by Judy Patrick

ALASKA RAILROAD

2021 ANNUAL REPORT

On the road to recovery.

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 Raymond Menzie

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by John Warn

by Judy Patrick

LEADERSHIP

MANAGEMENT TEAM

Bill O'Leary
President and CEO

Clark Hopp
Chief Operating Officer

Barbara Amy
Chief Financial Officer

Andy Behrend
Chief Counsel

Jennifer Mergens
Chief Human Resources Officer

Jim Kubitz
VP Real Estate and Facilities

Brian Lindamood
VP Engineering

Dale Wade
VP Marketing and Customer Service

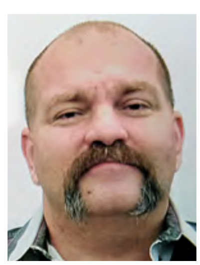
BOARD OF DIRECTORS

John Shively
Chair

Judy Petry
Vice Chair

Ryan Anderson
Commissioner

John Binkley
Director



T.J. Dinsmore
Director

John Reeves
Director

Julie Sande
Commissioner

Gov. Mike Dunleavy appointed Bill Sheffield as Chair Emeritus

by Judy Patrick

YEAR IN REVIEW

Employee excellence drives road to recovery.

During summer 2021, on the Alaska Railroad's north end, 11 mostly new employees finished upgrading the rail along the Fairbanks Airport Branch, improving the line's structural integrity, ride quality and safety. Led by two veteran Railroaders, the small rail gang had doubled their projection goal and completed the task a year earlier than expected. And, they did it without injury.

That kind of employee performance is more norm than novel. It's just one of many, many stories of individual excellence that tell a greater tale of how the Alaska Railroad Corporation (ARRC) remained on the road to recovery in 2021.

When we talk about railroad accomplishments, we're really talking about the fruits of Railroader labor. As a service provider, the Alaska Railroad's success relies on a nimble, resilient and customer-focused foundation. Those winning characteristics derive from employees. Interaction-by-interaction, performance-by-performance, Railroaders ensure reliable service that underpins commerce and economic opportunity around the state. This annual report honors our employee contributions.

Flexibility and Finances

Heading into 2021, ARRC essentially hoped to break even. At year's end, the railroad posted a $30.9 million net income from total revenues of $198.0 million and total expenses of $167.1 million.

The unexpectedly high net income was partly due to a series of financial actions that are unlikely to repeat in future years. They include a $7.5 million Federal Transit Administration (FTA) operating assistance grant, funded by the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act to help offset pandemic impacts. Sales of assets generated $10.3 million – 75% of which was a non-cash gain related to the value of traded property. Another $8.5 million stemmed from the status of our pension and healthcare trusts, both of which are more than 100% funded.

Although just over half of the net income reflects paper gains with no current year cash inflow, ARRC's financial footing is still far better than 2020. This outcome is a testament to our corporate model – operating as a business, having the budget and operating flexibility essential to surviving and thriving in an uncertain environment.

Nimble Operations

Revenues generated from our business lines were the product of nimble operations, frequently adjusted to meet customer demand and accommodate customer needs.

Passenger Business

Going into 2021, it was impossible to predict what would happen with the summer ridership. When it became disappointingly clear that cruise ships would not return to Alaska's waters,

by Ben Traylor

CONTINUED...

ARRC staffed accordingly, expecting a modest increase over 2020's very low ridership. Yet, by early spring, climbing reservation numbers told a different story — that 2021 would be the year of independent passengers with pent-up demand for safe transportation and destinations. Alaska fit the bill; as did the Alaska Railroad for nearly 167,000 passengers who booked seats directly.

While cruise and specialty trains remained on hold for a second year, our direct (non-cruise/non-charter) traffic regained 60% of 2019 levels (166,715 direct passengers in 2021 vs. 275,003 in 2019). At 200,381 passengers, total ridership in 2021 was about two-fifths of the 2019's passenger count (522,101).

On the north end, much-greater-than-anticipated ridership placed extraordinary demand on the trio manning the Fairbanks Depot ticket windows. Yet, Depot Services Associates Alesia Salmela, Andres Smith and Natalie Morgan rose to the occasion, working the entire season with few days off, while maintaining professional and welcoming customer service.

Even as passenger numbers grew, we were forced to throttle back plans for full-capacity trains as COVID-19 cases ebbed, then surged. In keeping with pandemic mitigation protocols, we again operated passenger trains with reduced frequency and limited capacity. Behind the scenes, Reservations Inventory Specialist Erin Kehoe went to work reducing summer train bookable seats by 25%. She spent countless hours coordinating with vendors, and working within our reservation system to modify per-train, per-vendor, per day seating blocks.

Despite a doubled workload, Erin never lost sight of customer service. The same can be said of all ARRC reservations and ticketing agents, who worked tirelessly to accommodate booking requests that poured in by phone, email and online forms.

Help for our reservations team came by way of a quintessential problem-solver from our Information Technology (IT) Department. IT Systems & Analysis Supervisor Willow Peyton designed an online *Availability Calendar* allowing potential passengers to pinpoint dates with open seating.

The popular tool helped to alleviate customer frustration and took some pressure off busy reservation agents. That's just one example of how our tech experts respond to business issues and problems by creating custom solutions to enhance operations and improve customer service.

Freight Business

Although freight tonnage remained flat at 2.5 million tons, ARRC's freight revenue showed year-over-year growth of $3.8 million. Total revenues of $77.5 million represented a 5.2% increase over 2020. The Alaska Rail Marine Service (ARMS) rail-barge connection to the Lower 48 drove much of this growth.

The number of containers on flat cars (COFC) and trailers on flat cars (TOFC) moving to Fairbanks increased significantly during the fourth quarter

by Judy Patrick

CONTINUED...

and growth is expected to continue into 2022. Railroaders are onboard to support this promising trend.

For example, as COFC activity increased at our barge dock in Whittier, Transportation Field Manager Alexander "AJ" Washburn led operational improvements for this crucial freight terminal. He updated procedures, audited train loading paperwork, analyzed and modified safety practices, optimized scheduling and more. As a result, Whittier operations netted another $40,000 in otherwise overlooked revenues, received zero regulatory agency findings, avoided tide-based barge delays, and exceeded operational monitoring goals.

That remarkable drive for excellence was mirrored in fellow terminal supervisors and managers, who were likewise focused on advancing performance at Anchorage and Fairbanks terminals. Their efforts improved train-building and transportation efficiency, contributed to higher customer satisfaction, enhanced employee quality of life, smoothed the transition to Positive Train Control operations, reduced costs, and more.

Infrastructure Investment

Terminals, wayside facilities, equipment, and railway infrastructure all require tens of millions of dollars in capital investment annually to remain in good working order. That's why ARRC net income is re-invested into assets that are now valued at more than $1 billion. In 2020, ARRC posted a $7.8 million loss, meaning little internal funding was available for capital upkeep and improvements.

In 2021, federal grants enabled a robust $66 million capital budget. In addition to $7.7 million from ARRC-generated cash flow, funding came from Federal Transit Administration (FTA); the 2020 Coronavirus Aid, Relief and Economic Security (CARES) Act; and Federal Railroad Administration (FRA) Consolidated Rail Infrastructure and Safety Improvements (CRISI) grants.

A big chunk – $40 million – of the year's capital budget focused on bridges, to include planning for future needs. A new system-wide bridge rating program will guide bridge upgrades to accommodate future cargo demands. ARRC also formally kicked off a 10-year bridge program to better prioritize needs and capture efficiencies. The first year, 2021, saw several bridge replacements and major repairs completed on time, on budget and safely by ARRC bridge crews.

Track rehabilitation captured the next biggest piece of capital spending with more than $20 million earmarked for tie and rail replacement and resurfacing; as well as for embankment, yard and branch improvements, and culvert replacement. ARRC's culvert and drainage assets also underwent a system-wide inventory to promote longer-term planning.

During the year, Maintenance of Way (MOW) crews accomplished an ambitious maintenance schedule, in addition to numerous capital projects.


courtesy of Petro Star

CONTINUED...

Time and again, crews demonstrated in-the-field leadership, exemplary efficiency and pride in jobs well done and safely executed. For example, take the work of Healy Section Foreman Trainee Caleb Fakasiieiki and Track Repairer Chris Hansen. The duo tackled two drainage improvement projects near Ferry that would typically require a small construction crew. Yet, they replaced a culvert and swapped mud for ballast with the help of just two heavy equipment operators.

Miles south in Wasilla, Section Foreman Trainee Richard Whitney routinely led his team to exceed daily production expectations. The section's to-do list of repairs and projects got done so efficiently — and safely — that the crew was also able to tackle numerous track maintenance tasks on an ever-evolving list.

On the southern end, Track Repairer Pol Carrera Vilaplana put his recently earned track car license to good use to support a challenging project at a tunnel about 50 miles north of Seward. For seven weeks, he transported and safeguarded contractors as they drilled, blasted and removed rockfall hazards. With exemplary coordination and communication, and a passion for daily improvement, Pol kept project participants safe and on-task for an optimal outcome.

Equipment and Facilities

In addition to the track right-of-way infrastructure, on-track equipment and facilities comprise other sets of maintenance-intensive assets. It's up to the Alaska Railroad Mechanical Division to keep the locomotive, railcar and heavy equipment fleets operational, while the ARRC Real Estate & Facilities Division maintains railroad buildings, depots, docks and other facilities.

Dozens of locomotive and equipment mechanics are veterans with remarkable skill and a willingness to mentor new talent. One of them is Journeyman Mechanic Lead Steve Conlan. He runs the locomotive traction motor shop, where these components are rebuilt at far less expense than purchasing new. Over the past six years, Steve's knowledge and leadership has saved the railroad over $5 million. Best of all, he routinely shares 30 years of locomotive troubleshooting experience to equip the next generation of mechanics.

In addition to maintaining railcars, the Mechanical Division's carmen perform a final check before a train leaves the terminal. Carman Terry Hunter is known for his methodical and passionate approach to railcar maintenance. Those characteristics won the day in early May, when Terry caught a very difficult-to-detect hairline crack in a wheel on an 89-foot flatcar in the middle of a long freight train. The astute discovery prevented a potentially dangerous derailment, offering a reminder that keen observation and attention to detail are often the last line of defense.

Facility maintenance and capital projects are accomplished by a small highly skilled team of facility mechanics and electricians. On the north end,

by Judy Patrick

CONTINUED...

a two-person team typically maintains facilities along the nearly 200-mile stretch from Fairbanks to Hurricane. Railroaders often described Fairbanks Facilities Mechanic Tony Buma as approachable, skilled and hard-working. In 2021, they added 'exceptionally dedicated' as Tony became a team of one for several months during his co-worker's extended absence. Despite long hours and work weeks, Tony's can-do attitude, monster work ethic, and on-demand ingenuity never wavered.

Determined and Dedicated

It's not hard to find railroad employees willing to step up and step in, when circumstances call for it. This is important for a lean organization like the railroad, where every employee plays an integral role, every day. It's why the specter of widespread illness and absences compelled the railroad to take COVID-19 risks seriously.

Stepping Up

Indeed, pandemic prevention and testing protocols, and vaccination tracking have claimed many hours and productivity. In the thick of it stood Human Resources employee Kristine Stone, a key pandemic resource who has met these trying times with exceptional professionalism. In addition to performing her day-to-day job as an HR coordinator, Kristine tracked hundreds of COVID-19 events, answered hundreds of COVID-19 questions, and kept managers company-wide informed.

Working in the ARRC Supply Management Department, Contract Administration Specialist Candice Humphrey is another highly regarded resource who has pulled double-duty recently. With a friendly and fair approach to contract administration, Candice has fostered excellent vendor relations that translate to quick turnarounds and mission-critical purchases. And, when the department's long-time fleet manager resigned unexpectedly in 2020, Candice stepped up to absorb vehicle and heavy equipment management duties for eight months, until a new fleet manager was hired.

Staying Safe

The railroad's largest division is Transportation, including train engineers and conductors, train dispatchers, and terminal managers and supervisors. While working at the heart of busy rail operations day in and day out, these employees went more than 365 days without an injury. Remarkable safety performances like this contributed to a stellar safety story in 2021.

The Alaska Railroad's injury rates approached best-in-class for short line railroads. Across the company, employees kept each other safe and exceeded 2021 safety goals for reducing injuries. The first goal was to lower our FRA casualty rate (the number of reportable injuries per 100 employees per year) to no more than 4.5. Our 2021 casualty rate was 3.1. Goal two was to reduce lost-time incidents (LTI) by 10%. We had 14 LTI in 2021, representing a 26%


by Judy Patrick

CONTINUED...

decrease from 2020. Goal three was to reduce FRA reportable casualties (injuries) by 10%. We had 18 reportable injuries, representing a 35% decrease from 2020.

Determined and Dedicated

As the railroad looks toward the future, we hold tight to a culture tied to teamwork, service excellence, sustainability, integrity and safety — our core values. With that foundation instilled in our people, we have confidence to invest in the services and infrastructure needs of tomorrow's customers. To that end, ARRC is at various stages of reimagining key rail terminal and rail yard infrastructure.

This summer, ARRC and Eklutna Inc. completed a land trade that was years in the making. The win-win deal affords Eklutna land in Eagle River to expand its existing residential developments. The railroad gained 160 acres of level, industrial-zoned and rail-accessible land near our existing Birchwood Rail Yard. This opens the door for yard expansion, as well as a future rail-linked industrial park.

By late fall, plans to replace our aging Seward Passenger Dock through a public-private partnership changed, when cruise market dynamics altered potential investor plans. ARRC pivoted to pursue self-funding of this critical infrastructure project with up to $60 million in revenue bonds. A 30-year bond proposal, to be backed by a long-term cruise company berthing commitment, requires approval from the Alaska State Legislature. Legislation authorizing the bond sale was introduced during the 2022 legislative session. If it passes, ARRC will proceed with the bond sale, final dock design and construction.

Whittier is another critical hub for railroad passenger and freight business lines. In recognition of Whittier's strategic importance, the railroad secured a Maritime Agency (MARAD) grant to pursue master planning of marine and related facilities. With funding identified, the work can begin.

There is a lot to be grateful for in 2021, even as there remains much more to do. In the year ahead, we intend to move past recovery, to reclaim our potential for prosperity. As a company we want to reap the rewards of investment, and to reward the employees who make our status as an economic engine possible.

Bill O'Leary | President and CEO

John Shively | Board Chair

by Judy Patrick

CAPITAL HIGHLIGHTS

TRACK INFRASTRUCTURE INVESTMENTS

ARRC invested significantly in the railroad right-of-way infrastructure to support and enhance train operations.

About $20 million of the railroad's 2021 capital budget supported track rehabilitation and repair work.

A crew assembles a solar power array at Gold Creek as part of a multi-year project to upgrade solar power at 18 signal waysides. The project was wrapping up in 2021.

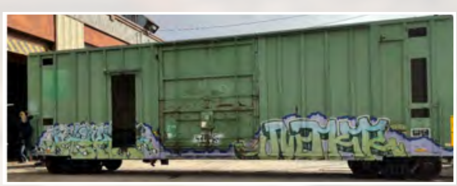
BRIDGE BUILDING AND REHABILITATION

Nearly two-thirds of the 2021 capital program was dedicated to bridge rehabilitation, repair and replacement.

Geotechnical work is completed on the tri-span pony truss bridge at MP 351.4. Performed in 2021, the work supports the capital project to replace the bridge.

During 2021, members of an Alaska Railroad bridge gang weld steel components on a replacement bridge at MP F9.4 along the Whittier Branch line.

EQUIPMENT INVESTMENT



ARRC converted a boxcar into a Geometry Car that can measures track features and detect defects, to better plan track maintenance.

The last two of four newly purchased van loader were put into service in early 2021.

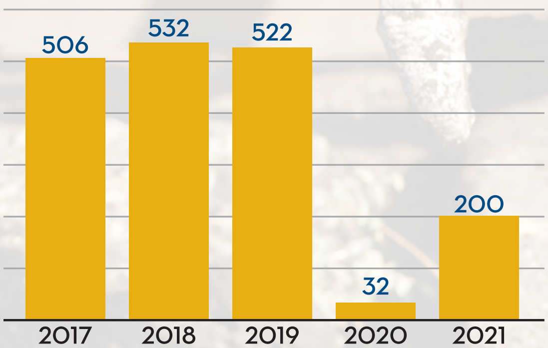
by Judy Patrick

BUSINESS HIGHLIGHTS

PASSENGER BUSINESS

ARRC's passenger business rebounded with more than 200,000 passengers, representing a six-fold growth over 2020 ridership (32,069) and 40% of 2019 ridership (522,101).

Passenger Ridership (in thousands)



by Kevan Dee

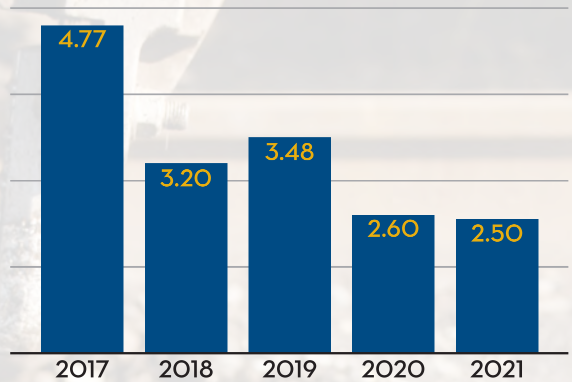
ARRC added a passenger train Availability Calendar to the AlaskaRailroad.com website, helping potential customers to reserve open seats on trains with lowerd capacity due to pandemic protocols.

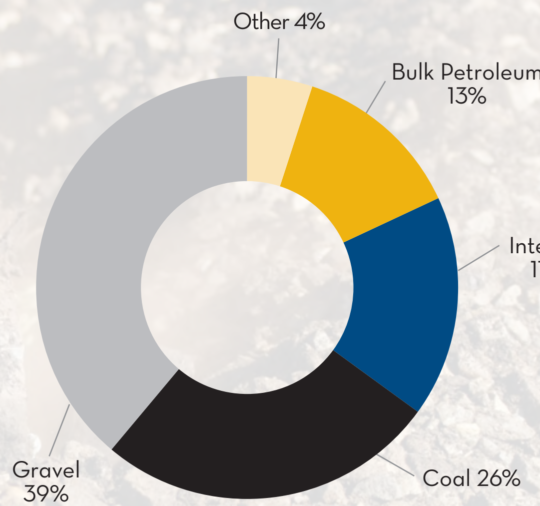
artwork by Kwangsook Schaefermeyer

Released in late 2021, ARRC's official 2022 art print / poster features the willow ptarmigan, Alaska's state bird.

FREIGHT BUSINESS

Total Freight Tonnage (millions of tons)

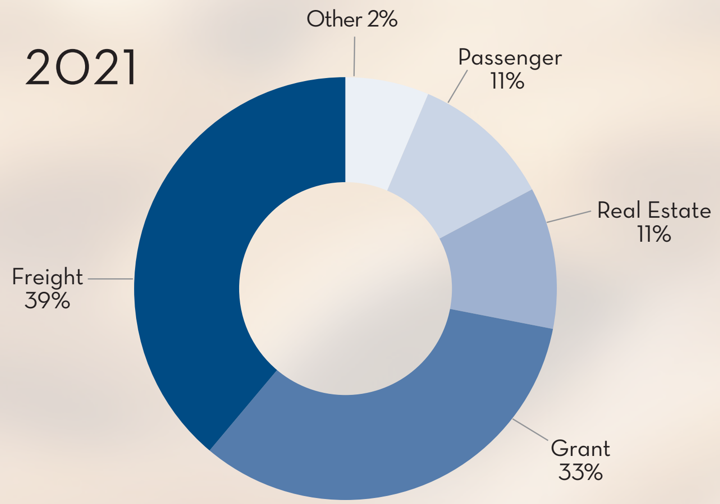


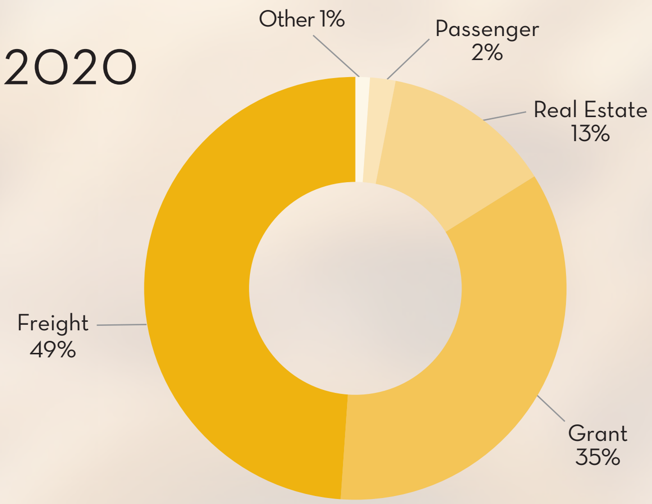


courtesy of Petro Star, Inc.

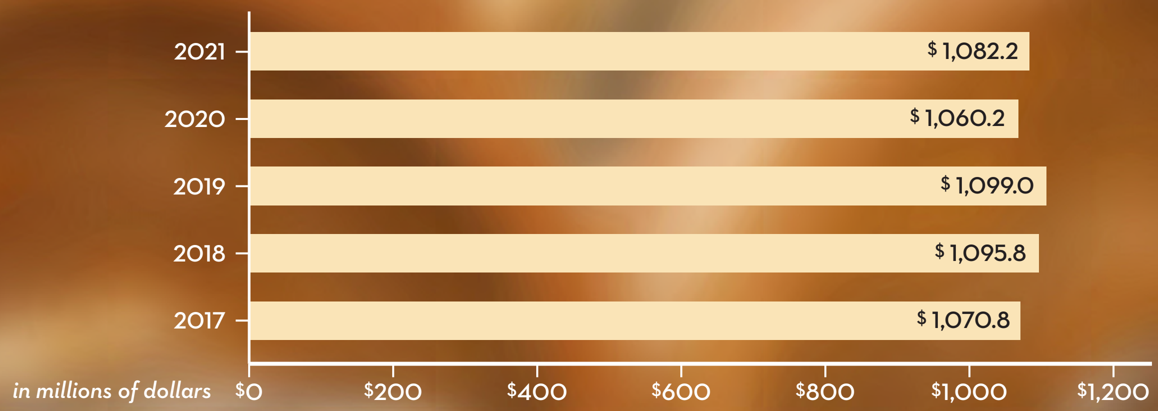
The Petro Star fuel distribution system, with terminals in Anchorage (pictured) and Fairbanks, marked a first full year of operations in 2021.

REVENUES

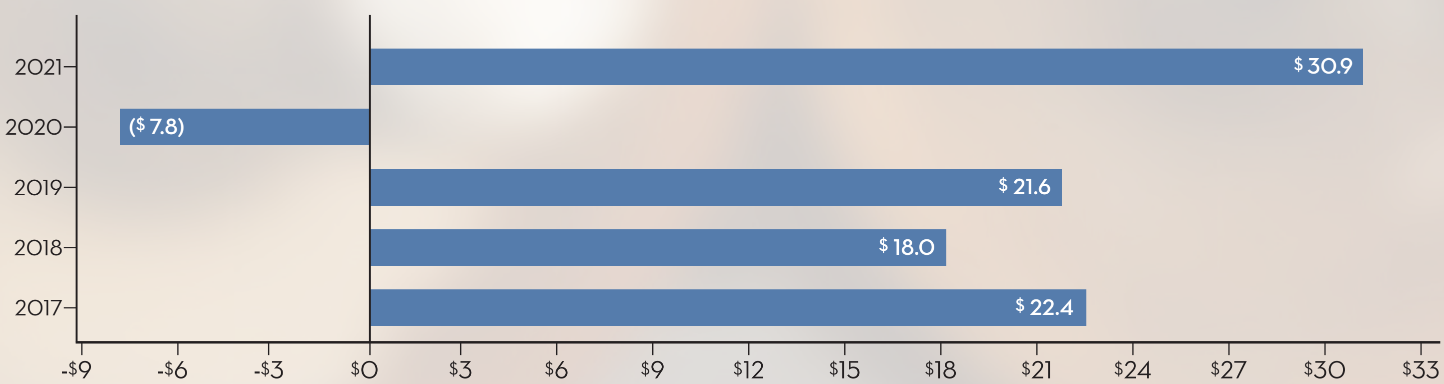




TOTAL ASSETS



NET INCOME



by Judy Patrick

FINANCIAL HIGHLIGHTS

EARNINGS
(IN THOUSANDS)

	2021	2020
Operating Revenues		
Freight	$ 77,495	$ 73,649
Passenger	22,489	3,348
Other	648	267
Grant	65,548	52,609
TOTAL OPERATING REVENUE	**166,180**	**129,873**
Operating Expenses	158,133	148,216
OPERATING INCOME	**8,047**	**(18,343)**
Non-Operating Revenues (Expenses):		
Net Real Estate Income	12,769	10,413
Gain on Sale of Capital Assets	10,334	218
Investment Income	3	326
Interest Expense	(166)	(1,119)
Grant Revenue	(89)	690
NET INCOME	**30,898**	**(7,815)**
Net Position, Beginning of Year	370,475	378,290
NET POSITION, END OF YEAR	**$ 401,373**	**$ 370,475**
OPERATING RATIO	**0.95**	**1.14**

STATEMENTS OF NET POSITION
(IN THOUSANDS)

Assets:		
Current Assets	$ 123,253	$ 99,024
Capital Assets	889,202	901,094
Restricted Assets	791	8,830
Other Assets	58,508	39,170
Deferred Outflows:		
Pension and Postretirement Actuarial	10,452	12,092
TOTAL ASSETS & DEFERRED OUTFLOWS	**$ 1,082,206**	**$ 1,060,210**
Liabilities:		
Current Liabilities	44,529	42,949
Other Liabilities	31,900	71,311
TOTAL LIABILITIES	**76,429**	**114,260**
Deferred Inflows:		
Pension and Postretirement Actuarial	47,913	23,428
Unearned Grant Revenue	556,491	552,047
TOTAL LIABILITIES & DEFERRED INFLOWS	**680,833**	**689,735**
NET POSITION	**401,373**	**370,475**
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 1,082,206**	**$ 1,060,210**

March 31, 2022

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, 2021.

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
Controller

ALASKA RAILROAD CORPORATION

Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

ALASKA RAILROAD CORPORATION

Table of Contents

This section of the Alaska Railroad Corporation's (ARRC's) annual financial report presents management's discussion and analysis of the ARRC's financial performance during the years ended December 31, 2021 and 2020. Please read it in conjunction with the ARRC's financial statements, which follow this section.

Financial Highlights

The ARRC's total net position increased 8.3% during the course of this year's operations and decreased 2.1% over the course of 2020 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 2021, the ARRC's operating revenue was greater than operating expenses by $8.0 million, yielding an operating ratio of 0.95. Last year, operating revenue was less than operating expenses by $18.3 million, yielding an operating ratio of 1.14.
- The total 2021 operating costs of the ARRC's programs were $158.1 million, an increase of 6.7% compared to last year. The total 2020 operating costs of the ARRC's programs were $148.2 million, a decrease of 14.3% compared to 2019.
- Expenditures on capital assets totaled $54.9 million during 2021, a decrease of 20.4% compared to last year. Expenditures on capital assets totaled $69.0 million during 2020, an increase of 37.9% compared to 2019.
- Grant funding was used for $26.3 million, or 47.9%, of the 2021 capital expenditures. Grant funding was used for $24.1 million, or 34.9%, of the 2020 capital expenditures. These amounts were recorded as unearned revenue in the regulatory liabilities section of the statements of net position. Revenue associated with capital grants is recognized when the assets are depreciated. Grant revenue for capital assets equals grant depreciation expense in operations and real estate. More detailed information can be found in notes 4 and 8 to the financial statements.

Overview of the Financial Statements

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

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

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

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

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

Financial Analysis of the Alaska Railroad Corporation

Net position – ARRC's net position increased 8.3% between fiscal years 2020 and 2021 to approximately $401.4 million. ARRC's net position decreased 2.1% between fiscal years 2019 and 2020 to approximately $370.5 million.

	2021	2020	2019
		(In thousands)	
Assets:			
Current assets	$ 123,253	99,024	155,543
Capital assets	889,202	901,094	882,042
Other noncurrent assets	59,299	48,000	44,118
Total assets	1,071,754	1,048,118	1,081,703
Deferred outflows			
Pension and postretirement	10,452	12,092	17,335
Total assets and deferred outflows	$ 1,082,206	1,060,210	1,099,038

		2021	2020	2019
			(In thousands)	
Liabilities:				
Current liabilities	$	44,529	42,949	43,433
Notes payable outstanding, less current installments		6,119	8,255	10,341
Revenue bonds payable, less current portion, net of a unamortized premiums		21,344	40,092	57,844
Net pension liability		—	17,939	30,190
Other liabilities		4,437	5,025	3,722
Deferred inflows:				
Pension and postretirement		47,913	23,428	15,569
Regulatory liabilities:				
Unearned grant revenue		556,491	552,047	559,649
Total liabilities and deferred inflows	$	680,833	689,735	720,748
Net position:				
Net investment in capital assets	$	285,433	279,975	235,322
Restricted for reinvestment in infrastructure		115,940	90,500	142,968
Total net position	$	401,373	370,475	378,290

Capital assets – Capital assets, net of accumulated depreciation decreased $11.9 million in 2021, as depreciation expense exceeded expenditures on capital additions. Capital assets, net of accumulated depreciation increased $19.1 million in 2020. During 2021 and 2020, 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 $2.1 million and decreased $2.0 million in 2021 and 2020, respectively. During 2019, ARRC issued new debt for freight cars. Revenue bonds payable decreased by $15.7 million and $15.0 million in 2021 and 2020, 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 increased $4.4 million and decreased $7.6 million in 2021 and 2020, 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.

Net other postemployment benefit assets and net pension assets/(liabilities) – The postretirement benefits assets increased $5.6 million during 2021, as a result of favorable investment returns on plan assets and differences between expected and actual plan experience and changes in assumptions. The accrued pension liability decreased $31.7 million during 2021 resulting in pension assets generated by favorable investment returns on plan assets and differences between expected and actual plan experience and changes in assumptions. 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.

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 2022 and later, as reflected in note 7. Deferred outflows of resources decreased $1.6 million and $5.2 million during 2021 and 2020, respectively. Deferred inflows of resources increased $24.5 million and $7.9 million during 2021 and 2020, respectively.

		2021	2020	2019
			(In thousands)	
Deferred outflows:				
Postretirement actuarial (note 7)	$	3,831	2,597	3,032
Pension actuarial (note 7)		6,621	9,495	14,303
Total deferred outflows	$	10,452	12,092	17,335
Deferred inflows:				
Postretirement actuarial (note 7)	$	11,278	7,870	7,053
Pension actuarial (note 7)		36,635	15,558	8,516
Regulatory liability – unearned grant revenue (note 8)		556,491	552,047	559,649
Total deferred inflows	$	604,404	575,475	575,218

Change in net position – During 2021, ARRC reported a net income of $30.9 million, an increase of $38.7 million from ARRC's reported net loss in 2020 of $7.8 million. ARRC's 2020 net loss of $7.8 million was a $29.4 million decrease from the prior year net income of $21.6 million.

		2021	2020	2019
			(In thousands)	
Operating revenue:				
Freight	$	77,495	73,649	85,340
Passenger		22,489	3,348	39,571
Other		648	267	540
Total transportation revenue		100,632	77,264	125,451
Grant revenue		65,548	52,609	52,141
Total		166,180	129,873	177,592
Operating expense:				
Transportation		35,444	27,984	33,991
Passenger		11,350	7,607	15,098
Advanced train control systems		814	530	204
Marketing and customer service		20,161	18,440	22,947
Mechanical		25,567	26,079	24,707
Engineering		55,016	55,007	50,815
Facilities		11,214	11,209	11,355
General and administrative		(1,433)	1,360	13,772
Total		158,133	148,216	172,889
Operating income (loss)		8,047	(18,343)	4,703
Nonoperating revenue (expenses):				
Real estate, net of expenses		12,769	10,413	14,041
Gain on sale of capital assets		10,334	218	1,794
Investment income		3	326	1,575
Interest expense		(166)	(1,119)	(1,947)
Grant revenue		(89)	690	1,451
Net income (loss)	$	30,898	(7,815)	21,617

Revenue – The ARRC's total revenue increased approximately 31.4% and totaled $198.0 million in 2021. ARRC's total revenue decreased approximately 26.6% and totaled $150.7 million in 2020. Approximately 39.1% and 48.9% and of the ARRC's revenue comes from freight revenue during 2021 and 2020, respectively, and 11.4% and 2.2% of the revenue comes from passenger services during 2021 and 2020, respectively. The majority of the remaining income relates to real estate activities and federal grant revenue.

Total transportation revenue for 2021 was $23.4 million more than 2020. The increase in transportation revenue is attributed to an increase in passenger service demand.

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.

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 $158.1 million in 2021, $148.2 million in 2020, and $172.9 million in 2019, an increase of $9.9 million, or 6.7%, from 2020 to 2021 and a decrease of $24.7 million, or 14.3%, from 2019 to 2020.

Real estate revenue was $21.5 million in 2021, $19.6 million in 2020, and $22.9 million in 2019, an increase of 9.9% from 2020 to 2021 and a decrease of 14.7% from 2019 to 2020.

Real estate expenses were $8.7 million in 2021, $9.1 million in 2020, and $8.9 million in 2019, a decrease of 4.5% from 2020 to 2021 and an increase of 2.9% from 2019 to 2020.

Gain on sale of capital assets included a non-cash gain associated with a land exchange of property with an assigned value at the time of transfer in 1983 with property owned by Eklutna Inc., and the new property was recorded to ARRC's balance sheet at its current market value. The ARRC does not expect this gain to be recurring.

Capital Asset and Debt Administration

Capital Assets

At the end of 2021, the ARRC had invested $889.2 million in a broad range of capital assets (net of accumulated depreciation) including land, road and roadway structures, equipment, and leasehold improvements. This amount represents a net decrease (including additions and deductions) of 11.9 million, or 1.3%, over last year. The amount in 2020 represents a net increase (including additions and deductions) of $19.0 million, or 2.2% over 2019. Grants have funded $429.2 million, $448.1 million, and $441.3 million of the assets, net of accumulated depreciation at the end of 2021, 2020 and 2019, respectively.

		2021	2020	2019
			(In thousands)	
Land and improvements	$	41,649	34,131	33,088
Road materials and supplies		21,863	21,688	9,869
Road and roadway structures		582,295	596,737	598,303
Equipment		166,288	170,204	112,363
Leasehold improvements		3	7	12
Quarry improvements		3,095	3,095	3,272
Construction in progress		74,009	75,232	125,135
Total capital assets, net of accumulated depreciation	$	889,202	901,094	882,042

(Continued)

The ARRC's fiscal year 2022 capital budget approved spending another $89.7 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 $64.8 million of the capital additions. The remaining capital projects will be funded out of current and prior year earnings, cash flow and debt funding. 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 2021, the ARRC had $8.3 million in notes payable outstanding, a decrease of 20.2% from 2020, and $37.8 million in revenue bonds payable outstanding, a decrease of 32.2% from 2020. 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. 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 2022 budgets for freight and passenger revenue are $90.1 million and $40.9 million, respectively. As a result, the ARRC's net position is expected to increase $19.8 million, or approximately 4.9%, by the close of 2022.

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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of the Alaska Railroad Corporation (Corporation) a component unit of the State of Alaska, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying 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 Corporation, as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* , we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules and notes thereon related to the Alaska Railroad Corporation's defined-benefit pension plan and other postemployment benefit plan be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audits 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.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2022 on our consideration of the 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

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 Corporation's internal control over financial reporting and compliance.

KPMG LLP

Anchorage, Alaska
March 31, 2022

ALASKA RAILROAD CORPORATION

Statements of Net Position

December 31, 2021 and 2020

(In thousands)

Assets and Deferred Outflows		**2021**	**2020**
Current assets:			
Cash and cash equivalents (note 3)	$	55,099	32,246
Accounts receivable, net of allowance for doubtful accounts of $710 in 2021 and $720 in 2020		13,857	12,553
Grants receivable		19,630	16,277
Materials and supplies		11,888	12,004
Prepaid expenses and other current assets		2,882	2,845
Under recovery of vehicle and equipment allocated costs (note 2(k))		—	1,084
Restricted assets (note 3)		19,897	22,015
Total current assets		123,253	99,024
Capital assets, net (notes 4 and 8)		889,202	901,094
Restricted assets (note 3)		791	8,830
Net pension asset (note 7)		13,765	—
Net other postemployment benefit (OPEB) asset (note 7)		44,725	39,152
Other assets		18	18
Total assets		1,071,754	1,048,118
Deferred outflows:			
Postretirement actuarial (note 7)		3,831	2,597
Pension actuarial (note 7)		6,621	9,495
Total deferred outflows		10,452	12,092
Total assets and deferred outflows	$	1,082,206	1,060,210
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Current portion of notes payable (notes 5 and 6)	$	2,135	2,086
Accounts payable and accrued liabilities		8,484	8,517
Payroll liabilities (note 12)		11,188	11,171
Environmental remediation reserve (notes 5 and 13)		450	451
Interest payable		720	1,050
Over recovery of vehicle and equipment allocated costs (note 2(k))		899	—
Unearned revenue		4,163	3,969
Current portion of revenue bonds payable (notes 5 and 6)		16,490	15,705
Total current liabilities		44,529	42,949
Notes payable, less current portion (notes 5 and 6)		6,119	8,255
Revenue bonds payable (net of unamortized premiums), less current portion (notes 5 and 6)		21,344	40,092
Environmental remediation reserve, less current portion (notes 5 and 13)		2,056	2,193
State of Alaska advances (note 5)		1,380	1,387
Unearned revenue – long term		1,001	1,445
Net pension liability (note 7)		—	17,939
Total liabilities		76,429	114,260
Deferred inflows:			
Postretirement actuarial (note 7)		11,278	7,870
Pension actuarial (note 7)		36,635	15,558
Regulatory liability – unearned grant revenue		556,491	552,047
Total deferred inflows		604,404	575,475
Total liabilities and deferred inflows		680,833	689,735
Net position:			
Net investment in capital assets (note 4)		285,433	279,975
Restricted for reinvestment in infrastructure (notes 2(a) and 2(l))		115,940	90,500
Total net position		401,373	370,475
Commitments and contingencies (notes 5, 6, 7, 11, 12, 13, and 14)			
Total liabilities, deferred inflows, and net position	$	1,082,206	1,060,210

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2021 and 2020

(In thousands)

		2021	2020
Operating revenues:			
Freight	$	77,495	73,649
Passenger		22,489	3,348
Other		648	267
		100,632	77,264
Grant revenue (note 8)		65,548	52,609
		166,180	129,873
Operating expenses:			
Transportation		35,444	27,984
Passenger		11,350	7,607
Advanced train control systems		814	530
Marketing and customer service		20,161	18,440
Mechanical		25,567	26,079
Engineering		55,016	55,007
Facilities		11,214	11,209
General and administrative, net of indirect cost recovery of $1,781 in 2021 and $1,914 in 2020		(1,433)	1,360
		158,133	148,216
Operating income (loss)		8,047	(18,343)
Nonoperating revenues (expenses):			
Real estate income, less direct expenses of $8,732 in 2021 and $9,146 in 2020 (notes 6 and 10)		12,769	10,413
Gain on sale of capital assets		10,334	218
Investment income		3	326
Interest expense		(166)	(1,119)
Grant revenue (note 8)		(89)	690
Total nonoperating revenues		22,851	10,528
Net income (loss)		30,898	(7,815)
Net position, beginning of year		370,475	378,290
Net position, end of year	$	401,373	370,475

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Cash Flows

Years ended December 31, 2021 and 2020

(In thousands)

		2021	2020
Cash flows from operating activities:			
Receipts from customers	$	99,328	82,318
Operating grants received		22,159	12,750
Payments to suppliers		(39,432)	(34,710)
Payments to employees		(62,383)	(61,611)
Net cash provided by (used for) operating activities		19,672	(1,253)
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(20,050)	(19,046)
Interest payments on long-term debt		(496)	(1,433)
Grant received for interest expense		(89)	690
Purchases and construction of capital assets		(49,054)	(79,762)
Proceeds from sales of capital assets		2,816	432
Grants and advances received for construction of capital assets		44,473	33,434
Net cash used for capital and related financing activities		(22,400)	(65,685)
Cash flows from investing activities:			
Real estate income and related cash flows		21,251	21,665
Real estate direct expenses paid		(5,830)	(6,704)
Net sales (purchases) of restricted investments		10,157	1,496
Interest received		3	326
Net cash provided by investing activities		25,581	16,783
Net increase (decrease) in cash and cash equivalents		22,853	(50,155)
Cash and cash equivalents at beginning of year		32,246	82,401
Cash and cash equivalents at end of year	$	55,099	32,246
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	8,047	(18,343)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		63,818	59,067
Grant revenue associated with capital assets		(43,389)	(39,859)
Changes in operating assets and liabilities that provided (used) cash:			
Materials and supplies		116	104
Accounts receivable		(1,304)	5,054
Prepaid expenses and other assets		(37)	(851)
Accounts payable and accrued liabilities		1,711	(2,199)
Over recovery of vehicle and equipment allocated costs		1,983	(760)
Payroll liabilities		17	(408)
Environmental remediation reserve		(138)	10
Accrued postretirement and pension benefits		(11,152)	(3,068)
Net cash provided by (used for) operating activities	$	19,672	(1,253)
Supplemental schedule of noncash investing and capital and related financing activities:			
Depreciation included in real estate activity	$	2,902	2,442
Capital assets acquired through accounts payable		1,190	2,934
Land acquired through exchange		7,770	—

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Fiduciary Net Position

December 31, 2021 and 2020

(In thousands)

Assets		2021	2020
Cash and cash equivalents (note 3)	$	412	3,175
Investments (note 3), at fair value:			
Mutual funds		245,209	217,498
Investment trust funds		85,287	67,222
Total assets	$	330,908	287,895
Liabilities and Net Position			
Accrued expenses	$	108	116
Claims payable		251	192
Total liabilities		359	308
Net position:			
Restricted for pension benefits and postemployment healthcare benefits		330,549	287,587
Total net position		330,549	287,587
Total liabilities and net position	$	330,908	287,895

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Changes in Fiduciary Net Position

Years ended December 31, 2021 and 2020

(In thousands)

		2021	2020
Additions:			
Contributions:			
Employer	$	3,813	4,619
Employee		4,650	4,639
Total contributions		8,463	9,258
Investment income:			
Net increase in fair value of investments (Note 3)		39,439	20,861
Interest, dividends, and other		6,923	5,235
Total investment income		46,362	26,096
Investment costs		791	581
Net investment income		45,571	25,515
Total additions		54,034	34,773
Deductions:			
Pension and postemployment benefits		10,706	9,607
Administrative		366	333
Total deductions		11,072	9,940
Net increase		42,962	24,833
Net position restricted for pension benefits and postemployment healthcare benefits:			
Beginning of year		287,587	262,754
End of year	$	330,549	287,587

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, 2021 and 2020 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. 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.

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 the terms of grant, trust, bond, debt service, 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.

(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, 2021 and 2020, the ARRC's board of directors has restricted $115.9 million and $90.5 million, respectively, of net position for reinvestment in infrastructure.

(m) Pensions and Defined-Benefit Postretirement Medical Plan

For purposes of measuring the net pension asset/(liability), net other post-employment benefit asset (OPEB), deferred outflows of resources and deferred inflows of resources related to pension and OPEB assets, and pension and OPEB expenses, 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. Application of GASB 87 is effective for ARRC's next reporting period beginning January 1, 2022. The ARRC is currently analyzing 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, 2021 and 2020:

		2021	2020
		(In thousands)	
Restricted assets – current:			
Money market mutual funds	$	19,897	21,574
Receivable from Healthcare Trust		—	441
		19,897	22,015
Restricted assets – non-current:			
Interest bearing savings		112	122
Money market mutual funds		679	8,708
		791	8,830
	$	20,688	30,845

The assets are restricted by the terms of grant, trust, bond, debt service, or other agreements and are summarized as follows at December 31, 2021 and 2020:

Description of restriction		2021	2020
		(In thousands)	
Capital assets as authorized by the Department of Natural Resources	$	112	122
Advance grant funding		421	428
Freight car purchase		—	8,022
State of Alaska advance funding for Northern Rail Extension		1,275	1,275
Welfare benefits plan		—	441
Debt service reserve 2015A and 2015B		18,622	20,299
Debt service reserve 2012A and 2012B for notes payable		258	258
	$	20,688	30,845

(a) ARRC Investments and Deposits

ARRC's cash and cash equivalents consist of the following at December 31, 2021 and 2020:

		2021	2020
		(In thousands)	
Cash	$	11,435	2,591
Money market deposit accounts		10,155	10,154
Money market mutual funds		33,509	19,501
	$	55,099	32,246

(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, 2021, the ARRC's carrying amount of cash and cash equivalents was $55.1 million and the bank balance was $55.6 million. Of the bank balance, $250,000 was covered by federal depository insurance, $43.7 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, 2021, the ARRC's carrying amount and bank balance of restricted assets was $20.7 million, all of which was held by a custodian bank in ARRC's name.

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.

(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, 2021 or 2020.

(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, 2021 and 2020:

		Fair value measurements using		
	December 31, 2021	**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	$ 33,509	33,509	—	—
Restricted assets:				
Money market mutual funds	20,576	20,576	—	—
Total investments by fair value level	$ 54,085	54,085	—	—

	December 31, 2020	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:				
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	—	—

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 $0.4 million and $3.2 million at December 31, 2021 and 2020, respectively.

(i) *Custodial Credit Risk*

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

At December 31, 2021 and 2020, the fiduciary fund's carrying amount of cash and cash equivalents and the bank balance was $0.4 million and $3.2 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 Funds' Investment Policies require five year rolling time-weighted rates of return, on a risk-adjusted basis which are tied to plan benchmarks. The Fiduciary Funds' 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'' Investment Policies authorizes investments in domestic and international equities, real estate, commodities and fixed income. The Fiduciary Funds' 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		2021	2020
MFS International Equity	$	40,036	38,140
Vanguard		34,790	34,772
T Rowe Price		34,499	33,273
HOTCHKIS & Wiley		23,667	19,138
Metropolitan West		22,590	20,554
RREEF		19,999	18,010
JP Morgan		19,864	N/A
Morgan Stanley		19,418	18,679
MFS Mid Cap		19,414	21,239
Rothschild		N/A	21,493

(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, 2021 and 2020:

			Fair value measurements using		
		December 31, 2021	**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	$	195,760	195,760	—	—
OPEB trust fund:					
Mutual funds		49,449	49,449	—	—
Total investments by fair value level		245,209	245,209	—	—
Investments measured at net asset value (NAV):					
Investment trust funds		85,287			
Total investments measured at the NAV		85,287			
Total investments	$	330,496			

		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			

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, 2021 and 2020:

	December 31, 2021 Fair value	Unfunded commitment	Redemption frequency (if currently eligible	Redemption notice period
	(in thousands)			
Investment trust funds:				
Equities/Equity funds (a)	$ 45,871	—	Monthly	None
Real estate trust funds (b)	39,416	—	Quarterly	45-90 days
Total trust funds	$ 85,287	—		

		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	—		

(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 $1.8 million and $1.9 million during the years ended December 31, 2021 and 2020, respectively.

During 2021, ARRC had a non-cash gain of $7.5 million associated with a land exchange of property which had a cost basis of $0.2 million. The new property was recorded at its current market value of $7.7 million.

The following tables summarize activity in the capital assets accounts during the years ended December 31, 2021 and 2020:

	Balance at January 1, 2021	Increases	Decreases	Balance at December 31, 2021
		(In thousands)		
Capital assets not being depreciated:				
Land and improvements	$ 34,131	7,770	(252)	41,649
Road materials and supplies	21,688	9,652	(9,477)	21,863
Construction in progress	75,232	54,905	(56,128)	74,009
Total capital assets not being depreciated	131,051	72,327	(65,857)	137,521
Capital assets being depreciated:				
Road and roadway structures	1,186,390	26,864	—	1,213,254
Equipment	507,187	21,494	(1,008)	527,673
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,695,749	48,358	(1,008)	1,743,099
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	589,653	41,306	—	630,959
Equipment	336,984	25,409	(1,008)	361,385
Leasehold improvements	2,164	5	—	2,169
Total accumulated depreciation	928,801	66,720	(1,008)	994,513
Less accumulated depletion for:				
Quarry improvements	1,019	—	—	1,019
Capital assets being depreciated and depleted, net	770,043	(18,362)	—	751,681
Net capital assets	$ 901,094	53,965	(65,857)	889,202

	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

(Continued)

Depreciation was charged to the following departments during the years ended December 31, 2021 and 2020:

		2021		2020	
		Grant-funded depreciation	**Nongrant-funded depreciation**	**Grant-funded depreciation**	**Nongrant-funded depreciation**
		(In thousands)		(In thousands)	
Transportation	$	10,236	1,720	6,284	728
Passenger		—	58	—	117
Marketing and customer service		—	598	—	656
Mechanical		3,132	7,357	3,294	7,030
Engineering		26,406	8,000	26,586	7,819
Facilities		3,412	1,859	3,489	1,801
General and administrative		203	837	206	880
Real estate		641	2,261	571	1,871
	$	44,030	22,690	40,430	20,902

Net investment in capital assets is as follows at December 31, 2021 and 2020:

		2021	2020
		(In thousands)	
Net capital assets	$	889,202	901,094
Capital assets acquired through accounts payable		(1,190)	(2,934)
Notes payable (note 6)		(8,254)	(10,341)
Outstanding balance of revenue bonds (note 6)		(37,834)	(55,797)
Unearned grant revenue		(556,491)	(552,047)
	$	285,433	279,975

(5) Long-Term Liabilities

Long-term liability activity is summarized as follows during the years ended December 31, 2021 and 2020:

	Balance at January 1, 2021	Additions	Reductions	Balance at December 31, 2021	Due within one year
			(In thousands)		
Long-term debt:					
Notes payable	$ 10,341	—	(2,087)	8,254	2,135
Revenue bonds payable	49,510	—	(15,705)	33,805	16,490
Plus (less) unamortized amounts:					
Issuance premiums	6,287	—	(2,258)	4,029	—
Total revenue bonds payable	55,797	—	(17,963)	37,834	16,490
Environmental remediation reserve	2,644	245	(383)	2,506	450
State of Alaska advances	1,387	—	(7)	1,380	—
Unearned revenue – long-term	1,855	—	(444)	1,411	410
Total long-term liabilities	$ 72,024	245	(20,884)	51,385	19,485

	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

The ARRC has arrangements for two short-term unsecured lines of credit. The general purpose line of credit allows borrowing up to $10.0 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, 2021 or 2020.

(6) Long-Term Debt

Long-term debt at December 31, 2021 and 2020 consists of the following:

		2021	2020
		(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	$	568	982
Note payable, secured by real estate revenue, due in monthly payments of $48,538, including interest at 2.65%, matures on April 21, 2023		762	1,316
Note payable, secured by equipment, due in monthly payments of $74,376, including interest at 2.21%, matures on December 17, 2029		6,538	7,277
Note payable, secured by equipment, due in monthly payments of $32,469, including interest at 1.67%, matures on December 18, 2022		386	766
		8,254	10,341
Less current portion		2,135	2,086
	$	6,119	8,255
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	$	37,834	55,797
Less current portion		16,490	15,705
	$	21,344	40,092

Annual payments on debt are scheduled as follows at December 31, 2021:

	Notes payable		Revenue bonds payable		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
			(In thousands)		
Years ending December 31:					
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	3,413	156	—	—	3,569
	8,254	$ 630	33,805	1,852	44,541
Current portion of principal	(2,135)		(16,490)		(18,625)
Unamortized premium	—		4,029		4,029
Total noncurrent portion	$ 6,119		21,344		29,945

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, 2021. 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) 2021 and the estimated apportionments for FFY 2022 through 2026:

FFY	**Section 5307 formula program**	**Section 5337 formula program**	**Total**
2021 Apportionments	$ 14,012,371	30,020,411	44,032,782
2022 Estimated apportionments	18,216,083	46,531,637	64,747,720
2023 Estimated apportionments	18,580,405	47,462,270	66,042,675
2024 Estimated apportionments	18,952,013	48,411,515	67,363,528
2025 Estimated apportionments	19,331,053	49,379,745	68,710,798
2026 Estimated apportionments	19,717,674	50,367,340	70,085,014

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.

(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, 2021, the Plan assets consist of cash and cash equivalents of less than 1%, fixed-income securities of 26.8%, equities of 58.0%, commodities of 2.2%, and real estate investments of 12.8%.

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

	2021	2020
Inactive plan members or beneficiaries currently receiving benefits	367	334
Inactive plan members entitled to but not yet receiving benefits	386	380
Active plan members	672	675
	1,425	1,389

The components of the net pension liability/(asset) for the Plan at December 31, 2021 and 2020 were as follows:

		2021	2020
		(In thousands)	
Total pension liability	$	257,862	251,248
Fiduciary net position		(271,627)	(233,309)
Net pension liability (asset)	$	(13,765)	17,939
Plan fiduciary net position as a percentage of the total pension liability		105.3 %	92.9 %

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2021 the ARRC reported an asset for the pension plan. At December 31, 2020, the ARRC reported a liability for the pension plan. The net pension asset and liability were measured as of December 31, 2021 and 2020, respectively, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2021 and 2020, respectively. For the years ended December 31, 2021 and 2020, the ARRC recognized pension income of $3.9 million and pension expense of $4.2 million, respectively.

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

		2021		2020	
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	$	669	(1,443)	13	(2,435)
Changes of assumptions		5,952	(9,232)	9,482	(3,090)
Net difference between actual and projected earnings on investments		—	(25,960)	—	(10,033)
Total	$	6,621	(36,635)	9,495	(15,558)

(Continued)

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:		
2022	$	(5,244)
2023		(10,196)
2024		(8,337)
2025		(6,237)
	$	(30,014)

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

Actuarial assumption	2021	2020
Inflation	2.5%	2.8%
Salary increases	2.5% 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	1.25%	1.4%
Retirement, disablement, and termination	Based on 2015-2019 experience study	Based on 2010-2014 experience study
Administrative expenses	0.55% of payroll, based on current year actual expense	0.52% of payroll, based on current year actual expense

Mortality rates were based on the Society of Actuaries RP-2014 healthy annuitant mortality table, rolled back to 2006 using MP-2014 and projected forward to 2015 using MP-2017, adjusted 91% for males and 96% for females and the Scale MP-2020 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 %	(0.49)%	2.20 %
Total return bond	13.00	(0.10)	2.68
Global bond	5.00	0.63	2.68
High yield bond	7.00	2.15	3.66
Domestic large cap	20.00	3.61	5.85
Domestic mid cap	12.00	4.59	6.10
Domestic small cap	8.00	4.83	6.34
International equity	13.00	4.34	5.61
Commodities	2.00	3.32	3.90
Real estate	15.00	3.56	4.63
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/(asset) to changes in the discount rate: The following presents the net pension liability/(asset) calculated using the discount rate of 7.25%, as well as what the net pension liability/(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 (6.25)%	Current discount rate (7.25)%	1% Increase (8.25)%
			(In thousands)	
Net pension liability as of:				
December 31, 2021	$	23,370	(13,765)	(44,330)
December 31, 2020		54,807	17,939	(12,289)

The annual money-weighted rate of return, net of investment expense, was 16.25% and 10.30% for the years ended December 31, 2021 and 2020, respectively.

Changes in the net pension liability/(asset) are as follows:

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability/(asset) (a) – (b)
			(In thousands)	
Balances at January 1, 2021	$	251,248	233,309	17,939
Changes for the year:				
Service cost		6,176	—	6,176
Interest		18,302	—	18,302
Changes of benefit terms		—	—	—
Difference between expected and actual experience		837	—	837
Changes of assumptions		(8,735)	—	(8,735)
Contributions – employer		—	3,813	(3,813)
Contributions – employee		—	4,650	(4,650)
Net investment income		—	40,127	(40,127)
Benefit payments, including refunds of employee contributions		(9,966)	(9,966)	—
Administrative expenses		—	(306)	306
Net changes		6,614	38,318	(31,704)
Balances at December 31, 2021	$	257,862	271,627	(13,765)

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability/(asset) (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

Additional required supplementary information for ARRC's defined-benefit pension plan can be found on pages 50 through 52.

(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, 2021 or 2020. As of December 31, 2021, the Plan assets are held in trust and consist of cash and cash equivalents of less than 1%, fixed-income securities of 57.4%, equities of 34.8%, and real estate investments of 7.8%. 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:

	2021	2020
Inactive plan members or beneficiaries currently receiving benefits	31	37
Inactive plan members entitled to but not yet receiving benefits	—	—
Active plan members	368	370
	399	407

The components of the net other postemployment benefit (OPEB) asset for the Plan at December 31, 2021 and 2020 were as follows:

	2021	2020
	(In thousands)	
Total OPEB liability	$ 14,197	15,126
Fiduciary net position	(58,922)	(54,278)
Net OPEB asset	$ (44,725)	(39,152)
Plan fiduciary net position as a percentage of the total OPEB asset	(415.0)%	(358.8)%

OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At December 31, 2021 and 2020, the ARRC reported an asset for the OPEB plan. The net OPEB asset was measured as of December 31, 2021 and 2020, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of January 1, 2021 and 2020. For the years ended December 31, 2021 and 2020, the ARRC recognized net OPEB income of $3.4 million and $2.7 million, respectively.

(Continued)

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		2021 Deferred outflows of resources	2021 Deferred inflows of resources	2020 Deferred outflows of resources	2020 Deferred inflows of resources
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	1,670	(5,643)	—	(6,676)
Changes of assumptions		2,161	(3,271)	2,597	(315)
Net difference between actual and projected earnings on investments		—	(2,364)	—	(879)
Total	$	3,831	(11,278)	2,597	(7,870)

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:		
2022	$	(1,110)
2023		(1,928)
2024		(1,317)
2025		(1,185)
2026		(752)
Thereafter		(1,155)
	$	(7,447)

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

Actuarial assumption	2021	2020
Discount rate	6.25% based on crossover test	6.75% based on crossover test
Inflation	2.5%	2.8%
Salary increases	2.5% 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	6.25%	6.75%
Retirement, disablement, and termination	Based on 2015-2019 experience study	Based on 2010-2014 experience study
Administrative expenses	0.18% of payroll, based on current actual year expenses	0.15% of payroll, based on current actual year expenses
Participation rates	Varies from 30% to 85%	Varies from 35% to 85%
Medical trend	Non medicare 7.00%, decreasing to an ultimate rate of 4.0% in 2076 Medicare 6.1%, decreasing to an ultimate rate of 4.0% in 2076	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

Mortality rates were based on the Society of Actuaries RP-2014 healthy annuitant table, rolled back to 2006 using MP-2014 and projected forward to 2015 using MP-2017, adjusted 91% for males and 96% for females and the Scale MP-2020 generational mortality improvement in longevity that management expects to occur in the future.

The long-term expected rate of return on OPEB plan investments of 6.25% 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 OPEB plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of nominal rate of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Nominal Rate of Return - Long Term
U.S. TIPS	6.00 %	5.00 %
Short-Term Bond	5.00	3.75
Total bond return	31.00	5.25
Global bond	7.00	5.00
High yield bond	11.00	6.25
Domestic large cap	11.00	8.00
Domestic mid cap	7.00	8.55
Domestic small cap	4.00	8.75
U.S. healthcare (equity)	4.00	8.50
International equity	6.00	8.75
Real estate	8.00	7.00
Total	100.00 %	

Discount Rate: The discount rate used to measure the total OPEB liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, and 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 liability/(asset) to changes in the discount rate: The following presents the net OPEB liability/(asset) calculated using the discount rate of 6.25%, as well as what the net OPEB liability/(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 (5.25)%	Current discount rate (6.25)%	1% Increase (7.25)%
			(In thousands)	
Net OPEB liability (asset) as of:				
December 31, 2021	$	(42,373)	(44,725)	(46,616)
December 31, 2020		(36,750)	(39,152)	(41,088)

Sensitivity of the net OPEB liability/(asset) to changes in the Medical Cost Trend Rate: The following presents the net OPEB asset calculated using the medical cost trend rate of 7.0% (Non-Medicare) and 6.1% (Medicare) beginning in 2022, decreasing to an ultimate rate of 4.0% in 2076+ as of December 31, 2021 and 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, as well as what the net OPEB liability/(asset) 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, 2021	$	(47,015)	(44,725)	(41,799)
December 31, 2020		(41,534)	(39,152)	(36,111)

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, 2021	$	15,126	54,278	(39,152)
Changes for the year:				
Service cost		446	—	446
Interest		857	—	857
Changes of benefit terms		—	—	—
Difference between expected and actual experience		1,879	—	1,879
Changes in assumptions		(3,371)	—	(3,371)
Contributions – employer		—	—	—
Net investment income		—	5,444	(5,444)
Benefit payments, net of retiree premiums		(740)	(740)	—
Administrative expenses		—	(60)	60
Net changes		(929)	4,644	(5,573)
Balances at December 31, 2021	$	14,197	58,922	(44,725)

(Continued)

		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)

Additional required supplementary information for ARRC's OPEB plan can be found on pages 53 through 55.

(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 $11,000 and $13,000 for the years ended December 31, 2021 and 2020, 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 81% 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 $842,000 and $804,000 for the years ended December 31, 2021 and 2020, 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, 2021 or 2020.

(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, 2021 and 2020 consists of the following:

			2021	2020
			(In thousands)	
Land and improvements		$	8,729	8,729
Road and roadway structures	15–32 year life		713,650	701,305
Equipment	5–25 year life		209,855	206,190
Construction in process			42,075	31,788
		$	974,309	948,012

Grant revenue earned during the years ended December 31, 2021 and 2020 consisted of the following:

		2021	2020
		(In thousands)	
Depreciation on assets constructed with grant funds	$	44,030	40,430
Grant funded maintenance expense		22,159	12,751
Grant funded bond principal, interest, and issuance costs		(89)	690
		66,100	53,871
Less grant revenue included in real estate nonoperating revenues		(641)	(572)
Less grant funded interest on Series 2015A revenue bonds included in nonoperating revenues		89	(690)
	$	65,548	52,609

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

			2021	2020
			(In thousands)	
Road and roadway structures	15–32 year life	$	163,777	163,777
Equipment	5–25 year life		61,937	61,937
Construction in process			—	—
		$	225,714	225,714

(9) Concentrations

During 2021, ARRC entered into an agreement with a customer under the Internal Revenue Code §45G. Under the agreement, ARRC received $4.8 million for qualified track maintenance expenses and gave the customer a rebate of $2.5 million. The qualified track maintenance expenses and the rebate are recorded as net reductions in operating expenses.

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.

A significant portion of ARRC's funding comes from the federal government in the form of grants. Federal grant funding was used for 47.9% and 34.9% of capital expenditures in 2021 and 2020, 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 $18.9 million and $17.8 million in 2021 and 2020, respectively. The following table summarizes future minimum lease receipts contractually due under long-term agreements as of December 31, 2021:

		Amount
		(In thousands)
Year ending December 31:		
2022	$	15,084
2023		13,640
2024		12,636
2025		12,434
2026		11,833
Thereafter		163,100
	$	228,727

(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 $10.1 million and $11.3 million in 2021 and 2020, respectively. Future minimum lease payments as of December 31, 2021 are summarized as follows:

		Amount (In thousands)
Year ending December 31:		
2022	$	11,703
2023		2,234
2024		169
	$	14,106

(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, 2021 and 2020:

		2021	2020
		(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, 2021 and 2020:

		Balance at January 1, 2021	Incurred claims	Claim payments	Balance at December 31, 2021
		(In thousands)			
Employee health benefits	$	867	12,266	(12,157)	976
Workers' compensation		2,672	765	(1,253)	2,184
	$	3,539	13,031	(13,410)	3,160

	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

(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 ARW, TCU, and UTU labor agreements will expire in 2022 and all parties have opened negotiations.

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 $53,868 and $45,000 of costs during 2021 and 2020 under these appropriations. These amounts are included in accounts receivable, construction in progress, and unearned grant revenue as of December 31, 2021 and December 31, 2020. 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/(Asset) and Related Ratios – Defined-Benefit Pension Plan

Last 10 Fiscal Years*

(In thousands)

		2021	2020	2019	2018	2017	2016	2015
Total pension liability:								
Service cost	$	6,176	6,106	5,835	5,676	5,777	5,853	5,834
Interest		18,302	17,659	16,059	15,221	14,230	13,244	11,832
Changes of benefit terms		—	—	—	—	154	—	—
Differences between expected and actual experience		837	(1,502)	(496)	(2,321)	(482)	6,368	—
Changes of assumptions		(8,735)	(3,929)	16,396	—	272	—	—
Benefit payments, including refunds of member contributions		(9,966)	(9,116)	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Net change in total pension liability		6,614	9,218	29,708	11,514	13,754	19,924	12,746
Total pension liability – beginning		251,248	242,030	212,322	200,808	187,054	167,130	154,384
Total pension liability – ending (a)		257,862	251,248	242,030	212,322	200,808	187,054	167,130
Plan fiduciary net position:								
Contributions – employer		3,813	4,619	5,220	3,555	4,051	4,163	3,571
Contributions – employees		4,650	4,639	4,477	4,341	4,302	4,383	4,290
Total net investment income (loss)		40,127	21,600	32,628	(8,075)	22,088	11,774	(199)
Benefit payments, including refunds of member contributions		(9,966)	(9,116)	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Administrative expenses		(306)	(273)	(269)	(312)	(409)	(593)	(550)
Net change in plan fiduciary net position		38,318	21,469	33,970	(7,553)	23,835	14,186	2,192
Plan fiduciary net position – beginning		233,309	211,840	177,870	185,423	161,588	147,402	145,210
Plan fiduciary net position – ending (b)		271,627	233,309	211,840	177,870	185,423	161,588	147,402
Plan's net pension liability (a) – (b)	$	(13,765)	17,939	30,190	34,452	15,385	25,466	19,728
Plan fiduciary net position as a percentage of the total pension liability		105.30 %	92.86 %	87.53 %	83.77 %	92.33 %	86.39 %	88.20 %
Covered payroll	$	51,671	51,559	49,739	48,228	47,804	48,705	47,660
Net pension liability as a percentage of covered payroll		(26.64)%	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)

		2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	3,813	4,619	5,220	3,555	4,051	4,163	3,571
Contributions in relation to the actuarially determined contribution		3,813	4,619	5,220	3,555	4,051	4,163	3,571
Contribution deficiency (excess)	$	—	—	—	—	—	—	—
Covered payroll	$	51,671	51,559	49,739	48,228	47,804	48,705	48,705
Contributions as a percentage of covered payroll		7.38 %	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 *

	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	16.25 %	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 /(Asset) and Related Ratios –
Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

(In thousands)

		2021	2020	2019	2018	2017	2016	2015
Total OPEB liability:								
Service cost	$	446	522	529	599	700	699	633
Interest		857	972	1,003	981	1,095	985	1,021
Changes of benefit terms		—	—	—	—	526	—	—
Differences between expected and actual experience		1,879	(1,205)	(1,998)	(4,511)	(165)	(1,832)	—
Changes of assumptions		(3,371)	(353)	1,186	1,461	—	1,442	—
Changes in benefit terms			—	—	—	—	—	—
Benefit payments, net of retiree premiums		(740)	(491)	(371)	(350)	(331)	(506)	(193)
Net change in total OPEB liability		(929)	(555)	349	(1,820)	1,825	788	1,461
Total OPEB liability – beginning		15,126	15,681	15,332	17,152	15,327	14,539	13,078
Total OPEB liability – ending (a)		14,197	15,126	15,681	15,332	17,152	15,327	14,539
Plan fiduciary net position:								
Contributions – employer		—	—	—	—	—	—	—
Total net investment income (loss)		5,444	3,914	6,096	(958)	4,295	2,670	(384)
Benefit payments, net of retiree premiums		(740)	(491)	(371)	(350)	(331)	(506)	(193)
Administrative expenses		(60)	(59)	(59)	(71)	(77)	(66)	(48)
Net change in plan fiduciary net position		4,644	3,364	5,666	(1,379)	3,887	2,098	(625)
Plan fiduciary net position – beginning		54,278	50,914	45,248	46,627	42,740	40,642	41,267
Plan fiduciary net position – ending (b)		58,922	54,278	50,914	45,248	46,627	42,740	40,642
Plan's net OPEB liability (asset) (a) – (b)	$	(44,725)	(39,152)	(35,233)	(29,916)	(29,475)	(27,413)	(26,103)
Plan fiduciary net position as a percentage of the total OPEB liability		(415.03)%	(358.84)%	(324.69)%	(295.12)%	(271.85)%	(278.85)%	(279.54)%
Covered payroll	$	33,280	32,015	32,154	33,444	35,292	46,941	47,660
Net OPEB liability as a percentage of covered payroll		(134.39)%	(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)

		2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	—	—	—	—	—	—	—
Contributions in relation to the actuarially determined contribution		—	—	—	—	—	—	—
Contribution deficiency (excess)	$	—	—	—	—	—	—	—
Covered payroll	$	33,280	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 *

	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	7.28 %	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, 2021 are as follows:

(a) Actuarial Valuation Date: January 1, 2021

(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: 2.5%

(f) Investment rate of return: 7.25%

(g) Administrative Expenses: $91,500 payable as of the last day of the plan year

(h) Cost of Living Allowance: 1.25% (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-2020 generational mortality improvement

(j) Termination: Based on Alaska Railroad Corporation Pension and Postretirement Health Care Plans 2015-2019 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	8.5 %	N/A
56	6.0	N/A
57	12.5	N/A
58	16.0	N/A
59	18.0	N/A
60	20.0	10.0 %
61	18.0	10.0
62	20.0	15.0
63	23.0	15.0
64	25.0	20.0
65	25.0	25.0
66	25.0	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 improvement projection was updated.

Retirement and termination rates were updated.

Salary merit increases were updated.

Future service accruals for layoff participants were updated.

The general inflation assumption was decreased to 2.50%

The retiree cost-of-living increase assumption was decreased to 1.25%.

(n) Administrative expenses: The administrative expenses changed from 0.53% to 0.59% of payroll, based on actual expenses paid, which increased by 11.8%.

(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, 2021 are as follows:

(a) Actuarial Valuation Date: January 1, 2021

(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.

(e) Inflation: 2.5%

(f) Investment rate of return: 6.25%

(g) Administrative Expenses: $16,500 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-2020

(i) Termination: Based on ARRC 2015-2019 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	8.5 %	N/A
56	6.0	N/A
57	12.5	N/A
58	16.0	N/A
59	18.0	N/A
60	20.0	10.0 %
61	18.0	10.0
62	20.0	15.0
63	23.0	15.0
64	25.0	20.0
65	25.0	25.0
66	25.0	25.0
67	25.0	25.0
68	25.0	25.0
69	25.0	25.0
70	100.0	100.0

(Continued)

(l) Health Care Trend:

Year	Increase from Prior Year Non-Medicare	Increase from Prior Year Medicare
2021	Actual Premiums	
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) Participation Rates: 30% of future retirees elect coverage, 85% of future disabled retirees to elect coverage, 25% of disabled retirees under age 65 are Medicare eligible, all retirees over age 65 are assumed Medicare eligible, 55% of nondisabled retirees continue coverage at first Medicare eligibility.

(n) Per capita claims costs:

Age	Old plan Male	Old plan Female	Blue plan Male	Blue plan Female	Gold plan Male	Gold plan Female
50	$ 11,786	13,847	11,114	13,134	10,597	12,570
55	15,506	16,063	14,758	15,309	14,159	14,699
60	20,968	19,420	20,136	18,614	19,434	17,939
64	23,577	20,929	22,715	20,104	21,969	19,401
65	8,377	7,056	7,519	6,241	6,773	5,557
70	9,651	7,956	8,663	7,038	7,803	6,266
75	11,471	9,324	10,296	8,248	9,274	7,343
80	13,788	11,131	12,376	9,846	11,147	8,766
85	16,206	13,081	14,546	11,571	13,102	10,302

Age	Blue Essentials Plan Male	Blue Essentials Plan Female	Gold Essentials Plan Male	Gold Essentials Plan Female
50	$ 10,735	12,677	10,226	12,127
55	14,236	14,767	13,654	14,176
60	19,402	17,940	18,729	17,294
64	21,877	19,369	21,165	18,698
65	6,687	5,544	5,975	4,887
70	7,703	6,251	6,883	5,511
75	9,156	7,326	8,181	6,458
80	11,005	8,746	9,834	7,710
85	12,935	10,278	11,558	9,061

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

The discount rate was decreased from 6.75% to 6.25%.

The mortality improvement projection was updated.

Retirement and termination rates were updated.

Salary merit increases were updated.

Future service accruals for layoff participants were updated.

The general inflation assumption was decreased to 2.50%.

Participation rates at retirement were updated.

(p) Administrative expenses: The administrative expenses stayed the same at 0.18% of payroll, based on actual expenses paid, which increased by 1.8%.

by Judy Patrick

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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