by Ben Traylor

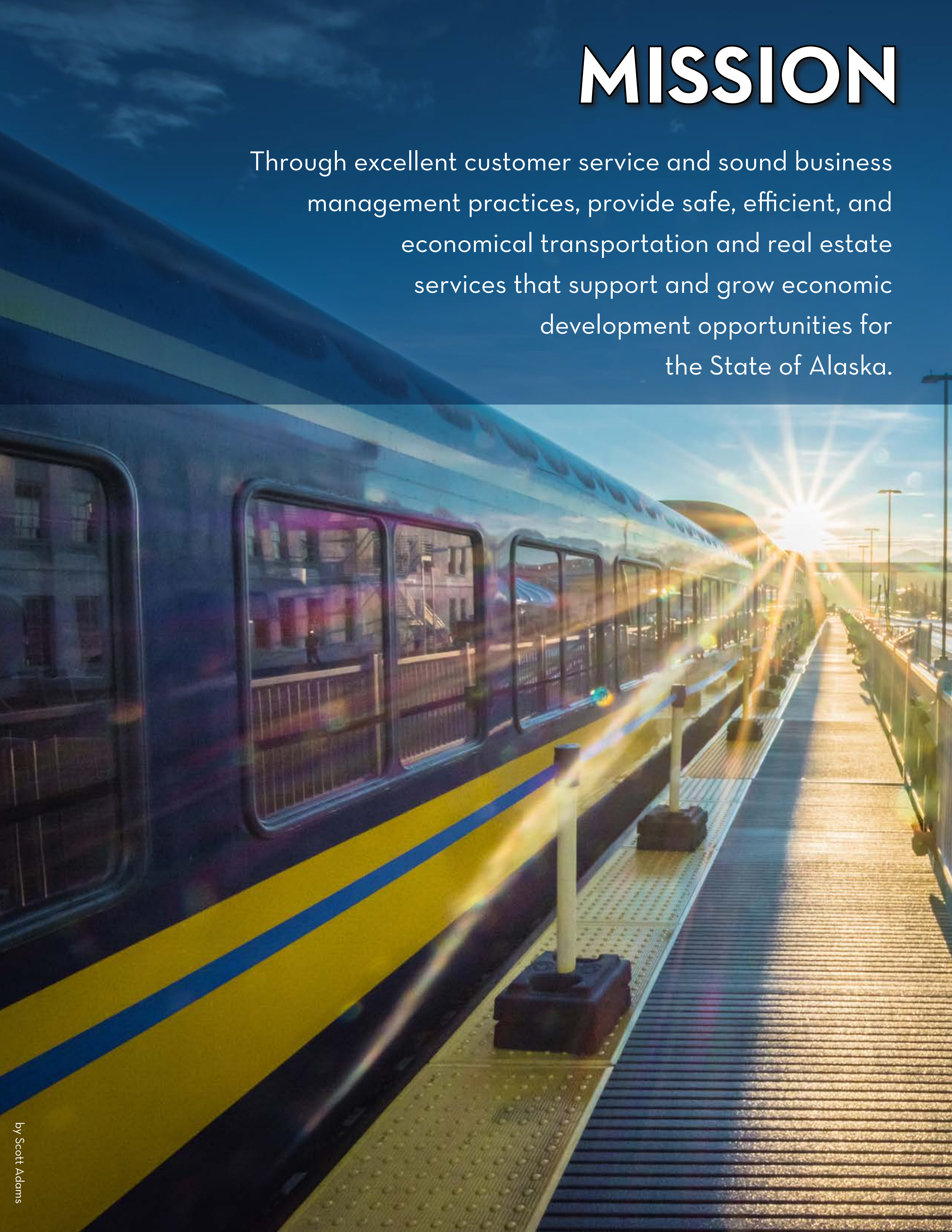
ALASKA RAILROAD

2020 ANNUAL REPORT

A Tale of Perseverance and Ingenuity

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.



by Scott Adams

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by Judy Patrick

by Ken Edmier

LEADERSHIP

MANAGEMENT TEAM

Bill O'Leary
President & CEO

Clark Hopp
Chief Operating Officer

Barbara Amy
Chief Financial Officer

Andy Behrend
Chief Counsel

Jennifer Haldane
Chief Human Resources Officer

Jim Kubitz
VP Real Estate

Brian Lindamood
VP Engineering

Dale Wade
VP Marketing and Customer Service

BOARD OF DIRECTORS

Craig Campbell
Chair

Judy Petry
Vice Chair

Julie Anderson
Commissioner

John Binkley
Director

Gov. Mike Dunleavy appointed Bill Sheffield as Chair Emeritus

Jack Burton
Director

John MacKinnon
Commissioner

John Shively
Director

YEAR IN REVIEW

A Tale of Perseverance and Ingenuity

by Bruce Gough

Once upon a time, in a world not yet steeped in pandemic, the Alaska Railroad Corporation (ARRC) began the year 2020 with optimism, ready to share a story of emergence from fiscal uncertainty.

Yet, when the last page turned on 2020, our tale didn't end with happily-ever-after; nor did it conclude as a tragedy. Instead, 2020's narrative featured everyday heroes, brandishing their perseverance and ingenuity to fight common foes — the villain *Pandemic* and its sidekick *Recession*.

Just two months into a promising new year, the rogue novel coronavirus 2019 (COVID-19) appeared on scene, soon spreading throughout the land. Economies braked and travel ebbed to a trickle, with dramatic effect to our bottom line, a $7.8 million net loss for 2020. Uncertainty reigned once more, but we were hardly alone.

Business Lines in a Pandemic World

The nation's transportation sector was hit hard; indeed, COVID-19 had an outsized impact on ARRC's passenger business. With most of the country moving into a stay-at-home mode, dwindling travel translated to plummeting rail ticket sales. Early safety concerns prompted ARRC to suspend weekly winter passenger train service April 1 through May 10, while the monthly *Hurricane Turn* flag stop service continued through June. The daily summer passenger train schedule start was delayed until July 1, and it ended a week early. Overall, annual ridership sank from 522,101 passengers in 2019 to just 32,059 in 2020 — a 94 percent reduction.

Our freight business was also impacted by the pandemic. The dramatic slump in oil demand dampened North Slope oilfield activity, and the slowing economy decreased freight shipments in other areas of commerce. In the end, we moved about 26 percent less tonnage compared to 2019 — 2.6 million tons in 2020 versus 3.5 million tons in 2019.

Freight had a few bright spots that were rooted in solid relationships. After several years of working with Petro Star Inc. to facilitate a new fuel distribution system, the first shipments were hauled by rail between Fairbanks and Anchorage. Petro Star had constructed rail loading racks on railroad property in both hubs. Petro Star also leased 60 new tank cars in support of this effort.

A trusted military association and Lower 48 railroad partnerships led to an unexpected and welcomed U.S. Army movement. The Wisconsin and Southern (WSOR) and BNSF railroads hauled 84 flat cars carrying 334 new Joint Light Tactical Vehicles to Seattle, where BNSF handed off to the Alaska Railroad for the final legs to Whittier and then on to Fort Wainwright near Fairbanks.

Our real estate business also felt the impact of the pandemic. We saw a drop in dock-related revenues, given the lack of cruise traffic in Seward, and less cargo arriving by rail-barge in Whittier. Still, we made headway on long-sought real estate opportunities. The Seward

by Ben Traylor

CONTINUED...

freight dock expansion project gained federal funding and the passenger dock replacement project drew developer interest. In Anchorage's Ship Creek area, we purchased the Odom property on First Avenue, and we widened and paved Depot Drive, a previously dirt roadway just west of the Anchorage Historic Depot.

Interaction Transformed

Necessity drove invention, spurring new ideas and approaches, and accelerating in-progress initiatives to transform how we interact with customers and employees. By so doing, we not only coped, but vastly improved the speed in which we could gain and share often critical information.

Customer Interaction

While 2020 posed incredible challenges, the ARRC passenger services department rose to the occasion to meet customer needs for safety and service. Unprecedented volumes of refunds and rescheduling were met with a professional and efficient ARRC reservations team. ARRC facilities and passenger operations teams quickly devised and communicated enhanced safety and sanitation measures, protecting guests and staff in ARRC depots and onboard trains.

Technology and passenger marketing employees coordinated on advanced public-facing digital signs installed at the Anchorage Historic Depot. These displayed commonly sought instructions, pandemic reminders, as well as excursion and upgrade opportunities.

On the freight side, we launched *ARRConnect*, a self-service portal that allows customers to track the location of their railcars and trailers, and to access and print waybills. The portal also helps customers more easily connect with ARRC freight customer service representatives, if needed.

Real estate experts reached out to leaseholders to extend potential assistance for customers struggling financially due to the pandemic. About a half dozen tenants have taken part in our partial rent deferral program.

Employee-focused Advancements

Technology enhancements have played a big role in helping employees to cope with the challenges and restrictions imposed by COVID-19.

By mid-March, the wizards of technology had transitioned more than 100 employees to a work-from-home model in mere days, far faster than industry norms for implementing remote work. To support remote employees, telecommunications engineers worked their magic to expand VPN bandwidth, and to enable remote access to ARRC's office phone system.

Employee communications ramped up to provide near-constant information from credible sources, and to explain protective protocols. ARRC quickly established a COVID-19 Working Group to act as a clearinghouse for pandemic issues and a forum for problem solving. As critical infrastructure

by Judy Patrick

CONTINUED...

providing essential services, the railroad was called upon to develop a railroad-specific *Community and Workforce Protection Plan* based on Centers for Disease Control & Prevention recommendations, as well as local and state health mandates. This collection of protocols has guided how we instituted precautions and protections across the company.

Dialog between employees and railroad leadership increased dramatically, evolving with greater electronic access. We implemented corporate-wide online video conferencing capability, and in early May, we held the year's first employee town hall virtually. The ability to join by phone or computer spurred a 25 percent jump in participation compared to 2019 town halls.

Our safety experts re-tooled many courses to include recorded instruction and interactive tests. This enabled electronic delivery via our new Learning Management System (LMS). By mid-year, employees had online options for completing mandatory safety training.

New wage-and-benefit software applications were developed to improve reporting and accuracy. Technology worked with the transportation division to bring electronic timekeeping to train crews. And, technology worked hand-in-hand with human resources to standardize how most employees request, record, approve and track vacation and sick leave.

Mechanical and technology Railroaders collaborated to create the *Loco Locator* app. This slick system features electronic displays allowing anyone on the company network to track locomotive location and status; and, it offers a graphical drag-and-drop management function for maintenance scheduling. Previously, this information was only available to those standing in front of manually-updated white boards in the Anchorage Diesel Shop.

Even philanthropic efforts were revamped to adjust to pandemic realities. Railroaders again supported neighbors in need through annual United Way campaign and food drives in October. The railroad's all-volunteer organizing team adopted an all-virtual approach with online pledging and donations, email engagement, videotaped challenges and video-conferenced meet-ups. Employees pledged $20,526 for United Way and donated $1,600 to food banks in Anchorage and Fairbanks.

In Real Life

Because much of railroading can't be done remotely, the majority of Railroaders still reported to work in shops and depots, at cashier stands and reception desks, onboard trains and equipment, and alongside the track. Their safety was and remains a priority.

Case in point: Very early in the pandemic, more than a dozen employees answered a company call for volunteers to make face-coverings to help protect one another. They sewed and sewed until a small mountain of masks were distributed to all who asked.

by Judy Patrick

From small but significant gestures like this, to big and bold performance, Railroaders went all-in to drive greater efficiency, saving time and money to make the most of scarce resources.

Maintenance of Way Productivity

Maintenance of way (MOW) Railroaders became rock stars of productivity. Even with one fewer surfacing gang than the previous year, these determined employees exceeded the previous year's production, completing more than one-third (178 miles) of our track during the summer. Resulting track quality equates to safer, smoother, more efficient and comfortable rides for those onboard our trains.

MOW crews also replaced more than 20,000 hardwood ties between Seward and Moose Pass. And, they made remarkable progress on raising the track and widening the shoulder in the Snow River area. This work was the first phase of a project to make the area more resilient in the face of biennial flooding and washout issues.

Mechanical Efficiency

Mechanical Railroaders wielded their tools and ingenuity to pull off truly remarkable feats of efficiency while maintaining the railroad's locomotive, railcar and heavy equipment fleets.

Among other significant projects, mechanics upgraded passenger car HVAC systems to more environmentally-friendly and efficient units. These modern self-monitoring units improve passenger comfort, reduce freon-based environmental risks, and simplify daily maintenance and cleaning.

We also continued to improve the efficiency, reliability and capacity of our Trailer / Container on Flat Car (TOFC / COFC) operations in Anchorage and Fairbanks on multiple fronts. We purchased brand new loading-unloading equipment, one of which was put into service before the end of the year. We standardized the electrical voltage for 28 flatcars by either adding electrification or by converting 240-volt cars to 480-volt. This improved train-building efficiency and expanded the number of refrigerated trailers we can accommodate per train. We also purchased 56 89-foot flatcars that will replace old assets supporting the TOFC/COFC business.

Finally, we procured a mobile air cart that allows carmen to perform pre-departure train air brake testing without using a locomotive. Because this equipment helps to shorten train preparation time, its use played a role in more on-time train departures out of Anchorage.

Transportation Reliability

A greater percentage of on-time departures and on-time arrivals in 2020 also stemmed from transportation division managers and train crews working together to improve operational reliability. They accomplished this while we were completing implementation of the Positive Train Control (PTC) system.

CONTINUED...

by Judy Patrick

The Alaska Railroad has been working for many years to complete PTC and we closed a chapter on this initial effort by meeting the Dec. 31, 2020, federally-mandated deadline. The Federal Railroad Administration (FRA) certified the ARRC PTC system, which integrates industry-standard solutions with ARRC-designed and optimized features. With this initial hurdle cleared, we'll keep perfecting an important safety overlay tool.

Financial Realities

In early spring, faced with significant business losses and far less money to plough back into capital assets, the railroad revised its 2020 capital plans. While dozens of ARRC-funded projects were put on hold, some capital investments progressed, particularly those with partnerships in play. Later in the year, federal grants provided an important boost to the railroad's multi-year capital investment and improvement plan.

Intermodal Partnerships

The railroad's Whittier Barge Slip and Whittier Yard are linchpins for the rail-barge cargo interchange between Alaska, Canada and the Lower 48 states. To protect these assets, ARRC worked closely with Alaska Marine Lines (AML) and Alaska Marine Trucking (AMT) to facilitate slip and yard improvements. After the railroad replaced substructures to upgrade the yard's storm drainage system, the AML pavement project followed. ARRC also replaced the slip's hydraulic ram, and strengthened and coated its structural steel. These efforts dramatically improved loading and unloading conditions and lowered yard maintenance costs.

Dock and uplands projects in Seward progressed in terms of planning and funding. The City of Seward became a supporting partner in a project aimed at improving freight intermodal operations at the port. Plans call for the Alaska Railroad to widen and lengthen the ARRC Seward Freight Dock, and to link the port and airport roadways to improve traffic circulation. A $19.8 million Port Infrastructure Development Program (PIDP) grant from the U.S. Maritime Administration (MARAD) provides the financial launchpad for this project.

Efforts to replace the ARRC Seward Passenger Dock and Terminal also made headway in 2020. Several developers offered commercial proposals for replacing and operating cruise passenger infrastructure. We are now in the negotiation phase, with a goal to finalize a contract and proceed with the project in 2021.

Federal Aid

MARAD was one of several federal agencies that provided capital program aid. A look at our 2020 revenue sources tells part of the story. Grants comprised 35% of overall revenues in 2020, compared to 27% in 2019.

FRA funded the flatcar electrification project and provided about 18% of the money to purchase additional flatcars. Grants from the Federal Emergen-

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cy Management Administration (FEMA) and Federal Transit Administration (FTA) funded ongoing repairs to infrastructure damaged in 2018. That year, extreme spring flooding caused major washouts, followed by a 7.1 magnitude earthquake that struck in November.

Because ARRC is a public transportation provider, we received CARES Act funding that could be used for FTA-funded passenger-related projects and activities. The promise of nearly $94 million enabled ARRC to plan and prepare for multi-year capital investments in equipment and infrastructure, many of which are slated to begin in 2021.

In addition to filling some of the gap in capital program funding, CARES Act money will reimburse ARRC for expenses incurred in 2020, and will continue to incur in 2021. These expenses relate to providing transportation services to the public, as well as responding to the pandemic, a consuming focus across the railroad.

An Author's Reward

All things considered, how did we do in 2020? The answer may be best reflected in the stories Railroaders told about each other as they submitted a record number of top-tier employee award nominations at year's end. The Alaska Railroad 2020 *Spike Awards* program included 61 *Gold Spikes*. That's double the number of awardees in 2018 (29) and 2019 (30); and it's easily the most annual top honors presented since ARRC established a formal employee recognition program in 2002.

Some might assume the surge in awards was primarily due to pandemic-related performance. In fact, only five of the 61 top honors were associated with pandemic response. The remaining *Gold Spikes* salute noteworthy operational performance; and, many of their feats are mentioned in this annual report narrative. Awards showcase excellent capital project management, tireless customer service, and remarkable productivity despite adversity. Some hail skilled and innovative mechanics, and insightful operations problem-solvers. Others recognize dedication to technology advancements, commitment to more efficient processes, and a dogged pursuit of safer railroading.

It's our good fortune to have such everyday heroes, and we know there are many more among our ranks. That's why we again start the new year with optimism. Despite the ongoing pandemic and the economic wreckage it has wrought, the Alaska Railroad remains hopeful this global foe will be defanged, if not altogether banished from our lands.

Are we prepared to author a tale of recovery and rebuilding in 2021? Absolutely.

Bill O'Leary | President and CEO

Craig Campbell | Board Chair

BUSINESS HIGHLIGHTS

by Judy Patrick

PANDEMIC RESPONSE

The pandemic required Railroaders to modify and safeguard work environments, and adopt new working protocols.

Janitorial contractor ESS uses a stabilized aqueous ozone (SAO) mist to sanitize passenger train interiors.

Family member and volunteer Shannon Thomas sews cloth face coverings for Railroader protection.

INFRASTRUCTURE PROGRESS AND PREPARATION

Declining revenues caused a scaled back 2020 capital program, although some in-progress projects continued. Federal grants received later in 2020 enabled ARRC to plan and prepare for more capital investments in 2021.

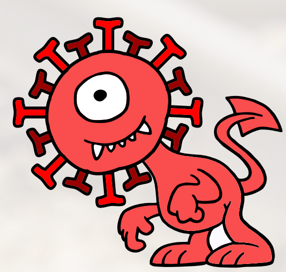
Rehabilitation of Bridge 146.4 over the Knik River was completed in 2020. The railroad received several federal grants in 2020 that will support bridge replacements and rehabilitation work in 2021.

A modern above-ground fuel tank is placed, as part of the Anchorage Yard's new locomotive fuel delivery and control system completed in May.

IN THE COMMUNITY

The State of Alaska's Division of Vocational Rehabilitation (DVR) recognized the Alaska Railroad as an outstanding community partner, in hiring and accommodating people with disabilities.

Employee volunteers used the *Venomous Virus* (pictured) and other characters to engage employees in 2020 United Way campaign and food drives, which together raised nearly $23,000 to support Alaskans in need.

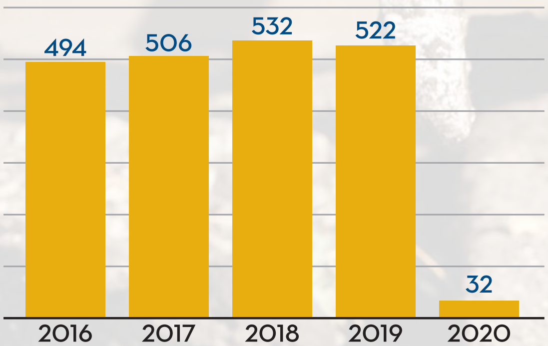


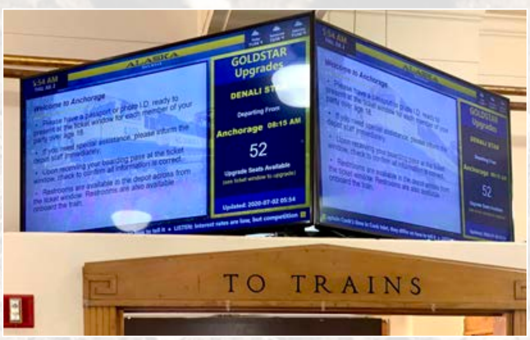
BUSINESS HIGHLIGHTS

PASSENGER BUSINESS

ARRC's passenger business declined by 94% compared to 2019. Due to dramatic pandemic-driven travel declines, total ridership sank from 522,101 passengers in 2019 to 32,069 in 2020 .

Passenger Ridership (in thousands)



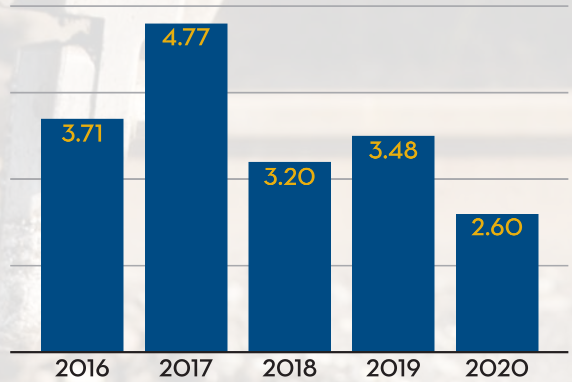


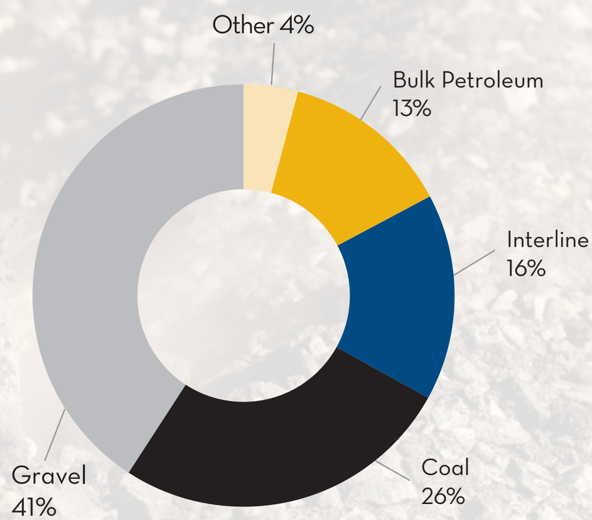
New digital signs in the Anchorage Historic Depot provide answers to common questions, pandemic protection measures, and excursion and ticket upgrade information.

Pandemic protocols for passengers and employees include face covering and social distancing.

FREIGHT BUSINESS

Total Freight Tonnage (millions of tons)

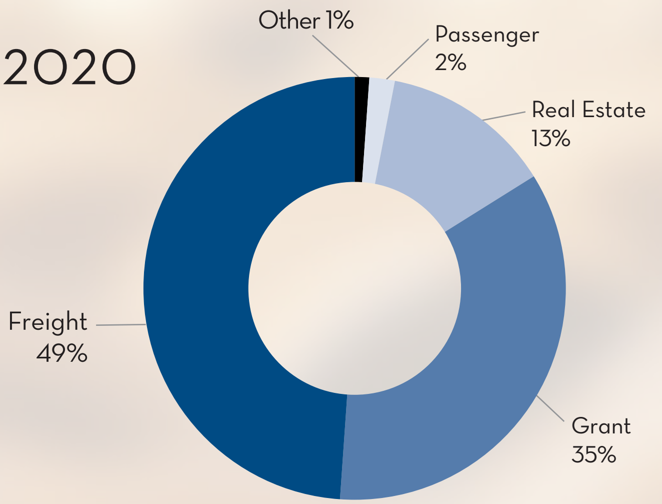


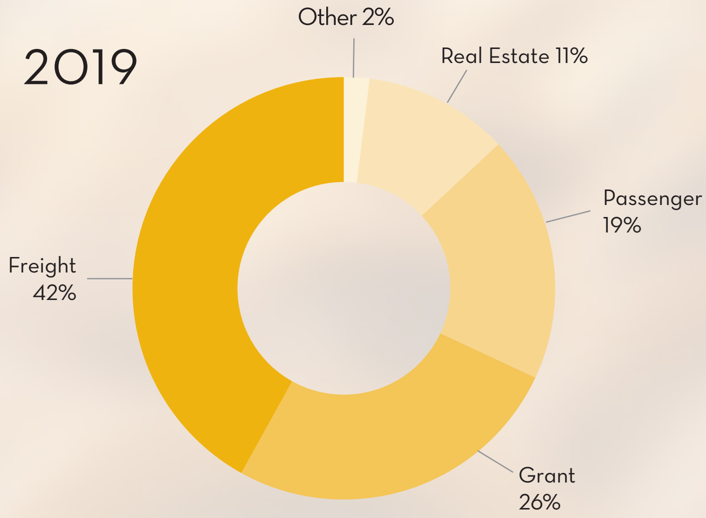


A brand new van loader is put to work, supporting the Anchorage Trailer on Flat Car (TOFC) business.

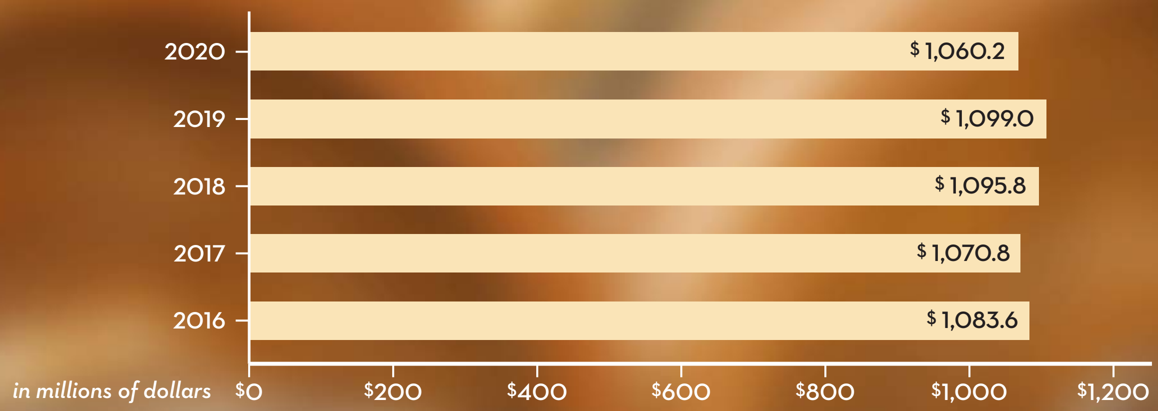
by Judy Patrick

REVENUES

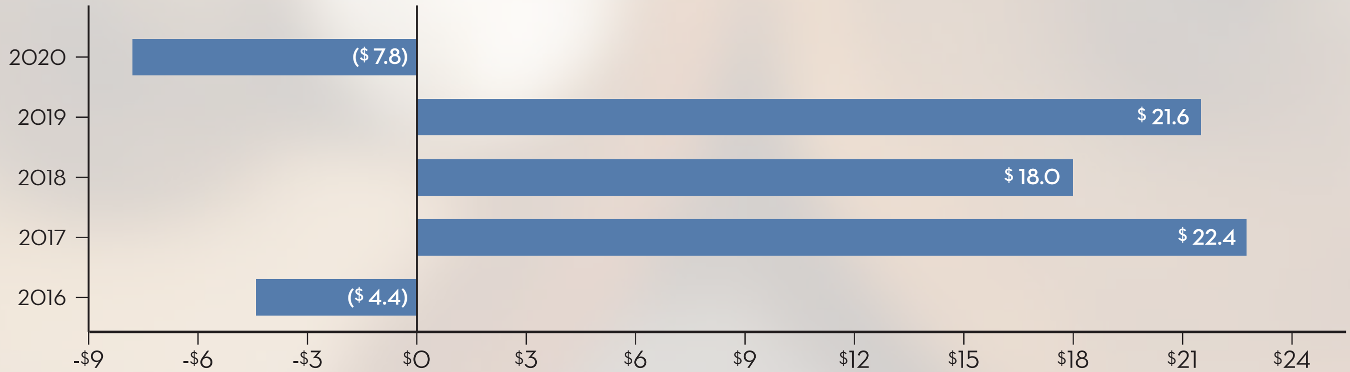




TOTAL ASSETS



NET INCOME



by Judy Patrick

FINANCIAL HIGHLIGHTS

EARNINGS
(IN THOUSANDS)

	2020	2019
Operating Revenues		
Freight	$ 73,649	$ 85,340
Passenger	3,348	39,571
Other	267	5401
Grant	52,609	52,141
TOTAL OPERATING REVENUE	**129,873**	**177,592**
Operating Expenses	148,216	172,889
OPERATING INCOME	**(18,343)**	**4,703**
Non-Operating Revenues (Expenses):		
Net Real Estate Income	10,413	14,041
Gain on Sale of Capital Assets	218	1,794
Investment Income	326	1,575
Interest Expense	(1,119)	(1,947)
Grant Revenue	690	1,451
NET INCOME	**(7,815)**	**21,617**
Net Position, Beginning of Year	378,290	356,673
NET POSITION, END OF YEAR	**$ 370,475**	**$ 378,290**
OPERATING RATIO	**1.14**	**0.97**

STATEMENTS OF NET POSITION
(IN THOUSANDS)

Assets:		
Current Assets	$ 99,024	$ 155,543
Capital Assets	901,094	882,042
Restricted Assets	8,830	8,867
Other Assets	39,170	35,251
Deferred Outflows:		
Pension and Postretirement Actuarial	12,092	17,335
TOTAL ASSETS & DEFERRED OUTFLOWS	**$ 1,060,210**	**$ 1,099,038**
Liabilities:		
Current Liabilities	42,949	43,433
Other Liabilities	71,311	102,097
TOTAL LIABILITIES	**114,260**	**145,530**
Deferred Inflows:		
Pension and Postretirement Actuarial	23,428	15,569
Unearned Grant Revenue	552,047	559,649
TOTAL LIABILITIES & DEFERRED INFLOWS	**689,735**	**720,748**
NET POSITION	**370,475**	**378,290**
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 1,060,210**	**$ 1,099,038**

March 31, 2021

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, 2020.

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

Michelle Maddox

Michelle Maddox
Controller

ALASKA RAILROAD CORPORATION

Financial Ststements

December 31, 2020 and 2019

(With Independent Auditors’ Report Thereon)

ALASKA RAILROAD CORPORATION

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This section of the Alaska Railroad Corporation's (ARRC's) annual financial report presents management's discussion and analysis of the ARRC's financial performance during the years ended December 31, 2020 and 2019. Please read it in conjunction with the ARRC's financial statements, which follow this section.

Financial Highlights

The ARRC's total net position decreased 2.1% during the course of this year's operations and increased 6.1% over the course of 2019 operations.

- The COVID-19 pandemic has had, and is expected to have, a significant impact on our financial condition and operations. Measures taken by various governments to contain the virus have also affected economic activity. The ARRC has taken a number of measures to monitor and mitigate the effects of the COVID-19, such as safety and health measures for our employees to include social distancing and working from home while maintaining continuity of operations.
- During 2020, the ARRC's operating revenue was less than operating expenses by $18.3 million, yielding an operating ratio of 1.14. Last year, operating revenue was greater than operating expenses by $4.7 million, yielding an operating ratio of 0.97.
- The total 2020 operating costs of the ARRC's programs were $148.2 million, a decrease of 14.3% compared to last year. The total 2019 operating costs of the ARRC's programs were $172.9 million, an increase of 6.8% compared to 2018.
- Expenditures on capital assets totaled $69.0 million during 2020, an increase of 37.9% compared to last year. Expenditures on capital assets totaled $50.0 million during 2019, a decrease of 14.6% compared to last year.
- Grant funding was used for $24.1 million, or 34.9%, of the 2020 capital expenditures. Grant funding was used for $13.5 million, or 26.9%, of the 2019 capital expenditures. These amounts were recorded as unearned revenue in the regulatory liabilities section of the statements of net position. Revenue associated with capital grants is recognized when the assets are depreciated. Grant revenue for capital assets equals grant depreciation expense in operations and real estate. More detailed information can be found in notes 4 and 8 to the financial statements.

Overview of the Financial Statements

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

- Statement of net position – The statement of net position reports assets, deferred outflows, liabilities, deferred inflows, and net position of the ARRC. Assets and liabilities are segregated into current and noncurrent; that is, assets and liabilities that are expected to be received or liquidated within one year (current), and those that are not expected to be received or liquidated within one year (noncurrent). Net position, the difference between the ARRC's assets, liabilities, deferred outflows, and deferred inflows is one way to measure the ARRC's financial health. Over time, increases or decreases in the ARRC's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

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

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

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

Financial Analysis of the Alaska Railroad Corporation

Net position – ARRC's net position decreased 2.1% between fiscal years 2019 and 2020 to approximately $370.5 million. ARRC's net position increased 6.1% between fiscal years 2018 and 2019 to approximately $378.3 million.

		2020	2019	2018
			(In thousands)	
Assets:				
Current assets	$	99,024	155,543	147,956
Capital assets		901,094	882,042	892,447
Other noncurrent assets		48,000	44,118	33,915
Total assets		1,048,118	1,081,703	1,074,318
Deferred outflows				
Pension and postretirement		12,092	17,335	21,519
Total assets and deferred outflows	$	1,060,210	1,099,038	1,095,837

(Continued)

		2020	2019	2018
			(In thousands)	
Liabilities:				
Current liabilities	$	42,949	43,433	44,359
Notes payable outstanding, less current installments		8,255	10,341	4,380
Revenue bonds payable, less current portion, net of a unamortized premiums		40,092	57,844	74,624
Net pension liability		17,939	30,190	34,452
Other liabilities		5,025	3,722	3,583
Deferred inflows:				
Pension and postretirement		23,428	15,569	7,531
Regulatory liabilities:				
Unearned grant revenue		552,047	559,649	570,235
Total liabilities and deferred inflows	$	689,735	720,748	739,164
Net position:				
Net investment in capital assets	$	279,975	235,322	225,344
Restricted for reinvestment in infrastructure		90,500	142,968	131,329
Total net position	$	370,475	378,290	356,673

Capital assets – Capital assets, net of accumulated depreciation increased $19.1 million in 2020. Capital assets, net of accumulated depreciation decreased $10.4 million in 2019, as depreciation expense continued to exceed expenditures on capital additions. During 2020 and 2019, 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 $2.0 million and increased $5.6 million in 2020 and 2019, respectively. During 2019, ARRC issued new debt for freight cars. Revenue bonds payable decreased by $15.0 million and $14.3 million in 2020 and 2019, respectively.

Regulatory liabilities – The STB regulate the ARRC's operations and has specific accounting requirements. The ARRC's board of directors establishes rates for services that are designed to recover the cost of providing the services. The ARRC records regulatory assets and liabilities, as allowed by Governmental Accounting Standards Board Codification Section Re. 10, *Regulated Operations*. The regulatory liability consists of unearned grant revenue relating to capital assets funded with federal grants. Unearned grant revenue decreased $7.6 million and $10.2 million in 2020 and 2019, respectively. The changes in unearned grant revenue reflects the grant revenue received and/or recognized as the related capital assets are depreciated, partially offset by capital assets constructed with grant funding, as discussed in Note 8.

(Continued)

Net other postemployment benefit assets and net pension liabilities – The postretirement benefits assets increased $3.9 million during 2020, primarily as a result of $1.2 million favorable difference between expected and actual experience and a decrease by $0.4 million changes in assumptions. The accrued pension benefit liability decreased $12.3 million during 2020 as a result of favorable investment returns on plan assets and differences between expected and actual plan experience and changes in assumptions. The postretirement benefits assets increased $5.3 during 2019, primarily as a result of $2.0 million favorable difference between expected and actual experience, offset by $1.2 million changes in assumptions. The accrued pension benefit liability decreased $4.3 million during 2019 as a result of favorable investment returns on plan assets and differences between expected and actual plan experience and changes in assumptions.

Deferred outflows and inflows – Deferred outflows or inflows of resources relating to pension and postretirement plans increase or decrease based on the net difference between actual and projected plan earnings, variances in plan activity versus projected activity, or changes in plan assumptions. The deferred outflows of resources will be recognized as expense and the deferred inflows of resources will be recognized as income during the years 2020 and later, as reflected in note 7. Deferred outflows of resources decreased $5.2 million and $4.2 million during 2020 and 2019, respectively. Deferred inflows of resources increased $7.9 million and $8.0 million during 2020 and 2019, respectively.

		2020	**2019**	**2018**
			(In thousands)	
Deferred outflows:				
Postretirement actuarial (note 7)	$	2,597	3,032	5,415
Pension actuarial (note 7)		9,495	14,303	16,104
Total deferred outflows	$	12,092	17,335	21,519
Deferred inflows:				
Postretirement actuarial (note 7)	$	7,870	7,053	5,405
Pension actuarial (note 7)		15,558	8,516	2,126
Regulatory liability – unearned grant revenue (note 8)		552,047	559,649	570,235
Total deferred inflows	$	575,475	575,218	577,766

(Continued)

Change in net position – During 2020, ARRC reported a net loss of $7.8 million, a decrease of $29.4 million from ARRC's reported net income in 2019 of $21.6 million. ARRC's 2019 net income of $21.6 million was a $3.6 million increase from the prior year net income of $18.0 million.

		2020	2019	2018
			(In thousands)	
Operating revenue:				
Freight	$	73,649	85,340	71,470
Passenger		3,348	39,571	38,985
Other		267	540	431
Total transportation revenue		77,264	125,451	110,886
Grant revenue		52,609	52,141	52,540
Total		129,873	177,592	163,426
Operating expense:				
Transportation		27,984	33,991	34,720
Passenger		7,607	15,098	14,455
Advanced train control systems		530	204	268
Marketing and customer service		18,440	22,947	18,181
Mechanical		26,079	24,707	24,222
Engineering		55,007	50,815	50,121
Facilities		11,209	11,355	11,044
General and administrative		1,360	13,772	8,905
Total		148,216	172,889	161,916
Operating income (loss)		(18,343)	4,703	1,510
Nonoperating revenue (expenses):				
Real estate, net of expenses		10,413	14,041	13,030
Gain (loss) on sale of capital assets		218	1,794	2,165
Investment income		326	1,575	1,338
Interest expense		(1,119)	(1,947)	(946)
Grant revenue		690	1,451	878
Net income (loss)	$	(7,815)	21,617	17,975

Revenue – The ARRC's total revenue decreased approximately 26.6% and totaled $150.7 million in 2020. The ARRC's total revenue increased approximately 7.5% and totaled $203.9 million in 2019. Approximately 48.9% and 41.9% of the ARRC's revenue comes from freight revenue during 2020 and 2019, respectively, and 2.2% and 19.4% of the revenue comes from passenger services during 2020 and 2019, respectively. The majority of the remaining income relates to real estate activities and federal grant revenue.

Total transportation revenue for 2020 was $48.2 million less than 2019. The decrease in transportation revenue is attributed to the decrease in business related to the COVID-19 pandemic.

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

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

Operating expenses were $148.2 million in 2020, $172.9 million in 2019, and $161.9 million in 2018, a decrease of 24.7 million, or 14.3%, from 2019 to 2020 and an increase of $11.0 million, or 6.8%, from 2018 to 2019.

Real estate revenue was $19.6 million in 2020, $22.9 million in 2019, and $21.8 million in 2018, a decrease of 14.7% from 2019 to 2020 and an increase of 5.36% from 2018 to 2019.

Real estate expenses were $9.1 million in 2020, $8.9 million in 2019, and $8.7 million in 2018, an increase of 2.9% from 2019 to 2020 and an increase of 1.8% from 2018 to 2019.

The impact of the COVID-19 pandemic on ARRC's total revenue was significant; with freight revenue at 82.5% of original budget, passenger revenue at 8.2% of original budget, and real estate revenue at 81.8% of original budget. Operating expenses were lower than original budget by 24.3%, serving to partially mitigate the impact of the reduction in total revenues on ARRC's net income and cash flow.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020, the ARRC had invested $901.1 million in a broad range of capital assets (net of accumulated depreciation) including land, road and roadway structures, equipment, and leasehold improvements. This amount represents a net increase (including additions and deductions) of $19.0 million, or 2.2%, over last year. Grants have funded $448.1 million and $441.3 million of the assets, net of accumulated depreciation at the end of 2020 and 2019, respectively.

		2020	2019	2018
			(In thousands)	
Land and improvements	$	34,131	33,088	32,717
Road materials and supplies		21,688	9,869	10,342
Road and roadway structures		596,737	598,303	610,863
Equipment		170,204	112,363	124,587
Leasehold improvements		7	12	96
Quarry improvements		3,095	3,272	3,272
Construction in progress		75,232	125,135	110,570
Total capital assets, net of accumulated depreciation	$	901,094	882,042	892,447

(Continued)

The ARRC's fiscal year 2021 capital budget approved spending another $66.5 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 $58.8 million of the capital additions. The remaining capital projects will be funded out of current and prior year earnings and cash flow. Additional detailed information about the ARRC's capital assets is presented in note 4 to the financial statements.

Long-Term Debt

At the end of 2020 the ARRC had $10.3 million in notes payable outstanding, a decrease of 16.5% from 2019, and $55.8 million in revenue bonds payable outstanding, a decrease of 23.4% from 2019. At the end of 2019, the ARRC had $12.4 million in notes payable outstanding, an increase of 83.3% from 2018, and $72.8 million in revenue bonds payable outstanding, a decrease of 18.1% from 2018. More detailed information about the ARRC's long-term debt is presented in note 6 to the financial statements.

Bond Rating

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

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

Next Year's Budget

The current, and uncertain future, impact of the COVID-19 outbreak, including its effect on the ability or desire of people to travel is expected to continue to impact our operation, cash flow and liquidity. In 2021, ARRC's operating budget is anticipating slight revenue growth in its freight portfolio, and a summer passenger season that will look a lot like the 2020 season, with the exception of a planned late May/early June start.

The 2021 budgets for freight and passenger revenue are $75.3 million and $4.2 million, respectively. As a result, the ARRC's net position is expected to increase $0.7 million, or approximately 0.2%, by the close of 2021.

For ARRC's capital budget, this year's cash for internally funded projects is significantly lower than has been typical in recent years, due to the impact of the COVID-19 pandemic on ARRC's cash flow, however, the addition of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds and the Consolidated Rail Infrastructure and Safety Improvements (CRISI) grants is helping to backfill the capital program such that the total program is larger than it has been in recent memory.

Contacting the ARRC's Financial Management

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

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

Independent Auditors' Report

The Board of Directors
Alaska Railroad Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Alaska Railroad Corporation (the Corporation), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Alaska Railroad Corporation, as of December 31, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1–7 and the schedules and notes thereon relating to the Alaska Railroad Corporation's defined-benefit pension plan and other postemployment benefit plan on pages 49-59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alaska Railroad Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alaska Railroad Corporation's internal control over financial reporting and compliance.

KPMG LLP

March 31, 2021

ALASKA RAILROAD CORPORATION

Statements of Net Position

December 31, 2020 and 2019

(In thousands)

Assets and Deferred Outflows		2020	2019
Current assets:			
Cash and cash equivalents (note 3)	$	32,246	82,401
Accounts receivable, net of allowance for doubtful accounts of $720 in 2020 and $711 in 2019		12,553	17,607
Grants receivable		16,277	17,635
Materials and supplies		12,004	12,108
Prepaid expenses and other current assets		2,845	1,994
Under recovery of vehicle and equipment allocated costs (note 2(k))		1,084	324
Restricted assets (note 3)		22,015	23,474
Total current assets		99,024	155,543
Capital assets, net (notes 4 and 8)		901,094	882,042
Restricted assets (note 3)		8,830	8,867
Net other postemployment benefit (OPEB) asset (note 7)		39,152	35,233
Other assets		18	18
Total assets		1,048,118	1,081,703
Deferred outflows:			
Postretirement actuarial (note 7)		2,597	3,032
Pension actuarial (note 7)		9,495	14,303
Total deferred outflows		12,092	17,335
Total assets and deferred outflows	$	1,060,210	1,099,038
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Current portion of notes payable (notes 5 and 6)	$	2,086	2,039
Accounts payable and accrued liabilities		8,517	9,703
Payroll liabilities (note 12)		11,171	11,579
Environmental remediation reserve (notes 5 and 13)		451	480
Interest payable		1,050	1,364
Unearned revenue		3,969	3,308
Current portion of revenue bonds payable (notes 5 and 6)		15,705	14,960
Total current liabilities		42,949	43,433
Notes payable, less current portion (notes 5 and 6)		8,255	10,341
Revenue bonds payable (net of unamortized premiums), less current portion (notes 5 and 6)		40,092	57,844
Environmental remediation reserve, less current portion (notes 5 and 13)		2,193	2,154
State of Alaska advances (note 5)		1,387	1,568
Unearned revenue – long term		1,445	—
Net pension liability (note 7)		17,939	30,190
Total liabilities		114,260	145,530
Deferred inflows:			
Postretirement actuarial (note 7)		7,870	7,053
Pension actuarial (note 7)		15,558	8,516
Regulatory liability – unearned grant revenue		552,047	559,649
Total deferred inflows		575,475	575,218
Total liabilities and deferred inflows		689,735	720,748
Net position:			
Net investment in capital assets (note 4)		279,975	235,322
Restricted for reinvestment in infrastructure (notes 2(a) and 2(l))		90,500	142,968
Total net position		370,475	378,290
Commitments and contingencies (notes 5, 6, 7, 11, 12, 13, and 14)			
Total liabilities, deferred inflows, and net position	$	1,060,210	1,099,038

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Operating revenues:			
Freight	$	73,649	85,340
Passenger		3,348	39,571
Other		267	540
		77,264	125,451
Grant revenue (note 8)		52,609	52,141
		129,873	177,592
Operating expenses:			
Transportation		27,984	33,991
Passenger		7,607	15,098
Advanced train control systems		530	204
Marketing and customer service		18,440	22,947
Mechanical		26,079	24,707
Engineering		55,007	50,815
Facilities		11,209	11,355
General and administrative, net of indirect cost recovery of $1,914 in 2020 and $2,106 in 2019		1,360	13,772
		148,216	172,889
Operating income (loss)		(18,343)	4,703
Nonoperating revenues (expenses):			
Real estate income, less direct expenses of $9,146 in 2020 and $8,889 in 2019 (notes 6 and 10)		10,413	14,041
Gain on sale of capital assets		218	1,794
Investment income		326	1,575
Interest expense		(1,119)	(1,947)
Grant revenue (note 8)		690	1,451
Total nonoperating revenues		10,528	16,914
Net income (loss)		(7,815)	21,617
Net position, beginning of year		378,290	356,673
Net position, end of year	$	370,475	378,290

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Receipts from customers	$	82,318	122,633
Operating grants received		12,750	12,991
Payments to suppliers		(34,710)	(51,187)
Payments to employees		(61,611)	(61,672)
Net cash provided by (used for) operating activities		(1,253)	22,765
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(19,046)	(18,459)
Proceeds from long-term debt		—	8,000
Interest payments on long-term debt		(1,433)	(2,239)
Grant received for interest expense		690	1,451
Purchases and construction of capital assets		(79,762)	(50,982)
Proceeds from sales of capital assets		432	1,818
Grants and advances received for construction of capital assets		33,434	21,702
Net cash used for capital and related financing activities		(65,685)	(38,709)
Cash flows from investing activities:			
Real estate income and related cash flows		21,665	22,697
Real estate direct expenses paid		(6,704)	(6,513)
Net sales (purchases) of restricted investments		1,496	(5,089)
Interest received		326	1,575
Net cash provided by investing activities		16,783	12,670
Net decrease in cash and cash equivalents		(50,155)	(3,274)
Cash and cash equivalents at beginning of year		82,401	85,675
Cash and cash equivalents at end of year	$	32,246	82,401
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	(18,343)	4,703
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		59,067	57,537
Bond issuance cost amortization		—	16
Grant revenue associated with capital assets		(39,859)	(39,166)
Changes in operating assets and liabilities that provided (used) cash:			
Materials and supplies		104	(402)
Accounts receivable		5,054	(2,818)
Prepaid expenses and other assets		(851)	(301)
Accounts payable and accrued liabilities		(2,199)	162
Under recovery of vehicle and equipment allocated costs		(760)	(238)
Payroll liabilities		(408)	442
Environmental remediation reserve		10	187
Accrued postretirement and pension benefits		(3,068)	2,643
Net cash provided by (used for) operating activities	$	(1,253)	22,765
Supplemental schedule of noncash investing and capital and related financing activities:			
Depreciation included in real estate activity	$	2,442	2,376
Capital assets acquired through accounts payable		2,934	1,921

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Fiduciary Net Position

December 31, 2020 and 2019

(In thousands)

Assets		**2020**	**2019**
Cash and cash equivalents (note 3)	$	3,175	1,099
Investments (note 3), at fair value:			
Mutual funds		217,498	193,594
Investment trust funds		67,222	68,301
Total assets	$	287,895	262,994
Liabilities and Net Position			
Accrued expenses	$	116	110
Claims payable		192	130
Total liabilities		308	240
Net position:			
Restricted for pension benefits and postemployment healthcare benefits		287,587	262,754
Total net position		287,587	262,754
Total liabilities and net position	$	287,895	262,994

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Changes in Fiduciary Net Position

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Additions:			
Contributions:			
Employer	$	4,619	5,220
Employee		4,639	4,477
Total contributions		9,258	9,697
Investment income:			
Net increase in fair value of investments (Note 3)		20,861	29,981
Interest, dividends, and other		5,235	9,421
Total investment income		26,096	39,402
Investment costs		581	677
Net investment income		25,515	38,725
Total additions		34,773	48,422
Deductions:			
Pension and postemployment benefits		9,607	8,458
Administrative		333	328
Total deductions		9,940	8,786
Net increase		24,833	39,636
Net position restricted for pension benefits and postemployment healthcare benefits:			
Beginning of year		262,754	223,118
End of year	$	287,587	262,754

See accompanying notes to financial statements.

(1) Organization and Operations

The United States Congress authorized construction of the Alaska Railroad (ARR) in 1914 and operations began in 1923. The federal government operated the railroad until its sale to the State of Alaska in January 1985. The sale of the ARR to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982, which was signed into law on January 14, 1983. The State of Alaska legislature created the Alaska Railroad Corporation (ARRC), a component unit of the State of Alaska, to own and operate the railroad and to manage the railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985. The investment by the State of Alaska as of December 31, 2020 and 2019 was $34.17 million.

The ARRC operates 683 track miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks, the ports of Whittier, Seward, and Anchorage, as well as Denali National Park and military installations. Vessel and rail barge connections are provided from Seattle, Washington and Prince Rupert, British Columbia.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting

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

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

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

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

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

(b) Cash and Cash Equivalents

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

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

(c) Materials and Supplies

Materials and supplies inventories are carried at the lower of weighted average cost or market. Road materials and supplies include rail, ties, ballast, and other track materials. These items will generally be capitalized when placed into service and, accordingly, are included in capital assets.

(d) Capital Assets

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

(e) Restricted Assets

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

(f) Regulatory Assets and Liabilities

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

(g) Operations

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

(Continued)

(h) Grants

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

(i) Income Taxes

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

(j) Environmental Remediation Costs

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

(k) Vehicle and Equipment Allocated Costs

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

(l) Net Position

As of December 31, 2020 and 2019, the ARRC's board of directors has restricted $90.5 million and $143.0 million, respectively, of net position for reinvestment in infrastructure.

(m) Pensions and Defined-Benefit Postretirement Medical Plan

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

(n) Recently Issued Accounting Pronouncements Not Yet Adopted

GASB Statement No. 87, *Leases* (GASB 87) was issued in June 2017. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB 87 is effective for reporting periods beginning after June 15, 2021. The ARRC has not yet determined the impact of the new standard on its financial statements and related disclosures, however, the impact is expected to be material.

(3) Deposits and investment risk

ARRC’s restricted assets are reported on the statements of net position as follows at December 31, 2020 and 2019:

		2020	2019
		(In thousands)	
Restricted assets – current:			
Money market mutual funds	$	21,574	22,019
Receivable from Healthcare Trust		441	1,455
		22,015	23,474
Restricted assets – non-current:			
Interest bearing savings		122	130
Money market mutual funds		8,708	8,737
		8,830	8,867
	$	30,845	32,341

The assets are restricted by the terms of grant, trust, bond, debt service, or other agreements and are summarized as follows at December 31, 2020 and 2019:

Description of restriction		2020	2019
		(In thousands)	
Capital assets as authorized by the Department of Natural Resources	$	122	130
Advance grant funding		428	442
Freight car purchase		8,022	8,002
State of Alaska advance funding for Northern Rail Extension		1,275	1,447
Projects authorized by bond agreements		—	34
Welfare benefits plan		441	1,455
Debt service reserve 2015A and 2015B		20,299	20,572
Debt service reserve 2012A and 2012B for notes payable		258	259
	$	30,845	32,341

(a) ARRC Investments and Deposits

ARRC's cash and cash equivalents consist of the following at December 31, 2020 and 2019:

		2020	2019
		(In thousands)	
Cash	$	2,591	8,700
Money market deposit accounts		10,154	10,143
Money market mutual funds		19,501	63,558
	$	32,246	82,401

(i) Custodial Credit Risk

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

At December 31, 2020, the ARRC's carrying amount of cash and cash equivalents was $32.2 million and the bank balance was $34.2 million. Of the bank balance, $250,000 was covered by federal depository insurance, $29.7 million represents money market funds held by the ARRC's agent in the ARRC's name, and the remaining balance is uncollateralized. At December 31, 2020, the ARRC's carrying amount and bank balance of restricted assets was $30.8 million, all of which was held by a custodian bank in ARRC's name.

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

(ii) Interest Rate Risk

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

(iii) Credit Risk

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

(iv) Concentration of Credit Risk

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

(v) Foreign Currency Risk

Foreign currency risk arises when changes in foreign exchange rates will adversely affect the fair value of an investment. ARRC does not have a policy to limit foreign currency risk associated with investment funds. ARRC does not have exposure to foreign currency risk in its investment funds at December 31, 2020 or 2019.

(vi) Fair Value Measurements

The ARRC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The ARRC has the following recurring fair value measurements as of December 31, 2020 and 2019:

			Fair value measurements using		
		December 31, 2020	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
			(In thousands)		
Investments by fair value level:					
Cash and cash equivalents:					
Money market mutual funds	$	19,501	19,501	—	—
Restricted assets:					
Money market mutual funds		30,282	30,282	—	—
Total investments by fair value level	$	49,783	49,783	—	—

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

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

(b) Fiduciary funds deposits and investment risk

Cash and cash equivalents consist of $3.2 million and $1.1 million at December 31, 2020 and 2019, respectively.

(i) Custodial Credit Risk

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

At December 31, 2020 and 2019, the fiduciary fund’s carrying amount of cash and cash equivalents and the bank balance was $3.175 million and $1.099 million, respectively. All balances are insured or collateralized as of each year-end.

(ii) Interest Rate Risk

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

(iii) Credit Risk

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

(iv) Concentration of Credit Risk

The Fiduciary Funds have certain investments that exceed 5% of their total investment balances as of December 31 as follows (in thousands):

Investment		2020	2019
MFS International Equity	$	38,140	34,328
Vanguard		34,772	29,443
T Rowe Price		33,273	27,962
Rothschild		21,493	19,848
MFS Mid Cap		21,239	N/A
Metropolitan West		20,554	18,828
HOTCHKIS & Wiley		19,138	18,424
Morgan Stanley		18,679	18,468
RREEF		18,010	18,786
Vanguard Mid Cap		N/A	16,330
JP Morgan		N/A	14,108

(v) Foreign Currency Risk

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

(vi) Fair Value Measurements

The Fiduciary Funds categorize their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Fiduciary Funds have the following recurring fair value measurements as of December 31, 2020 and 2019:

			Fair value measurements using	
	December 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		
Investments by fair value level:				
Pension trust fund:				
Mutual funds	$ 177,933	177,933	—	—
OPEB trust fund:				
Mutual funds	39,565	39,565	—	—
Total investments by fair value level	217,498	217,498	—	—
Investments measured at net asset value (NAV):				
Investment trust funds	67,222			
Total investments measured at the NAV	67,222			
Total investments	$ 284,720			

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

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

The valuation method for investments measured at NAV per share (or its equivalents) is presented as follows for December 31, 2020 and 2019:

		December 31, 2020 Fair value	Unfunded commitment	Redemption frequency (if currently eligible	Redemption notice period
		(in thousands)			
Investment trust funds:					
Equities/Equity funds (a)	$	32,663	—	Monthly	None
Real estate trust funds (b)		34,559	—	Quarterly	45-90 days
Total trust funds	$	67,222	—		

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

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

(b) ***Real estate trust funds***. This type includes investments in two real estate funds. These funds make direct investments in real-estate holdings as well as indirect investments in real estate related mortgages and other securities. These funds invest in a range of commercial and residential real estate markets in the United States, Asia, and Europe. Distributions from each fund will be received as the underlying investments of the fund receive cash flows or are liquidated. It is expected that the underlying investments of the fund will be liquidated over the next 5-10 years, gradually, with realizations expected in each year. The fair value of each underlying investment is determined using the NAV per share (or its equivalent) of the ARRC's ownership interest in net equity. Once it has been determined that an underlying investment will be sold, the investment is typically sold in a competitive market process. The fund managers review offers and approve of the buyer prior to completion.

(4) Capital Assets

During 2002, the ARRC received initial approval from its federal cognizant agency, which was updated in 2005, of its indirect cost rate agreement. In compliance with Federal Transit Administration (FTA) Circulars, ARRC will continue to update its indirect cost rate proposal but will retain it on site and make it available for review during its annual financial audit. This agreement allows ARRC to allocate certain general and administrative expenses to grant-funded capital assets. Indirect costs allocated to capital assets under this agreement totaled $1.9 million and $2.1 million during the years ended December 31, 2020 and 2019, respectively.

The following tables summarize activity in the capital assets accounts during the years ended December 31, 2020 and 2019:

	Balance at January 1, 2020	Increases	Decreases	Balance at December 31, 2020
		(In thousands)		
Capital assets not being depreciated:				
Land and improvements	$ 33,088	1,044	(1)	34,131
Road materials and supplies	9,869	31,447	(19,628)	21,688
Construction in progress	125,135	68,957	(118,860)	75,232
Total capital assets not being depreciated	168,092	101,448	(138,489)	131,051
Capital assets being depreciated:				
Road and roadway structures	1,146,957	39,433	—	1,186,390
Equipment	429,498	78,382	(693)	507,187
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,578,627	117,815	(693)	1,695,749
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	548,654	40,999	—	589,653
Equipment	317,135	20,329	(480)	336,984
Leasehold improvements	2,160	4	—	2,164
Total accumulated depreciation	867,949	61,332	(480)	928,801
Less accumulated depletion for:				
Quarry improvements	842	177	—	1,019
Capital assets being depreciated and depleted, net	713,950	56,306	(213)	770,043
Net capital assets	$ 882,042	157,754	(138,702)	901,094

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

(Continued)

Depreciation was charged to the following departments during the years ended December 31, 2020 and 2019:

	2020		2019	
	Grant-funded depreciation	Nongrant-funded depreciation	Grant-funded depreciation	Nongrant-funded depreciation
	(In thousands)			
Transportation	$ 6,284	728	6,180	660
Passenger	—	117	—	105
Marketing and customer		—		
service	—	656	—	766
Mechanical	3,294	7,030	3,198	6,619
Engineering	26,586	7,819	26,086	7,367
Facilities	3,489	1,801	3,511	1,819
General and administrative	206	880	191	1,035
Real estate	571	1,871	491	1,885
	$ 40,430	20,902	39,657	20,256

Net investment in capital assets is as follows at December 31, 2020 and 2019:

	2020	2019
	(In thousands)	
Net capital assets	$ 901,094	882,042
Capital assets acquired through accounts payable	(2,934)	(1,921)
Notes payable (note 6)	(10,341)	(12,380)
Outstanding balance of revenue bonds (note 6)	(55,797)	(72,804)
Assets restricted for projects authorized by revenue bond agreements (note 3)	—	34
Unearned grant revenue	(552,047)	(559,649)
	$ 279,975	235,322

(5) Long-Term Liabilities

Long-term liability activity is summarized as follows during the years ended December 31, 2020 and 2019:

	Balance at January 1, 2020	Additions	Reductions	Balance at December 31, 2020	Due within one year
			(In thousands)		
Long-term debt:					
Notes payable	$ 12,380	—	(2,039)	10,341	2,086
Revenue bonds payable	64,470	—	(14,960)	49,510	15,705
Plus (less) unamortized amounts:					
Issuance premiums	8,334	—	(2,047)	6,287	—
Total revenue bonds payable	72,804	—	(17,007)	55,797	15,705
Environmental remediation reserve	2,634	1,100	(1,090)	2,644	451
State of Alaska advances	1,568	—	(181)	1,387	—
Unearned revenue – long-term	—	1,855	—	1,855	410
Total long-term liabilities	$ 89,386	2,955	(20,317)	72,024	18,652

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

The ARRC has arrangements for three short-term unsecured lines of credit. The two general purpose lines of credit allow borrowing up to $20.0 million at rates of 78.5% to 100% of London Interbank Offered Rate (LIBOR) plus 1.45% to 1.85%. The self-insurance line of credit allows borrowing up to $10.0 million at rates of 78.5% to 100% of LIBOR plus 1.45% to 1.85%. None of the lines of credit had an outstanding balance at December 31, 2020 or 2019.

(6) Long-Term Debt

Long-term debt at December 31, 2020 and 2019 consists of the following:

		2020	2019
		(In thousands)	
Notes payable:			
Note payable, secured by real estate revenue, due in monthly payments of $36,210, including interest at 2.65%, matures on April 21, 2023	$	982	1,385
Note payable, secured by real estate revenue, due in monthly payments of $48,538, including interest at 2.65%, matures on April 21, 2023		1,316	1,856
Note payable, secured by equipment, due in monthly payments of $74,376, including interest at 2.21%, matures on December 17, 2029		7,277	8,000
Note payable, secured by equipment, due in monthly payments of $32,469, including interest at 1.67%, matures on December 18, 2022		766	1,139
		10,341	12,380
Less current portion		2,086	2,039
	$	8,255	10,341
Revenue bonds:			
Revenue Bonds – Series 2015A and 2015B, interest at 4.0%–5.0%, payable semiannually on February 1 and August 1, secured by 5307 and 5337 FTA Formula Funds, matures on August 1, 2023	$	55,797	72,804
Less current portion		15,705	14,960
	$	40,092	57,844

Annual payments on debt are scheduled as follows at December 31, 2020:

		Notes payable		Revenue bonds payable		
		Principal	Interest	Principal (In thousands)	Interest	Total
Years ending December 31:						
2021	$	2,086	213	15,705	2,147	20,151
2022		2,135	164	16,490	1,347	20,136
2023		1,109	122	17,315	505	19,051
2024		790	103	—	—	893
2025		807	85	—	—	892
2026-2029		3,414	156	—	—	3,570
		10,341	$ 843	49,510	3,999	64,693
Current portion of principal		(2,086)		(15,705)		(17,791)
Unamortized premium		—		6,287		6,287
Total noncurrent portion	$	8,255		40,092		53,189

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

In association with the issuance of the 2015 revenue bonds, Moody's issued an "A3" rating with a stable outlook and Standard & Poor's issued an "A" rating with a stable outlook. These ratings have not changed through December 31, 2020. 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) 2020 and the estimated apportionments for FFY 2021 through 2025:

FFY		Section 5307 formula program	Section 5337 formula program	Total
2020 Apportionments	$	14,151,990	29,482,404	43,634,394
2021 Estimated apportionments		14,151,990	29,482,404	43,634,394
2022 Estimated apportionments		14,364,270	29,924,640	44,288,910
2023 Estimated apportionments		14,579,734	30,373,509	44,953,243
2024 Estimated apportionments		14,798,430	30,829,112	45,627,542
2025 Estimated apportionments		15,020,406	31,291,549	46,311,955

State of Alaska Authorizations

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

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

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

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

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

(7) Employee Benefits

(a) Alaska Railroad Corporation Pension Plan

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

As of December 31, 2020, the Plan assets consist of cash and cash equivalents of less than 1%, fixed-income securities of 21.9%, equities of 62.2%, commodities of 1.4%, and real estate investments of 14.2%.

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

	2020	2019
Inactive plan members or beneficiaries currently receiving benefits	334	311
Inactive plan members entitled to but not yet receiving benefits	380	374
Active plan members	675	680
	1,389	1,365

The components of the net pension liability for the Plan at December 31, 2020 and 2019 were as follows:

		2020	2019
		(in thousands)	
Total pension liability	$	251,248	242,030
Fiduciary net position		(233,309)	(211,840)
Net pension liability	$	17,939	30,190
Plan fiduciary net position as a percentage of the total pension liability		92.9 %	87.5 %

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2020 and 2019, the ARRC reported a liability for the pension plan. The net pension liability was measured as of December 31, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, the ARRC recognized pension expense of $4.2 million and $9.2 million, respectively.

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

		2020		2019	
Deferred outflows and (inflows) of resources		**Deferred outflows of resources**	**Deferred inflows of resources**	**Deferred outflows of resources**	**Deferred inflows of resources**
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	13	(2,435)	1,284	(1,937)
Changes of assumptions		9,482	(3,090)	13,019	—
Net difference between actual and projected earnings on investments		—	(10,033)	—	(6,579)
Total	$	9,495	(15,558)	14,303	(8,516)

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

		Amount (In thousands)
Year ending December 31:		
2021	$	(1,087)
2022		1,023
2023		(3,929)
2024		(2,070)
2025		—
Thereafter		—
	$	(6,063)

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

Actuarial assumption	2020	2019
Inflation	2.8%	2.8%
Salary increases	2.8% CPI plus merit based rates	2.8% CPI plus merit based rates
Long term rate of return	7.25%	7.25%
Cost of living allowance	1.4%	1.4%
Retirement, disablement, and termination	Based on 2010-2014 experience study	Based on 2010-2014 experience study
Administrative expenses	0.52% of payroll, based on current year actual expense	0.55% of payroll, based on current year actual expense

Mortality rates were based on the Society of Actuaries RP-2014 healthy annuitant mortality table adjusted 91% for males and 96% for females and the Scale MP-2019 generational mortality improvement in longevity that management expects to occur in the future.

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

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

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

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

	1% Decrease (6.25)%	Current discount rate (7.25)%	1% Increase (8.25)%
		(In thousands)	
Net pension liability as of:			
December 31, 2020	$ 54,807	17,939	(12,289)
December 31, 2019	66,566	30,190	481

The annual money-weighted rate of return, net of investment expense, was 10.30% and 18.47% for the years ended December 31, 2020 and 2019, respectively.

Changes in the net pension liability are as follows:

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
			(In thousands)	
Balances at January 1, 2020	$	242,030	211,840	30,190
Changes for the year:				
Service cost		6,106	—	6,106
Interest		17,659	—	17,659
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(1,502)	—	(1,502)
Changes of assumptions		(3,929)	—	(3,929)
Contributions – employer		—	4,619	(4,619)
Contributions – employee		—	4,639	(4,639)
Net investment income		—	21,600	(21,600)
Benefit payments, including refunds of employee contributions		(9,116)	(9,116)	—
Administrative expenses		—	(273)	273
Net changes		9,218	21,469	(12,251)
Balances at December 31, 2020	$	251,248	233,309	17,939

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

Additional required supplementary information for ARRC's defined-benefit pension plan can be found on pages 49 through 51.

(b) Alaska Railroad Corporation Health Care Trust

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

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

There were no contributions recognized or due by the Plan from the ARRC during the year ended December 31, 2020 or 2019. As of December 31, 2020, the Plan assets are held in trust and consist of cash and cash equivalents of less than 1%, fixed-income securities of 41.8%, equities of 37.2%, and real estate investments of 20.6%. The value of trust assets used for GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* excludes certain Trust assets segregated for use toward the ARRC Welfare Benefit Plan.

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

	2020	**2019**
Inactive plan members or beneficiaries currently receiving benefits	37	35
Inactive plan members entitled to but not yet receiving benefits	—	—
Active plan members	370	376
	407	411

The components of the net other postemployment benefit (OPEB) asset for the Plan at December 31, 2020 and 2019 were as follows:

		2020	**2019**
		(In thousands)	
Total OPEB liability	$	15,126	15,681
Fiduciary net position		(54,278)	(50,914)
Net OPEB asset	$	(39,152)	(35,233)
Plan fiduciary net position as a percentage of the total OPEB asset		(358.8)%	(324.7)%

OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At December 31, 2020 and 2019, the ARRC reported an asset for the OPEB plan. The net OPEB asset was measured as of December 31, 2020 and 2019, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of January 1, 2020 and 2019. For the years ended December 31, 2020 and 2019, the ARRC recognized net OPEB income of $2.7 million and $1.3 million, respectively.

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

Deferred outflows and (inflows) of resources		2020 Deferred outflows of resources	2020 Deferred inflows of resources	2019 Deferred outflows of resources	2019 Deferred inflows of resources
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	—	(6,676)	—	(6,503)
Changes of assumptions		2,597	(315)	3,032	—
Net difference between actual and projected earnings on investments		—	(879)	—	(550)
Total	$	2,597	(7,870)	3,032	(7,053)

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

		Amount
		(In thousands)
Year ending December 31:		
2021	$	(813)
2022		(528)
2023		(1,346)
2024		(735)
2025		(603)
Thereafter		(1,248)
	$	(5,273)

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

Actuarial assumption	2020	2019
Discount rate	6.75% based on crossover test	6.75% based on crossover test
Inflation	2.8%	2.8%
Salary increases	2.8% CPI plus merit based rates	2.8% CPI plus merit based rates
Cost of living allowance	Not Applicable	Not Applicable
Long-term rate of return	6.75%	6.75%
Retirement, disablement, and termination	Based on 2010-2014 experience study	Based on 2010-2014 experience study
Administrative expenses	0.15% of payroll, based on current actual year expenses	0.15% of payroll, based on current actual year expenses
Participation rates	Varies from 35% to 85%	Varies from 35% to 85%
Medical trend	Non medicare 7.25%, decreasing to an ultimate rate of 4.0% in 2076 Medicare 6.3%, decreasing to an ultimate rate of 4.0% in 2076	Non medicare 7.5%, decreasing to an ultimate rate of 4.0% in 2076 Medicare 6.5%, decreasing to an ultimate rate of 4.0% in 2076

Mortality rates were based on the Society of Actuaries RP-2014 healthy annuitant table adjusted 91% for males and 96% for females and the Scale MP-2019 generational mortality improvement in longevity that management expects to occur in the future.

(Continued)

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

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

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

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

	1% Decrease (5.75)%	Current discount rate (6.75)%	1% Increase (7.75)%
		(In thousands)	
Net OPEB liability (asset) as of:			
December 31, 2020	$ (36,750)	(39,152)	(41,088)
December 31, 2019	(32,694)	(35,233)	(37,265)

Sensitivity of the net OPEB asset to changes in the Medical Cost Trend Rate: The following presents the net OPEB asset calculated using the medical cost trend rate of 7.25% (Non-Medicare) and 6.3% (Medicare) beginning in 2021, decreasing to an ultimate rate of 4.0% in 2076+ as of December 31, 2020 and calculated using the medical cost trend rate of 7.5% beginning in 2020, decreasing to an ultimate rate of 4.0% in 2076+ as of December 31, 2019, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or higher than the current rate:

		1% Decrease	Medical cost trend rate	1% Increase
			(In thousands)	
Net OPEB liability (asset) as of:				
December 31, 2020	$	(41,534)	(39,152)	(36,111)
December 31, 2019		(37,723)	(35,233)	(32,031)

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

		Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB asset (a) – (b)
			(In thousands)	
Balances at January 1, 2020	$	15,681	50,914	(35,233)
Changes for the year:				
Service cost		522	—	522
Interest		972	—	972
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(1,205)	—	(1,205)
Changes in assumptions		(353)	—	(353)
Contributions – employer		—	—	—
Net investment income		—	3,914	(3,914)
Benefit payments, net of retiree premiums		(491)	(491)	— —
Administrative expenses			(59)	59
Net changes		(555)	3,364	(3,919)
Balances at December 31, 2020	$	15,126	54,278	(39,152)

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

Additional required supplementary information for ARRC's OPEB plan can be found on pages 52 through 54.

(c) Civil Service Retirement System (CSRS)

Federal employees who transferred to the ARRC continue to participate in the CSRS, a multiemployer, defined-benefit plan. ARRC is required to contribute 7% of the transferred employees' eligible compensation. Benefit expense related to CSRS was $13,000 and $17,000 for the years ended December 31, 2020 and 2019, respectively.

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

The ARRC sponsors a defined contribution plan (Plan) under Section 401(k) of the Internal Revenue Code (IRC) for employees. All regular employees are eligible to contribute to the Plan. Under the terms of certain collective bargaining agreements and the plan document for non-represented employees, representing 80% of employees, the ARRC will match a portion of employee contributions. The maximum amount of matching required under the agreements is 66% of employee contributions for the first 9% of salary. Benefit expense related to the Plan was $804,000 and $772,000 for the years ended December 31, 2020 and 2019, respectively.

(e) Alaska Railroad Corporation 457 Deferred Compensation Plan

ARRC sponsors a Section 457 deferred compensation plan (Plan) under Section 457(b) of the IRC for non-represented employees. There are no benefit expenses related to the Plan for the years ended December 31, 2020 or 2019.

(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, 2020 and 2019 consists of the following:

			2020	2019
			(In thousands)	
Land and improvements		$	8,729	8,729
Road and roadway structures	15–32 year life		701,305	680,987
Equipment	5–25 year life		206,190	185,431
Construction in process			31,788	48,774
		$	948,012	923,921

Grant revenue earned during the years ended December 31, 2020 and 2019 consisted of the following:

		2020	2019
		(In thousands)	
Depreciation on assets constructed with grant funds	$	40,430	39,657
Grant funded maintenance expense		12,751	12,975
Grant funded bond principal, interest, and issuance costs		690	1,451
		53,871	54,083
Less grant revenue included in real estate nonoperating revenues		(572)	(491)
Less grant funded interest on Series 2015A revenue bonds included in nonoperating revenues		(690)	(1,451)
	$	52,609	52,141

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

			2020	2019
			(In thousands)	
Road and roadway structures	15–32 year life	$	163,777	163,779
Equipment	5–25 year life		61,937	18,960
Construction in process			—	43,025
		$	225,714	225,764

(9) Concentrations

During 2020, ARRC entered into three agreements with a customer under the Internal Revenue Code §45G, which was signed into law for tax years 2018, 2019 and 2020. Under the agreements, ARRC received $14.3 million for qualified track maintenance expenses and gave the customer a rebate of $7.6 million. The qualified track maintenance expenses and the rebate are recorded as net reductions in operating expenses.

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

A significant portion of ARRC’s funding comes from the federal government in the form of grants. Federal grant funding was used for 34.9% and 26.9% of capital expenditures in 2020 and 2019, respectively.

(10) Land

The ARRC leases a significant portion of its land to various parties under long-term agreements. Rental income on these leases, which is included in real estate income, was $17.8 million and $17.9 million in 2020 and 2019, respectively. The following table summarizes future minimum lease receipts contractually due under long-term agreements as of December 31, 2020:

		Amount
		(In thousands)
Year ending December 31:		
2021	$	14,842
2022		13,368
2023		11,976
2024		10,987
2025		10,815
Thereafter		167,099
	$	229,087

(11) Operating Leases and Agreements

The ARRC leases certain operating equipment and barge services under operating leases and agreements. Payments under the leases and agreements totaled $11.3 million and $9.5 million in 2020 and 2019, respectively. Future minimum lease payments as of December 31, 2020 are summarized as follows:

		Amount
		(In thousands)
Year ending December 31:		
2021	$	10,080
2022		1,692
2023		186
2024		131
2025		—
Thereafter		—
	$	12,089

(12) Insurance

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims, and workers' compensation claims, and establishes reserves for the estimated losses of such claims, including estimates of losses incurred but not reported, based on historical experience adjusted for current trends. The ARRC uses third-party administrators that process claims based on the provisions of the employee health plan, or for on-the-job injuries, in compliance with the State of Alaska Workers' Compensation Act. ARRC's commercial insurance policies with self-insured retention limits are summarized as follows at December 31, 2020 and 2019:

		2020	2019
		(In thousands)	
Casualty/liability	$	300,000	300,000
Property damage		100,000	100,000
Casualty/liability retention		5,000	5,000
Property damage retention		10,000	10,000

Self-insurance activity is summarized as follows during the years ended December 31, 2020 and 2019:

		Balance at January 1, 2020	Incurred claims	Claim payments	Balance at December 31, 2020
			(In thousands)		
Employee health benefits	$	1,694	8,727	(9,554)	867
Workers' compensation		1,521	2,430	(1,279)	2,672
	$	3,215	11,157	(10,833)	3,539

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

(13) Environmental Remediation Reserve

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

(14) Commitments and Contingencies

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

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

The ATDA labor agreement was ratified on June 28, 2019 and will expire on June 28, 2023. The ARW and TCU labor agreements were ratified on April 25, 2019 and will expire on April 25, 2022. The IBT labor agreement was ratified on December 22, 2020 and will expire on December 21, 2023. The UTU labor agreement will expire on February 26, 2022.

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

During March 2020, the U.S. Center for Disease Control and the World Health Organization declared COVID-19 a pandemic. As the virus continues to spread globally, there have been disruptions in ARRC's operations resulting from extensive travel restrictions, stay at home orders for many employees, supply chain management issues, and other related factors. There continues to be uncertainty in the duration of the outbreak and the ARRC expects the COVID-19 pandemic to continue to negatively impact its financial position, results from operations, and liquidity; however, the continued impact is not presently determinable.

(15) Related Party Transactions

The State of Alaska awarded ARRC appropriations for two capital improvement projects totaling $116,500,000. The ARRC incurred $45,000 and $208,000 of costs during 2020 and 2019 under these appropriations. The State of Alaska awarded grants for a 2012 disaster declaration. Under these disaster grant awards, the ARRC incurred $0 and $453,000 of costs in 2020 and 2019, respectively. These amounts are included in accounts receivable, construction in progress, and unearned grant revenue as of December 31, 2020 and December 31, 2019. 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)

		2020	2019	2018	2017	2016	2015
Total pension liability:							
Service cost	$	6,106	5,835	5,676	5,777	5,853	5,834
Interest		17,659	16,059	15,221	14,230	13,244	11,832
Changes of benefit terms		—	—	—	154	—	—
Differences between expected and actual experience		(1,502)	(496)	(2,321)	(482)	6,368	—
Changes of assumptions		(3,929)	16,396	—	272	—	—
Benefit payments, including refunds of member contributions		(9,116)	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Net change in total pension liability		9,218	29,708	11,514	13,754	19,924	12,746
Total pension liability – beginning		242,030	212,322	200,808	187,054	167,130	154,384
Total pension liability – ending (a)		251,248	242,030	212,322	200,808	187,054	167,130
Plan fiduciary net position:							
Contributions – employer		4,619	5,220	3,555	4,051	4,163	3,571
Contributions – employees		4,639	4,477	4,341	4,302	4,383	4,290
Total net investment income (loss)		21,600	32,628	(8,075)	22,088	11,774	(199)
Benefit payments, including refunds of member contributions		(9,116)	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Administrative expenses		(273)	(269)	(312)	(409)	(593)	(550)
Net change in plan fiduciary net position		21,469	33,970	(7,553)	23,835	14,186	2,192
Plan fiduciary net position – beginning		211,840	177,870	185,423	161,588	147,402	145,210
Plan fiduciary net position – ending (b)		233,309	211,840	177,870	185,423	161,588	147,402
Plan's net pension liability (a) – (b)	$	17,939	30,190	34,452	15,385	25,466	19,728
Plan fiduciary net position as a percentage of the total pension liability		92.86 %	87.53 %	83.77 %	92.33 %	86.39 %	88.20 %
Covered payroll	$	51,559	49,739	48,228	47,804	48,705	47,660
Net pension liability as a percentage of covered payroll		34.79 %	60.70 %	71.44 %	32.18 %	52.29 %	41.39 %

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

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

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of ARRC Contributions – Defined-Benefit Pension Plan

Last 10 Fiscal Years*

(In thousands)

		2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	4,619	5,220	3,555	4,051	4,163	3,571
Contributions in relation to the actuarially determined contribution		4,619	5,220	3,555	4,051	4,163	3,571
Contribution deficiency (excess)	$	—	—	—	—	—	—
Covered payroll	$	51,559	49,739	48,228	47,804	48,705	48,705
Contributions as a percentage of covered payroll		8.96 %	10.49 %	7.37 %	8.47 %	8.55 %	7.33 %

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

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

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Defined-Benefit Pension Plan

Last 10 Fiscal Years *

	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	10.30 %	18.47 %	(4.45)%	14.05 %	8.10 %	1.00 %

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

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

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

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

Last 10 Fiscal Years *

(In thousands)

		2020	2019	2018	2017	2016	2015
Total OPEB liability:							
Service cost	$	522	529	599	700	699	633
Interest		972	1,003	981	1,095	985	1,021
Changes of benefit terms		—	—	—	526	—	—
Differences between expected and actual experience		(1,205)	(1,998)	(4,511)	(165)	(1,832)	—
Changes of assumptions		(353)	1,186	1,461	—	1,442	—
Changes in benefit terms		—	—	—	—	—	—
Benefit payments, net of retiree premiums		(491)	(371)	(350)	(331)	(506)	(193)
Net change in total OPEB liability		(555)	349	(1,820)	1,825	788	1,461
Total OPEB liability – beginning		15,681	15,332	17,152	15,327	14,539	13,078
Total OPEB liability – ending (a)		15,126	15,681	15,332	17,152	15,327	14,539
Plan fiduciary net position:							
Contributions – employer		—	—	—	—	—	—
Total net investment income (loss)		3,914	6,096	(958)	4,295	2,670	(384)
Benefit payments, net of retiree premiums		(491)	(371)	(350)	(331)	(506)	(193)
Administrative expenses		(59)	(59)	(71)	(77)	(66)	(48)
Net change in plan fiduciary net position		3,364	5,666	(1,379)	3,887	2,098	(625)
Plan fiduciary net position – beginning		50,914	45,248	46,627	42,740	40,642	41,267
Plan fiduciary net position – ending (b)		54,278	50,914	45,248	46,627	42,740	40,642
Plan's net OPEB liability (asset) (a) – (b)	$	(39,152)	(35,233)	(29,916)	(29,475)	(27,413)	(26,103)
Plan fiduciary net position as a percentage of the total OPEB liability		(358.84)%	(324.69)%	(295.12)%	(271.85)%	(278.85)%	(279.54)%
Covered payroll	$	32,015	32,154	33,444	35,292	46,941	47,660
Net OPEB liability as a percentage of covered payroll		(122.29)%	(109.58)%	(89.45)%	(83.52)%	(58.40)%	(54.77)%

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

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

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of ARRC Contributions – Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

(In thousands)

		2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	—	—	—	—	—	—
Contributions in relation to the actuarially determined contribution		—	—	—	—	—	—
Contribution deficiency (excess)	$	—	—	—	—	—	—
Covered payroll	$	32,015	32,154	33,444	35,292	46,941	47,660
Contributions as a percentage of covered payroll		— %	— %	— %	— %	— %	— %

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

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

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	10.69 %	13.52 %	(2.39)%	10.55 %	3.50 %	0.70 %

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

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

(1) Actuarial Assumptions and Methods Defined-Benefit Pension

The significant actuarial assumptions used in the defined-benefit pension valuation as of December 31, 2020 are as follows:

(a) Actuarial Valuation Date: January 1, 2020

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

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

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

(e) Inflation: 2.8%

(f) Investment rate of return: 7.25%

(g) Administrative Expenses: $84,000 payable as of the last day of the plan year

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

(i) Mortality: Society of Actuaries RP-2014 healthy annuitant table adjusted 91% for males and 96% for females and Scale MP-2019 generational mortality improvement

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

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

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

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

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

The mortality table and mortality improvement projection were updated.

(n) Administrative expenses: The administrative expenses changed from 0.55% to 0.53% of payroll, based on actual expenses paid, which increased by 1.7%.

(2) Actuarial Assumptions and Methods OPEB Healthcare Plan

The significant actuarial assumptions used in the actuarially determined contribution for the OPEB healthcare plan as of December 31, 2020 are as follows:

(a) Actuarial Valuation Date: January 1, 2020

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

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

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

(e) Inflation: 2.8%

(f) Investment rate of return: 6.75%

(g) Administrative Expenses: $31,800 payable as of the last day of the plan year

(h) Mortality: Society of Actuaries RP-2014 employee mortality table adjusted 91% for males and 96% for females and mortality projected fully generational with Scale MP-2019

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

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

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

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

(l) Health Care Trend:

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

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

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

(o) Per capita claims costs:

Age		Old plan		Blue plan		Gold plan	
		Male	Female	Male	Female	Male	Female
50	$	10,501	12,350	9,823	11,628	9,353	11,110
55		13,837	14,339	13,080	13,573	12,521	13,004
60		18,746	17,355	17,898	16,532	17,232	15,895
64		21,094	18,713	20,213	17,867	19,502	17,206
65		7,353	6,172	6,475	5,342	5,766	4,696
70		8,471	6,960	7,460	6,024	6,642	5,295
75		10,068	8,156	8,866	7,059	7,895	6,205
80		12,102	9,737	10,657	8,427	9,489	7,408
85		14,224	11,443	12,526	9,906	11,153	8,706

Age		Blue Essentials Plan		Gold Essentials Plan	
		Male	Female	Male	Female
50	$	9,497	11,233	9,029	10,724
55		12,627	13,103	12,081	12,547
60		17,255	15,945	16,615	15,331
64		19,476	17,225	18,797	16,589
65		5,744	4,731	5,066	4,110
70		6,617	5,335	5,836	4,635
75		7,865	6,252	6,936	5,431
80		9,454	7,463	8,338	6,484
85		11,111	8,771	9,800	7,620

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

The mortality tables and mortality improvement projection were updated.

(q) Administrative expenses: The administrative expenses stayed the same at 0.18% of payroll, based on actual expenses paid, which increased by 0.17%.

OFFICE LOCATIONS

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

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

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