ALASKA RAILROAD

ANNUAL REPORT

2022

Navigating a post-pandemic transition.

by Conductor Brice Douglas

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 MOW Foreman Nick Jacobs

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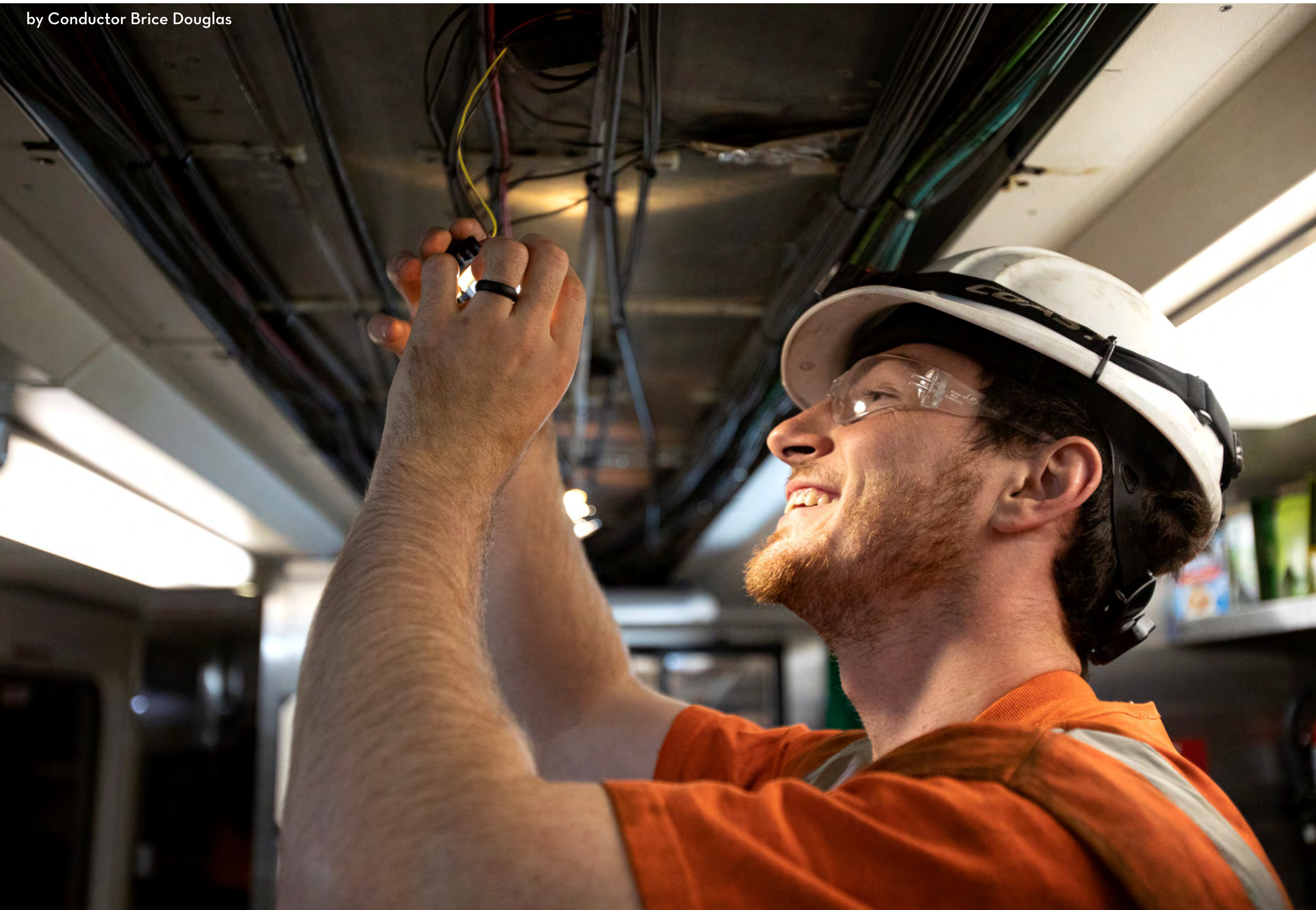


by Conductor Brice Douglas

LEADERSHIP

MANAGEMENT TEAM

Bill O'Leary
President and CEO

Clark Hopp
Chief Operating Officer

Michelle Maddox
Chief Financial Officer

Andy Behrend
Chief Counsel

Jennifer Mergens
Chief Human Resources Officer

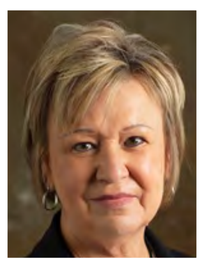
Jim Kubitz
VP Real Estate and Facilities

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

by Judy Patrick

ARRC Chairman Emeritus Bill Sheffield passed away on Nov. 4, 2022. For over 40 years, he championed Alaska Railroad progress; perhaps most notably in 1984 when, as governor, he brokered the State of Alaska's purchase of the railroad. At age 94, he missed only the first six years of the railroad's 100-year history. As expressed in a Nov. 4 press release, Railroaders honor his legacy.

phooto courtesy of ARRC MOW

YEAR IN REVIEW

Navigating a post-pandemic transition with experience and fortitude.

2022 was about transitioning to more. That became apparent from the year's onset.

Dark, menacing clouds moved over Interior Alaska the final weekend of 2021, fueling an astonishing storm that snarled railroad north-end operations for several weeks into New Year 2022. Aptly nicknamed *Snowpocalypse*, the historic storm unleashed drenching rains followed by a wind-whipped snow dump that measured in feet, not inches.

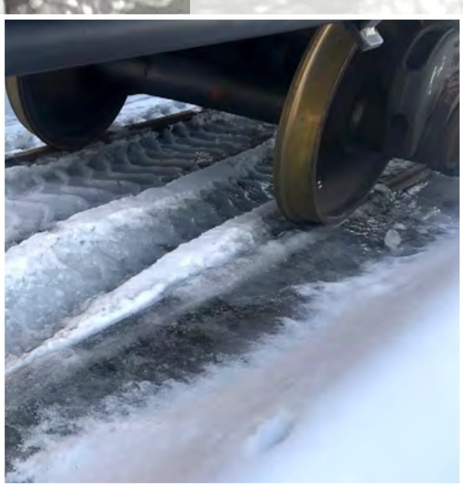
Despite the rare and extreme storm conditions, Mother Nature met her match in Alaska Railroad maintenance of way (MOW) track repairers, inspectors and heavy equipment operators. They dug, dozed and blew heavy snow piled so high that even hulking ballast regulators were stopped in their tracks. Crews also chipped away at ice coated so thick, that it took days to free crossing rails and switches to allow trains safe passage.

MOW General Roadmaster Jason Kerkove attributed the hero-class clean-up to "sheer talent and determination."

Those words can describe many a Railroader — people who do the good work of railroading day in and day out. When big challenges or opportunities arise, they rise to the occasion. Case in point: MOW crews battling *Snowpocalypse* were backed by skilled, hard-working mechanics who kept the stressed heavy equipment running, and by carmen and train crews who kept work trains ferrying materials needed to restore track.

As 2022 progressed, every railroad function sped up to serve more of just about everything — passengers, freight, real estate activity, capital projects and community events. Many business lines were booming, propelled by a nation shaking free of COVID-19 restrictions. On the flip side, the pandemic left persistent short staffing and supply delays in its wake.

Through it all, Railroaders drew upon their experience and fortitude to navigate this year of post-pandemic transition. They drove the Alaska Railroad Corporation (ARRC) to finish 2022 with promising — and sometimes record-breaking — results.



by Fairbanks Ops Director Andy Burgess

At just over $110 million, freight revenues broke records, as did passenger revenues of $45 million. Real Estate revenue grew 26% over 2021 to contribute almost $26 million. Revenue from ARRC's three main business lines helped to push overall revenues to an all-time high of $250.24 million.

ARRC posted a net income of $39.19 million, providing critical funds to sustain railroad infrastructure. Combined with nearly $33.4 million in grant-funded capital spending, railroad funding made possible one of our most robust capital programs, with a nearly $90 million budget.

Our operating ratio settled at a remarkable 0.91, to reflect exceptionally efficient freight and passenger operations.


by Conductor Brice Douglas

Freight: Tonnage rebound and record revenues

The $110.15 million in freight revenue accounted for 44% of all 2022 revenues. The year's freight activity generated 42% more revenues than in 2021 ($77.5 million), and represented a 30% jump over pre-pandemic revenues in 2019. Freight trains hauled 3.7 million tons of cargo, growing by nearly half (48%) over 2021 (2.5 million tons), and besting pre-pandemic volume in 2019 (3.48 million tons) by 6%.

The remarkable freight growth came largely from a 57% increase in interline business revenues. The Alaska Rail Marine Service (ARMS) generated revenues of $51.7 million in 2022, nearly $19 million more than in 2021. Normally, barges arrive at ARRC's Whittier dock once per week, or 52 per year. In 2022, customer demand warranted 64 vessels, due mostly to North Slope oilfield activity that drove a 38% increase in railcars moving by sea from Seattle to Whittier. We expect more of the same in 2023.

Construction along the rail belt drove a 64% increase in gravel volume, 2022 vs. 2021; although gravel tonnage was still 15% shy of 2019 volumes. A good share of gravel hauling was in support of the Alaska Dept. of Transportation & Public Facilities project to rehabilitate the Seward Highway from MP 75 to 90 (near Portage).

Petroleum customer activity translated to a 7% increase in our bulk petroleum volumes compared to 2021. Coal held steady, with just a slight dip in tonnage.

The "other" freight category was significant, accounting for 13% of total tonnage. Some came from several ships with oilfield supplies docked in Seward, where our trains then hauled the pipe, drilling mud and fracking sand north to Fairbanks, bound for the North Slope.

Passenger: Ridership rebound and record revenues

Our passenger services reflected explosive post-pandemic growth in travel, as people around the globe and the nation emerged, eager to explore. Nearly 462,000 chose to travel via the Alaska Railroad. That was more than double the 200,381 passenger total in 2021, and only about 60,000 shy of pre-pandemic ridership of 522,101 in 2019.

Passengers that rode Alaska Railroad coaches contributed three-quarters (74%) of 2022 passenger revenues. Nearly all of ARRC routes generated revenues above pre-pandemic levels in 2019. Some even broke records. Ridership on ARRC's *Coastal Classic* and *Denali Star* trains was the highest ever.

The railroad's winter passenger service recovered some ground in 2022. Overall, the October-to-April season's ridership of 12,578 passengers was nearly double the 6,809 riders in 2021, but still 13% below ridership of 14,484 in 2019. March 2022 stood out, as the *Aurora Winter Train's* weekend and mid-week service transported 4,692 passengers between Anchorage and Fairbanks — an all-time high for a single month's service during winter.

After a two-year hiatus, in the last quarter of 2022, three special event trains returned to an eager market of primarily Alaska residents. Seats sold out on the early fall beer trains in Anchorage and Fairbanks, and the *Holiday Trains* that ran three weekends in December.

The only passenger segment that fell short of budgeted expectations was cruise-contracted train service, which accounted for the remaining 26% of passenger revenues in 2022. While cruise-related ridership of 193,490 was a monumental increase over 2021 (33,666), it was about 22% lower than pre-pandemic levels in 2019 (247,098). One reason: many cruise ships did not sail at capacity in 2022, especially in the early part of the season.

Staffing shortages remained a stubbornly difficult challenge that impacted service standards for both the railroad and vendors. The railroad responded in 2022 by developing new recruiting initiatives, some of which will launch in 2023.

Looking ahead, Alaska's reputation as an exotic, yet safe, destination bodes well for the ARRC, along with hundreds of transportation- and travel-dependent businesses. We expect the cruise industry to continue improving in 2023, with full (and perhaps larger) ships that fill more of our cruise trains to capacity.

Real Estate: Dependable income and terminal investments

ARRC's real estate business line remained a solid and dependable income generator, contributing $16.95 million net to the railroad's bottom line. That was a third (33%) more than real estate's $12.77 net income in 2021. The boost came primarily by way of returning cruise ships that pay dock user fees. Cruise passengers also contributed a new modest facility improvement fee that will help with the cost of replacing ARRC's aging Seward passenger dock and terminal.

This mega-project is important to the railroad, cruise companies and the Seward community. It's also a critical gateway for the flow of visitor statewide, benefitting thousands of Alaska-based businesses that rely on travel and tourism dollars. Understanding the project's importance, Alaska's lawmakers greenlit 2022 legislation allowing ARRC to issue up to $60 million in bonds to help bring the project to fruition. Bond debt will be repaid by dock users, meaning the state is not on the hook. Royal Caribbean Group has been a valuable project partner and proponent, helping with design and funding decisions. We expect the Seward dock project's final design and associated funding to be sorted out in the near future.

Cruise ships also land in Whittier, where ARRC has a busy railyard and key freight hub. Connected by rail, cruise company-owned facilities again welcomed thousands of passengers to Alaska in 2022. Many took the train to Alaska destinations beyond Whittier.

by ROW Projects Manager Kate Dueber

Like Seward, Whittier's importance as a strategic harbor town has invited investments by the community and private sector. ARRC has likewise funded several improvements to its railyard and marine facilities in recent years. In 2022, ARRC completed an environmental review in support of updating our *Whittier Terminal Master Plan*. Funded 80% by a grant from the federal Maritime Administration (MARAD), the $1.5 million project will outline potential improvements to help meet demand, while complementing community and commercial infrastructure. The plan, with supporting studies, should be complete by 2024.

Capital Program: Robust and ambitious

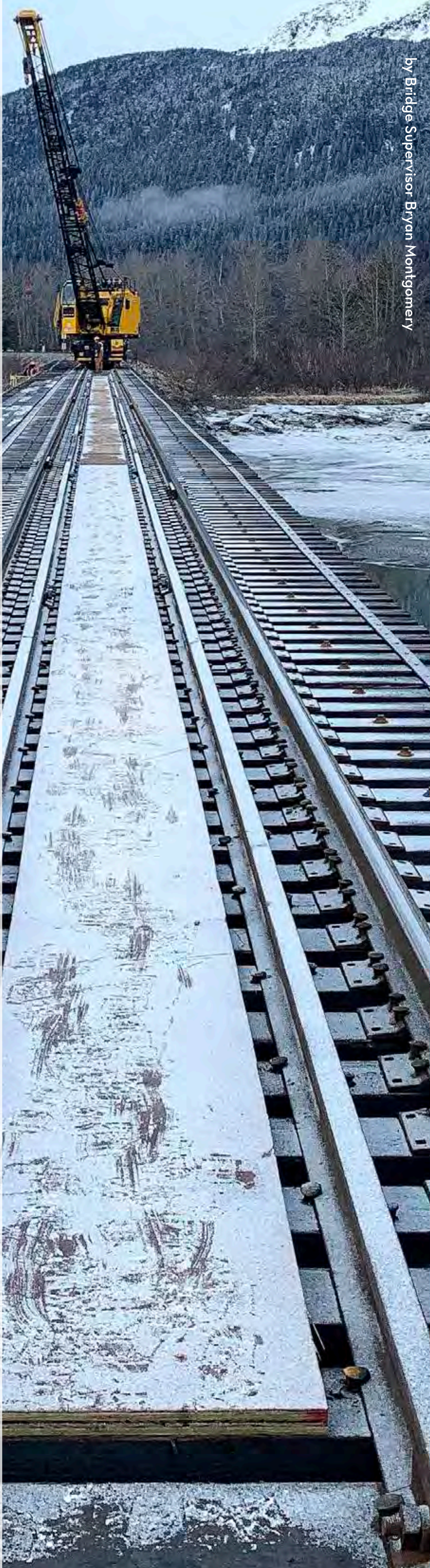
Beyond Seward and Whittier, ARRC tackled an ambitious capital program in 2022 with a considerable $89.7 million budget. About $59 million came from federal grants flowing mostly through the Federal Transit Administration (FTA). ARRC was responsible for the remainder, funding an internal capital program, providing matching contributions to federal grants, and incurring new debt.

The railroad focused nearly half the capital budget on nuts-and-bolts infrastructure. About $22 million supported a strong track rehabilitation program that saw many capital gang crews working nights during the summer and continuing work into the winter. Crews replaced aging ties and smaller culverts, rebuilt crossings, reconstructed turnouts and upgraded other track components to ensure safe and durable infrastructure.

About $18 million underwrote bridge rehabilitation and replacement projects as part of a 10-year plan to upgrade 70 of our 180 bridges. We hired more Railroaders to form an additional bridge crew to support capital upgrades. Internal forces constructed a new bridge and strengthened more than a dozen other structures to extend their useful lives.

We also put more capital into preventing train incidents. In 2022, our MOW division, including its Communications and Signals department, completed a multi-year project to better detect flaws in wheels, loads, brakes and other train parts. The effort included ARRC's first mega-detector site, which consolidated existing detection systems, added a new wheel impact load detector (WILD) near Anderson, and installed our first bearing acoustic monitor (BAM). The BAM can tell when bearings and other train components are degrading, so that mechanics can fix or replace worn parts before they cause problems. The project also adopted *FleetOne*, a new app that compiles data from detectors system-wide, and proactively flags locomotives and railcars that need attention.

On a related note, our new Positive Train Control (PTC) system has proven to work smoothly with our peak season train operations. Verification came summer 2022, when we operated a full train schedule (no pandemic reductions) with a fully functional PTC. Designed to prevent on-track accidents



by Bridge Supervisor Bryan Montgomery

by Judy Patrick

by Brice Douglas

caused by human error, PTC is closely integrated with our trains, tracks, signals and communications infrastructure. We wondered if PTC might slow operations during the busiest of conditions. It didn't. While the PTC project is complete, we continue to refine it with enhanced technologies. For example, in 2022, the entire 51-strong locomotive fleet was retrofitted with a higher precision GPS system.

Safety: Risk prevention and problem detection

Prevention and detection are also elements of our employee safety goals and tactics. Safety training and education programs help Railroaders prevent injury and mitigate other risks, while the ARRC safety metrics program helps detect areas needing more focus.

In 2022, the railroad expanded its suite of mandatory and optional safety training programs. More safety topics became available online to provide on-demand learning, some of which complement classroom training where employees can practice what they learn.

Pre-pandemic, ARRC had started a learn-by-doing program called Incident Free Culture (IFC). It helps employees learn how to talk and relate to one another when dealing with safety topics. In 2022, we laid the groundwork to restart IFC workshops on a regular, scheduled basis starting early in 2023.

The railroad's safety department closely monitors incidents, accidents and actions related to safety, in order to adjust or increase our preventive, educational and investigative efforts, as needed. Year-end safety metrics show mixed results for 2022. Compared to 2021, four more employees (18 in 2022 vs. 14 in 2021) suffered injuries that caused them to lose time at work. Despite the rise in Lost Time Incidents (LTI), employees had a third fewer Lost Work Days, (692 in 2022 vs. 1,034 in 2021). In addition, the railroad nearly halved the number of Restricted Work Days (158 in 2022 vs. 332 in 2021), indicating a decrease in injury severity.

Another tracked metric is a trespass fatality incident. One such tragedy happened on April 6, 2022, when a southbound freight train struck a Girdwood resident as she walked her dogs along the tracks near Bird Point. It was a grim reminder of why we continue our public safety program.

The railroad has always promoted staying safe around our trains and tracks with on-site signs, online information, and media advertising. In recent years, we paused our in-person outreach efforts due to the pandemic and other factors. During 2022, ARRC set the stage to re-engage the interactive part of our public safety efforts using some external resources.

Operation Lifesaver (OLI) is a national organization dedicated to increasing public awareness and reducing train-vehicle-pedestrian deaths. Following a multi-year transition, OLI now offers new tools, programs and training that the Alaska Railroad can tap into. During 2022, we identified a new ARRC point person to resume OLI-supported public safety outreach. Expect more visibility in 2023.

by Judy Patrick

by Conductor Brice Douglas

Then and now: Rising to the occasion

The railroad began the year with a monstrous operational challenge. The 21 heroic MOW employees that went toe-to-toe with *Snowpocalypse* were rewarded for their valor, and presented with the railroad's highest employee recognition, the *Gold Spike*. The award appreciates those who demonstrate above-and-beyond one or more of our company values — Safety, Integrity, Service Excellence, Sustainability and Teamwork.

They were joined by seven other 2022 *Gold Spike* awardees, all heroes in their own right. Five mechanics teamed up to prevent catastrophic locomotive engine failures due to a faulty part. An equipment mechanic served double duty as a facility maintainer in a remote location. And, a tenured mechanic served as a mentor and trainer for a new locomotive mechanic program.

We present these awards at year's end because they help us take stock of shared successes. They also inspire by example for the year ahead.

With 2022 ending on the cusp of the railroad's centennial year, we also reflect on the shared success of those who promoted, convinced, supported, engineered and built our railroad 100 years ago. We spent a good chunk of time and resources in 2022 to plan ways to celebrate the incredible feat that was a decade-long construction project in remote Alaska, 1914-1923.

The enormous talent and determination that drove the century-old Alaska Railroad construction project echoes in today's railroad. It resonates in the pursuit of forward-thinking capital investments. It is reaffirmed by employees who do the good work of railroading day in and day out. And when big challenges or opportunities arise, it repeats as Railroaders rise to the occasion. *Every time.*

Bill O'Leary | President and CEO

John Shively | Board Chair

by Judy Patrick

CAPITAL HIGHLIGHTS

INFRASTRUCTURE INVESTMENTS

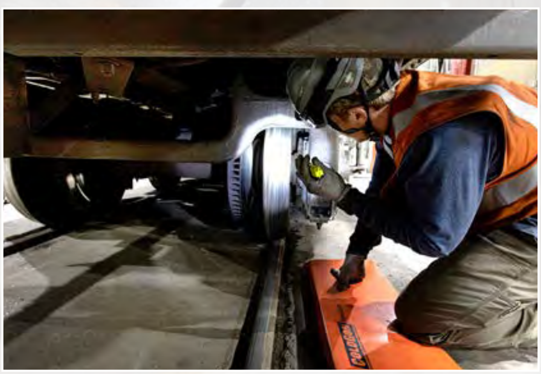
ARRC invested significantly in the railroad right-of-way infrastructure, railcars and on-track equipment in 2022.

In 2022, construction got underway to replace aging powered switch machines from Portage to Hurricane. The machines allow a switch to be controlled remotely.

by Bridge Supervisor Bryan Montgomery

The 2022 ARRC Bridge Program's rehabilitation and replacement efforts are part of a 10-year plan to upgrade 70 of the railroad's 180 bridges.

by Brice Douglas



In 2022, carmen (pictured) and mechanics pursued robust schedules for operational maintenance and capital repair and rehab on locomotives, railcars and heavy equipment.

RAILROADERS RISING TO THE OCCASION

Members of a maintenance-of-way team were the first to be honored with 2022 Gold Spikes in recognition of their dedication and skill in clearing the tracks to restore train operations after a monster storm left the railroad's north end impassable in late 2021 into early 2022.

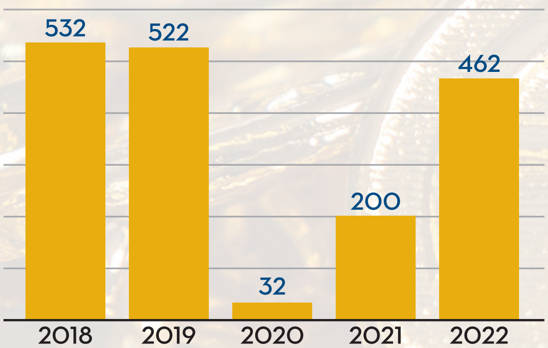
BUSINESS HIGHLIGHTS

by Conductor Brice Douglas

PASSENGER BUSINESS

The railroad's passenger business grew 131% over 2021 in terms of ridership. Trains transported 461,949 passengers in 2022, compared to 200,381 in 2021.

Passenger Ridership (in thousands)



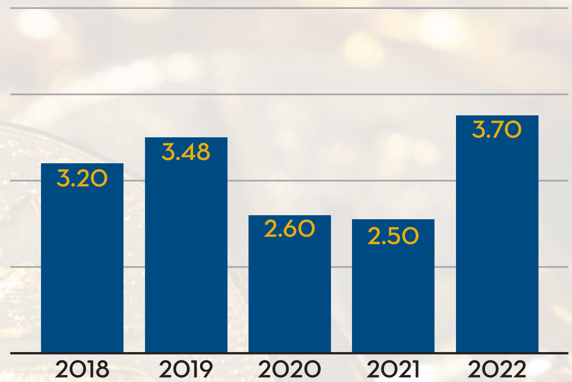
by Brice Douglas

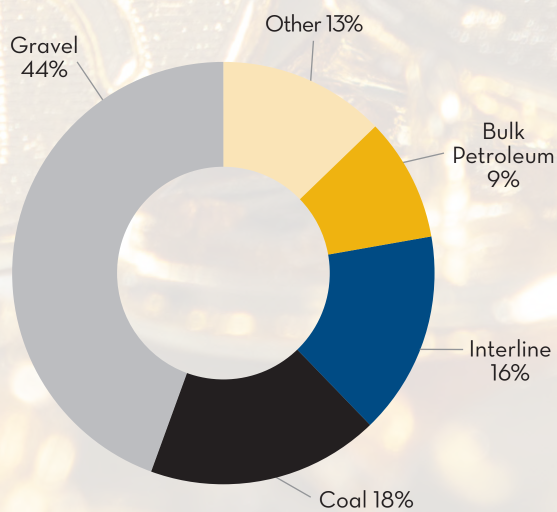
Passenger ridership in 2022 more than doubled over 2021. That kept employees who support our passenger business — including baggage handlers (pictured) — very busy, especially during the summer season.

Released in late 2022, one of the two ARRC official 2023 art prints/posters depicts a line-up of nine influential locomotives that showcase the Alaska Railroad's rail transportation development over the decades. The oil paining on canvas was created by North Pole artist William "Art" Chase.

FREIGHT BUSINESS

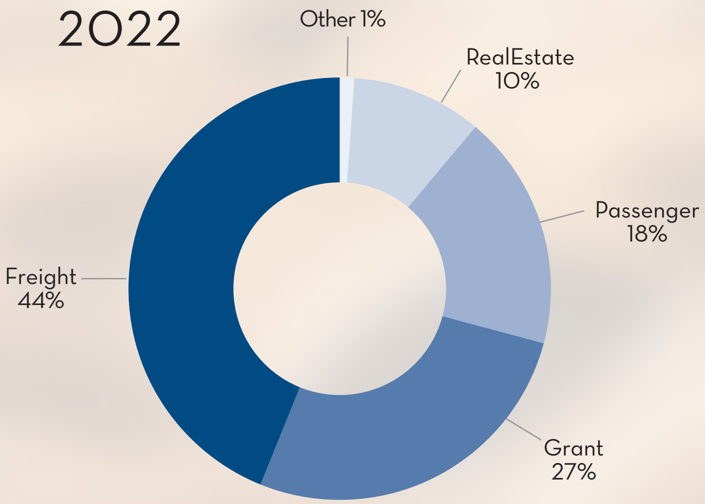
Total Freight Tonnage (millions of tons)

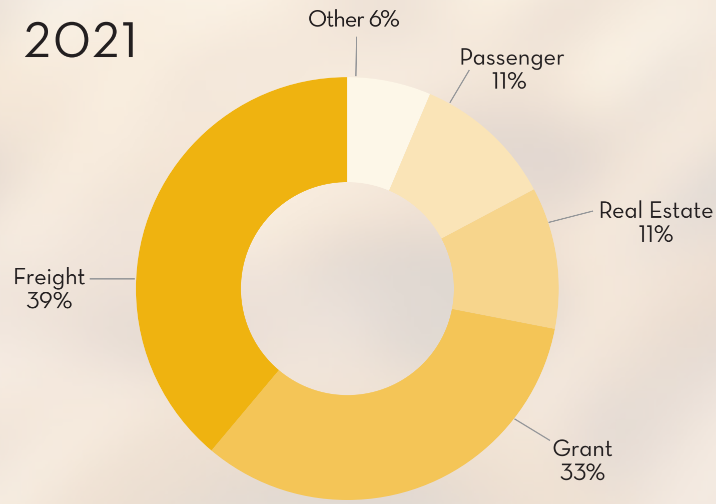




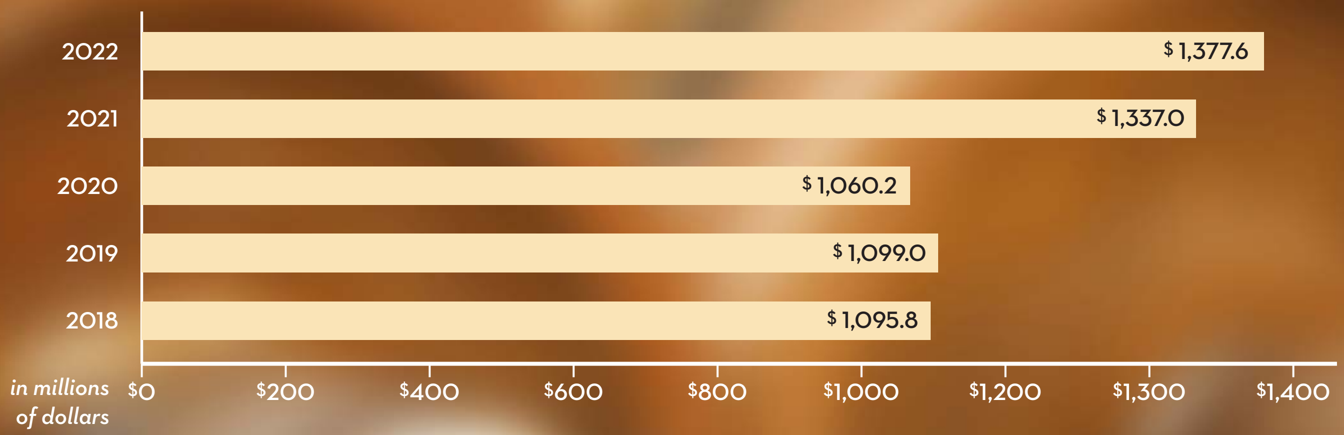
The second official 2023 art print/poster depicts the historic depot in Nenana, where the ceremonial golden spike was driven by President Harding to commemorate the Alaska Railroad's completion in 1923. The charcoal pencil drawing was created by Nenana artist Noah Nolywaika.

REVENUES

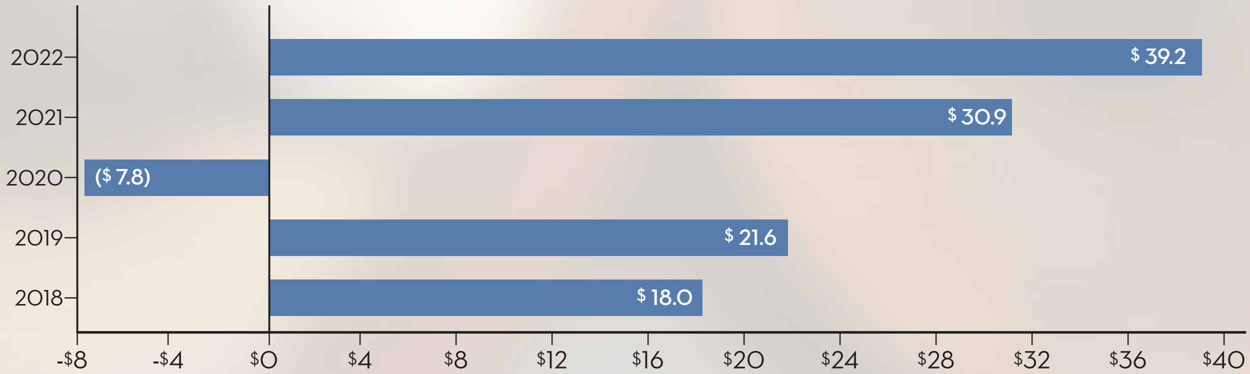




TOTAL ASSETS



NET INCOME



by Judy Patrick

FINANCIAL HIGHLIGHTS

EARNINGS
(IN THOUSANDS)

	2022	2021
Operating Revenues		
Freight	$ 110,146	$ 77,495
Passenger	44,996	22,489
Other	462	648
Grant	67,902	65,548
TOTAL OPERATING REVENUE	**223,506**	**166,180**
Operating Expenses	202,275	158,133
OPERATING INCOME	**21,231**	**8,047**
Non-Operating Revenues (Expenses):		
Net Real Estate Income	16,954	12,769
Gain on Sale of Capital Assets	72	10,334
Investment Income	924	3
Interest Expense	926	(166)
Grant Revenue	(918)	(89)
NET INCOME	**39,189**	**30,898**
Net Position, Beginning of Year	401,373	370,475
NET POSITION, END OF YEAR	$ **440,562**	$ **401,373**
OPERATING RATIO	**0.91**	**0.95**

STATEMENTS OF NET POSITION
(IN THOUSANDS)

Assets:		
Current Assets	$ 171,269	$ 135,758
Capital Assets	880,622	890,213
Restricted Assets	8,647	791
Other Assets	282,662	299,804
Deferred Outflows:		
Pension and Postretirement Actuarial	34,391	10,452
TOTAL ASSETS & DEFERRED OUTFLOWS	**$ 1,377,591**	**$ 1,337,018**
Liabilities:		
Current Liabilities	52,139	42,977
Other Liabilities	52,762	32,451
TOTAL LIABILITIES	**104,901**	**75,428**
Deferred Inflows:		
Pension and Postretirement Actuarial	20,219	47,913
Leases (GASB 87)	259,844	255,813
Unearned Grant Revenue	552,065	556,491
TOTAL LIABILITIES & DEFERRED INFLOWS	**937,029**	**935,645**
NET POSITION	**440,562**	**401,373**
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 1,377,591**	**$ 1,337,018**

March 31, 2023

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, 2022.

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,

Michelle Maddox

Michelle Maddox
Chief Financial Officer

Amy Kinnaman

Amy Kinnaman
Controller

KPMG

ALASKA RAILROAD CORPORATION

Financial Statements

December 31, 2022 and 2021

(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, 2022 and 2021. Please read it in conjunction with the ARRC's financial statements, which follow this section.

Financial Highlights

The ARRC's total net position increased 9.8% during the course of this year's operations and increased 8.3% over the course of 2021 operations.

- During 2022, the ARRC's operating revenue was greater than operating expenses by $21.2 million, yielding an operating ratio of 0.91. Last year, operating revenue was greater than operating expenses by $8.0 million, yielding an operating ratio of 0.95.
- The total 2022 operating costs of the ARRC's programs were $202.3 million, an increase of 27.9% compared to last year. The total 2021 operating costs of the ARRC's programs were $158.1 million, an increase of 6.7% compared to the prior year.
- Expenditures on capital assets totaled $53.3 million during 2022, a decrease of 2.9% compared to last year. Expenditures on capital assets totaled $54.9 million during 2021, a decrease of 20.4% compared to the prior year.
- Grant funding was used for $33.4 million, or 62.6%, of the 2022 capital expenditures. Grant funding was used for $26.3 million, or 47.9%, of the 2021 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 9.8% between fiscal years 2021 and 2022 to approximately $440.6 million. ARRC’s net position increased 8.3% between fiscal years 2020 and 2021 to approximately $401.4 million.

		2022	2021	2020*
			(In thousands)	
Assets:				
Current assets	$	171,269	135,758	99,024
Capital assets		880,622	890,213	901,094
Other noncurrent assets		291,309	300,595	48,000
Total assets		1,343,200	1,326,566	1,048,118
Deferred outflows:				
Pension and postretirement		34,391	10,452	12,092
Total assets and deferred outflows	$	1,377,591	1,337,018	1,060,210
Liabilities:				
Current liabilities	$	52,139	42,977	42,949
Notes payable outstanding, less current installments		12,192	6,119	8,255
Revenue bonds payable, less current portion, net of a unamortized premiums		1,357	21,344	40,092
Net pension liability		32,387	—	17,939
Other liabilities		6,826	4,988	5,025

		2022	2021	2020*
			(In thousands)	
Deferred inflows:				
Pension and postretirement	$	20,219	47,913	23,428
Lease related		259,844	255,813	—
Regulatory liabilities:				
Unearned grant revenue		552,065	556,491	552,047
Total liabilities and deferred inflows	$	937,029	935,645	689,735
Net position:				
Net investment in capital assets	$	289,590	286,444	279,975
Restricted for reinvestment in infrastructure		150,972	114,929	90,500
Total net position	$	440,562	401,373	370,475

**ARRC adopted GASB 87 – Leases effective January 1, 2022 and retroactively adopted to January 1, 2021.*

Capital assets – Capital assets, net of accumulated depreciation decreased $9.6 million in 2022, as depreciation expense exceeded expenditures on capital additions. Capital assets, net of accumulated depreciation decreased $10.9 million in 2021, as depreciation expense exceeded expenditures on capital additions. During 2022 and 2021, the ARRC continued an extensive capital improvement plan, including bridge rehabilitations and track refurbishing. Also during this time period, ARRC continued developing the federally mandated positive train control system. Capital expenditures also funded dock and slip work, and vehicle and equipment fleet replacements.

Long-term debt – Notes payable increased $5.7 million and decreased $2.1 million in 2022 and 2021, respectively. During 2022, ARRC issued new debt for equipment. Revenue bonds payable decreased by $16.5 million and $15.7 million in 2022 and 2021, respectively.

Regulatory liabilities – The STB regulate the ARRC's operations and has specific accounting requirements. The ARRC's board of directors establishes rates for services that are designed to recover the cost of providing the services. The ARRC records regulatory assets and liabilities, as allowed by Governmental Accounting Standards Board Codification Section Re. 10, *Regulated Operations*. The regulatory liability consists of unearned grant revenue relating to capital assets funded with federal grants. Unearned grant revenue decreased $4.4 million and increased $4.4 million in 2022 and 2021, 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 net postretirement benefits assets decreased $6.8 million during 2022, as a result of unfavorable investment returns on plan assets. The net pension liability increased $46.2 million during 2022, as a result of unfavorable investment returns on plan assets. The net 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 net 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.

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 increased $23.9 million and decreased $1.6 million during 2022 and 2021, respectively. The increase in deferred outflows is a result of unfavorable investment returns. Deferred inflows of resources decreased $28.1 million and increased $28.9 million during 2022 and 2021, respectively.

		2022	2021	2020*
			(In thousands)	
Deferred outflows:				
Postretirement actuarial (note 7)	$	9,624	3,831	2,597
Pension actuarial (note 7)		24,767	6,621	9,495
Total deferred outflows	$	34,391	10,452	12,092
Deferred inflows:				
Postretirement actuarial (note 7)	$	8,848	11,278	7,870
Pension actuarial (note 7)		11,371	36,635	15,558
Regulatory liability – unearned grant revenue (note 8)		552,065	556,491	552,047
Lease (Note 10)		259,844	255,813	—
Total deferred inflows	$	832,128	860,217	575,475

(Continued)

Change in net position – During 2022, ARRC reported a net income of $39.2 million, an increase of $8.3 million from ARRC's reported net income in 2021 of $30.9 million. 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.

		2022	2021	2020
			(In thousands)	
Operating revenue:				
Freight	$	110,146	77,495	73,649
Passenger		44,996	22,489	3,348
Other		462	648	267
Total transportation revenue		155,604	100,632	77,264
Grant revenue		67,902	65,548	52,609
Total		223,506	166,180	129,873
Operating expense:				
Transportation		45,789	35,444	27,984
Passenger		16,569	11,350	7,607
Advanced train control systems		1,382	814	530
Marketing and customer service		30,610	20,161	18,440
Mechanical		28,452	25,567	26,079
Engineering		56,831	55,016	55,007
Facilities		11,139	11,214	11,209
General and administrative		11,503	(1,433)	1,360
Total		202,275	158,133	148,216
Operating income (loss)		21,231	8,047	(18,343)
Nonoperating revenue (expenses):				
Real estate, net of expenses		16,954	12,769	10,413
Gain on sale of capital assets		72	10,334	218
Investment income		924	3	326
Interest expense		926	(166)	(1,119)
Grant revenue		(918)	(89)	690
Net income (loss)	$	39,189	30,898	(7,815)

Revenue – The ARRC's total revenue increased approximately 26.4% and totaled $250.2 million in 2022. The ARRC's total revenue increased approximately 31.4% and totaled $198.0 million in 2021. Approximately 44.0% and 39.1% of the ARRC's revenue comes from freight revenue during 2022 and 2021, respectively, and 18.0% and 11.4% of the revenue comes from passenger services during 2022 and 2021, respectively. The majority of the remaining income relates to real estate activities and federal grant revenue.

Total transportation revenue for 2022 was $55.0 million more than 2021. The increase in transportation revenue is attributed to an increase in freight and passenger service demand.

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.

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 $202.3 million in 2022, $158.1 million in 2021, and $148.2 million in 2020, an increase of $44.1 million, or 27.9%, from 2021 to 2022 and an increase of $9.9 million, or 6.7%, from 2020 to 2021. The increase in operating expenses over 2021 is attributed to an increase in utilities and fuel expenses, contracts and rents, and material and supplies.

Real estate revenue was $25.7 million in 2022, $21.5 million in 2021, and $19.6 million in 2020, an increase of 19.7% from 2021 to 2022 and an increase of 9.9% from 2020 to 2021.

Real estate expenses were $8.8 million in 2022, $8.7 million in 2021, and $9.1 million in 2020, an increase of 0.5% from 2021 to 2022 and a decrease of 4.5% from 2020 to 2021.

Capital Asset and Debt Administration

Capital Assets

At the end of 2022, the ARRC had invested $880.6 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 $9.6 million, or 1.1%, over last year. The amount in 2021 represents a net decrease (including additions and deductions) of $11.9 million, or 1.2% over 2020. Grants have funded $407.1 million, $429.2 million, and $448.1 million of the assets, net of accumulated depreciation at the end of 2022, 2021 and 2020, respectively.

	2022	2021	2020
		(In thousands)	
Land and improvements	$ 41,828	41,649	34,131
Road materials and supplies	24,017	21,863	21,688
Road and roadway structures	562,765	582,295	596,737
Equipment	158,417	166,288	170,204
Leasehold improvements	1	3	7
Quarry improvements	3,095	3,095	3,095
Construction in progress	86,665	74,009	75,232
Lease assets	3,834	1,011	—
Total capital assets, net of accumulated depreciation	$ 880,622	890,213	901,094

The ARRC's fiscal year 2023 capital budget approved spending another $73.9 million for capital projects, principally for continued track and bridge rehabilitation, planned replacement of vehicles and equipment, and other infrastructure improvements. The ARRC intends to use federal grant funding for $38.7 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 2022, the ARRC had $14.0 million in notes payable outstanding, an increase of 69.2% from 2021, and $18.9 million in revenue bonds payable outstanding, a decrease of 50.2% from 2021. 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. The 2022 increase in the outstanding notes payable was a result of a new equipment lease financing ARRC undertook as part of its continuing capital investment program.

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 2023 budgets for freight and passenger revenue are $117.2 million and $46.7 million, respectively. As a result, the ARRC's net position is expected to increase $33.3 million, or approximately 7.6%, by the close of 2023.

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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 2(q) to the basic financial statements, in 2022, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

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.

KPMG

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 on pages 1 – 7 and the schedules and notes thereon related to the Alaska Railroad Corporation's defined-benefit pension plan and other postemployment benefit plan on pages 53 - 63 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 GAAS, 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the annual report but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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, 2023 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, 2023

ALASKA RAILROAD CORPORATION

Statements of Net Position

December 31, 2022 and 2021

(In thousands)

Assets and Deferred Outflows		2022	2021 (as adjusted)
Current assets:			
Cash and cash equivalents (note 3)	$	84,841	55,099
Accounts receivable, net of allowance for doubtful accounts of $725 in 2022 and $710 in 2021		20,932	13,857
Lease receivable (note 10)		13,184	12,547
Grants receivable		16,513	19,630
Materials and supplies		11,964	11,888
Prepaid expenses and other current assets		3,171	2,840
Under recovery of vehicle and equipment allocated costs (note 2(k))		1,017	—
Restricted assets (note 3)		19,647	19,897
Total current assets		171,269	135,758
Capital assets, net (notes 2(q), 4, 8, and 10)		880,622	890,213
Restricted assets (note 3)		8,647	791
Lease receivable (note 10)		244,669	241,296
Net pension asset (note 7)		—	13,765
Net other postemployment benefit (OPEB) asset (note 7)		37,975	44,725
Other assets		18	18
Total assets		1,343,200	1,326,566
Deferred outflows:			
Postretirement actuarial (note 7)		9,624	3,831
Pension actuarial (note 7)		24,767	6,621
Total deferred outflows		34,391	10,452
Total assets and deferred outflows	$	1,377,591	1,337,018
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Current portion of notes payable (notes 5 and 6)	$	1,777	2,135
Accounts payable and accrued liabilities		16,164	8,484
Payroll liabilities (note 11)		12,651	11,188
Lease liability (notes 2(q) and 10)		1,081	418
Environmental remediation reserve (notes 5 and 12)		296	450
Interest payable		380	720
Over recovery of vehicle and equipment allocated costs (note 2(k))		—	899
Unearned revenue		2,475	2,193
Current portion of revenue bonds payable (notes 5 and 6)		17,315	16,490
Total current liabilities		52,139	42,977
Notes payable, less current portion (notes 5 and 6)		12,192	6,119
Revenue bonds payable (net of unamortized premiums), less current portion (notes 5 and 6)		1,357	21,344
Lease liability (notes 2(q) and 10)		2,704	551
Environmental remediation reserve, less current portion (notes 5 and 12)		2,078	2,056
State of Alaska advances (note 5)		1,285	1,380
Unearned revenue – long term		759	1,001
Net pension liability (note 7)		32,387	—
Total liabilities		104,901	75,428
Deferred inflows:			
Postretirement actuarial (note 7)		8,848	11,278
Pension actuarial (note 7)		11,371	36,635
Lease related (note 10)		259,844	255,813
Regulatory liability – unearned grant revenue		552,065	556,491
Total deferred inflows		832,128	860,217
Total liabilities and deferred inflows		937,029	935,645
Net position:			
Net investment in capital assets (note 4)		289,590	286,444
Restricted for reinvestment in infrastructure (notes 2(a) and 2(l))		150,972	114,929
Total net position		440,562	401,373
Commitments and contingencies (notes 5, 6, 7, 10, 11, 12, and 13)			
Total liabilities, deferred inflows, and net position	$	1,377,591	1,337,018

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2022 and 2021

(In thousands)

		2022	2021
Operating revenues:			
Freight	$	110,146	77,495
Passenger		44,996	22,489
Other		462	648
		155,604	100,632
Grant revenue (note 8)		67,902	65,548
		223,506	166,180
Operating expenses:			
Transportation		45,789	35,444
Passenger		16,569	11,350
Advanced train control systems		1,382	814
Marketing and customer service		30,610	20,161
Mechanical		28,452	25,567
Engineering		56,831	55,016
Facilities		11,139	11,214
General and administrative, net of indirect cost recovery of $2,065 in 2022 and $1,781 in 2021		11,503	(1,433)
		202,275	158,133
Operating income		21,231	8,047
Nonoperating revenues (expenses):			
Real estate income, less direct expenses of $8,781 in 2022 and $8,732 in 2021 (notes 6 and 10)		16,954	12,769
Gain on sale of capital assets		72	10,334
Investment income		924	3
Interest expense		926	(166)
Grant revenue (note 8)		(918)	(89)
Total nonoperating revenues		17,958	22,851
Net income		39,189	30,898
Net position, beginning of year		401,373	370,475
Net position, end of year	$	440,562	401,373

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Cash Flows

Years ended December 31, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Receipts from customers	$	148,529	99,328
Operating grants received		24,091	22,159
Payments to suppliers		(67,196)	(39,432)
Payments to employees		(66,581)	(62,383)
Net cash provided by operating activities		38,843	19,672
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(21,297)	(20,050)
Proceeds from long-term debt		7,850	—
Interest payments on long-term debt		586	(496)
Grant received for interest expense		(918)	(89)
Purchases and construction of capital assets		(50,929)	(49,054)
Proceeds from sales of capital assets		86	2,816
Grants and advances received for construction of capital assets		42,407	44,473
Net cash used for capital and related financing activities		(22,215)	(22,400)
Cash flows from investing activities:			
Real estate income and related cash flows		25,796	21,251
Real estate direct expenses paid		(6,000)	(5,830)
Net sales (purchases) of restricted investments		(7,606)	10,157
Interest received		924	3
Net cash provided by investing activities		13,114	25,581
Net increase in cash and cash equivalents		29,742	22,853
Cash and cash equivalents at beginning of year		55,099	32,246
Cash and cash equivalents at end of year	$	84,841	55,099
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	21,231	8,047
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		65,677	63,818
Grant revenue associated with capital assets		(43,811)	(43,389)
Changes in operating assets and liabilities that provided (used) cash:			
Materials and supplies		(76)	116
Accounts receivable		(7,075)	(1,304)
Prepaid expenses and other assets		(331)	(37)
Accounts payable and accrued liabilities		2,544	1,711
Over recovery of vehicle and equipment allocated costs		(1,916)	1,983
Payroll liabilities		1,463	17
Environmental remediation reserve		(132)	(138)
Accrued postretirement and pension benefits		1,269	(11,152)
Net cash provided by operating activities	$	38,843	19,672
Supplemental schedule of noncash investing and capital and related financing activities:			
Depreciation included in real estate activity	$	2,781	2,902
Capital assets acquired through accounts payable		6,326	1,190
Land acquired through exchange		—	7,770

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Fiduciary Net Position

December 31, 2022 and 2021

(In thousands)

Assets		**2022**	**2021**
Cash and cash equivalents (note 3)	$	1,095	412
Investments (note 3), at fair value:			
Mutual funds		205,815	245,209
Investment trust funds		80,900	85,287
Total assets	$	287,810	330,908
Liabilities and Net Position			
Accrued expenses	$	129	108
Claims payable		206	251
Total liabilities		335	359
Net position:			
Restricted for pension benefits and postemployment healthcare benefits		287,475	330,549
Total net position		287,475	330,549
Total liabilities and net position	$	287,810	330,908

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Changes in Fiduciary Net Position

Years ended December 31, 2022 and 2021

(In thousands)

		2022	2021
Additions:			
Contributions:			
Employer	$	2,673	3,813
Employee		4,987	4,650
Total contributions		7,660	8,463
Investment income:			
Net increase (decrease) in fair value of investments (note 3)		(47,516)	39,439
Interest, dividends, and other		8,641	6,923
Total investment income (loss)		(38,875)	46,362
Investment costs		639	791
Net investment income (loss)		(39,514)	45,571
Total additions		(31,854)	54,034
Deductions:			
Pension and postemployment benefits		10,793	10,706
Administrative		427	366
Total deductions		11,220	11,072
Net increase (decrease)		(43,074)	42,962
Net position restricted for pension benefits and postemployment healthcare benefits:			
Beginning of year		330,549	287,587
End of year	$	287,475	330,549

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, 2022 and 2021 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.

(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 (excluding intangible right-to-use lease 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 and money market mutual fund accounts, 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.

(Continued)

(h) Grants

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

(i) Income Taxes

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

(j) Environmental Remediation Costs

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

(k) Vehicle and Equipment Allocated Costs

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

(l) Net Position

As of December 31, 2022 and 2021, the ARRC's board of directors has restricted $151.0 million and $114.9 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) Leases (Lessor)

The ARRC leases a significant portion of its real property to various parties. For non-cancellable leases with a term of more than 12 months, including any extension options reasonably certain to exercise, the ARRC recognizes a lease receivable and a deferred inflow of resources.

The ARRC measures the lease receivable at the present value of receipts expected to be received during the lease term. The deferred inflow is measured as the lease receivable plus amounts received in advance. Significant consideration and professional judgement was given in the selection and use of this rate methodology to ensure it reflects the fair value of properties being leased and includes an interest factor that reflects the receipt of money over time. Rates will be updated the first of every calendar year. Such changes will only impact newly issued or remeasured leases. The ARRC monitors changes in circumstances that may require remeasurement of a lease. Lease basis amounts are reported as current and long term lease receivables and deferred inflow on the balance sheet. The lease receivable is amortized on an effective interest method basis over the lease term. Annual lease revenue is recognized as real estate revenue.

(o) Leases (Lessee)

The ARRC is a lessee of vehicles, equipment, rail cars, computer hardware, and real property. For non-cancellable leases with a term of more than 12 months, including any extension options reasonably certain to exercise, the ARRC recognizes a lease liability and an intangible right-to-use lease asset.

(p) Recently Issued Accounting Pronouncements Not Yet Adopted

GASB Statement No. 96, Leases (GASB 96) was issued in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Application of GASB 96 is effective for ARRC’s next reporting period beginning January 1, 2023. 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.

(q) Recently Adopted Accounting Pronouncements

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. The ARRC adopted GASB 87 effective January 1, 2022 by recognizing and measuring leases as of January 1, 2021, and the adoption did not impact net position as of January 1, 2021.

(3) Deposits and Investment Risk

ARRC's restricted assets are reported on the statements of net position as follows at December 31, 2022 and 2021:

	2022	2021
	(In thousands)	
Restricted assets – current:		
Money market mutual funds	$ 19,647	19,897
	19,647	19,897
Restricted assets – non-current:		
Interest bearing savings	106	112
Money market mutual funds	8,541	679
	8,647	791
	$ 28,294	20,688

The assets are restricted by the terms of grant, trust, bond, debt service, or other agreements and are summarized as follows at December 31, 2022 and 2021:

Description of restriction	2022	2021
	(In thousands)	
Capital assets as authorized by the Department of Natural Resources	$ 106	112
Advance grant funding	427	421
Equipment purchase	7,851	—
State of Alaska advance funding for Northern Rail Extension	1,187	1,275
Welfare benefits plan	—	—
Debt service reserve 2015A and 2015B	18,460	18,622
Debt service reserve 2012A and 2012B for notes payable	263	258
	$ 28,294	20,688

(Continued)

(a) ARRC Investments and Deposits

ARRC's cash and cash equivalents consist of the following at December 31, 2022 and 2021:

		2022	2021
		(In thousands)	
Cash	$	8,176	11,435
Money market deposit accounts		10,167	10,155
Money market mutual funds		66,498	33,509
	$	84,841	55,099

(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, 2022, the ARRC's carrying amount of cash and cash equivalents was $84.8 million and the bank balance was $85.7 million. Of the bank balance, $250,000 was covered by federal depository insurance, $76.7 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, 2022, the ARRC's carrying amount and bank balance of restricted assets was $28.2 million, all of which was held by a custodian bank in ARRC's name.

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.

(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, 2022 or 2021.

(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, 2022 and 2021:

			Fair value measurements using		
		December 31, 2022	**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	$	66,498	66,498	—	—
Restricted assets:					
Money market mutual funds		28,188	28,188	—	—
Total investments by fair value level	$	94,686	94,686	—	—

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

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

(b) Fiduciary funds deposits and investment risk

Cash and cash equivalents consist of $1.1 million and $0.4 million at December 31, 2022 and 2021, respectively.

(i) Custodial Credit Risk

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

At December 31, 2022 and 2021, the fiduciary fund's carrying amount of cash and cash equivalents and the bank balance was $1.1 million and $0.4 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 Funds' 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		2022	2021
MFS International Equity	$	33,568	40,036
Vanguard		26,924	34,790
T Rowe Price		23,926	34,499
RREEF		21,672	19,999
HOTCHKIS & Wiley		21,233	23,667
Morgan Stanley Prime Property		20,609	19,418
Metropolitan West		19,223	22,590
JP Morgan		17,716	19,864
Rimrock		14,693	N/A
MFS Mid Cap		N/A	19,414

(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, 2022 and 2021:

		December 31, 2022	in active markets for identical assets (Level 1)	other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In thousands)		
Investments by fair value level:					
Pension trust fund:					
Mutual funds	$	163,760	163,760	—	—
OPEB trust fund:					
Mutual funds		42,055	42,055	—	—
Total investments by fair value level		205,815	205,815	—	—
Investments measured at net asset value (NAV):					
Investment trust funds		80,900			
Total investments measured at the NAV		80,900			
Total investments	$	286,715			

		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			

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, 2022 and 2021:

	December 31, 2022 Fair value	Unfunded commitment	Redemption frequency (if currently eligible	Redemption notice period
	(in thousands)			
Investment trust funds:				
Equities/Equity funds (a)	$ 38,619	—	Monthly	None
Real estate trust funds (b)	42,281	—	Quarterly	45-90 days
Total trust funds	$ 80,900	—		

		December 31, 2021 Fair value (in thousands)	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period
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	—		

(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 $2.1 million and $1.8 million during the years ended December 31, 2022 and 2021, 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, 2022 and 2021:

	Balance at January 1, 2022	Increases	Decreases	Balance at December 31, 2022
	(In thousands)			
Capital assets not being depreciated:				
Land and improvements	$ 41,649	179	—	41,828
Road materials and supplies	21,863	17,385	(15,231)	24,017
Construction in progress	74,009	53,326	(40,670)	86,665
Total capital assets not being depreciated	137,521	70,890	(55,901)	152,510
Capital assets being depreciated:				
Road and roadway structures	1,213,254	22,316	—	1,235,570
Equipment	527,673	18,175	(183)	545,665
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,743,099	40,491	(183)	1,783,407
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	630,959	41,846	—	672,805
Equipment	361,385	26,032	(169)	387,248
Leasehold improvements	2,169	2	—	2,171
Total accumulated depreciation	994,513	67,880	(169)	1,062,224
Less accumulated depletion for:				
Quarry improvements	1,019	—	—	1,019
Capital assets being depreciated and depleted, net excluding lease assets	751,681	(27,389)	(14)	724,278
Net capital assets, excluding lease assets	$ 889,202	43,501	(55,915)	876,788
Lease assets, net (Note 10)				3,834
Total capital assets, net as reported in the statement of net position				$ 880,622

(Continued)

	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 excluding lease assets	770,043	(18,362)	—	751,681
Net capital assets, excluding lease assets	$ 901,094	53,965	(65,857)	889,202
Lease assets, net (Note 10)				1,011
Total capital assets, net as reported in the statement of net position				$ 890,213

(Continued)

Depreciation was charged to the following departments during the years ended December 31, 2022 and 2021:

	2022		2021	
	Grant-funded depreciation	Nongrant-funded depreciation	Grant-funded depreciation	Nongrant-funded depreciation
	(In thousands)		(In thousands)	
Transportation	$ 9,880	2,206	10,236	1,720
Passenger	—	36	—	58
Marketing and customer service	—	514	—	598
Mechanical	3,217	7,359	3,132	7,357
Engineering	26,793	8,517	26,406	8,000
Facilities	3,566	1,625	3,412	1,859
General and administrative	355	1,031	203	837
Real estate	605	2,176	641	2,261
	$ 44,416	23,464	44,030	22,690

Net investment in capital assets is as follows at December 31, 2022 and 2021:

	2022	2021
	(In thousands)	
Net capital assets	$ 880,622	890,213
Capital assets acquired through accounts payable	(6,326)	(1,190)
Notes payable (note 6)	(13,969)	(8,254)
Outstanding balance of revenue bonds (note 6)	(18,672)	(37,834)
Unearned grant revenue	(552,065)	(556,491)
	$ 289,590	286,444

(5) Long-Term Liabilities

Long-term liability activity is summarized as follows during the years ended December 31, 2022 and 2021:

	Balance at January 1, 2022	Additions	Reductions	Balance at December 31, 2022	Due within one year
			(In thousands)		
Long-term debt:					
Notes payable	$ 8,254	7,850	(2,135)	13,969	1,777
Revenue bonds payable	33,805	—	(16,490)	17,315	17,315
Plus (less) unamortized amounts:					
Issuance premiums	4,029	—	(2,672)	1,357	—
Total revenue bonds payable	37,834	—	(19,162)	18,672	17,315
Environmental remediation reserve	2,506	22	(154)	2,374	296
State of Alaska advances	1,380	—	(95)	1,285	—
Unearned revenue – long-term	1,411	—	(242)	1,169	410
Total long-term liabilities excluding lease liabilities	$ 51,385	7,872	(21,788)	37,469	19,798
Lease liabilities (Note 10)				3,785	1,081
Total long-term liabilities as reported in statement of net position				$ 41,254	20,879

	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 excluding lease liabilities	$ 72,024	245	(20,884)	51,385	19,485
Lease liabilities (Note 10)				969	418
Total long-term liabilities as reported in statement of net position				$ 52,354	19,903

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, 2022 or 2021.

(6) Long-Term Debt

Long-term debt at December 31, 2022 and 2021 consists of the following:

		2022	2021
		(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	$	144	568
Note payable, secured by real estate revenue, due in monthly payments of $48,538, including interest at 2.65%, matures on April 21, 2023		192	762
Note payable, secured by equipment, due in monthly payments of $74,376, including interest at 2.21%, matures on December 17, 2029		5,783	6,538
Note payable, secured by equipment, due in monthly payments of $77,489 including interest at 3.46%, matured on December 23, 2032		7,850	—
Note payable, secured by equipment, due in monthly payments of $32,469, including interest at 1.67%, matures on December 18, 2022		—	386
		13,969	8,254
Less current portion		1,777	2,135
	$	12,192	6,119
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	$	17,315	37,834
Less current portion		17,315	16,490
	$	—	21,344

Annual payments on debt are scheduled as follows at December 31, 2022:

		Notes payable		Revenue bonds payable		
		Principal	Interest	Principal (In thousands)	Interest	Total
Years ending December 31:						
2023	$	1,777	383	17,315	505	19,980
2024		1,482	341	—	—	1,823
2025		1,524	299	—	—	1,823
2026		1,567	255	—	—	1,822
2027		1,611	211	—	—	1,822
2028-2032		6,008	426	—	—	6,434
		13,969	$ 1,915	17,315	505	33,704
Current portion of principal		(1,777)		(17,315)		(19,092)
Unamortized premium		—		1,357		1,357
Total noncurrent portion	$	12,192		1,357		15,969

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, 2022. 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) 2022 and the estimated apportionments for FFY 2023 through 2027:

FFY		Section 5307 formula program	Section 5337 formula program	Total
2022 Apportionments	$	14,280,693	36,173,995	50,454,688
2023 Estimated apportionments		14,548,518	36,532,184	51,080,702
2024 Estimated apportionments		14,839,488	37,262,828	52,102,316
2025 Estimated apportionments		15,136,278	38,008,084	53,144,362
2026 Estimated apportionments		15,439,004	38,768,246	54,207,250
2027 Estimated apportionments		15,747,784	39,543,611	55,291,395

State of Alaska Authorizations

Chapter 30, SLA 2022, authorized the ARRC to issue up to $60 million in revenue bonds to finance the replacement of a passenger dock and terminal facility in Seward. To date, no bonds have been issued.

Chapter 8, SLA 2015, authorized the ARRC to issue up to $37 million in revenue bonds to finance a positive train control rail transportation safety project that qualifies for federal financial participation and associated costs. 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, 2022, the Plan assets consist of cash and cash equivalents of 0.5%, fixed-income securities of 37.7%, equities of 46.0%, and real estate investments of 15.8%.

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

	2022	2021
Inactive plan members or beneficiaries currently receiving benefits	385	367
Inactive plan members entitled to but not yet receiving benefits	415	386
Active plan members	691	672
	1,491	1,425

The components of the net pension liability/(asset) for the Plan at December 31, 2022 and 2021 were as follows:

		2022	2021
		(In thousands)	
Total pension liability	$	268,116	257,862
Fiduciary net position		(235,729)	(271,627)
Net pension liability (asset)	$	32,387	(13,765)
Plan fiduciary net position as a percentage of the total pension liability		87.9 %	105.3 %

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2022 the ARRC reported a liability for the pension plan. At December 31, 2021 the ARRC reported an asset for the pension plan. The net pension asset and liability were measured as of December 31, 2022 and 2021, 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, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, the ARRC recognized pension expense of $5.4 million and pension income of $3.9 million, respectively.

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

		2022		2021	
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	$	501	(4,733)	669	(1,443)
Changes of assumptions		2,780	(6,638)	5,952	(9,232)
Net difference between actual and projected earnings on investments		21,486	—	—	(25,960)
Total	$	24,767	(11,371)	6,621	(36,635)

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:		
2023	$	(708)
2024		1,151
2025		3,253
2026		9,700
	$	13,396

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

Actuarial assumption	2022	2021
Inflation	2.5%	2.5%
Salary increases	2.5% CPI plus merit based rates	2.5% CPI plus merit based rates
Long term rate of return	7.25%	7.25%
Cost of living allowance	1.25%	1.25%
Retirement, disablement, and termination	Based on 2015-2019 experience study	Based on 2015-2019 experience study
Administrative expenses	0.66% of payroll, based on current year actual expense	0.55% of payroll, based on current year actual expense

Mortality rates were based on the Society of Actuaries RP-2014 healthy annuitant mortality table, 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-2021 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)%	2.00 %
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 (asset) as of:				
December 31, 2022	$	69,855	32,387	1,496
December 31, 2021		23,370	(13,765)	(44,330)

The annual money-weighted rate of return, net of investment expense, was -10.60% and 16.25% for the years ended December 31, 2022 and 2021, 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, 2022	$	257,862	271,627	(13,765)
Changes for the year:				
Service cost		6,500	—	6,500
Interest		18,796	—	18,796
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(5,206)	—	(5,206)
Changes of assumptions		390	—	390
Contributions – employer		—	2,673	(2,673)
Contributions – employee		—	4,987	(4,987)
Net investment income		—	(32,967)	32,967
Benefit payments, including refunds of employee contributions		(10,226)	(10,226)	—
Administrative expenses		—	(365)	365
Net changes		10,254	(35,898)	46,152
Balances at December 31, 2022	$	268,116	235,729	32,387

		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)

Additional required supplementary information for ARRC's defined-benefit pension plan can be found on pages 53 through 55.

(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, 2022 or 2021. As of December 31, 2022, 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 31.4%, and real estate investments of 11.2%. 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:

	2022	2021
Inactive plan members or beneficiaries currently receiving benefits	37	31
Inactive plan members entitled to but not yet receiving benefits	—	—
Active plan members	349	368
	386	399

The components of the net other postemployment benefit (OPEB) asset for the Plan at December 31, 2022 and 2021 were as follows:

		2022	2021
		(In thousands)	
Total OPEB liability	$	13,771	14,197
Fiduciary net position		(51,746)	(58,922)
Net OPEB asset	$	(37,975)	(44,725)
Plan fiduciary net position as a percentage of the total OPEB asset		(375.8)%	(415.0)%

OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At December 31, 2022 and 2021, the ARRC reported an asset for the OPEB plan. The net OPEB asset was measured as of December 31, 2022 and 2021, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of January 1, 2022 and 2021. For the years ended December 31, 2022 and 2021, the ARRC recognized net OPEB income of $1.5 million and $3.4 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		2022 Deferred outflows of resources	2022 Deferred inflows of resources	2021 Deferred outflows of resources	2021 Deferred inflows of resources
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	1,460	(5,992)	1,670	(5,643)
Changes of assumptions		2,170	(2,856)	2,161	(3,271)
Net difference between actual and projected earnings on investments		5,994	—	—	(2,364)
Total	$	9,624	(8,848)	3,831	(11,278)

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:		
2023	$	(37)
2024		575
2025		707
2026		1,139
2027		(720)
Thereafter		(888)
	$	776

(Continued)

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

Actuarial assumption	2022	2021
Discount rate	6.00% based on crossover test	6.25% based on crossover test
Inflation	2.5%	2.5%
Salary increases	2.5% CPI plus merit based rates	2.5% CPI plus merit based rates
Cost of living allowance	Not Applicable	Not Applicable
Long-term rate of return	6.00%	6.25%
Retirement, disablement, and termination	Based on 2015-2019 experience study	Based on 2015-2019 experience study
Administrative expenses	0.18% of payroll, based on current actual year expenses	0.18% of payroll, based on current actual year expenses
Participation rates	Varies from 30% to 85%	Varies from 30% to 85%
Medical trend	Non medicare 6.75%, decreasing to an ultimate rate of 4.0% in 2076+ Medicare 5.9%, decreasing to an ultimate rate of 4.0% in 2076+	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

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-2021 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 6.00% 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 6.00%. 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 6.00%, 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 (5.00)%	Current discount rate (6.00)%	1% Increase (7.00)%
			(In thousands)	
Net OPEB liability (asset) as of:				
December 31, 2022	$	(35,705)	(37,975)	(39,793)
December 31, 2021		(42,373)	(44,725)	(46,616)

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 6.75% (Non-Medicare) and 5.90% (Medicare) beginning in 2023, decreasing to an ultimate rate of 4.0% in 2076+ as of December 31, 2022 and 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, 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, 2022	$	(40,173)	(37,975)	(35,157)
December 31, 2021		(47,015)	(44,725)	(41,799)

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, 2022	$	14,197	58,922	(44,725)
Changes for the year:				
Service cost		404	—	404
Interest		796	—	796
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(1,560)	—	(1,560)
Changes in assumptions		501	—	501
Contributions – employer		—	—	—
Net investment income		—	(6,547)	6,547
Benefit payments, net of retiree premiums		(567)	(567)	—
Administrative expenses		—	(62)	62
Net changes		(426)	(7,176)	6,750
Balances at December 31, 2022	$	13,771	51,746	(37,975)

		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)

Additional required supplementary information for ARRC's OPEB plan can be found on pages 56 through 58.

(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 for the years ended December 31, 2022 and 2021.

(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 82% 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 $872,000 and $842,000 for the years ended December 31, 2022 and 2021, 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, 2022 or 2021.

(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, 2022 and 2021 consists of the following:

		2022	2021
		(In thousands)	
Land and improvements		$ 8,819	8,729
Road and roadway structures	15–32 year life	723,031	713,650
Equipment	5–25 year life	213,670	209,855
Construction in process		62,218	42,075
		$ 1,007,738	974,309

Grant revenue earned during the years ended December 31, 2022 and 2021 consisted of the following:

	2022	2021
	(In thousands)	
Depreciation on assets constructed with grant funds	$ 44,416	44,030
Grant funded maintenance expense	24,091	22,159
Grant funded bond principal, interest, and issuance costs	(918)	(89)
	67,589	66,100
Less grant revenue included in real estate nonoperating revenues	(605)	(641)
Less grant funded interest on Series 2015A revenue bonds included in nonoperating revenues	918	89
	$ 67,902	65,548

(Continued)

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

		2022	2021
		(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

In 2022 and 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 each year. 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 62.6% and 47.9% of capital expenditures in 2022 and 2021, respectively.

(10) Lease commitments

As discussed in note 1(n), the ARRC leases a significant portion of its land to various parties under the long-term agreements. Rental income on these leases, which is included in real estate income, was $15.2 million and $14.4 million in 2022 and 2021, respectively.

As discussed in note 1(o), the ARRC leases equipment, vehicles, rail cars, computer hardware and real property.

Lease liabilities

A summary of changes in the related lease liabilities during the year ended December 31, 2022 is as follow:

	Balance at January 1, 2022	Additions	Deductions	Balance at December 31, 2022	Amounts due within one year
Lease liabilities	$ 969	3,418	(602)	3,785	1,081

(Continued)

A summary of changes in the related lease liabilities during the year ended December 31, 2021 is as follows:

		Balance at January 1, 2021	Additions	Deductions	Balance at December 31, 2021	Amounts due within one year
Lease liabilities	$	1,147	216	(394)	969	418

Lease assets

A summary of changes in the related lease assets during the year ended December 31, 2022 is as follows:

		Balance at January 1, 2022	Increases	Decreases	Balance at December 31, 2022
			(In thousands)		
Lease assets:					
Vehicles	$	198	925	—	1,123
Equipment		—	2,493	—	2,493
Rail cars		409	—	—	409
Computer hardware		582	7	(23)	566
Real property		216	—	—	216
Total lease assets		1,405	3,425	(23)	4,807
Less accumulated amortization:					
Lease assets:					
Vehicles		80	189	—	269
Equipment		—	79	—	79
Rail cars		139	142	—	281
Computer hardware		141	139	(23)	257
Real property		34	53	—	87
Total accumulated amortization		394	602	(23)	973
Total lease assets, net	$	1,011	2,823	—	3,834

A summary of changes in the related lease assets during the year ended December 31, 2021 is as follows:

		Balance at January 1, 2021	Increases	Decreases	Balance at December 31, 2021
			(In thousands)		
Lease assets:					
Vehicles	$	198	—	—	198
Rail cars		409	—	—	409
Computer hardware		582	—	—	582
Real property		—	216	—	216
Total lease assets		1,189	216	—	1,405
Less accumulated amortization:					
Lease assets:					
Vehicles		—	80	—	80
Rail cars		—	139	—	139
Computer hardware		—	141	—	141
Real property		—	34	—	34
Total accumulated amortization		—	394	—	394
Total lease assets, net	$	1,189	(178)	—	1,011

(11) 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, 2022 and 2021:

		2022	2021
		(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, 2022 and 2021:

		Balance at January 1, 2022	Incurred claims	Claim payments	Balance at December 31, 2022
			(In thousands)		
Employee health benefits	$	976	13,283	(12,338)	1,921
Workers' compensation		2,184	605	(943)	1,846
	$	3,160	13,888	(13,281)	3,767

		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

(12) 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.

(13) 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 IBT labor agreement was ratified on December 22, 2020 and will expire on December 21, 2023. The TCU agreement was ratified effective April 26, 2022 and will expire on April 25, 2025. The ARW labor agreement was ratified on July 19, 2022 and will expire July 20, 2025. The UTU labor agreement expired on February 26, 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.

Fiscal year ending December 31, 2022 was a time of transition, as ARRC continued to respond to the challenges of recovering from the COVID-19 crisis. Although impacts of COVID-19 have lessened, we remain in a period of uncertainty due to continued global supply chain disruptions and high rates of inflation.

(14) Related Party Transactions

The State of Alaska awarded ARRC appropriations for four capital improvement projects totaling $122,007,141. The ARRC incurred $2,314,866 and $53,868 of costs during 2022 and 2021 under these appropriations. The State of Alaska awarded grants for a 2021 disaster declaration. Under these disaster grant awards, the ARRC incurred $248,604 and $51,407 of costs in 2022 and 2021, respectively. These amounts are included in accounts receivable, construction in progress, and unearned grant revenue as of December 31, 2022 and December 31, 2021. 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)

	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability:								
Service cost	$ 6,500	6,176	6,106	5,835	5,676	5,777	5,853	5,834
Interest	18,796	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	(5,206)	837	(1,502)	(496)	(2,321)	(482)	6,368	—
Changes of assumptions	390	(8,735)	(3,929)	16,396	—	272	—	—
Benefit payments, including refunds of member contributions	(10,226)	(9,966)	(9,116)	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Net change in total pension liability	10,254	6,614	9,218	29,708	11,514	13,754	19,924	12,746
Total pension liability – beginning	257,862	251,248	242,030	212,322	200,808	187,054	167,130	154,384
Total pension liability – ending (a)	268,116	257,862	251,248	242,030	212,322	200,808	187,054	167,130
Plan fiduciary net position:								
Contributions – employer	2,673	3,813	4,619	5,220	3,555	4,051	4,163	3,571
Contributions – employees	4,987	4,650	4,639	4,477	4,341	4,302	4,383	4,290
Total net investment income (loss)	(32,967)	40,127	21,600	32,628	(8,075)	22,088	11,774	(199)
Benefit payments, including refunds of member contributions	(10,226)	(9,966)	(9,116)	(8,086)	(7,062)	(6,197)	(5,541)	(4,920)
Administrative expenses	(365)	(306)	(273)	(269)	(312)	(409)	(593)	(550)
Net change in plan fiduciary net position	(35,898)	38,318	21,469	33,970	(7,553)	23,835	14,186	2,192
Plan fiduciary net position – beginning	271,627	233,309	211,840	177,870	185,423	161,588	147,402	145,210
Plan fiduciary net position – ending (b)	235,729	271,627	233,309	211,840	177,870	185,423	161,588	147,402
Plan's net pension liability (a) – (b)	$ 32,387	(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	87.90 %	105.30 %	92.86 %	87.53 %	83.77 %	92.33 %	86.39 %	88.20 %
Covered payroll	$ 55,408	51,671	51,559	49,739	48,228	47,804	48,705	47,660
Net pension liability as a percentage of covered payroll	58.45 %	(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)

		2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	2,673	3,813	4,619	5,220	3,555	4,051	4,163	3,571
Contributions in relation to the actuarially determined contribution		2,673	3,813	4,619	5,220	3,555	4,051	4,163	3,571
Contribution deficiency (excess)	$	—	—	—	—	—	—	—	—
Covered payroll	$	55,408	51,671	51,559	49,739	48,228	47,804	48,705	48,705
Contributions as a percentage of covered payroll		4.82 %	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 *

	2022	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	(10.60)%	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)

		2022	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability:									
Service cost	$	404	446	522	529	599	700	699	633
Interest		796	857	972	1,003	981	1,095	985	1,021
Changes of benefit terms		—	—	—	—	—	526	—	—
Differences between expected and actual experience		(1,560)	1,879	(1,205)	(1,998)	(4,511)	(165)	(1,832)	—
Changes of assumptions		501	(3,371)	(353)	1,186	1,461	—	1,442	—
Benefit payments, net of retiree premiums		(567)	(740)	(491)	(371)	(350)	(331)	(506)	(193)
Net change in total OPEB liability		(426)	(929)	(555)	349	(1,820)	1,825	788	1,461
Total OPEB liability – beginning		14,197	15,126	15,681	15,332	17,152	15,327	14,539	13,078
Total OPEB liability – ending (a)		13,771	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)		(6,547)	5,444	3,914	6,096	(958)	4,295	2,670	(384)
Benefit payments, net of retiree premiums		(567)	(740)	(491)	(371)	(350)	(331)	(506)	(193)
Administrative expenses		(62)	(60)	(59)	(59)	(71)	(77)	(66)	(48)
Net change in plan fiduciary net position		(7,176)	4,644	3,364	5,666	(1,379)	3,887	2,098	(625)
Plan fiduciary net position – beginning		58,922	54,278	50,914	45,248	46,627	42,740	40,642	41,267
Plan fiduciary net position – ending (b)		51,746	58,922	54,278	50,914	45,248	46,627	42,740	40,642
Plan's net OPEB liability (asset) (a) – (b)	$	(37,975)	(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		(375.76)%	(415.03)%	(358.84)%	(324.69)%	(295.12)%	(271.85)%	(278.85)%	(279.54)%
Covered payroll	$	33,720	33,280	32,015	32,154	33,444	35,292	46,941	47,660
Net OPEB liability as a percentage of covered payroll		(112.62)%	(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)

		2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	—	—	—	—	—	—	—	—
Contributions in relation to the actuarially determined contribution		—	—	—	—	—	—	—	—
Contribution deficiency (excess)	$	—	—	—	—	—	—	—	—
Covered payroll	$	33,720	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 *

	2022	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	(9.97)%	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, 2022 are as follows:

(a) Actuarial Valuation Date: January 1, 2022

(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: $110,100 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-2021 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.

(Continued)

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

Age	Tier 1 rate	Tier 2 rate
55	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.

(n) Administrative expenses: The administrative expenses changed from 0.59% to 0.66% of payroll, based on actual expenses paid, which increased by 19.0%.

(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, 2022 are as follows:

(a) Actuarial Valuation Date: January 1, 2022

(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: 6.0%

(g) Administrative Expenses: $18,700 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-2021

(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

(l) Health Care Trend:

Year	Increase from Prior Year Non-Medicare	Increase from Prior Year Medicare
2022	Actual Premiums	
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
2036-2035	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		Blue plan		Gold plan	
		Male	Female	Male	Female	Male	Female
50	$	12,157	14,288	11,486	13,576	10,957	13,001
55		16,002	16,579	15,256	15,825	14,643	15,205
60		21,647	20,047	20,817	19,241	20,103	18,556
64		24,342	21,606	23,483	20,781	22,727	20,069
65		8,684	7,317	7,827	6,504	7,072	5,808
70		10,004	8,251	9,017	7,334	8,148	6,549
75		11,891	9,669	10,718	8,594	9,684	7,675
80		14,293	11,543	12,883	10,260	11,641	9,162
85		16,799	13,565	15,142	12,058	13,682	10,767

Age		Blue Essentials Plan		Gold Essentials Plan	
		Male	Female	Male	Female
50	$	11,091	13,100	10,572	12,541
55		14,712	15,261	14,120	14,662
60		20,054	18,543	19,373	17,887
64		22,612	20,019	21,893	19,340
65		6,962	5,779	6,245	5,114
70		8,020	6,516	7,195	5,767
75		9,532	7,636	8,551	6,758
80		11,458	9,116	10,279	8,067
85		13,467	10,713	12,081	9,481

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

The discount rate was decreased from 6.25% to 6.0%.

The mortality improvement projection was updated.

(p) Administrative expenses: The administrative expenses stayed the same at 0.18% of payroll, based on actual expenses paid, which increased by 3.2%.

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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