. The Alaska Railroad would not have earned this approval without demonstrating we are a safe operation.

REASON #2: A LEANER, GREENER OPTION.

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The Alaska Railroad is an efficient and resilient operation. We must be, particularly in this challenging era of low oil prices. Like so many Alaska businesses, the railroad has responded with greater cost-controls. Happily, lower expense often translates to less environmental impact. Many customers appreciate rail as a relatively green and efficient transportation option, in addition to the Railroad's proven commitment to environmental stewardship.

According to the American Association of Railroads, a freight train moves a ton of freight an average of 484 miles on a single gallon of fuel. And according to a recent independent study for the FRA, railroads on average are four times more fuel-efficient than trucks. On average, a single freight train can carry the load of 280+ trucks. In 2015, ARRC moved 4.29 million tons of freight. This includes natural resources hauled by nearly 37,500 hopper and tanker railcars and more than 22,000 cargo-filled trailers and containers – the equivalent of more than 310,000 trucks traveling well over 25 million highway miles.

On the passenger side, more than 13,000 motor coaches would have been needed to transport the 475,034 people who instead traveled aboard Alaska Railroad trains in 2015. Fewer vehicles on Alaska's single-lane highways help to reduce safety and road maintenance issues. Trains also offer low-impact transportation to public land treasures such as Denali National Park and the Chugach National Forest.

Beyond rail's inherently eco-friendly attributes, the Alaska Railroad actively partners with organizations that promote environmental responsibility. We've marked two decades as a member of Green Star, the pro-business, pro-environment non-profit that recognizes organizations for efforts to reduce pollution and waste, conserve energy and recycle. Every couple of years, as part of our Green Star commitment, we take stock of our environmental efforts and set new goals. As with previous

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CONTINUED...

biennial reports, the latest Green Star update highlights many notable advancements.

First up... Railroaders in charge of operating trains took the lead on fuel conservation by employing new methods to determine the minimum number of locomotives needed to pull a train. With calculated placement, a train often manages with fewer engines, thus burning less fuel and lowering emissions.

Railroaders in charge of facilities also made steady progress in energy efficiency, with support from a Facilities Preventive Maintenance Program that was fully implemented in 2015 to help identify problems, schedule upgrades and prioritize repairs. 2015 was the seventh year ARRC kept overall facility utility expense below 2008 levels. Thanks to an electricity monitoring system installed in the Anchorage Car Shop in 2013, railroaders nearly halved annual shop power usage by 2015. Other Anchorage facility improvements enabled ARRC to halve natural gas consumption from a decade ago — 1,288,421 CCF in 2006 compared to 677,500 CCF in 2015. Plus, lighting upgrades are saving electricity. For example, a 2015 Heavy Equipment Shop project replaced sodium and halide lighting with LED panels that produce the same amount of light with half the power.

Powering facilities and equipment along remote areas of the track is another critical energy challenge. The use of eco-friendly solid oxide fuel cells (SOFC) is the model for communications sites constructed in support of PTC. SOFC systems were installed at several switch and signal sites in 2015 as well. Alternative power options such as SOFC are routinely considered by a cross-functional Power Application Committee formed in October 2015 to investigate cleaner, cost-efficient, lower-maintenance energy sources for remote sites.

On the recycling front, the Alaska Railroad marked a decade of support for the Alaskans for Litter Prevention and Recycling (ALPAR) effort to backhaul recycled material, which helps keep Alaskan recycling centers afloat with discounted and even free transport to the Lower 48, where it can be processed. In 2015 ARRC transported 117 donated trailers hauling 6.5 million pounds from Anchorage to Whittier and another 8 cars hauling 304,000 pounds from Fairbanks to Anchorage.

CONTINUED...

In late 2015, ARRC Chief Financial Officer Barbara Amy was named to ALPAR's 20-member Board of Directors, who collectively oversee the organization's financial operations and fund-raising, and set policy during bi-monthly meetings.

In coordination with ALPAR, the railroad, Anchorage Water & Wastewater Utility, HDR Engineers, Central Environmental Inc. and Central Recycling Services collaborated to use 500 tons of recycled glass aggregate in 2015. The material comprised the bedding for 1,100 feet of pipe along Railroad Avenue as part of the Alaska Railroad's local sewer extension project to serve real estate customers who lease property within the Anchorage Rail Reserve.

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REASON #3: RELIABLE DELIVERY.

Whether providing optimal property, or safely transporting products and people ... the Alaska Railroad delivers as partner in Alaskan commerce and community.

In Fairbanks over the past year, our trailer and container hauling business increased on-schedule delivery from about 50% to over 80%, thanks to collaborative problem-solving between ARRC and trailer/container-on-flatcar (TOFC/COFC) customers. The railroad is now positioned for continual improvement as we meet our customers' expectations.

In Anchorage, ARRC helped the municipality celebrate its centennial by sponsoring a discounted train ride for about 3,000 second graders. The event was in line with the Anchorage School District's second grade Alaska History curricula, which highlights the railroad's role in establishing Anchorage.

Seward was the focus of substantial community involvement efforts as we moved forward with master planning for our Seward-based assets, thanks to a $2.5 million grant managed by the Maritime Administration. With local input, project visioning efforts produced a project logo and title — ***Railport Seward: Re-imagining Travel and Trade*** — to carry through future phases. Studies will follow in 2016 and culminate in an actionable Master Plan by early 2017.

CONTINUED...

Our community involvement took a more serious turn this summer when the railroad assisted with response to the Sockeye fire that ignited near Willow. Our trains moved firefighters and gear in and out of fire areas, and hauled passengers and baggage that were otherwise stuck.

The railroad's popularity is never more visible than at our community open house events. In fact, the 2015 Fairbanks *Railroad Days* Open House was the biggest yet with an estimated 5,000 attendees. The open house appeals to people of ages, and typically every generation is represented among the rail fans and families eager for an up-close experience with the state's railroad.

Others jumped at the chance to travel by train given expanded services offered in 2015. Alaskans took advantage of $8-12 fares to fill all but two of the 16 trains traveling round trip between Anchorage and the Palmer State Fair. Mid-week service aboard the Aurora winter train went from two weeks in 2014 to four weeks in 2015, and in December, the Holiday Train ran one additional Saturday.

These trains filled with the help of a growing social media presence. Facebook, Twitter, Instagram and other promotions also played a key role in a first-ever photo contest that produced enough great images to support an 18-month railroad calendar sold in our gift shop.

Marketing efforts continued to evolve in 2015. A brand refresh highlights ARRC's most beloved and recognizable asset... our trains. The sides of Alaska Railroad locomotives and railcars all sport the distinctive ALASKA lettering, and the colors aptly represent the state's blue and gold colors.

The Alaska Railroad's iconic trains inspire imaginations, and our business lines ignite opportunity. The railroad's strong balance sheet is fortified with more than $1.1 billion in assets. Combined with legendary experience, the railroad is well-equipped to serve many more patrons and partners — whether they be new and existing customers who wish to cultivate a business with a long-term land lease, affordably ship bulk cargo by rail, or safely travel between southcentral and interior regions.

We have the means and the motive to keep on delivering.

Bill O'Leary | President, CEO

Linda Leary | Board Chair

2015 HIGHLIGHTS

REGULATORY CHALLENGES AND OPPORTUNITIES

Positive Train Control

Governor Bill Walker signs legislation that approves the Railroad's sale of revenue bonds to help underwrite the cost of developing a federally mandated Positive Train Control system by the deadline extended to December 31, 2018.

LNG and a Safe Reputation

Over decades, the Alaska Railroad has developed a reputation for safely hauling fuel via tank cars. In 2015, the Federal Railroad Administration named ARRC as the nation's first railroad to gain approval to move Liquified National Gas in ISO containers.

ENVIRONMENTAL STEWARDSHIP

Recycled Glass and Green Star Recertification

The Alaska Railroad recertified its 22-year Green Star membership, which included a written progress report on goals to reduce waste and pollution, conserve energy and recycle. Among dozens of efforts outlined in the report, the Railroad used a recycled glass aggregate as pipe bedding for part of ARRC's Ship Creek sewer expansion project. Produced by Central Environmental Inc., use of recycled glass was hailed by the Alaskans for Litter Prevention and Recycling (ALPAR).

GREEN STAR

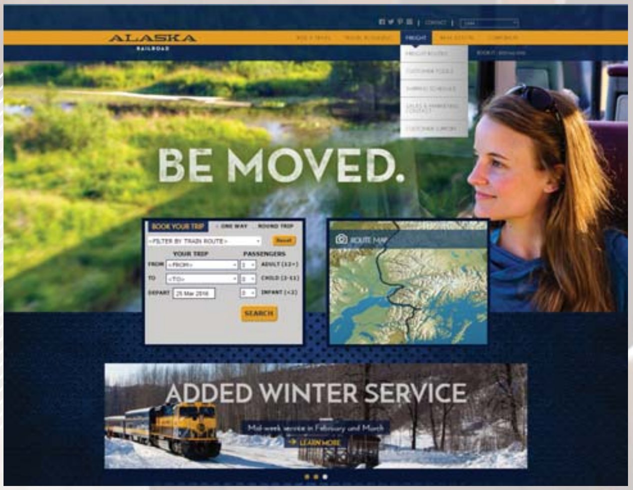
© Judy Patrick

2015 HIGHLIGHTS

MARKETING AND CUSTOMER SERVICE

Refreshed, Rebuilt External Web Site

The Alaska Railroad's company website underwent a complete overhaul. Newly rolled out in late 2015, the re-organized, revamped site features a new look, updated content, and offers a more interactive experience. The URL remains the same: www.AlaskaRailroad.com.



Rebranding Highlights the Train

In spring 2015, the Alaska Railroad's overall brand evolved to include a new public-facing logo with design inspired by ARRC's mose recognizable asset — our trains. The logo incorporates the distinctive "ALASKA" lettering found on the sides of passenger cars and locomotives. The circular corporate seal is still used for internal or corporate documents and records.

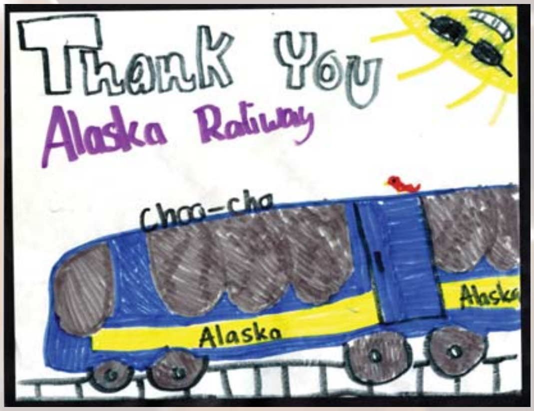
ALASKA RAILROAD

ALASKA RAILROAD CORPORATION EST. 1914

COMMUNITY ENGAGEMENT

Partner in Commerce and Community

The Alaska Railroad proved itself a solid partner in commerce and community in 2015.



ANCHORAGE: A thank-you from one of 3,000+ second graders who rode the train as part of city centennial celebrations supported by ARRC.

FAIRBANKS: A volunteer offers giveaways to some of the record 5,000+ open house attendees.

SEWARD: Stakeholder meetings engaged residents in the Seward Master Plan project.

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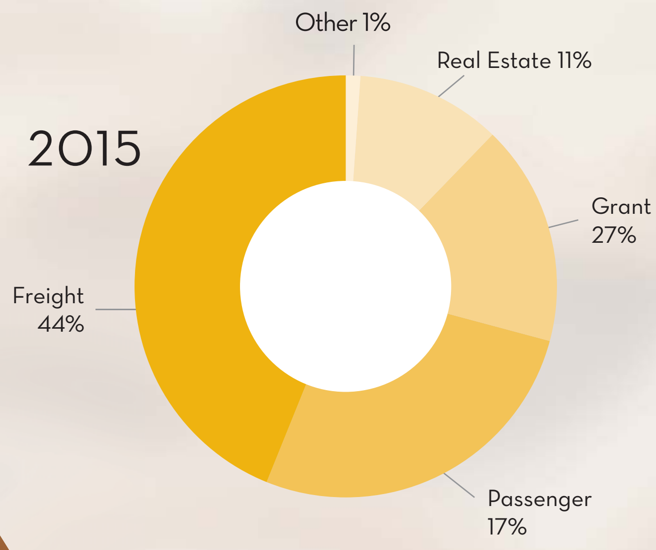
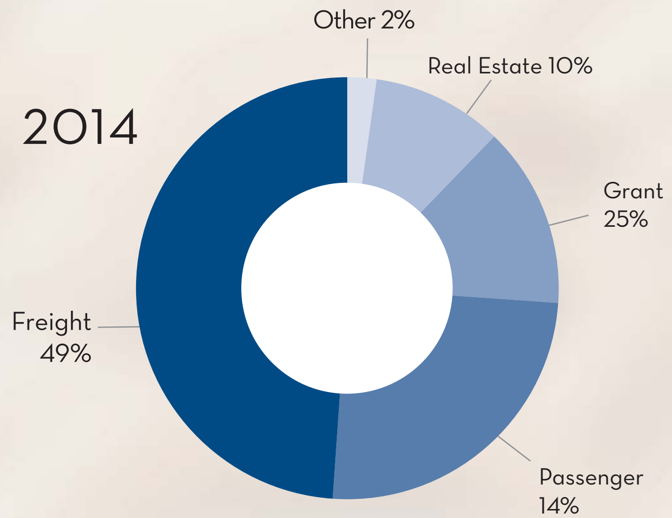
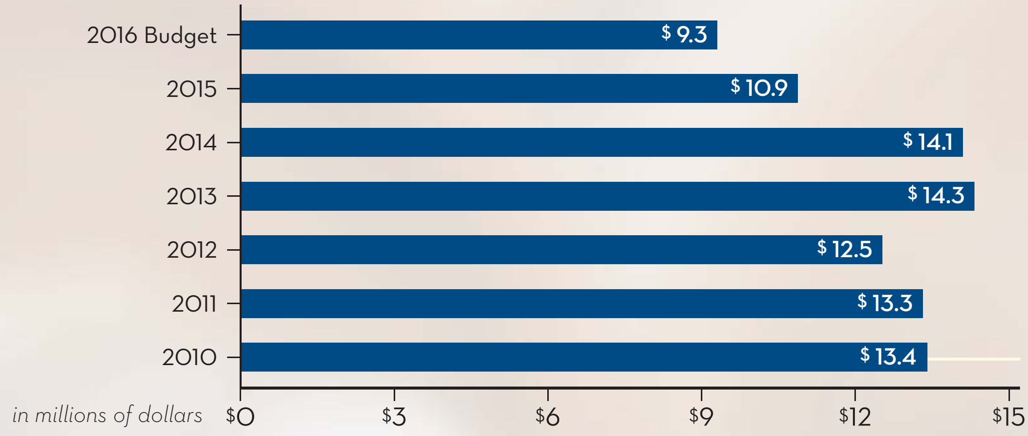
REVENUE

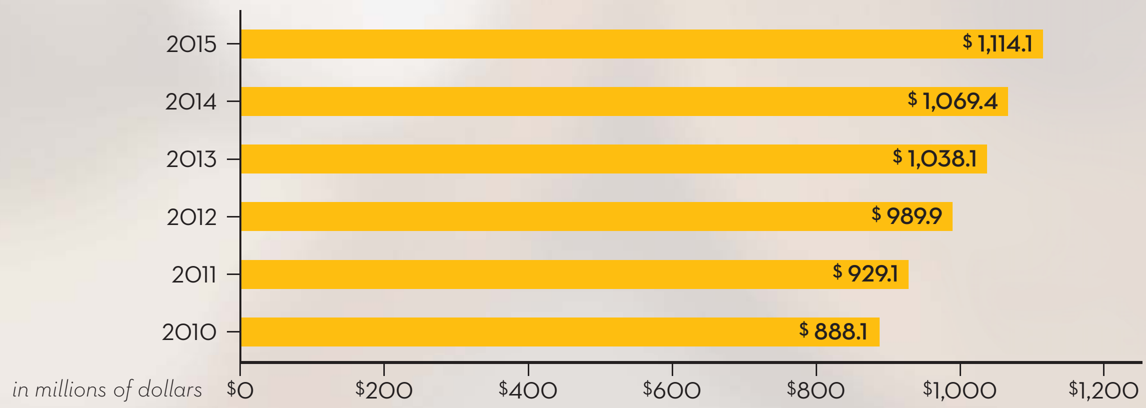




NET INCOME



TOTAL ASSETS



2015 FINANCIAL HIGHLIGHTS

EARNINGS
(IN THOUSANDS)

	2015	2014
Operating Revenues		
Freight	$ 81,525	$ 94,249
Passenger	30,754	27,605
Other	1,636	3,228
Grant	49,965	42,237
TOTAL OPERATING REVENUE	**163,880**	**167,319**
Operating Expenses	164,436	163,585
OPERATING INCOME	(556)	3,734
Non-Operating Revenues (Expenses):		
Net Real Estate Income	12,559	11,627
Investment Income	46	20
Interest Expense, net of Grant Revenue	(1,183)	(1,275)
NET INCOME	**10,866**	**14,106**
Other Changes in Net Position	–	12,370
Change in Net Position	10,866	26,476
Net Position, Beginning of Year	304,707	278,231
Cummulative Effect, Acct Principle Change	5,118	–
NET POSITION, END OF YEAR	**320,691**	**304,707**
OPERATING RATIO	**1.00**	**0.98**

STATEMENTS OF NET POSITION
(IN THOUSANDS)

Assets:		
Current Assets	$ 120,599	$ 126,289
Capital Assets	913,345	923,413
Restricted Assets	42,440	982
Other Assets	26,121	18
Regulatory Assets	–	18,738
Deferred Outflows	11,629	–
TOTAL ASSETS	**$ 1,114,134**	**$ 1,069,440**
Liabilities:		
Current Liabilities	48,545	57,970
Other Liabilities	155,943	109,105
TOTAL LIABILITIES	**204,488**	**167,075**
Deferred Inflows:		
Accrued Pension Benefits	–	42
Unearned Grant Revenue	588,955	597,616
TOTAL LIABILITIES & DEFERRED INFLOWS	**793,443**	**764,733**
NET POSITION	**320,691**	**304,707**
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 1,114,134**	**$ 1,069,440**

ALASKA RAILROAD OFFICES

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	1745 Johansen Expressway	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	Freight Marketing/Customer Service	Passenger Customer Service	Seattle Office
1.800.321.6518	1.800.321.6518	1.800.544.0552	1.800.834.2772

www.AlaskaRailroad.com

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

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April 25, 2016

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, 2015.

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

327 W. Ship Creek Avenue, Anchorage, Alaska 99501 | Mail to: P.O. Box 107500 Anchorage, Alaska 99510-7500 | 907.265.2300 | AlaskaRailroad.com

ALASKA RAILROAD CORPORATION

Financial Statements

December 31, 2015 and 2014

(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 the discussion and analysis of the ARRC's financial performance during the years that ended on December 31, 2015 and 2014. Please read it in conjunction with the ARRC's financial statements, which follow this section.

Financial Highlights

The ARRC's total net position increased 5.2% during the course of this year's operations and increased 10% over the course of 2014 operations.

- During 2015, the ARRC's operating revenues were less than operating expenses by $556,000, yielding an operating ratio of 1.0. Last year, operating revenues exceeded operating expenses by $3.7 million and yielded an operating ratio of 0.98.
- The total 2015 operating costs of the ARRC's programs were $164.4 million, an increase of 0.5% compared to last year. The total 2014 operating costs of the ARRC's programs were $163.6 million, an increase of 2.0% compared to 2013.
- Expenditures on capital assets totaled $47.4 million during 2015, a decrease of 24% compared to last year. Expenditures on capital assets totaled $61.9 million during 2014, a decrease of 31% compared to 2013.
- Grant funding was used for $36.8 million, or 78%, of the 2015 capital expenditures. Grant funding was used for $40.2 million, or 65%, of the 2014 capital expenditures. These amounts were recorded as unearned revenue in the regulatory liabilities section of the statement 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 three statements that present information about the ARRC's overall financial status:

- Statement of net position – the statement of net position reports assets, liabilities, 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 and its liabilities, 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 revenues 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 revenues 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.

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

Financial Analysis of the Alaska Railroad Corporation

Net position – ARRC's net position increased 5.2% between fiscal years 2014 and 2015 to approximately $320.7 million. ARRC's net position increased 10% between fiscal years 2013 and 2014 to approximately $304.7 million.

		2015	**2014**	**2013**
			(In thousands)	
Assets:				
Current assets	$	120,599	126,289	113,716
Capital assets		913,345	923,413	911,367
Other noncurrent assets		68,561	19,738	12,997
Total assets		1,102,505	1,069,440	1,038,080
Deferred outflows		11,629	—	—
Total	$	1,114,134	1,069,440	1,038,080
Liabilities:				
Current liabilities	$	48,545	57,970	49,642
Notes payable outstanding, less current installments		15,330	16,195	19,137
Revenue bonds payable, less current portion, net of a unamortized premiums		118,401	90,031	102,347
Net pension liability		19,728	—	—
Other liabilities		2,484	2,879	2,765
Deferred inflows:				
Regulatory liabilities:				
Pension		—	42	5,661
Unearned grant revenue		588,955	597,616	580,297
Total liabilities and deferred inflows	$	793,443	764,733	759,849
Net position:				
Net investment in capital assets	$	211,483	204,534	194,689
Restricted for reinvestment in infrastructure		109,208	100,173	83,542
Total net position	$	320,691	304,707	278,231

Capital assets – Capital assets, net of accumulated depreciation decreased $10.1 million in 2015 and increased $12.0 million in 2014. During 2015 and 2014, 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 decreased $369,000 and $2,869,000 in 2015 and 2014, respectively. During 2015, ARRC issued a new long-term loan of $2.6 million to fund the acquisition of vehicles and equipment. During 2015, ARRC issued $37.0 million in FTA capital grant receipt bonds to provide funds to finance the federally mandated positive train control system. During 2015, ARRC refunded the callable portions of the 2006 and 2007 FTA grant receipt bonds to take advantage of long-term borrowing rates and reduce interest expense. There was no new debt issued during 2014.

Regulatory assets and liabilities – The STB regulates 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 (GASB) Codification Section Re. 10, *Regulated Operations*. A description of each of the regulatory assets and liabilities is as follows:

- Unearned grant revenue relates to capital assets funded with federal grants. Unearned grant revenue decreased $8.7 million in 2015 and increased $17.3 million in 2014. This increase or decrease reflects the amount of capital assets constructed with grant funding, partially offset by grant revenue recognized as the related capital assets are depreciated.

- The postretirement benefits asset decreased $18.8 million and the accrued pension benefit liability decreased $42,000 during 2015. During 2015, ARRC implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASB 75) which decreased the accrued pension benefit liability and the postretirement benefits asset. The postretirement benefits asset increased $6.7 million and the accrued pension benefit liability decreased $5.6 million during 2014, due primarily to investment earnings.

Change in net position – ARRC's 2015 net income of $10.9 million and a cumulative effect of changes in accounting principles of $5.1 million combined to increase overall net position by $16.0 million, a 39.6% decrease from fiscal year 2014's change in net position. ARRC's 2014 net income of $14.1 million and other changes in net position of $12.4 million combined to increase overall net position by $26.5 million, a 10% increase from fiscal year 2013's change in net position.

(Continued)

Deferred Outflows and Inflows – Deferred outflows of resources increased $11.6 million during 2015 as a result of the adoption of GASB 68 and GASB 75, and the recognition of a deferred outflow for differences between actual and projected plan earnings or $8.9 million and $2.8 million, respectively.

	2015	2014	2013
		(In thousands)	
Operating revenue:			
Freight	$ 81,525	94,249	96,575
Passenger	30,754	27,605	25,650
Other	1,636	3,228	3,242
Total transportation revenue	113,915	125,082	125,467
Grant revenue	49,965	42,237	40,111
Total	163,880	167,319	165,578
Operating expense:			
Transportation	34,283	37,624	38,578
Passenger	12,293	10,099	9,311
Advanced train control systems	315	182	101
Marketing and customer service	20,292	22,857	21,165
Mechanical	24,992	26,057	25,110
Engineering	46,840	42,562	40,394
Facilities	13,832	14,904	15,327
General and administrative	11,589	9,300	10,739
Total	164,436	163,585	160,725
Operating income (loss)	(556)	3,734	4,853
Nonoperating revenues (expenses):			
Corporate planning and real estate, net of expenses	12,559	11,627	10,929
Gain on sale of capital assets	—	—	6
Investment income	46	20	31
Interest expense, net of grant revenue	(1,183)	(1,275)	(1,502)
Net income	10,866	14,106	14,317
Other changes in net position	—	12,370	8,372
Cumulative effect of changes in accounting principles	5,118	—	—
Change in net position	$ 15,984	26,476	22,689

Revenue – The ARRC's total revenues decreased approximately 1.4% and totaled $183.8 million in 2015. The ARRC's total revenues increased approximately 1% and totaled $186.5 million in 2014. Approximately 44.4% and 50.5% of the ARRC's revenue comes from freight revenue during 2015 and 2014, respectively, and 16.7% and

14.8% of the revenue comes from passenger services during 2015 and 2014, respectively. The majority of the remaining income relates to real estate activities and federal grant revenue. Generally, federal grant revenue is recognized as the capital assets funded by the grants are depreciated.

Total transportation revenue for 2015 was $11.2 million less than 2014. The decrease in transportation revenue is attributed to weakening global coal markets and less petroleum shipments, which were partially offset by shipments for oil field activities and growth in passenger revenue.

Total transportation revenue for 2014 was $385,000 less than 2013. The decrease in transportation revenue is attributed to weakening global coal markets and less petroleum shipments, which were partially offset by shipments for oil field activities.

Operating expenses were $164.4 million in 2015, $163.6 million in 2014 and $160.7 million in 2013, an increase of $0.8 million or less than 1% from 2014 to 2015 and increase of $2.9 million or 1.8% from 2013 to 2014.

Real estate expenses were $7.3 million in 2015 and $7.6 million in 2014, and $7.2 million in 2013, a decrease 3.9% from 2014 to 2015 and an increase of 5.6% from 2013 to 2014.

Other change in net position and cumulative effective of changes in accounting principle – beginning in 2015 ARRC recorded costs and accrued benefits under its defined benefit and postretirement plans following GASB 68 and GASB 75. The adoption of the new GASB Statements resulted in a cumulative effect of changes in accounting principles of $5.1 million. During 2014, the other changes in net position increased $12.4 million, which represents the change in the overfunded or unfunded actuarial accrued liability of the defined benefit pension and postretirement plans under the former method of accounting for these benefit plans. The 2013 and 2014 amounts in the tables above were not restated to reflect this change in accounting principle.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the ARRC had invested $913.3 million in a broad range of capital assets including land, road and roadway structures, equipment, and leasehold improvements. This amount represents a net decrease (including additions and deductions) of $10.1 million, or 1.1%, over last year. Grants have funded $584.4 million and $547.6 million of the assets, net of accumulated depreciation, at the end of 2015 and 2014, respectively.

		2015	2014	2013
			(In thousands)	
Land and improvements	$	32,553	32,144	31,671
Road materials and supplies		12,787	10,304	6,904
Road and roadway structures		672,431	694,284	537,818
Equipment		166,892	159,293	145,414
Leasehold improvements		345	428	515
Quarry improvements		3,417	3,534	3,534
Construction in progress		24,920	23,426	185,511
Total capital assets, net of accumulated depreciation	$	913,345	923,413	911,367

The ARRC's fiscal year 2016 capital budget approved spending another $24.9 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 $7.4 million of the capital additions. The remaining capital projects will be funded out of current year earnings and cash flow. During 2015, ARRC issued FTA Capital Grant Receipt Bonds to fund approximately $37.0 million of costs related to the federally mandated Positive Train Control system. Additional detailed information about the ARRC's capital assets is presented in note 4 to the financial statements.

Long-Term Debt

At the end of 2015, the ARRC had $18.8 million in notes payable outstanding, a decrease of 1.9% from 2014, and $131.1 million in revenue bonds payable outstanding, an increase of 28.4%. At the end of 2014, the ARRC had $19.1 million in notes payable outstanding, a decrease of 13.0% from 2013, and $102.1 million in revenue bonds payable outstanding, a decrease of 10.3%. More detailed information about the ARRC's long-term debt is presented in note 6 to the financial statements.

Bond Rating

In July 2006, Standard & Poor's Ratings Services and Fitch Ratings assigned "A+" and "A" ratings, respectively, to the approximately $76.4 million of Capital Grant Receipts Bonds, Series 2006. These ratings were used to determine the ARRC's financial strength for the bond issuance insured under a policy issued by Financial Guaranty Insurance Company.

In August 2007, Standard & Poor's Ratings Services, Fitch Ratings, and Moody's Investor Services assigned "A+", "A," and "A1" ratings to the approximately $88.6 million of Capital Grant Receipts Bonds, Series 2007.

In August 2015, ARRC executed an advance refunding of the callable maturities of the 2006 and 2007 Capital Grant Receipts Bonds, Series 2006 and 2007 for interest savings. At the same time, ARRC issued new Capital Grant Receipts Bonds Series 2015B. Leading up to the refunding and new money issue, the rating agencies issued updated ratings on June 9, 2015; with Moody's affirming their "A3" rating with a stable outlook and Standard & Poor's reducing their rating from "A+" to "A" and affirming the stable outlook.

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

Next Year's Budget

The 2016 budgets for freight and passenger revenues are $75.8 million and $32.3 million, respectively. As a result, the ARRC's net position is expected to increase $9.3 million or approximately 3.9% by the close of 2016.

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 website 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 Alaska Railroad Corporation, a component unit of the State of Alaska, which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Railroad Corporation as of December 31, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(m) to the basic financial statements, effective January 1, 2015, the Alaska Railroad Corporation adopted new accounting guidance as contained in Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 1–6, and the schedules relating to the Alaska Railroad Corporation's defined benefit pension and other postemployment benefit (OPEB) plans on pages 45–54, 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 April 25, 2016 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 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

April 25, 2016

ALASKA RAILROAD CORPORATION

Statements of Net Position

December 31, 2015 and 2014

(In thousands)

	2015	2014
Assets:		
Current assets:		
Cash and cash equivalents (note 3)	$ 51,713	42,964
Accounts receivable, net of allowance for doubtful accounts of $399 in 2015 and $388 in 2014	25,336	23,128
Grants receivable	9,332	21,420
Materials and supplies	11,573	11,134
Prepaid expenses and other current assets	1,659	1,315
Restricted assets (note 3)	20,986	26,328
Total current assets	120,599	126,289
Total capital assets, net (notes 4 and 8)	913,345	923,413
Restricted assets (note 3)	42,440	5,792
Net other postemployment benefit (OPEB) asset (note 7)	26,103	—
Other assets	18	18
Regulatory asset:		
Postretirement benefits (note 7)	—	13,928
Total assets	1,102,505	1,069,440
Deferred outflows:		
Postretirement actuarial (note 7)	2,776	—
Pension actuarial (note 7)	8,853	—
Total deferred outflows	11,629	—
Total assets and deferred outflows	$ 1,114,134	1,069,440
Liabilities:		
Current liabilities:		
Current portion of notes payable (notes 5 and 6)	$ 3,438	2,942
Accounts payable and accrued liabilities (notes 5 and 13)	12,771	19,312
Payroll liabilities	10,083	9,628
Environmental remediation reserve (notes 5 and 14)	467	477
Interest payable	2,497	2,081
Over recovery of vehicle and equipment allocated costs (note 2(k))	763	948
State of Alaska advances (notes 3 and 5)	2,026	7,186
Unearned revenues	3,820	3,301
Current portion of revenue bonds payable (notes 5 and 6)	12,680	12,095
Total current liabilities	48,545	57,970
Notes payable, less current portion (notes 5 and 6)	15,330	16,195
Revenue bonds payable (net of unamortized premiums), less current portion (notes 5 and 6)	118,401	90,031
Environmental remediation reserve, less current portion (notes 5 and 15)	2,226	2,140
State of Alaska advances, less current portion (notes 3 and 5)	153	158
Payable from restricted assets (note 5)	105	105
Net pension liability (note 7)	19,728	—
Accrued postretirement benefits (note 7)	—	476
Total liabilities	204,488	167,075
Deferred inflows:		
Regulatory liabilities:		
Accrued pension benefits (note 7)	—	42
Unearned grant revenue (note 8)	588,955	597,616
Total deferred inflows	588,955	597,658
Total liabilities and deferred inflows	793,443	764,733
Net position (note 9):		
Net investment in capital assets (note 4)	211,483	204,534
Restricted for reinvestment in infrastructure (notes 2(a) and 2(l))	109,208	100,173
Total net position	320,691	304,707
Commitments and contingencies (notes 5, 7, 12, 13, and 15)		
Total liabilities, deferred inflows, and net position	$ 1,114,134	1,069,440

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2015 and 2014

(In thousands)

	2015	2014
Operating revenues:		
Freight (note 10)	$ 81,525	94,249
Passenger	30,754	27,605
Other	1,636	3,228
	113,915	125,082
Grant revenue (note 8)	49,965	42,237
	163,880	167,319
Operating expenses:		
Transportation	34,283	37,624
Passenger	12,293	10,099
Advanced train control systems	315	182
Marketing and customer service	20,292	22,857
Mechanical	24,992	26,057
Engineering	46,840	42,562
Facilities	13,832	14,904
General and administrative, net of indirect cost recovery of $1,716 in 2015 and $1,909 in 2014	11,589	9,300
	164,436	163,585
Operating income (loss)	(556)	3,734
Nonoperating revenues (expenses):		
Real estate income, less direct expenses of $7,323 in 2015 and $7,568 in 2014 (notes 6 and 11)	12,559	11,627
Investment income	46	20
Interest expense, net of grant revenue of $3,423 in 2015 and $4,150 in 2014 (notes 6 and 8)	(1,183)	(1,275)
Total nonoperating revenues	11,422	10,372
Net income	10,866	14,106
Other change in net position:		
Change in pension and postretirement funding status (note 7)	—	12,370
Change in net position	10,866	26,476
Net position, beginning of year	304,707	278,231
Cumulative effect of changes in accounting principles (note 2)	5,118	—
Net position, beginning of year, as adjusted	309,825	278,231
Net position, end of year	$ 320,691	304,707

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Cash Flows

Years ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Receipts from customers	$	111,707	118,342
Operating grants received		11,246	10,120
Payments to suppliers		(38,901)	(50,198)
Payments to employees		(60,467)	(60,317)
Net cash provided by operating activities		23,585	17,947
Cash flows from capital and related financing activities:			
Proceeds from long-term debt		43,934	—
Principal payments on long-term debt		(15,373)	(14,770)
Interest payments on long-term debt		(4,190)	(5,624)
Grant received for interest expense		3,040	5,349
Purchases and construction of capital assets		(62,632)	(66,152)
Proceeds from sales of capital assets		—	29
Increase in unearned revenues, net of advances		37,389	58,796
Net cash provided by (used for) capital and related financing activities		2,168	(22,372)
Cash flows from investing activities:			
Real estate income and related cash flows		20,399	18,877
Real estate direct expenses paid		(5,877)	(5,748)
Purchases of restricted investments		(40,456)	(8,275)
Proceeds from sales of restricted investments		8,882	1,379
Interest received		48	20
Net cash provided by (used for) investing activities		(17,004)	6,253
Net increase in cash and cash equivalents		8,749	1,828
Cash and cash equivalents at beginning of year		42,964	41,136
Cash and cash equivalents at end of year	$	51,713	42,964
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$	(556)	3,734
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		58,450	53,178
Bond issuance cost and amortization		25	60
Grant revenue on capital assets		(38,744)	(32,177)
Changes in operating assets and liabilities that provided (used) cash:			
Materials and supplies		(439)	(807)
Accounts receivable		(2,208)	(6,740)
Prepaid expenses and other assets		(344)	180
Accounts payable and accrued liabilities		6,263	166
Over (under) recovery of vehicle and equipment allocated costs		(185)	1,157
Payroll liabilities		455	(775)
Environmental reserve		76	144
Postretirement and pension benefits change in accounting principle		1,279	—
Accrued postretirement and pension benefits		(487)	(173)
Net cash provided by operating activities	$	23,585	17,947
Supplemental schedule of noncash investing and capital and related financing activities:			
Depreciation included in real estate activity	$	165	1,820
Capital assets acquired through accounts payable		3,055	15,859
Defeasance of revenue bonds		70,715	—

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 manage the railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985.

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 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 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.

(Continued)

(b) Cash and Cash Equivalents

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

(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 money market accounts, investments in commercial paper, and U.S. Treasury notes and are reported at cost, which approximates 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 revenues relating to depreciable capital assets funded with grants, and amortizes the unearned amounts over the life of the related capital assets. Prior to the adoption of GASB Statement No. 68, *Accounting for Pensions* (GASB 68) and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASB 75) as described in note 2(m), ARRC recorded the funded status of its defined benefit pension and postretirement medical plan obligations as regulatory assets or liabilities.

(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 nonoperating activities.

(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. Accordingly, the ARRC has recorded over recoveries of $763,000 and $948,000 as of December 31, 2015 and 2014, respectively.

(l) Net Position

As of December 31, 2015 and 2014, the ARRC's board of directors has restricted $109,208,000 and $100,173,000, respectively, of net position for reinvestment in infrastructure.

(m) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ARRC's defined benefit pension plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

(n) Adoption of Recently Issued Accounting Pronouncements

On January 1, 2015, ARRC adopted GASB 68, which provides guidance for employers offering defined benefit pensions through plans administered as trusts or equivalent arrangements. It replaces certain requirements related to plan trusts in GASB Statement No. 27 *Accounting for Pension by State and Local Government Employers,* as well as the requirements of GASB Statement No. 50, *Pension Disclosures.* GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

On January 1, 2015, ARRC adopted GASB 75, which establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses

(Continued)

relating to other postemployment benefits (OPEB). For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

Upon adoption of GASB 68 and GASB 75, the ARRC discontinued accounting for the funded status of its defined benefit pension and postretirement medical obligation as a regulatory liability and regulatory asset, respectively. The adoption of GASB 68 and GASB 75 resulted in the recognition of a net OPEB asset, a net pension liability and associated deferred outflows as an adjustment to January 1, 2015 net position as noted in the statements of revenues, expenses, and changes in net position. The January 1, 2015 impact of the adoption of GASB 68 and GASB 75 is summarized as follows:

		January 1, 2014 (In thousands)
Recognize net pension liability	$	9,174
Derecognize regulatory liability – accrued pension benefits		(42)
Recognize net OPEB asset		(28,189)
Derecognize regulatory asset – postretirement benefits		13,928
Derecognize accrued postretirement benefits and other		11
	$	(5,118)

The previous periods presented within these financial statements have not been restated because it was impracticable to do so. Consequently, the 2014 amounts presented may not be comparable with 2015 amounts.

(o) Recently Issued Accounting Pronouncements not yet Adopted

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72) was issued in February 2015. GASB 72 addresses accounting and financial reporting related to fair value measurements. GASB 72 generally requires investments to be measured at fair value. Investments are defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Fair value is described as an exit price. The Statement provides guidance and techniques appropriate to determine fair value. GASB 72 is required to be implemented for financial reporting periods beginning after June 15, 2015. The ARRC is currently evaluating the impact GASB 72 will have on its future financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68* (GASB 73) was issued by the GASB in June 2015. GASB 73 is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of GASB 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of GASB 68, and to clarify the application of certain provisions of GASB 67 and 68. Amendments to GASB 68 will be effective for the fiscal year ending after June 30, 2016 and the guidance for plans not within the scope of GASB 68 will be effective for the fiscal year ending after June 30, 2017. The ARRC is currently evaluating the impact GASB 73 will have on its on future financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76) was issued by the GASB in June 2015. The objective of GASB 76 is to identify the hierarchy of generally accepted accounting principles (GAAP). GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 is required to be implemented for the fiscal year ending after June 30, 2016. The ARRC is currently evaluating the impact GASB 76 will have on its future financial statements.

GASB Statement No. 82, *Pension Issues*, an amendment of GASB Statements No. 67, No. 68, and No. 73 (GASB 82) was issued by the GASB in April 2016. GASB 82 addresses (1) presentation of payroll-related measures in required supplementary information, (2) selection of assumptions and treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and (3) classification of payments made by employers to satisfy plan member contribution requirements. GASB 82 is effective for fiscal years beginning after June 15, 2016. The ARRC is currently evaluating the impact GASB 82 will have on its future financial statements.

(p) Reclassifications

Certain reclassifications not affecting net income have been made to the 2014 financial statements to conform to the current presentation. The most significant of these changes includes segregating Welfare Benefits Plan assets from OPEB assets, and disaggregating certain operating expenses into a new category called advanced train control systems. These reclassifications had no impact on previously reported net income, change in net position, or net position.

(Continued)

(3) Deposits

Restricted assets consist of money market funds which are reported on the statements of net position as follows at December 31, 2015 and 2014:

		2015	2014
		(In thousands)	
Restricted assets – current	$	20,986	26,328
Restricted assets – long term		42,440	5,792
	$	63,426	32,120

These assets are restricted by the terms of grant, Trust, bond, or other agreements and are summarized as follows at December 31, 2015 and 2014:

Description of restriction		**2015**	**2014**
		(In thousands)	
Capital assets as authorized by the Department of Natural Resources	$	158	162
Advance grant funding		440	461
State of Alaska advance funding for Positive Train Control		2,026	7,186
Projects authorized by bond agreements		36,942	—
Welfare Benefits Plan		4,797	4,810
Debt service reserve 2006, 2007, 2015A and 2015B		18,704	19,142
Arbitrage rebate reserve		104	104
Debt service reserve 2012A and 2012B		255	255
	$	63,426	32,120

(a) Custodial Credit Risk

In the case of deposits, custodial credit 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, 2015, the ARRC's carrying amount of cash and cash equivalents was $51,713,000 and the bank balance was $52,549,000. Of the bank balance, $250,000 was covered by federal depository insurance, $46,592,000 represents money market funds held by the ARRC's agent in the ARRC's name, and the remaining balance is uncollateralized. At December 31, 2015, the ARRC's carrying amount and bank balance of restricted assets was $63,426,000, all of which was held by a custodian bank in ARRC's name.

At December 31, 2014, the ARRC's carrying amount of cash and cash equivalents was $42,964,000 and the bank balance was $43,286,000. Of the bank balance, $250,000 was covered by federal depository insurance, $34,865,000 represents money market funds held by the ARRC's agent in the ARRC's name, and the remaining balance is uncollateralized. At December 31, 2014, the ARRC's carrying amount and bank balance of restricted assets was $32,120,000, all of which was held by a custodian bank in ARRC's name.

(b) 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.

(c) 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 mutual funds, which are excluded from credit risk disclosure requirements.

(d) 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.

(e) 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, 2015 and 2014.

(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 onsite 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 $1,716,000 and $1,909,000 during the years ended December 31, 2015 and 2014, respectively.

The following tables summarize activity in the capital assets accounts during the years ended December 31, 2015 and 2014:

	Balance at December 31, 2014	Increases	Decreases	Balance at December 31, 2015
		(In thousands)		
Capital assets not being depreciated:				
Land and improvements	$ 32,144	409	—	32,553
Road materials and supplies	10,304	2,483	—	12,787
Construction in progress	23,426	47,369	(45,875)	24,920
Total capital assets not being depreciated	65,874	50,261	(45,875)	70,260
Capital assets being depreciated:				
Road and roadway structures	1,044,980	17,405	—	1,062,385
Equipment	383,760	28,063	(2,297)	409,526
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,430,912	45,468	(2,297)	1,474,083
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	350,696	39,258	—	389,954
Equipment	224,467	20,438	(2,271)	242,634
Leasehold improvements	1,744	83	—	1,827
Total accumulated depreciation	576,907	59,779	(2,271)	634,415
Less accumulated depletion for:				
Quarry improvements	580	117	—	697
Capital assets being depreciated and depleted, net	857,539	(14,428)	(26)	843,085
Net capital assets	$ 923,413	35,833	(45,901)	913,345

(Continued)

	Balance at December 31, 2013	Increases	Decreases	Balance at December 31, 2014
	(In thousands)			
Capital assets not being depreciated:				
Land and improvements	$ 31,671	473	—	32,144
Road materials and supplies	6,904	3,400	—	10,304
Construction in progress	185,511	61,936	(224,021)	23,426
Total capital assets not being depreciated	224,086	65,809	(224,021)	65,874
Capital assets being depreciated:				
Road and roadway structures	853,205	191,775	—	1,044,980
Equipment	352,243	31,773	(256)	383,760
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,207,620	223,548	(256)	1,430,912
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	315,387	35,309	—	350,696
Equipment	206,829	17,869	(231)	224,467
Leasehold improvements	1,657	87	—	1,744
Total accumulated depreciation	523,873	53,265	(231)	576,907
Less accumulated depletion for:				
Quarry improvements	580	—	—	580
Capital assets being depreciated and depleted, net	687,281	170,283	(25)	857,539
Net capital assets	$ 911,367	236,092	(224,046)	923,413

(Continued)

Depreciation was charged to the following departments during the years ended December 31, 2015 and 2014:

	2015		2014	
	Grant funded depreciation	**Nongrant funded depreciation**	**Grant funded depreciation**	**Nongrant funded depreciation**
	(In thousands)			
Transportation	$ 5,431	745	3,106	511
Passenger	11	163	35	390
Advanced train control systems	—	—	—	—
Marketing and customer service	—	833	—	843
Mechanical	3,495	6,394	3,607	6,146
Engineering	25,840	5,950	21,442	6,061
Facilities	3,749	2,652	3,764	2,760
General and administrative	218	2,852	223	2,704
Real estate	168	1,278	235	1,438
	$ 38,912	20,867	32,412	20,853

Net investment in capital assets is as follows at December 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Net capital assets	$ 913,345	923,413
Notes payable (note 6)	(18,768)	(19,137)
Outstanding balance of revenue bonds (note 6)	(131,081)	(102,126)
Assets restricted for projects authorized by revenue bond agreements (note 3)	36,942	—
Unearned grant revenue	(588,955)	(597,616)
	$ 211,483	204,534

(5) Long-Term Liabilities

Long-term liability activity is summarized as follows during the years ended December 31, 2015 and 2014:

		Balance at December 31, 2014	Additions	Reductions	Balance at December 31, 2015	Due within one year
				(In thousands)		
Long-term debt:						
Notes payable	$	19,137	2,573	(2,942)	18,768	3,438
Revenue bonds payable		98,185	97,915	(78,180)	117,920	12,680
Plus (less) unamortized amounts:						
Issuance of premiums		4,348	12,663	(3,784)	13,227	—
Unamortized insurance costs		(407)	341	—	(66)	—
Total revenue bonds payable		102,126	110,919	(81,964)	131,081	12,680
Environmental remediation reserve		2,617	872	(796)	2,693	467
Other claims		230	—	—	230	—
State of Alaska advances		7,343	—	(5,164)	2,179	2,026
Payable from restricted assets		105	—	—	105	—
Total long-term liabilities	$	131,558	114,364	(90,866)	155,056	18,611

(Continued)

		Balance at December 31, 2013	Additions	Reductions	Balance at December 31, 2014	Due within one year
				(In thousands)		
Long-term debt:						
Notes payable	$	22,006	—	(2,869)	19,137	2,942
Revenue bonds payable		109,805	—	(11,620)	98,185	12,095
Plus (less) unamortized amounts:						
Issuance of premiums		4,629	—	(281)	4,348	—
Unamortized insurance costs		(467)	—	60	(407)	—
Total revenue bonds payable		113,967	—	(11,841)	102,126	12,095
Environmental remediation reserve		2,473	783	(639)	2,617	477
Other claims		425	100	(295)	230	230
State of Alaska advances		162	7,185	(4)	7,343	7,186
Payable from restricted assets		105	—	—	105	—
Total long-term liabilities	$	139,138	8,068	(15,648)	131,558	22,930

The ARRC has arrangements for two short-term unsecured lines of credit. The general purpose lines of credit allow borrowing up to $20,000,000 at rates of 65.2% to 100% of London Interbank Offered Rate (LIBOR) plus 1.30% to 2.25%. The self-insurance line of credit allows borrowing up to $10,000,000 at rates of 65.2% to 100% of LIBOR plus 1.30% to 2.25%. None of the lines of credit had an outstanding balance at December 31, 2015 or 2014.

ARRC had an irrevocable letter of credit in the amount of $36,000, during the year ended December 31, 2014.

(6) Long-Term Debt

Long-term debt at December 31, 2015 and 2014 consists of the following:

		2015	2014
		(In thousands)	
Notes payable:			
Note payable, secured by equipment, due in monthly payments of $60,553, including interest at 2.89%, matures July 2018	$	1,807	2,471
Note payable, secured by real estate revenue, due in monthly payments of $36,210, including interest at 3.95%, matures August 2023		2,869	3,183
Note payable, secured by real estate revenue, due in monthly payments of $48,538, including interest at 3.95%, matures August 2023		3,846	4,267
Note payable, secured by equipment, due in monthly payments of $136,842, including interest at 1.71%, matures August 2019		5,832	7,360
Note payable to State of Alaska, unsecured, due in annual payments (varies), including interest at 3.00%, matures September 2023		1,841	1,856
Note payable, secured by equipment, due in monthly payments of $32,469, including interest at 1.67%, matures December 2022		2,573	—
		18,768	19,137
Less current portion		3,438	2,942
	$	15,330	16,195
Revenue bonds:			
Revenue Bonds – Series 2015A and 2015B, interest at 4.0%–5.0% payable semi-annually February 1 and August 1, secured by 5307 and 5337 FTA Formula Funds, matures August 2023	$	110,578	—
Revenue Bonds – Series 2006 and 2007, interest at 3.625%–5.25% payable semi-annually February 1 and August 1, secured by 5307, 5309, and 5337 FTA Formula Funds, matures August 2017		20,503	102,126
		131,081	102,126
Less current portion		12,680	12,095
	$	118,401	90,031

Annual payments on debt are scheduled as follows at December 31, 2015:

	Notes payable		Revenue bonds payable		
	Principal	Interest	Principal	Interest	Total
			(In thousands)		
Year ending December 31:					
2016	$ 3,438	478	12,680	5,596	22,192
2017	3,524	392	12,945	4,973	21,834
2018	3,308	305	13,575	4,325	21,513
2019	2,614	232	14,250	3,634	20,730
2020	1,576	175	14,960	2,909	19,620
2021–2025	4,308	214	49,510	3,999	58,031
	18,768	$ 1,796	117,920	$ 25,436	163,920
Current portion of principal	(3,438)		(12,680)		(16,118)
Unamortized premium	—		13,227		13,227
Unamortized issuance cost	—		(66)		(66)
Total non-current portion	$ 15,330		118,401		160,963

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

In July 2006, Standard & Poor’s Ratings Services and Fitch Ratings assigned “A+” and “A” ratings, respectively, to the approximately $76.4 million of Capital Grant Receipts Bonds, Series 2006. These ratings were used to determine the ARRC’s financial strength for the bond issuance insured under a policy issued by Financial Guaranty Insurance Company (FGIC).

In August 2007, Standard & Poor’s Ratings Services, Fitch Ratings, and Moody’s Investor Services assigned “A+”, “A,” and “A1” ratings to the approximately $88.6 million of Capital Grant Receipts Bonds, Series 2007. These ratings were used to determine the ARRC’s financial strength for the bond issuance insured under a policy issued by FGIC.

In July 2015, the ARRC executed an advance refunding of the $66.1 million callable maturities of the 2006 and 2007 Capital Grant Receipts Bonds, Series 2006 and 2007, by issuing $63.2 million in new 5.0% Capital Grant Receipts Refunding Bonds, Series 2015A. At the same time, ARRC issued $34.7 million in new Capital Grant Receipts Bonds, Series 2015B with an average interest rate of 5.0%. Net bond proceeds of $70.7 million plus an additional $1.2 million of cash were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the callable maturities of the 2006 and 2007 series bonds. As a result, the 2006 and 2007 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.2 million. This difference was considered to represent the culmination of the earnings process of certain grant proceeds previously deferred and the difference between the reacquisition price and the net carrying amount was reported in the accompanying financial statements as a reduction to deferred grant revenue. The ARRC completed the advance refunding to reduce its total debt service payments over the next six years by $3.2 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $2.9 million.

Leading up to the refunding and new money issue, the rating agencies issued updated ratings on June 9, 2015; with Moody's affirming their "A3" rating with a stable outlook and Standard & Poor's reducing their rating from "A+" to "A" and affirming the stable outlook.

On December 4, 2015, the President signed into law Public Law 114-94, titled "Fixing America's Surface Transportation Act" commonly known "FAST" Act as the multi-year surface transportation reauthorization bill. The new multi-year bill increased ARRC's FTA formula funding by approximately 22.3% or $6.2 million.

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) 2015 and estimated apportionments for FFY 2016 and 2020:

FFY		Section 5307 formula program	Section 5337 formula program	Total
2015	$	9,284,079	18,414,851	27,698,930
2016 Estimated apportionments		11,040,168	22,840,507	33,880,675
2017 Estimated apportionments		11,294,092	23,228,796	34,522,888
2018 Estimated apportionments		11,553,856	23,623,685	35,177,541
2019 Estimated apportionments		11,819,595	24,025,288	35,844,883
2020 Estimated apportionments		12,091,445	24,433,718	36,525,163

Section 509 of the Trust Indenture requires five-year arbitrage certificates to be filed with the trustee for the Capital Grant Receipts Bonds, Series 2006 and Series 2007. There was no rebate due on the Series 2006 during the filings of the 2011 and 2016 arbitrage certificates. The Series 2007 rebate of $936,000 was paid in February 2012. The next rebate calculations for the Capital Grant Receipts Bonds, Series 2007 will occur during 2017.

The ARRC expended $3.7 million during 2015 of the 2015B bond proceeds on eligible capital costs relating to the development of the federally mandated Positive Train Control.

The following table sets forth the interest capitalized or applied to the long-term capital construction projects during the year ended December 31, 2015 (in thousands).

Capitalized interest:		
Interest expense	$	796
Less interest income		(24)
Total capitalized interest	$	772

State of Alaska Authorizations

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 have been issued with a premium of $5.8 million.

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.

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.

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. On July 15, 2015, the ARRC issued $34.7 million in bonds with a premium of $5.1 million.

(7) Employee Benefits

(a) Alaska Railroad Corporation Pension Plan

The ARRC has a single-employer defined benefit pension plan (Plan) administered by the Tax Deferred Savings and Pension Committee covering all regular represented and nonrepresented 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 contributed 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.

Contributions recognized by the pension plan from ARRC during the year ended December 31, 2015 were $3,571,000. As of December 31, 2015, the Plan assets consist of cash and cash equivalents of less than 1%, fixed income securities 28%, equities 53%, commodities 4%, and real estate investments 15%.

At December 31, 2015, the plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	219
Inactive plan members entitled to but not yet receiving benefits	359
Active plan members	680
	1,258

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2015, the ARRC reported a liability for the pension plan. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. For the year ended December 31, 2015, the ARRC recognized pension expense of $5,272,000. At December 31, 2015, the ARRC reported deferred outflows of resources related to pension for the net difference between actual and projected earnings on investments of $8,853,000.

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

	Amount (In thousands)
Year ending December 31:	
2016	$ 2,213
2017	2,213
2018	2,213
2019	2,214
	$ 8,853

Actuarial Assumptions: The total pension liability in the January 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial assumption	December 31, 2015
Inflation	2.8%
Salary increases	2.8% CPI plus merit based rates
Cost of living allowance	1.4%
Retirement, disablement, and termination	Based on 2010-2014 experience study
Administrative expenses	1.27% of payroll, based on current year Actuarially Determined Contribution (ADC)

Mortality rates were based on the Society of Actuaries RP-2000 combined mortality table (65%/35% blended blue/white collar) and the Scale AA generational mortality improvement in longevity that we expect to occur in the future.

The long-term expected rate of return on pension plan investments was determined 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 long-term expected rate 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Cash	0.00%	0.50%
Total Return Bond	17.00%	2.60
Global Bond	7.00%	2.60
High Yield Bond	6.00%	4.10
Domestic Large Cap	16.00%	7.10
Domestic Mid Cap	12.00%	8.10
Domestic Small Cap	8.00%	9.10
International Equity	12.00%	6.10
Commoditites	8.00%	1.60
Real Estate	14.00%	5.60
Total	100.00%	

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. 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 7.5% 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 (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
			(In thousands)	
Net pension liability	$	43,505	19,728	260

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, 2015	$	154,384	145,210	9,174
Changes for the year:				
Service cost		5,834	—	5,834
Interest		11,832	—	11,832
Contributions – employer		—	3,571	(3,571)
Contributions – employee		—	4,290	(4,290)
Net investment income		—	(199)	199
Benefit payments, including refunds of employee contributions		(4,920)	(4,920)	—
Administrative expenses		—	(550)	550
Net changes		12,746	2,192	10,554
Balances at December 31, 2015	$	167,130	147,402	19,728

Additional required supplementary information for ARRC's defined benefit pension plan can be found on pages 45 through 47.

(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 all regular represented and nonrepresented employees who are not covered by the Civil Service Retirement System (CSRS). 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.

There were no contributions recognized or due by the Plan from the ARRC during the year ended December 31, 2015. As of December 31, 2015, the Plan assets are held in Trust and consist of cash and cash equivalents of less than 1%, fixed income securities 28%, equities 52%, commodities 4%, and real estate investments 16%. The value of Trust assets used for GASB 75 excludes certain Trust assets segregated for use toward the ARRC Welfare Benefit Plan.

At December 31, 2015 the Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	38
Inactive plan members entitled to but not yet receiving benefits	—
Active plan members	722
	760

The components of the net OPEB asset for the Plan at December 31, 2015, were as follows:

		December 31, 2015		**January 1, 2015**
		(In thousands)		
Total OPEB liability	$	14,539	$	13,078
Fiduciary net position		(40,642)		(41,267)
Net OPEB asset	$	(26,103)	$	(28,189)
Plan fiduciary net position as a percentage of the total OPEB asset		(279.5)%		(315.5)%

OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At December 31, 2015, the ARRC reported an asset for the OPEB plan. The net OPEB asset was measured as of December 31, 2015, and the total OPEB asset used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2015. For the year ended December 31, 2015, the ARRC recognized net OPEB income of $689,000. At December 31, 2015, the ARRC reported deferred outflows of resources related to OPEB from net difference between actual and projected earnings on investments of $2,776,000.

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

		Amount (In thousands)
Year ending December 31:		
2016	$	694
2017		694
2018		694
2019		694
2020		—
Thereafter		—
	$	2,776

Actuarial Assumptions: The total OPEB liability in the January 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial assumption	December 31, 2015
Discount rate	7.5%, based on crossover test
Inflation	2.8%
Salary increases	2.8% CPI plus merit based rate
Cost of living allowance	1.4%
Retirement, disablement, and termination	Based on 2010-2014 experience study
Administrative expenses	0.146% of payroll, based on current year ADC
Participation rates	Varies from 35-85%
Medical trend	7.5%, grading down over eight years to 4.5%

Mortality rates were based on the Society of Actuaries RP-2000 combined mortality table (65%/35% blended blue/white collar) and the Scale AA generational mortality improvement in longevity that we expect to occur in the future.

The long-term expected rate of return on OPEB plan investments was determined 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 long-term expected rate 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Cash	0.00%	0.50%
Total Return Bond	17.00%	2.60
Global Bond	7.00%	2.60
High Yield Bond	6.00%	4.10
Domestic Large Cap	16.00%	7.10
Domestic Mid Cap	12.00%	8.10
Domestic Small Cap	8.00%	9.10
International Equity	12.00%	6.10
Commoditites	8.00%	1.60
Real Estate	14.00%	5.60
Total	100.00%	

Discount Rate: The discount rate used to measure the total OPEB liability was 7.5%. 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 ARC. 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 liability to changes in the discount rate: The following presents the net pension liability calculated using the discount rate of 7.5% as well as what the net OPEB 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 (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
Net OPEB Liability (Asset)	$ (23,933,667)	(26,102,779)	(27,861,136)

Sensitivity of the net OPEB liability to changes in the Medical Trend Rate: The following presents the net pension liability calculated using the medical trend rate of 7.5% reducing over eight years to 4.5%, as well as what the net OPEB 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 (6.5%)	Medical Trend Rate (7.5%)	1% Increase (8.5%)
Net OPEB Liability (Asset)	$	(28,276,337)	(26,102,779)	(23,346,654)

Changes in the OPEB liabilities are as follows:

		Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (a) – (b)
			(In thousands)	
Balances at January 1, 2015	$	13,078	41,267	(28,189)
Changes for the year:				
Service cost		633	—	633
Interest		1,021	—	1,021
Contributions – employer		—	—	—
Contributions – employee		—	—	—
Net investment income		—	(384)	384
Benefit payments, including refunds of employee contributions		(193)	(193)	—
Administrative expenses		—	(48)	48
Net changes		1,461	(625)	2,086
Balances at December 31, 2015	$	14,539	40,642	(26,103)

Additional required supplementary information for ARRC's OPEB plan can be found on pages 48 through 50.

(c) Civil Service Retirement System (CSRS)

Federal employees who transferred to the ARRC continue to participate in the CSRS, a multi-employer defined benefit plan. ARRC is required to contribute 7% of the transferred employees' eligible compensation. Benefit expense related to CSRS was $67,000 and $90,000 for the years ended December 31, 2015 and 2014, 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, 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 $613,000 and $553,000 for the years ended December 31, 2015 and 2014, respectively.

(e) Alaska Railroad Corporation 457 Deferred Compensation Plan

ARRC sponsors a Section 457 deferred compensation plan under Section 457(b) of the IRC for nonrepresented employees. There are no benefit expenses related to the Plan for the years ended December 31, 2015 and 2014.

(f) Pension and Postretirement Prior to the Adoption of GASB 68 and 75

The unfunded or overfunded actuarial accrued liabilities associated with pension and postretirement benefits as of December 31, 2014 were reported as regulatory assets or liabilities in the statements of net position. Periodic benefit costs related to these plans were included in operating expenses and capital additions. The change in pension and postretirement funding status was presented as other changes in net position and represented the change in the overfunded or unfunded actuarial accrued liability for both plans. Through December 31, 2014, pension costs and accrued benefits under the defined benefit pension plan was calculated under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.* Postretirement plan costs were calculated under the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The following table presents the Plan's assets and liabilities and other changes in net position for the pension and postretirement plans at December 31, 2014:

		2014
		(In thousands)
Regulatory asset:		
Overfunded postretirement AAL	$	18,738
Regulatory liability:		
Unfunded pension AAL	$	42
Other change in net position:		
Change in pension and postretirement funding status	$	12,370

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Pension: Prior to the adoption of GASB 68, the ARRC accounted for its net pension liability as a regulatory liability. The following disclosures describe the assumptions used to measure the liability and related costs and expenses as of and for the year ended December 31, 2014.

Assumptions used to determine annual pension cost and related information for the year ended December 31, 2014 were as follows:

	2014
Actuarial assumptions compounded annually:	
Inflation rate	2.80%
Discount rate	7.50
Investment return for funding purposes	7.50
Expected investment return	7.50
Investment return on employee accounts	4.50
Projected salary increase	4.00
Cost of living allowance	1.40

The actuarial cost method used during 2014 was entry age normal. Prior year actuarial cost method was projected unit credit. The unfunded actuarial accrued liability is amortized over an open 30-year period as a level dollar amount.

The following table reconciles the Plan's fair value of the assets to the actuarial value of the assets based on a January 1 valuation date and presents the funding status at December 31, 2014:

	2014 (In thousands)
Fair value of assets at end of year	$ 145,210
Unamortized actuarial gains	(5,630)
Actuarial value of assets at the end of year	139,580
Actuarial accrued liability (AAL)	139,622
Unfunded AAL	$ 42
Funded ratio (actuarial value of plan assets/AAL)	100.0%
Covered payroll (active plan members)	$ 46,084
UAAL as a percentage of covered payroll	0.1%

The ARRC's Annual Pension Cost, which is the periodic cost of the plan, the percentage of APC contributed to the plan, and the net pension obligation for years ended December 31, 2014 was as follows:

		2014
		(In thousands)
Annual pension cost	$	3,365
Contributed		100%
Net pension obligation	$	—

Postretirement: Prior to the adoption of GASB 75, the ARRC accounted for its net OPEB liability as a regulatory liability. The following disclosures describe the assumptions used to measure the liability and related costs and expenses as of and for the year ended December 31, 2014.

Assumptions used to determine annual postemployment benefit cost and related information for the year ended December 31, 2014 were as follows:

	2014
Discount rate	7.50%
Investment return for funding purposes	7.50
Expected investment return	7.50
Health cost trend (grading down):	
Medical	8.0 to 4.5
Prescription	8.0 to 4.5

All valuations are as of January 1st of each year. The actuarial cost method used was the projected unit credit. The unfunded actuarial accrued liability was amortized over an open 6-year period as a level dollar amount. The ARRC incorporated the impact of the Patient Protection and Affordable Care Act or "Health Care Reform," as currently enacted, in calculating its actuarial accrued liability.

The following table reconciles the Plan's fair value of the assets to the actuarial value of the assets based on a January 1 valuation date and presents the funded status at December 31, 2014:

		2014 (in thousands)
Fair value of assets at end of year	$	40,581
Unamortized actuarial gains		(2,025)
Actuarial value of assets at the end of year		38,556
Actuarial accrued liability (AAL)		24,628
Overfunded AAL	$	(13,928)
Funded ratio (actuarial value of plan assets/AAL)		156.6%
Covered payroll (active plan members)	$	43,443
Over funded AAL as a percentage of covered payroll		(32.1)%

The following table shows the components of the ARRC's net other postemployment benefit (OPEB) cost for the year. Changes in the ARRC's net OPEB obligation to the plan, and the percentage of annual OPEB cost contributed to the plan during the year ended December 31, 2014 were as follows:

		2014 (in thousands)
Annual required contribution	$	—
Interest on net OPEB obligation		94
Adjustment to the ARC		(267)
Annual OPEB cost		(173)
Contributions made		—
Decrease in the net OPEB obligation		(173)
Net OPEB obligation at beginning of year		649
Net OPEB obligation at end of year	$	476
Annual OPEB cost contributed		—%

(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, 2015 and 2014 consists of the following:

			2015	2014
			(In thousands)	
Land and improvements		$	8,729	8,729
Road and roadway structures	15–32 year life		648,214	641,604
Equipment	5–25 year life		180,681	162,504
Construction in process			44,895	8,141
		$	882,519	820,978

Grant revenue earned during the years ended December 31, 2015 and 2014 consisted of the following:

		2015	2014
		(In thousands)	
Depreciation on assets constructed with grant funds	$	38,912	32,412
Right of way acquisitions		—	407
Grant funded maintenance expense		10,597	9,599
Grant funded bond principal, interest, and issuance costs		4,046	4,204
		53,555	46,622
Less grant revenue included in real estate nonoperating revenues		(167)	(235)
Less grant funded interest on Series 2006, 2007, and 2015A revenue bonds included in interest expense		(3,423)	(4,150)
	$	49,965	42,237

The original cost of assets constructed or acquired with Capital Grant Receipts Bonds, Series 2006, 2007, and 2015B consists of the following:

			2015	2014
			(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			4,429	—
		$	187,168	182,739

(9) Net Position

Net position consists of the following major items as of December 31, 2015 and 2014:

		Investment by the state of Alaska	Cumulative net income	Cumulative other changes in net position	Total net position
Balances at December 31, 2013	$	34,174	237,724	6,333	278,231
Net income		—	14,106	—	14,106
Other changes in net position		—	—	12,370	12,370
Total changes in net position		—	14,106	12,370	26,476
Balance at December 31, 2014		34,174	251,830	18,703	304,707
Cumulative effect of change in accounting principle		—	23,821	(18,703)	5,118
Net income		—	10,866	—	10,866
Total changes in net position		—	34,687	(18,703)	15,984
Balances at December 31, 2015	$	34,174	286,517	—	320,691

(10) Concentrations

Two ARRC customers accounted for 23% and 29% of freight revenue in 2015 and 2014, respectively. During 2015 and 2014, ARRC entered into agreements with one of the customers under the Internal Revenue Code §45G. Under the agreements, ARRC received $4.8 million for qualified track maintenance expenses and gave the customer a shipping credit of $2.7 million in 2015 and 2014. The qualified track maintenance expenses and the shipping credit 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 77% and 65% of capital expenditures in 2015 and 2014, respectively.

(11) 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 $15,996,000 and $15,778,000 in 2015 and 2014, respectively. The following table summarizes future minimum lease payments as of December 31, 2015:

		Amount (In thousands)
Year ending December 31:		
2016	$	13,481
2017		13,011
2018		11,856
2019		10,892
2020		10,719
Thereafter		119,970
	$	179,929

(12) 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 $10,679,000 and $9,799,000 in 2015 and 2014, respectively. Future minimum lease payments as of December 31, 2015 are summarized as follows:

		Amount (In thousands)
Year ending December 31:		
2016	$	9,596
2017		1,835
2018		145
2019		—
2020		—
Thereafter		—
	$	11,576

(13) 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. 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, 2015 and 2014:

		2015	2014
		(In thousands)	
Casualty/liability	$	200,000	200,000
Property damage		100,000	65,000
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, 2015, 2014, and 2013:

		Balance at December 31, 2014	Incurred claims	Claim payments	Balance at December 31, 2015
			(In thousands)		
Employee health benefits	$	1,170	11,638	(11,359)	1,449
Workers' compensation		1,862	990	(1,162)	1,690
	$	3,032	12,628	(12,521)	3,139

		Balance at December 31, 2013	Incurred claims	Claim payments	Balance at December 31, 2014
			(In thousands)		
Employee health benefits	$	1,404	11,945	(12,179)	1,170
Workers' compensation		2,508	1,208	(1,854)	1,862
	$	3,912	13,153	(14,033)	3,032

		Balance at December 31, 2012	Incurred claims	Claim payments	Balance at December 31, 2013
			(In thousands)		
Employee health benefits	$	1,367	11,709	(11,672)	1,404
Workers' compensation		1,691	2,669	(1,852)	2,508
	$	3,058	14,378	(13,524)	3,912

(14) 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.

(15) Commitments and Contingencies

Approximately 75% of the ARRC's labor force is subject to one of five collective bargaining agreements. 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 labor agreement with IBT expired August 2015 and the parties have reached tentative agreement on a new three year labor agreement. The IBT membership ratified the tentative agreement which is now pending board approval. The IBT labor agreement will expire April 2019. The ATDA labor agreement will expire May 2017. The ARW labor agreement will expire November 2017. The TCU labor agreement will expire April 2018. The UTU agreement was to expire in February 2019, however the Union agreed to open their labor agreement. The UTU extended labor agreement will now expire February 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.

(16) Related Party Transactions

The State of Alaska awarded ARRC appropriations for two capital improvement projects totaling $118,100,000. The ARRC has incurred $16,362,000 and $32,033,000 of costs under these appropriations, which are included in accounts receivable, construction in progress, and unearned grant revenue as of December 31, 2015 and December 31, 2014, respectively. 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)

Measurement period		12/31/2015
Total pension liability:		
Service cost	$	5,834
Interest		11,832
Changes of benefit terms		—
Differences between expected and actual experience		—
Changes of assumptions		—
Benefit payments, including refunds of member contributions		(4,920)
Net change in total pension liability		12,746
Total pension liability – beginning		154,384
Total pension liability – ending (a)		167,130
Plan fiduciary net position:		
Contributions – employer		3,571
Contributions – employees		4,290
Total net investment income		(199)
Other miscellaneous income		—
Benefit payments, including refunds of member contributions		(4,920)
Administrative expenses		(550)
Net change in plan fiduciary net position		2,192
Plan fiduciary net position – beginning		145,210
Plan fiduciary net position – ending (b)		147,402
Plan’s net pension liability (a) – (b)	$	19,728
Plan fiduciary net position as a percentage of the total pension liability		88.20%
Covered-employee payroll	$	47,660
Net pension liability as a percentage of covered-employee payroll		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)

		2015
Actuarially determined contribution	$	3,571
Contributions in relation to the actuarially determined contribution		3,571
Contribution deficiency (excess)	$	—
Covered-employee payroll	$	47,660
Contributions as a percentage of covered-employee payroll		7.49%

* 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 *

	2015
Annual money-weighted rate of return, net of investment expense	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 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)

		2015
Measurement period		12/31/2015
Total pension liability:		
Service cost	$	633
Interest		1,021
Changes of benefit terms		—
Differences between expected and actual experience		—
Changes of assumptions		—
Changes in benefit terms		—
Benefit payments, net of retiree premiums		(193)
Net change in total OPEB liability		1,461
Total OPEB liability – beginning		13,078
Total OPEB liability – ending (a)		14,539
Plan fiduciary net position:		
Contributions – employer		—
Contributions – employee		—
Total net investment income		(384)
Other miscellaneous income		—
Benefit payments, net of retiree premiums		(193)
Administrative expenses		(48)
Net change in plan fiduciary net position		(625)
Plan fiduciary net position – beginning		41,267
Plan fiduciary net position – ending (b)		40,642
Plan’s net OPEB liability (asset) (a) – (b)	$	(26,103)
Plan fiduciary net position as a percentage of the total OPEB liability		(279.54)%
Covered-employee payroll	$	47,660
Net OPEB liability as a percentage of covered-employee payroll		(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)

		2015
Actuarially determined contribution	$	—
Contributions in relation to the actuarially determined contribution		—
Contribution deficiency (excess)	$	—
Covered-employee payroll	$	47,660
Contributions as a percentage of covered-employee 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 *

	2015
Annual money-weighted rate of return, net of investment expense	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

The significant actuarial assumptions used in the defined benefit pension valuation as of December 31, 2015 are as follows:

(a) Actuarial Valuation Date: January 1, 2015

(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: 7.50%

(g) Administrative Expenses: $600,000 payable as of the last day of the plan year

(h) Cost of Living Allowance: 1.40% (1/2 assumed inflation)

(i) Mortality: Society of Actuaries RP-2000 combined mortality table (65%/35% blended blue/white collar) and Scale AA generational mortality improvement

(j) Termination: Ultimate withdrawal rates of the V Table (Employee Termination Study, Roger L. Vaughn, 1992)

(k) Disability: 1985 Pension Disability table (blended 80% class 1 and 20% class 3)

(l) Retirement: Rates vary based on age. Sample rates follow. Deferred vested members are assumed to retire at age 58

Age	Rate
55	15.0%
56	5.0
57	5.0
58	15.0
59	15.0
60	15.0
61	15.0
62	50.0
63	33.0
64	33.0
65	100.0

The significant actuarial assumptions used in the actuarially determined contribution for the OPEB healthcare plan as of December 31, 2015 are as follows:

(a) Actuarial Valuation Date: January 1, 2015

(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. Not less than $0.

(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: 7.50%

(g) Administrative Expenses: $67,000 payable as of the last day of the plan year

(h) Mortality: Society of Actuaries RP-2000 combined mortality table (65%/35% blended blue/white collar). Scale AA generational mortality improvement

(i) Termination: Ultimate withdrawal rates of the V Table (Employee Termination Study, Roger L. Vaughn, 1992)

(j) Disability: 1985 Pension Disability table (blended 80% class 1 and 20% class 3)

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

Age	Rate
55	15.0%
56	5.0
57	5.0
58	15.0
59	15.0
60	15.0
61	15.0
62	50.0
63	33.0
64	33.0
65	100.0

(l) Medical Trend:

Year	Increase Rate
2015	7.5%
2016	7.0
2017	6.6
2018	6.2
2019	5.8
2020	5.4
2021	5.1
2022	4.8
2023+	4.5

(m) ACA Excise Tax: Not included, in accordance with guidance from ARRC's auditor.

(n) Participation: 55% of future retirees elect coverage, 85% of future disabled retirees to elect coverage, 25% of disabled retirees under age 65 are Medicare eligible, all retirees over age 65 are assumed Medicare eligible, 90% of non-disabled retirees continue coverage at first Medicare eligibility.

(o) Per capita claims costs:

	Old Plan		Blue Plan		Gold Plan	
Age	Male	Female	Male	Female	Male	Female
50	$9,157	$10,583	$8,585	$9,976	$8,187	$9,538
55	$12,301	$12,451	$11,658	$11,804	$11,180	$11,320
60	$16,846	$15,241	$16,120	$14,541	$15,548	$13,998
64	$18,834	$16,206	$18,076	$15,488	$17,464	$14,927
65	$6,601	$5,462	$5,845	$4,750	$5,233	$4,196
70	$7,635	$6,177	$6,760	$5,372	$6,052	$4,745
75	$9,079	$7,247	$8,039	$6,303	$7,197	$5,567
80	$10,906	$8,647	$9,656	$7,520	$8,645	$6,643
85	$12,805	$10,155	$11,337	$8,832	$10,150	$7,801

Changes in Actuarial Methods Since the Prior Valuation

Defined Benefit OPEB healthcare plan

Participation: The participation assumption changed. The key participation assumption changes are: (1) future retirees assumed to elect coverage changed from 55% to different assumptions for those eligible and not eligible for a premium subsidy and (2) the percentage of retirees continuing coverage upon reaching Medicare eligibility. The assumed percent electing for those with premium subsidy is 45% and for those not eligible for a premium subsidy is 35%. The percentage of retirees continuing coverage upon reaching Medicare eligibility changed from 100% to 55%.

Administrative expenses: Administrative expenses changed from actual expenses paid in the prior year increased by 4.0% to 0.146% of payroll based on current year Actuarially Determined Contribution. The GASB 75 expense assumption results in an expense assumption that is about $3,000 higher.

There were no changes to methods during the year.