What we're made of.

Alaska Railroad 2009 Annual Report

March 24, 2010

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, 2009.

The financial section of the Annual Report is presented in three 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

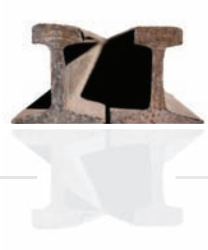
Whether an ARRC customer, creditor, or other resident of the State of Alaska, we hope you find this section of the Annual Report useful.

Sincerely,

Bill O'Leary, CPA
Vice President Finance and
Chief Financial Officer

Wendy Richerson, CPA
Controller

TABLE OF CONTENTS



MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2009 and 2008

This section of the Alaska Railroad Corporation's (ARRC's) annual financial report presents our discussion and analysis of the ARRC's financial performance during the fiscal years that ended on December 31, 2009 and 2008. Please read it in conjunction with the ARRC's financial statements, which follow this section.

Financial Highlights

- The ARRC's total fund equity increased 4% during the course of this year's operations and decreased 9% over the course of 2008 operations.
- During 2009, the ARRC's operating revenues exceeded operating expenses by $5.6 million, yielding an operating ratio of 0.96. Last year, operating revenues exceeded operating expenses by $3.3 million and yielded an operating ratio of 0.98.
- The total 2009 operating costs of the ARRC's programs were $138.0 million, a decrease of 11% compared to last year. Total operating costs were $155.5 million during 2008, an increase of 12% over 2007.
- Expenditures on capital assets totaled $80.4 million during 2009, a decrease of 13% compared to last year. Expenditures on capital assets totaled $92.7 million during 2008, a decrease of 13% compared to 2007.
- Federal grant funding was used for $28.8 million, or 36%, of the 2009 capital expenditures. In 2008 federal grant funding was used for $33.2 million, or 36%, of capital expenditures. These amounts were recorded as deferred revenue in the regulatory liabilities section of the balance sheet. 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 note 8 to the financial statements.

Overview of the Financial Statements

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

- Balance sheet – the balance sheets report assets, liabilities, and fund equity 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). Fund equity, the difference between the ARRC's assets and its liabilities, is one way to measure the ARRC's financial health. Over time, increases or decreases in the ARRC's fund equity are an indicator of whether its financial health is improving or deteriorating, respectively.
- Statement of revenues, expenses, and changes in fund equity – this statement reflects revenues earned from services and expenses incurred to operate the ARRC, as well as the activities of the ARRC not

Return to Table of Contents

considered to be operations. All of the current year's revenues and expenses are accounted for in this statement regardless of when cash is received or paid.

- Statement of cash flows – this statement reports activities of the ARRC as they affect cash balances.

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

Financial Analysis of the Alaska Railroad Corporation

Fund equity – ARRC's fund equity increased 19% between fiscal years 2008 and 2009 to approximately $213.8 million. ARRC's fund equity decreased 9% between fiscal years 2007 and 2008 to approximately $179.7 million.

(in thousands)		2009	2008	2007
Assets:				
Current assets	$	73,928	76,867	59,702
Capital assets		741,154	709,213	664,608
Other noncurrent assets		46,173	68,042	110,204
Total assets	$	861,255	854,122	834,514
Liabilities:				
Current liabilities	$	40,768	44,464	38,140
Notes payable outstanding, less current installments		24,537	27,436	30,219
Revenue bonds payable, net of unamortized premiums and deferred amounts		145,315	155,066	164,314
Other liabilities		1,484	1,908	1,095
Payable from restricted assets		619	410	109
Regulatory liabilities:				
Pension and postretirement		6,258	29,225	—
Deferred grant revenue		428,501	415,882	402,581
Total liabilities	$	647,482	674,391	636,458
Fund equity:				
Invested in capital assets, net of related debt	$	174,564	160,612	165,215
Restricted for reinvestment in infrastructure		39,209	19,119	32,841
Total fund equity	$	213,773	179,731	198,056

Capital assets – Capital assets, net of accumulated depreciation, increased $31.9 million in 2009 and $44.6 million in 2008. During 2009 and 2008, the ARRC continued an extensive capital improvement plan, including bridge replacements, siding extensions, track refurbishing, straightening of curves, and welding rail to allow faster train speed and reduce wear. Also during this time period, ARRC continued developing a collision avoidance system, increased its passenger fleet by five cars and acquired right of way in anticipation of future rail realignments.

December 31, 2009 and 2008

Long-term debt – Notes payable decreased $2.8 million and $3.1 million in 2009 and 2008, respectively. During 2009 and 2008, the ARRC executed no new long-term loans.

Regulatory assets and liabilities – The Surface Transportation Board regulates the ARRC's operations and has specific accounting requirements. The ARRC's board of directors establishes rates for services that are designed to recover the cost of providing the services. The ARRC records regulatory assets and liabilities as required by provisions of FASB ASC 980, *Regulated Operations*, formerly FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*.

A description of each of the regulatory assets and liabilities follows:

- Deferred grant revenue relates to capital assets funded with federal grants. Deferred grant revenue increased $12.6 million in 2009 and $13.3 million in 2008. This increase reflects the increased amount of capital assets constructed with grant funding. Generally deferred grant revenue will be recognized as income as the related capital assets are depreciated.
- The accrued pension and postretirement benefits liability decreased $23.0 million during 2009, due primarily to a change in valuation methods and market performances of the assets invested. The plans changed from valuing assets at market value without smoothing of gains and losses to a five-year smoothing asset valuation method. The net postretirement and pension liability increased $29.2 million and the net postretirement and pension asset decreased $1.3 million during 2008, primarily due to poor market performance of the assets invested.

Revenue – The ARRC's total revenues decreased 8% and totaled $169.4 million in 2009. The ARRC's total revenues increased 7% and totaled $180.4 million in 2008. Approximately 51% and 54% of the ARRC's revenue comes from freight revenue during 2009 and 2008, respectively, and 13% and 14% of the revenue comes from passenger services during 2009 and 2008, respectively. The majority of the remaining income is related to real estate activities and federal grant revenue. Generally, federal grant revenue is recognized as the capital assets funded by the grants are depreciated.

Real estate expenses were $13.1 million in 2009, $9.9 million in 2008, and $12.6 million in 2007, an increase of 32% from 2008 to 2009 and a decrease of 21% from 2007 to 2008. The increase in expense in 2009 relates to expanded facility operations and a significant decrease in 2008 expenses is associated with a one-time adjustment from a recovery from a third party.

December 31, 2009 and 2008

(in thousands)		2009	2008	2007
Operating revenue:				
Freight	$	84,939	96,337	91,783
Passenger		21,455	24,550	23,304
Other		704	895	526
Total transportation revenue		107,098	121,782	115,613
Grant revenue		36,515	37,013	32,949
Total		143,613	158,795	148,562
Operating expense:				
Transportation		40,716	48,846	43,628
Passenger operations		5,365	6,209	5,944
Passenger services		4,241	5,191	4,763
Business development		16,941	20,264	18,203
Mechanical		21,700	22,295	19,051
Maintenance		31,254	33,002	28,045
Facilities		7,453	6,828	6,111
Engineering services		1,129	777	552
Signals		2,719	3,083	2,536
General and administrative		6,475	8,995	10,045
Total		137,993	155,490	138,878
Operating income		5,620	3,305	9,684
Nonoperating revenues (expenses):				
Real estate income, net of expenses		9,365	10,407	6,670
Gain (loss) on sale of capital assets		517	(13)	478
Investment income		115	377	945
Interest expense		(1,715)	(1,519)	(1,527)
Net income		13,902	12,557	16,250
Other changes in fund equity		20,140	(30,882)	(1,762)
Change in fund equity	$	34,042	(18,325)	14,488

(Continued)

December 31, 2009 and 2008

Several events occurred during 2009 that significantly impacted the change in fund equity:

- ARRC's indirect cost rate agreements allowed ARRC to allocate eligible general and administrative expenses to federal grant projects. A total of $2.3 million was allocated to capital projects during 2009, reducing general and administrative expenses. The overall indirect cost recovery was $506,000 greater than 2008.
- Total transportation revenue was $14.7 million less than 2008. The decrease in transportation revenue is attributed to the overall global recession which significantly reduced freight shipments and passenger services.
- ARRC used $477,000 of federal grant funding to acquire right of way in anticipation of future rail realignments.
- During 2009, ARRC entered into an agreement with one customer under the Internal Revenue Code (IRC) §45G. Under the agreement ARRC received $4.6 million for qualified track maintenance expense and gave the customer a shipping credit of $2.6 million.
- ARRC records costs and accrued benefits under its defined benefit and postretirement plans, and effective January 1, 2009, changed valuation methods under the plans. The cumulative effect of the change in accounting principle, reported as a change in fund equity of $25.0 million, represents the decreased unfunded actuarial accrued liabilities for the defined pension plan of $16.6 million and the postretirement plan of $8.4 million.

Several events occurred during 2008 that significantly impacted the change in fund equity:

- ARRC's indirect cost rate agreements allowed ARRC to allocate eligible general and administrative expenses to federal grant projects. A total of $1.8 million was allocated to capital projects during 2008, reducing general and administrative expenses. The overall indirect cost recovery was $254,000 greater than 2007.
- Total transportation revenue was $6.2 million greater than 2007. The increase in transportation revenue is attributed to barge freight, gravel, fuel surcharges, export coal shipments and passenger services.
- ARRC implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and has estimated the liability for pollution remediation by estimating a reasonable range of potential outlays. The ranges of outlays have been reduced by allocation of liability to other potentially responsible parties where applicable, and in certain instances have included estimated recoveries for costs that were incurred in the past. During 2008 net earnings were increased by $2.9 million as a result of information learned during the year about estimated environmental remediation costs and estimated recoveries from other potentially responsible parties.
- ARRC used $651,000 of federal grant funding to acquire right of way in anticipation of future rail realignments.
- During 2008, ARRC entered into an agreement with one customer under the Internal Revenue Code (IRC) §45G. Under the agreement ARRC received $4.6 million for qualified track maintenance expense and gave the customer a shipping credit of $2.6 million.

(Continued)

- ARRC records costs and accrued benefits under its defined benefit and postretirement plans. The other changes in fund equity of $30.9 million represent the change from the prior year in the unfunded actuarial accrued liability of the defined benefit pension and post retirement plans.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the ARRC had invested $741.1 million in a broad range of capital assets including land, road and roadway structures, equipment, and leasehold improvements. This amount represents a net increase (including additions and deductions) of $31.9 million, or 5%, over last year. Grants have funded $443.5 million of the assets, net of accumulated depreciation.

(in thousands)		2009	2008	2007
Land and improvements	$	26,292	24,769	24,056
Road materials and supplies		8,959	9,038	8,483
Road and roadway structures		489,152	472,204	328,986
Equipment		144,017	134,910	96,594
Leasehold improvements		542	667	797
Quarry Improvements		3,801	3,742	3,892
Construction in progress		68,391	63,883	201,800
Total capital assets, net of accumulated depreciation	$	741,154	709,213	664,608

The ARRC's fiscal year 2010 capital budget approved spending another $43.1 million for capital projects, principally for continued track and bridge rehabilitation and other infrastructure improvements. The ARRC intends to use federal grant funding to provide $14.3 million of the capital additions. The remaining capital projects will be funded out of the FTA Capital Receipts Bonds, Series 2007, current year earnings and cash flow. More detailed information about the ARRC's capital assets is presented in note 4 to the financial statements.

Long-Term Debt

At the end of 2009, the ARRC had $27.4 million in notes payable outstanding, a decrease of 9% from 2008, and $155.1 million in revenue bonds payable outstanding, a decrease of 6%. At the end of 2008, the ARRC had $30.2 million in notes payable outstanding, a decrease of 9% from 2007, and $164.5 million in bonds payable outstanding, a decrease of 2%. Bond issuance costs from FTA Capital Grants Receipts, Series 2007 of $1.2 million and Series 2006 of $1.4 million are being amortized over the life of the bonds. More detailed information about the ARRC's long-term debt is presented in note 6 to the financial statements.

Bond Rating

In August 2007, Standard & Poor's Ratings Services, Fitch Ratings, and Moody's Investor Services assigned "A+", "A" and "A1" ratings to the approximately $88.6 million of Capital Grant Receipts Bonds, Series 2007 (FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds). These ratings were used to determine the ARRC's financial strength for the bond issuance, insured under

December 31, 2009 and 2008

a policy issued by Financial Guaranty Insurance Company. More detailed information about the ARRC's bond funded activities is presented in note 6 to the financial statements.

In July 2006, Standard & Poor's Ratings Services and Fitch Ratings assigned "A+" and "A" ratings, respectively to the approximately $76.4 million of Capital Grant Receipts Bonds, Series 2006 (FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds). These ratings were used to determine the ARRC's financial strength for the bond issuance, insured under a policy issued by Financial Guaranty Insurance Company. More detailed information about ARRC's bond funded activities is presented in note 6 to the financial statements.

Next Year's Budget

Freight and passenger revenues are projected at $89.0 million and $18.3 million, respectively. As a result, the ARRC's fund equity is expected to increase $8.4 million or 4% by the close of 2010.

Contacting the ARRC's Financial Management

This financial report is designed to provide residents of the State of Alaska and our 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 us on the Internet 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:

We have audited the accompanying balance sheets of the Alaska Railroad Corporation, a component unit of the State of Alaska, as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Railroad Corporation as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the financial statements, effective January 1, 2009, the Corporation changed its method of accounting for its defined benefit pension and postretirement plans.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2010 on our consideration of the Alaska Railroad Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG

The management's discussion and analysis on pages 1 through 7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 24, 2010

BALANCE SHEETS

December 31, 2009 and 2008

(In thousands)

Assets		2009	2008
Current assets:			
Cash and cash equivalents (note 3)	$	18,267	17,095
Accounts receivable, net of allowance for doubtful accounts of $381 in 2009 and $376 in 2008		19,176	23,325
Grants receivable (note 8)		4,960	5,889
Materials and supplies		9,675	9,484
Prepaid expenses and other current assets		1,188	1,829
Under recovery of vehicle and equipment allocated costs (note 2(k))		—	1,106
Restricted assets (note 3)		20,662	18,139
Total current assets		73,928	76,867
Capital assets (notes 4 and 8):			
Land and improvements (note 11)		30,406	28,712
Road materials and supplies		8,959	9,038
Road and roadway structures		693,482	644,890
Equipment		261,091	241,532
Leasehold improvements (note 11)		1,650	1,650
Accumulated depreciation and amortization		(322,825)	(280,492)
Construction in progress		68,391	63,883
Total capital assets, net		741,154	709,213
Restricted assets (note 3)		46,155	68,024
Other assets		18	18
	$	861,255	854,122
Liabilities and Fund Equity			
Current liabilities:			
Current portion of notes payable (notes 5 and 6)	$	2,898	2,784
Accounts payable and accrued liabilities (notes 5, 13, and 16)		10,235	10,371
Environmental remediation reserve (notes 5 and 15)		1,050	439
Interest payable		3,034	3,194
Payroll liabilities		9,495	12,700
Over recovery of vehicle and equipment allocated costs (note 2(k))		121	—
Unearned revenues (note 11)		4,150	5,581
Current portion of revenue bonds payable (notes 5 and 6)		9,785	9,395
Total current liabilities		40,768	44,464
Notes payable, less current portion (notes 5 and 6)		24,537	27,436
Revenue bonds payable (net of unamortized premiums and deferred amounts) (notes 5 and 6)		145,315	155,066
Environmental remediation reserve (notes 5 and 15)		1,303	1,722
State of Alaska advances (notes 3, 5, and 8)		181	186
Payable from restricted assets		619	410
Regulatory liabilities:			
Accrued pension and postretirement benefits (notes 5 and 7)		6,258	29,225
Deferred grant revenue (notes 5 and 8)		428,501	415,882
Total liabilities		647,482	674,391
Fund equity (note 9):			
Investment in capital assets, net of related debt and deferred grant revenue (note 4)		174,564	160,612
Restricted for reinvestment in infrastructure (notes 2(a) and 2(l)		39,209	19,119
Total fund equity		213,773	179,731
Commitments and contingencies (notes 5, 7, 10, 12, 13, 15 and 16)			
	$	861,255	854,122

See accompanying notes to basic financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2009 and 2008

(In thousands)

		2009	2008
Operating revenues:			
Freight (note 10)	$	84,939	96,337
Passenger		21,455	24,550
Other		704	895
		107,098	121,782
Grant revenue (note 8)		36,515	37,013
		143,613	158,795
Operating expenses (note 8):			
Transportation		40,716	48,846
Passenger operations		5,365	6,209
Passenger services		4,241	5,191
Business development		16,941	20,264
Mechanical		21,700	22,295
Maintenance		31,254	33,002
Facilities		7,453	6,828
Engineering services		1,129	777
Signals		2,719	3,083
General and administrative, net of indirect cost recovery of $2,329 in 2009 and $1,823 in 2008		6,475	8,995
		137,993	155,490
Operating income		5,620	3,305
Nonoperating revenues (expenses):			
Real estate income, less direct expenses of $13,063 in 2009 and $9,878 in 2008 (notes 8 and 11)		9,365	10,407
Gain (loss) on sale of capital assets		517	(13)
Investment income		115	377
Interest expense, net of grant revenue of $2,768 in 2009 and $984 in 2008 (note 8)		(1,715)	(1,519)
Total nonoperating revenues		8,282	9,252
Net income (note 2(a))		13,902	12,557
Other change in fund equity:			
Change in pension and postretirement funding status (note 7)		(4,893)	(30,882)
Cumulative effect of change in accounting principle (note 7)		25,033	—
Change in fund equity		34,042	(18,325)
Fund equity, beginning of year		179,731	198,056
Fund equity, end of year	$	213,773	179,731

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2009 and 2008

(In thousands)

		2009	2008
Cash flows from operating activities:			
Receipts from customers	$	111,247	116,347
Operating grants received		6,706	5,928
Payments to suppliers		(34,945)	(49,963)
Payments to employees		(65,082)	(62,542)
Net cash provided by operating activities		17,926	9,770
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(2,785)	(3,089)
Interest payments on long-term debt		(10,456)	(8,906)
Purchases and construction of capital assets		(80,549)	(93,826)
Proceeds from sales of capital assets		1,289	—
Increase in deferred revenues, net of advances		43,528	46,484
Net cash used by capital and related financing activities		(48,973)	(59,337)
Cash flows from investing activities:			
Real estate income and related cash flows		26,431	25,626
Real estate direct expenses paid		(13,063)	(9,878)
Interest received		115	377
Purchase of restricted investments		(9,537)	(4,094)
Proceeds from sale of restricted investments		28,273	39,299
Net cash provided by investing activities		32,219	51,330
Net increase in cash and cash equivalents		1,172	1,763
Cash and cash equivalents at beginning of year		17,095	15,332
Cash and cash equivalents at end of year	$	18,267	17,095
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	5,620	3,305
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		42,193	42,496
Bond issuance cost amortization		176	176
Grant revenue on capital assets		(29,985)	(31,261)
Changes in operating assets and liabilities:			
Materials and supplies		(191)	(1,034)
Accounts receivable		4,149	(5,435)
Prepaid expenses and other assets		641	4
Accounts payable and accrued liabilities		(136)	(619)
Interest payable		160	—
Under recovery of vehicle and equipment allocated costs		1,227	(667)
Payroll liabilities		(3,205)	1,552
Environmental reserve		104	1,586
Accrued postretirement and pension benefits		(2,827)	(333)
Total adjustments		12,306	6,465
Net cash provided by operating activities	$	17,926	9,770
Supplemental disclosure of noncash activity:			
Depreciation included in real estate activity	$	5,434	5,628

See accompanying notes to basic financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

(1) Organization and Operations

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

The ARRC operates 685 track miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks, the ports of Whittier, Seward, and Anchorage as well as Denali National Park and military installations. Vessel and rail barge connections are provided from Seattle, Washington, and Prince Rupert, British Columbia.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting

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

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

The ARRC has elected to apply all applicable private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, under the option allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

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 FASB Accounting Standards Codification (ASC) 980, *Regulated Operations*, formerly FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*.

Return to Table of Contents

December 31, 2009 and 2008

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 fund equity. The ARRC's board of directors has also adopted a resolution restricting fund equity 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 and repurchase agreements with original maturities of three months or less.

(c) Materials and Supplies

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

(d) Capital Assets

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

(e) Restricted Assets

The ARRC's restricted assets consist of money market accounts and investments in commercial paper and guaranteed investment contracts (GICs). Money market accounts and investments in commercial paper are reported at fair value based on quoted market prices. GICs are reported at amortized cost because they cannot be negotiated or transferred to a third party.

(f) Regulatory Assets and Liabilities

The ARRC's rates for services are established by the board of directors and are designed to recover the cost of providing the service. For purposes of establishing rates, the ARRC defers the recognition of grant revenues relating to depreciable capital assets funded with federal grants, and amortizes the deferred amounts over the life of the related capital assets. Additionally, ARRC records the funded status of its defined pension and postretirement plans as regulatory assets and liabilities.

(g) Operations

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

December 31, 2009 and 2008

(h) Grants

Grants are recognized as earned when all eligibility requirements have been met, however, recognition of revenue for grants expended for depreciable capital assets is deferred and recognized over the period in which the asset is depreciated as described in note 2(f). Grant funds received but not yet expended are recorded as advance grant funding.

(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 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 or under recovery of actual vehicle and equipment costs is applied against fixed charge rates in subsequent years. Accordingly, the ARRC has recorded an over recovery of $121,000 and an under recovery of $1,106,000 during the years ended December 31, 2009 and 2008, respectively.

(l) Equity

During 2009 and 2008, the ARRC's board of directors restricted $39,209,000 and $19,119,000, respectively, of fund equity for reinvestment in infrastructure.

(m) Reclassifications

Certain reclassifications not affecting net income have been made to the 2008 financial statements to conform to the current presentation.

(n) Subsequent Events

The ARRC has evaluated subsequent events from the balance sheet date through March 24, 2010, the date at which the financial statements were available to be issued, and determined there are no other items requiring disclosure.

(3) Deposits and Investments

(a) Custodial Credit Risk

In the case of deposits, custodial credit is the risk that in the event of a bank failure, the ARRC's deposits may not be returned to it. For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the ARRC will not be able to recover the value of its investments

December 31, 2009 and 2008

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, 2009, the ARRC's carrying amount of cash and cash equivalents was $18,267,000 and the bank balance was $19,457,000. Of the bank balance, $250,000 was covered by federal depository insurance; $3,244,000 was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the ARRC's name; none of the balances were uncollateralized; and $15,963,000 represents money market funds held by the ARRC's agent in the ARRC's name.

At December 31, 2008, the ARRC's carrying amount of cash and cash equivalents was $17,095,000 and the bank balance was $17,901,000. Of the bank balance, $250,000 was covered by federal depository insurance; $3,396,000 was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the ARRC's name; none of the balances were uncollateralized; and $14,255,000 represents money market funds held by the ARRC's agent in the ARRC's name.

(b) Interest Rate Risk

The ARRC has a formal investment policy that limits investment maturities to five years or less as a means of managing its exposure to fair value losses arising from increasing interest rates. The ARRC uses the specific identification method to report maturities of investments.

(c) Credit Risk

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.

(d) Concentration of Credit Risk

The ARRC investment policy places no limit on the amount the ARRC may invest in any one issuer.

The carrying value and maturities of the investments consist of the following at December 31, 2009 and 2008 (in thousands):

Investment Type	Maturities	2009	2008
Commercial Paper	1/6/2010	$ 1,021	1,019
Guaranteed Investment Contracts	12/31/2008 - 6/30/2012	44,263	65,960
	Total Investments	45,284	66,979
Money Market		21,533	19,184
	Total	$ 66,817	86,163

December 31, 2009 and 2008

These investments are restricted by the terms of grant or other agreements or by the ARRC's board of directors and are summarized as follows at December 31, 2009 and 2008:

(in thousands)	Fair Value			
	2009			
Description of Restriction	**Money Market**	**Commercial Paper**	**Investment Contract**	**Total**
Capital assets as authorized by the Department of Natural Resources	$ 187	—	—	187
Advance grant funding, other federal grants	497	—	—	497
Project Fund:				
Guaranteed Investment Contract (GIC)	—	—	44,263	44,263
Money Market	182	—	—	182
Debt Service Reserve	20,662	—	—	20,662
Forward Sale Agreement:				
2006A Reserve Account	2	436	—	438
2006B Reserve Account	3	585	—	588
	$ 21,533	1,021	44,263	66,817

(in thousands)	Fair Value			
	2008			
Description of Restriction	**Money Market**	**Commercial Paper**	**Investment Contract**	**Total**
Capital assets as authorized by the Department of Natural Resources	$ 191	—	—	191
Advance grant funding, other federal grants	547	—	—	547
Capital Interest:				
Guaranteed Investment Contract (GIC)	—	—	2,076	2,076
Money market	9	—	—	9
Project fund:				
Guaranteed Investment Contract (GIC)	—	—	63,884	63,884
Money market	284	—	—	284
Debt Service Reserve	18,139	—	—	18,139
Forward Sale Agreement:				
2006A Reserve Account	6	435	—	441
2006B Reserve Account	8	584	—	592
	$ 19,184	1,019	65,960	86,163

 (Continued)

December 31, 2009 and 2008

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, 2009 and 2008.

Other Restricted Assets

ARRC has received grants from various agencies. The amounts received in excess of the amounts spent on the grant programs are reported as advance grant funding (note 8).

(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 Authority (FTA) Circular 5010.1C, ARRC will continue to update its indirect cost rate proposal but will retain it onsite and make it available for review during its annual financial audit. This agreement allows ARRC to allocate certain general and administrative expenses to grant projects. Indirect costs allocated to capital projects under this agreement totaled $2,329,000 and $1,823,000 during the years ended December 31, 2009 and 2008, respectively.

(Continued)

Return to Table of Contents

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

The following summarizes activity in the capital assets accounts during the years ended December 31, 2009 and 2008:

(in thousands)	Balance at December 31, 2008	Additions	Reductions	Reclasses	Balance at December 31, 2009
Capital assets not being depreciated:					
Land and improvements	$ 24,769	1,523	—	—	26,292
Road materials and supplies	9,038	—	(79)	—	8,959
Construction in progress	63,883	80,420	(75,912)	—	68,391
Total capital assets not being depreciated	97,690	81,943	(75,991)	—	103,642
Capital assets being depreciated:					
Road and roadway structures	644,890	48,528	(340)	404	693,482
Equipment	241,532	25,689	(5,726)	(404)	261,091
Leasehold improvements	1,650	—	—	—	1,650
Total capital assets being depreciated	888,072	74,217	(6,066)	—	956,223
Capital assets being depleted:					
Quarry improvements	3,943	171	—	—	4,114
Less accumulated depreciation for:					
Road and roadway structures	172,686	31,765	(307)	186	204,330
Equipment	106,622	15,625	(4,987)	(186)	117,074
Leasehold improvements	983	125	—	—	1,108
Total accumulated depreciation	280,291	47,515	(5,294)	—	322,512
Less accumulated depletion for:					
Quarry improvements	201	112	—	—	313
Capital assets being depreciated and depleted, net	611,523	26,761	(772)	—	637,512
Net capital assets	$ 709,213	108,704	(76,763)	—	741,154

(Continued)

Return to Table of Contents

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

(in thousands)		Balance at December 31, 2007	Additions	Reductions	Reclasses	Balance at December 31, 2008
Capital assets not being depreciated:						
Land and improvements	$	24,056	713	—	—	24,769
Road materials and supplies		8,483	555	—	—	9,038
Construction in progress		201,800	92,179	(230,096)	—	63,883
Total capital assets not being depreciated		234,339	93,447	(230,096)	—	97,690
Capital assets being depreciated:						
Road and roadway structures		468,994	175,896	—	—	644,890
Equipment		189,339	53,487	(1,294)	—	241,532
Leasehold improvements		1,650	—	—	—	1,650
Total capital assets being depreciated		659,983	229,383	(1,294)	—	888,072
Capital assets being depleted:						
Quarry improvements		3,943	—	—	—	3,943
Less accumulated depreciation for:						
Road and roadway structures		140,008	32,717	—	(39)	172,686
Equipment		92,745	15,127	(1,289)	39	106,622
Leasehold improvements		853	130	—	—	983
Total accumulated depreciation		233,606	47,974	(1,289)	—	280,291
Less accumulated depletion for:						
Quarry improvements		51	150	—	—	201
Capital assets being depreciated and depleted, net		430,269	181,259	(5)	—	611,523
Net capital assets	$	664,608	274,706	(230,101)	—	709,213

(Continued)

Return to Table of Contents

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

Depreciation expenses were charged to the following departments during the years ending December 31, 2009 and 2008:

(in thousands)	2009		2008	
	Grant Funded Depreciation	Non-Grant Funded Depreciation	Grant Funded Depreciation	Non-Grant Funded Depreciation
Transportation	$ 4,635	645	3,876	452
Passenger operations	1,302	279	1,326	292
Passenger services	139	38	139	24
Business development	118	1,043	118	997
Mechanical	3,193	5,817	3,751	5,936
Maintenance	13,995	5,477	15,534	5,317
Facilities	979	284	—	107
Engineering services	—	—	—	10
Signals	1,078	251	1,435	200
General and administrative	353	2,455	457	2,375
Real estate	4,193	1,241	4,468	1,160
	$ 29,985	17,530	31,104	16,870

Fund equity invested in capital assets, net of related debt and deferred grant revenue, is as follows at December 31, 2009 and 2008:

(in thousands)	2009	2008
Net capital assets (note 4)	$ 741,154	709,213
Notes payable (note 6)	(27,435)	(30,220)
Proceeds of revenue bonds expended on capital assets (note 6)	(110,654)	(102,499)
Deferred grant revenue (note 8)	(428,501)	(415,882)
	$ 174,564	160,612

(Continued)

Return to Table of Contents

December 31, 2009 and 2008

(5) Long-Term Liabilities

Long-term liability activity is summarized as follows during the years ended December 31, 2009 and 2008:

(in thousands)	Balance at December 31, 2008	Additions	Reductions	Balance at December 31, 2009	Due within one year
Long-term debt:					
Notes payable	$ 30,220	—	(2,785)	27,435	2,898
Revenue bonds payable	164,461	34	(9,395)	155,100	9,785
Environmental remediation reserve	2,161	459	(267)	2,353	1,050
Other claims	978	852	(556)	1,274	1,274
State of Alaska advances	186	1	(6)	181	—
Payable from restricted assets	410	209	—	619	—
Regulatory liabilities:					
Accrued pension and postretirement benefits	29,225	2,066	(25,033)	6,258	—
Deferred grant revenue	415,882	42,760	(30,141)	428,501	—
Total long-term liabilities	$ 643,523	46,381	(68,183)	621,721	15,007

(in thousands)	Balance at December 31, 2007	Additions	Reductions	Balance at December 31, 2008	Due within one year
Long-term debt:					
Notes payable	$ 33,310	—	(3,090)	30,220	2,784
Revenue bonds payable	168,379	147	(4,065)	164,461	9,395
Environmental remediation reserve	1,011	1,948	(798)	2,161	439
Other claims	537	584	(143)	978	978
State of Alaska advances	552	2	(368)	186	—
Payable from restricted assets	108	302	—	410	—
Regulatory liabilities:					
Accrued pension and postretirement benefits	—	29,225	—	29,225	—
Deferred grant revenue	402,581	44,562	(31,261)	415,882	—
Total long-term liabilities	$ 606,478	76,770	(39,725)	643,523	13,596

The ARRC has arrangements for three short-term unsecured lines of credit. The general-purpose lines of credit allow borrowing up to $20,000,000, at a rate of 55% of the prime rate of a major bank. The self-insurance line of credit allows borrowing up to $10,000,000 at a rate of 55% of the prime rate of a major bank. None of the lines of credit had an outstanding balance at December 31, 2009 or 2008.

December 31, 2009 and 2008

(6) Long-Term Debt

Long-term debt at December 31, 2009 and 2008 consists of the following:

(in thousands)		2009	2008
Notes payable:			
Note payable, secured by equipment, due in monthly payments of $156,934, including interest at 3.79%, matures March 2014.	$	7,266	8,842
Note payable, secured by equipment, due in monthly payments of $97,249, including interest at 3.83%, matures March 2019.		9,078	9,880
Note payable, secured by real estate revenue, due in monthly payments of $36,211, including interest at 5.40%, matures June 2026.		4,739	4,913
Note payable, secured by real estate revenue, due in monthly payments of $48,539, including interest at 5.40%, matures June 2026.		6,352	6,585
		27,435	30,220
Less current portion		2,898	2,784
	$	24,537	27,436
Revenue bonds:			
Revenue Bonds-Series 2006 and 2007, (interest at 3.625% – 5.25%) interest payable semi-annually February 1 and August 1, secured by 5307 and 5309 FTA Formula Funds, matures August 2021, including premiums of $5,610,000 and unamortized issuance costs of $2,050,000 for the year ended December 31, 2009.	$	155,100	164,461
Less current portion		9,785	9,395
	$	145,315	155,066

(Continued)

December 31, 2009 and 2008

Annual payments on debt are scheduled as follows at December 31, 2009:

(in thousands)		Notes Payable		Revenue Bonds Payable		
		Principal	Interest	Principal	Interest	Total
Year ending December 31:						
2010	$	2,898	1,169	9,785	7,153	21,005
2011		3,018	1,049	10,195	6,741	21,003
2012		3,142	925	10,635	6,301	21,003
2013		3,272	796	11,120	5,820	21,008
2014		1,837	682	11,620	5,319	19,458
2015 – 2019		7,704	2,341	66,675	18,017	94,737
2020 – 2026		5,564	1,046	31,510	2,364	40,484
		27,435	8,008	151,540	51,715	238,698
Current portion of principal		(2,898)		(9,785)		(12,683)
Unamortized premium		—		5,610		5,610
Unamortized issuance cost		—		(2,050)		(2,050)
Total long-term portion	$	24,537		145,315		229,575

Notes Payable

The real estate lease revenue debt service reserves balances, associated with the 2006 term loans used to acquire its general office building and other properties located in the Anchorage Terminal Reserve, at December 31, 2009 and 2008 were $438,000 and $587,000, and $441,000 and $592,000, respectively.

Bonds Payable

In August 2007, the ARRC issued $88.6 million in Capital Grant Receipts Bonds, Series 2007 FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds, to provide funds to finance various capital improvement projects. The 2007 Revenue Bonds are limited obligations of the ARRC payable solely from and secured solely by amounts received by the ARRC from its share of FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds. The bonds bear fixed interest rates from 4.0% to 5.0%, mature at various dates through 2021, are insured by the Financial Guaranty Insurance Company (FGIC), and were initially assigned ratings by Standard & Poor's Ratings Service, Fitch Ratings, and Moody's Investors Service of "A+", "A" and "A1", respectively. Bond issuance costs of $1.2 million and bond premium of $2.4 million will be amortized over the life of the bonds.

In August 2006, the ARRC issued $76.4 million in Capital Grant Receipts Bonds, Series 2006 FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds, to provide funds to finance various capital improvement projects. The 2006 Revenue Bonds are limited obligations of the ARRC payable solely from and secured solely by amounts received by the ARRC from its share of FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds. The bonds bear fixed interest rates from 3.625% to 5.250%, mature at various dates through 2021, are insured by the Financial Guaranty Insurance Company (FGIC), and were initially assigned ratings by Standard & Poor's Ratings Service and Fitch Ratings of "A+" and

(Continued)

December 31, 2009 and 2008

“A”, respectively. Bond issuance costs of $1.4 million and bond premium of $3.4 million will be amortized over the life of the bonds.

The following table sets forth the authorized funding allocation of the Federal Transit Administration (FTA) Section 5307 Formula Program Funds and Section 5309 Formula Program Funds to ARRC in Federal Fiscal Years (FFY) 2009 and 2010:

(in thousands) FFY		Section 5307 Formula Program	Section 5309 Formula Program	Total
2009	$	19,597,412	18,663,749	38,261,161
2010*		20,049,019	19,055,511	39,104,530

*FFY 2010 estimates are based on formula program growth rates contained in the Appropriations Act, 2010 (Public Law) and Continuing Resolution, 2010 for authorizations for Section 5307 and 5309 program funds.

During 2009, the ARRC expended $23.5 million of the bond proceeds on eligible capital costs related to the capital improvement program. Of these costs, $1.6 million was capitalized interest.

State of Alaska Authorizations

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

Chapter 28, SLA 2006 authorized the ARRC to issue up to $165 million in revenue bonds to finance rail transportation projects that qualify for federal financial participation and associated costs. To date, $165 million in bonds have been issued with a premium of $5.8 million.

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

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

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

(Continued)

Return to Table of Contents

(7) Employee Benefits

The ARRC's board of directors has established a method of accounting for pension and postretirement cost which is designed to recover the full costs of these benefit. As a result, the unfunded actuarial accrued liabilities associated with these benefits are reported as regulatory assets and liabilities in the balance sheets. Periodic benefit costs related to these plans are included in operating expenses and capital additions. Pension costs and accrued benefits under the defined benefit pension and postretirement plans are calculated under the provisions of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The unfunded actuarial accrued liability, which is the difference between the actuarial value of the assets and the actuarial accrued liability, of the defined benefit pension plan is reported as a regulatory liability of $2,189,000 and $15,117,000 at December 31, 2009 and 2008, respectively. The unfunded actuarial accrued liability of the postretirement benefit plan is reported as a regulatory liability of $4,070,000 and $14,108,000 at December 31, 2009 and 2008, respectively. The change in pension and postretirement funding status presented as other changes in fund equity of a decrease of $4,893,000 and $30,882,000 in 2009 and 2008, respectively, represents the change from the prior year in the unfunded actuarial accrued liability for the defined benefit pension and postretirement plans.

Effective January 1, 2009, the defined benefit pension and postretirement plans changed valuation methods. The plans changed from valuing assets at market value without smoothing of gains and losses (market value of assets) to a five-year smoothing asset valuation method (actuarial value of assets). Under the new method, at the end of each plan year, an expected investment return is calculated based on the plan valuation rate and the sum of the previous year's market value of assets plus net cash flow during the plan year; the actuarial investment gain or (loss) is determined as the excess or (deficiency) of the actual investment return over the expected investment return for the plan year; and the actuarial investment gain or (loss) so determined is amortized over five years. The actuarial asset value is the sum of the prior year's actuarial asset value, plus the expected return for the plan year, adjusted for the amortization of actuarial investment gains and losses during the current and the preceding four plan years, plus net cash flow for the plan year. The ARRC's annual required contribution to the plans and the associated expense recorded are calculated based on actuarial asset value. Using the actuarial value of the assets for this calculation, rather than the market value of the assets, results in lower volatility of the annual required contribution and associated expense.

The new valuation method was considered preferable because the goal of an asset valuation method is to produce a relatively stable asset value thereby reducing year-to-year volatility in annual contribution requirements. The actuarial value of the assets avoids fluctuating gains and losses which have no long-term significance on the annual valuations. The new valuation method is consistent with GASB Statements No. 27 and 45. The impact of adopting this accounting change for the year ended December 31, 2009 was to reduce the annual required contribution for the defined benefit pension plan from $3,335,000 to $1,857,000, and the associated expense from $2,708,000 to $1,509,000; and to reduce the annual required contribution for the postretirement plan from $3,181,000 to $2,719,000, and the associated expense from $2,271,000 to $1,942,000. This change in accounting principle decreased the unfunded actuarial accrued liability for the defined benefit pension plan by $16,618,000 and the postretirement plan by $8,415,000 as of January 1, 2009, which is reflected as an other change in fund equity. It was impracticable for the

ARRC to determine the effect of the change in accounting principle prior to January 1, 2009, because the ARRC has changed consulting actuaries and unreasonable efforts would be necessary to determine the impact of the change in accounting principle for any prior period.

(a) Defined Benefit Pension Plan

The ARRC has a defined benefit pension plan (Plan) covering all regular represented and non-represented employees who are not covered by the Civil Service Retirement System. 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 amount equal to the Annual Required Contribution (ARC). Employees contribute an amount equal to 9% of eligible compensation. Contributions are made continuously throughout the year. Plan assets are comprised of fixed income securities, common stocks, real estate investment trusts, and real estate separate accounts.

Assumptions used to determine annual pension cost and related information for the years ended December 31, 2009 and 2008, are as follows:

	2009	2008
Actuarial assumptions compounded annually:		
Inflation rate	2.80%	2.50%
Discount rate	7.50	7.50
Investment return for funding purposes	7.50	7.50
Expected investment return	7.50	7.50
Investment return on employee accounts	4.50	4.50
Projected salary increase	4.00	4.00
Cost of living allowance	1.40	1.25

The unfunded accrued liability is amortized over an open 30 year period as a level dollar amount.

December 31, 2009 and 2008

The following table presents activity of the Plan's assets during the years ended December 31, 2009 and 2008:

(in thousands)

		2009	2008
Income:			
Contributions received:			
Employee	$	4,126	4,060
Employer		1,857	1,019
Investment earnings (loss)		12,532	(17,435)
Net accrued		—	(81)
Total income (loss)		18,515	(12,437)
Disbursements:			
Benefit payments:			
Periodic		1,032	879
Nonperiodic:			
Termination		752	854
Retirement		29	23
Disability		41	32
Death		—	36
Total benefit payments		1,854	1,824
Administrative and investment consulting expenses		298	300
Total disbursements		2,152	2,124
Net income (loss)		16,363	(14,561)
Market value of assets at beginning of year		59,157	73,718
Market value of assets at end of year	$	75,520	59,157

(Continued)

Return to Table of Contents

The following table reconciles the Plan's market value of the assets to the actuarial value of the assets and presents the funding status at December 31, 2009 and 2008:

(in thousands)

		2009	2008
Market value of assets at end of year	$	75,520	59,157
Unamortized actuarial losses		6,905	—
Actuarial value of assets at the end of year		82,425	59,157
Actuarial accrued liability (AAL)		84,614	74,274
Unfunded AAL (UAAL)	$	2,189	15,117
Funded ratio (actuarial value of plan assets/AAL)		97.4%	79.6%
Covered payroll (active plan members)	$	47,426	46,950
UAAL as a percentage of covered payroll		4.6%	(32.2%)

The annual required contribution (ARC) of $1,857,000 and $1,019,000 and the associated expenses of $1,509,000 and $819,000 were included in the accompanying financial statements for the years ended December 31, 2009 and 2008, respectively. The ARRC's annual pension cost (APC), which is the periodic cost of the plan, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2009 and the two preceding years were as follows:

(in thousands)

		Annual Pension Cost (APC)	Contributed		Net Pension Obligation
2007	$	872	100%	$	—
2008		1,019	100%		—
2009		1,857	100%		—

(b) Postretirement Benefits Other Than Pension

The ARRC sponsors a retiree health care plan (Plan) that 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 contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance.

December 31, 2009 and 2008

Assumptions used to determine annual postemployment benefit cost and related information for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Discount rate	7.50%	7.50%
Investment return for funding purposes	7.50	7.50
Expected investment return	7.50	7.50
Health cost trend:		
Medical	4.5 to 10.5	5.0 to 11.0
Prescription	4.5 to 10.5	5.0 to 14.0

The unfunded accrued liability is amortized over an open 30 year period as a level dollar amount.

The following table represents activity of the Plan's assets during the years ended December 31, 2009 and 2008:

(in thousands)

	2009	2008
Income:		
Contributions received – employer	$ 5,219	2,805
Investment earnings (loss)	4,755	(5,245)
Net accrued	—	(24)
Total income (loss)	9,974	(2,464)
Disbursements:		
Benefit payments paid	131	38
Benefit payments payable	100	39
Administrative and investment consulting expenses	54	46
Total disbursements	285	123
Net income (loss)	9,689	(2,587)
Market value of assets at beginning of year	16,441	19,028
Market value of assets at the end of year	$ 26,130	16,441

The following table reconciles the Plan's market value of the assets to the actuarial value of the assets and presents the funding status at December 31, 2009 and 2008:

(in thousands)

		2009	2008
Market value of assets at end of year	$	26,130	16,441
Unamortized actuarial losses		1,400	—
Actuarial value of assets at the end of year		27,530	16,441
Actuarial accrued liability (AAL)		31,600	30,549
Unfunded AAL	$	4,070	14,108
Funded ratio (actuarial value of plan assets/AAL)		87.1%	53.8%
Covered payroll (active plan members)	$	47,426	46,950
UAAL as a percentage of covered payroll		8.6%	30.0%

The annual required contribution (ARC) of $2,719,000 and $2,805,000 and the associated expenses of $1,942,000 and $1,999,000 were included in the accompanying financial statements for the years ended December 31, 2009 and 2008, respectively. The ARRC's annual other postemployment benefit (OPEB) cost (which is the periodic cost), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the two preceding years were as follows:

(in thousands)

		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2007	$	2,281	225%	$	4,873
2008		2,476	113%		4,544
2009		2,393	218%		1,718

(c) Civil Service Retirement System

Federal employees who transferred to the ARRC continue to participate in the Civil Service Retirement System (CSRS), a multi-employer defined benefit plan. ARRC is required to contribute 7% of the transferred employees' eligible compensation. Benefit expense related to CSRS was $274,000 and $333,000 for the years ended December 31, 2009 and 2008, respectively.

(d) Defined Contribution Plan

The ARRC sponsors a defined contribution plan (Plan) under Section 401(k) of the IRS Code for employees. All regular employees are eligible to contribute to the Plan. Under the terms of certain collective bargaining agreements, representing 55% 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 $538,000 and $556,000 for the years ended December 31, 2009 and 2008, respectively.

ARRC also sponsors a Section 457 deferred compensation plan under Section 457(b) of the IRS Code for non-represented employees. There are no benefit expenses related to the Plan for the years ended December 31, 2009 and 2008, respectively.

(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, 2009 and 2008 consists of the following:

(in thousands)

			2009	2008
Land and improvements		$	7,030	6,592
Road and roadway structures	15 – 32 year life		422,929	406,349
Equipment	5 – 25 year life		88,001	79,794
Construction in process			28,622	25,049
		$	546,582	517,784

The original cost of assets constructed or acquired with Capital Grant Receipts Bonds, Series 2006 and 2007 funding at December 31, 2009 and 2008 consists of the following:

(in thousands)

			2009	2008
Road and roadway structures	15 – 32 year life	$	82,205	67,921
Equipment	5 – 25 year life		18,960	17,974
Construction in process			29,765	21,584
		$	130,930	107,479

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

Deferred grant revenue consists of grant funding received for capital assets and is equal to the net book value of assets constructed with that funding. It will generally be amortized over the life of the related capital assets. Deferred grant balances at of December 31, 2009 and 2008 consist of the following:

(in thousands)	2009		2008	
	Advance grant funding (receivable)	Deferred grant revenue	Advance grant funding (receivable)	Deferred grant revenue
Federal Railroad Administration:				
Net book value of assets constructed	$ —	226,204	—	234,437
Construction in process	—	2,000	—	5,291
Nondepreciable asset	—	(51)	—	—
Amount receivable from grantor	(922)	—	(519)	—
Taxpayer Relief Act:				
Net book value of assets purchased and constructed	—	16,960	—	18,321
Construction in process	—	(15)	—	(15)
Nondepreciable asset	—	(1,549)	—	(1,549)
Federal Transit Administration:				
Net book value of assets purchased and constructed	—	92,963	—	93,251
Construction in process	—	88,697	—	60,976
Nondepreciable asset	—	(5,469)	—	(5,043)
Amortized bond issuance costs	—	(176)	—	(177)
Interest expense on debt service	—	(2,768)	—	(984)
Amount receivable from grantor	(2,320)	—	(4,388)	—
Federal Emergency Management Agency:				
Net book value of assets constructed	—	2,994	—	2,108
Construction in process	—	936	—	1,147
Amount receivable from grantor	(1,304)	—	(954)	—
Department of Interior:				
Grant funding received in advance	490	—	490	—
Accrued derailment expense (note 15)	(490)	—	(490)	—
Department of Agriculture:				
Net book value of assets constructed	—	1,159	—	1,300
Construction in process	—	—	—	(12)
Amount receivable from grantor	(52)	—	—	—

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

(in thousands)		2009		2008	
		Advance grant funding (receivable)	Deferred grant revenue	Advance grant funding (receivable)	Deferred grant revenue
U.S. Fish and Wildlife:					
Net book value of assets constructed	$	—	332	—	362
Construction in process		—	2	—	1
Amount receivable from grantor		(2)	—	(2)	—
Department of Homeland Security:					
Net book value of assets constructed		—	232	—	320
Construction in process		—	48	—	—
Amount receivable from grantor		(48)	—	—	—
State of Alaska Wishbone Hill Coal Project:					
Grant funding commitments		—	4,486	—	4,840
Construction in process		—	—	—	—
Grant funding received in advance		—	—	—	—
Municipality of Anchorage Ship Creek Economic Development:					
Net book value of assets constructed		—	125	—	135
Alaska State Fair:					
Net book value of assets constructed		—	302	—	313
Construction in process		—	—	—	—
Rasmuson Foundation:					
Net book value of assets constructed		—	553	—	633
Construction in process		—	—	—	—
State of Alaska Other:					
Net book value of assets constructed		—	94	—	108
Construction in process		—	136	—	47
Amount receivable from grantor		(123)	—	—	—
MOU-DOT Fairbanks Freight Intermodal					
Construction in process		—	306	—	72
Amount receivable from grantor		(189)	—	(26)	—
	$	(4,960)	428,501	(5,889)	415,882

(Continued)

Return to Table of Contents

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

The ARRC recognized the following grant revenue during the years ended December 31, 2009 and 2008:

(in thousands)

		2009	2008
Alaska State Fair			
Depreciation on assets constructed	$	12	12
Capital Grant Receipts Bonds, Series 2006 and 2007:			
Depreciation on assets constructed		6,749	3,477
Grant funded principal, interest and issuance costs		156	157
Department of Agriculture:			
Depreciation on assets constructed		180	191
Department of Interior:			
Grant funding of accrued derailment expense (note 15)		—	37
Derailment expense paid in current year		—	(37)
Federal Emergency Management Agency:			
Depreciation on assets constructed		197	238
Grant funded disaster recovery expense		7	117
Federal Railroad Administration:			
Depreciation on assets constructed		16,231	19,390
Right of way acquisition		51	—
Federal Transit Administration:			
Depreciation on assets purchased and constructed		7,514	6,899
Grant funded maintenance and transit security expense		10,083	9,483
Right of way acquisition		427	651
Homeland Security:			
Depreciation on assets purchased and constructed		88	88
Municipality of Anchorage Ship Creek			
Economic Development:			
Depreciation on assets constructed		10	10
Rasmuson Foundation:			
Depreciation on assets purchased		80	80
State of Alaska:			
Depreciation on assets purchased		48	53
State of Alaska Wishbone Hill Coal Project:			
Depreciation on assets purchased		354	354
Taxpayer Relief Act:			
Depreciation on assets purchased and constructed		1,259	1,235
US Fish and Wildlife:			
Depreciation on assets purchased and constructed		30	30
		43,476	42,465
Less grant revenue included in real estate nonoperating revenues		(4,193)	(4,468)
Less grant revenue reported as a reduction of interest expense		(2,768)	(984)
	$	36,515	37,013

(Continued)

Return to Table of Contents

December 31, 2009 and 2008

(9) Fund Equity

Fund equity consists of the following major items as of December 31, 2009 and 2008:

(in thousands)		Investment by the State of Alaska	Cumulative net income	Cumulative other changes in fund equity	Total fund equity
Balance at January 1, 2008	$	34,174	157,678	6,204	198,056
Net income		—	12,557	—	12,557
Other changes in fund equity		—	—	(30,882)	(30,882)
Total changes in fund equity					(18,325)
Balance at December 31, 2008		34,174	170,235	(24,678)	179,731
Net income		—	13,902	—	13,902
Other changes in fund equity		—	—	20,140	20,140
Total changes in fund equity					34,042
Balance at December 31, 2009	$	34,174	184,137	(4,538)	213,773

(10) Major Customer

One ARRC customer accounted for 42% and 46% of freight revenue in 2009 and 2008, respectively. During 2009 and 2008, ARRC entered into agreements with the same customer under the Internal Revenue Code (IRC) §45G. Under the agreements ARRC received $4.6 million for qualified track maintenance expense and gave the customer a shipping credit of $2.6 million.

(Continued)

Return to Table of Contents

December 31, 2009 and 2008

(11) Land

The ARRC leases a significant portion of its land to various parties under long-term agreements. Rental income on these leases, which is included in Real Estate income, was $12,491,000 and $11,695,000 in 2009 and 2008, respectively. The following table summarizes future minimum lease payments as of December 31, 2009:

(in thousands)		Amount
Year ending December 31:		
2010	$	10,890
2011		10,507
2012		9,931
2013		9,524
2014		9,079
Thereafter		137,486
	$	187,417

The ARRC has $839,000 in rent credits outstanding on these leases at December 31, 2009. The assets provided by tenants in exchange for the rent credits are included in property and equipment and are depreciated over their useful lives. The balance of the rent credits is included in unearned revenue.

(12) Operating Leases and Agreements

The ARRC leases certain operating equipment and barge services under operating leases and agreements. Payments under the leases and agreements totaled $12,511,000 and $12,243,000 in 2009 and 2008, respectively. Future minimum lease payments as of December 31, 2009 are summarized as follows:

(in thousands)		Amount
Year ending December 31:		
2010	$	10,287
2011		8,944
2012		8,118
2013		7,918
2014		7,912
Thereafter		9,052
	$	52,231

(13) Insurance

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims, and workers' compensation claims, and establishes reserves for the estimated losses of such claims. The ARRC uses third party administrators that process claims based on the provisions of the employee health plan, or for on-the-job injuries, in compliance with the State of Alaska

December 31, 2009 and 2008

workers' compensation act. The ARRC carries commercial insurance policies with limits of $50 million above a self-insured retention of $5 million per year for casualty/liability and $65 million above a self-insured retention of $10 million per year for property damage at December 31, 2009. Self-insurance activity is summarized as follows during the years ended December 31, 2009 and 2008:

(in thousands)		Balance at December 31, 2008	Incurred claims	Claim payments	Balance at December 31, 2009
Employee health benefits	$	2,296	10,185	(10,486)	1,995
Workers' compensation		2,411	1,570	(2,406)	1,575
	$	4,707	11,755	(12,892)	3,570

(in thousands)		Balance at December 31, 2007	Incurred claims	Claim payments	Balance at December 31, 2008
Employee health benefits	$	1,756	11,176	(10,636)	2,296
Workers' compensation		1,426	3,009	(2,024)	2,411
	$	3,182	14,185	(12,660)	4,707

(14) Fair Value of Financial Instruments

At December 31, 2009 and 2008, the fair values of cash and cash equivalents, net receivables, accounts payable and accrued liabilities, including payroll and interest payable, approximate their carrying value due to the short-term nature of these financial instruments.

The carrying amounts and estimated fair values of ARRC's restricted assets, notes payable and revenue bonds payable are summarized as follows for the years ended December 31, 2009 and 2008:

(in thousands)

		2009		2008	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Derivative	$	109	109	—	—
Restricted assets		66,817	66,817	86,163	86,163
Financial liabilities:					
Notes payable	$	27,435	27,435	30,220	28,000
Revenue bonds payable		155,100	162,109	164,461	167,400

On October 1, 2009, ARRC entered into a commodity swap agreement to hedge cash flows against market price fluctuations related to the purchase of diesel fuel. The notional amount is 1,008,000 gallons of diesel fuel, settled at 84,000 gallons monthly from January 1, 2010 through December 31, 2010. ARRC pays or receives cash at each monthly settlement period for the net of variable receipts for the floating rate, which is based on the price of Diesel Fuel-Gulf Coast Ultra Low Sulfur (Pipeline) published by Platts U.S, and fixed payments of $2.05 per U.S. gallon. The fair value of the derivative is measured using quoted futures rates discounted based on ARRC's short term line of credit rate.

Restricted assets, which consist of investments in guaranteed investment contracts, commercial paper and money market accounts, are measured using quoted market prices at the reporting date multiplied by the quantity held for investments traded in an active market (money market funds and commercial paper) or using contractual cash flows discounted using current market rates for investments with comparable terms for those investments that are not traded in an active market (guaranteed investment contracts).

The estimated fair value of notes payable is measured using contractual cash flows discounted using quoted interest rates adjusted for ARRC's credit standing and interest rates currently offered to the ARRC for similar debt instruments of comparable maturities by the ARRC's bankers.

The estimated fair value of revenue bonds payable is measured using contractual cash flows discounted using bond yields quoted from brokered markets and other long-term debt offered to the ARRC.

(15) Environmental Remediation Reserve

The ARRC has accrued certain environmental pollution remediation liabilities for its properties. The accrual for the Anchorage Terminal Reserve is based on an on-going investigation described below. As to all other locations, 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.

During 2004, the ARRC commenced investigation of the nature and extent of certain environmental conditions at the Anchorage Terminal Reserve (the Site), which includes the Anchorage rail yard and properties the ARRC owns and leases to third parties. The work is being done under an administrative settlement agreement negotiated with the United States Environmental Protection Agency (EPA). Management has accrued a reasonable estimate of its obligations, as the current owner of the Site, for the activities required under the order, which are a remedial investigation and a feasibility study. These activities will be completed in 2010. ARRC has also reflected an anticipated settlement with the United States for a share of costs to date based on the United States' ownership of the Site before 1985. Payment on this settlement was received on February 17, 2010. Once ARRC's work is complete, EPA will then determine what, if any, future remediation is required for the Site and what parties will be required to perform the work. This will be subject to negotiations with third parties in addition to ARRC. ARRC has accrued a reasonable estimate of its potential obligation for such future work by estimating a reasonable range of potential outlays and multiplying those outlays by the probability of occurring, reduced by the allocation of liability to other potentially responsible parties. If other responsible parties do not contribute or pay their fair share of the liability, or if remedial requirements are more stringent than currently anticipated, the ARRC will revise its estimate. It is the opinion of ARRC's management that the ultimate outcome will not have a material adverse impact on the ARRC's financial position, but may have significant impact on the change in fund equity in a given year.

December 31, 2009 and 2008

During 1999, a derailment at Gold Creek resulted in fuel spills along the ARRC tracks. The ARRC is responsible for the remediation, restoration and monitoring of environmental contamination at this site. The ARRC has accrued its best estimate of its remaining obligation with respect to the site, which was $388,000 and $457,000 at December 31, 2009 and 2008, respectively. The amount expected to be paid within the next year, $102,000 and $33,000 at December 31, 2009 and 2008, respectively, is included in accounts payable and accrued liabilities. ARRC received grants to cover the costs associated with the Gold Creek derailment and the 1999/2000 winter storm disaster. The grants are expected to cover ARRC's remaining obligation. The remaining amount is expected to be incurred through 2012 and beyond and is reported as environmental remediation reserve. The aggregate undiscounted amount has been recorded since it represents management's best estimate of the cost, but the payments are not considered to be fixed and reliably determinable. The estimate of costs and their timing of payment could change as a result of changes to the remediation plan, changes in technology available to treat the site and unforeseen circumstances existing at the site. It is not possible to estimate the amount losses may exceed amounts accrued at this time as a result of these factors.

(16) Commitments and Contingencies

Approximately 78% of the ARRC's labor force is subject to one of five collective bargaining agreements. The labor agreement with the United Transportation Union (UTU) expired in 2008 and negotiations continue in 2010. The labor agreement with American Train Dispatchers Department (ATDD) expired June 2009 and negotiations continue in 2010. The labor agreements with the Carmen's Division of Transportation Communication International Union (TCU) expired January 2010 and negotiations will commence in 2010. The labor agreement with the Alaska Railroad Workers (ARW) expires August 2010, and the International Association of Machinists and Aerospace Workers (IAM) expires December 2010.

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.

Return to Table of Contents

ALASKA RAILROAD CORPORATION

Mailing Address: P.O. Box 107500, Anchorage, Alaska 99510-7500

OFFICES	PHYSICAL ADDRESS	TELEPHONE	FAX
Anchorage, Alaska			
Headquarters Offices	327 W. Ship Creek Avenue	(907) 265-2300	(907) 265-2312
Reservations and Information	411 W. 1st Avenue	(907) 265-2494	(907) 265-2509
Anchorage Operations Center	825 Whitney Road	(907) 265-2434	(907) 265-2643
Fairbanks, Alaska			
Passenger Depot	1745 Johansen Expressway	(907) 458-6025	(907) 458-6068
Freight Customer Service	1888 Fox Avenue	(907) 458-6022	(907) 458-6034
Freight House	230 Jack Lindsey Lane	(907) 458-6048	(907) 458-6061
Seward, Alaska			
913 Port Avenue, P.O. Box 95, Seward, Alaska 99664		(907) 224-5550	(907) 265-2660
Seattle, Washington			
5615 W. Marginal Way S.W., Seattle, Washington 98106		(206) 767-1100	(206) 767-1112
Toll-free Numbers			
Corporate Information		1-800-321-6518	
Freight Marketing/Customer Service		1-800-321-6518	
Passenger Service		1-800-544-0552	
Seattle Office		1-800-843-2772	

The Alaska Railroad Corporation has not received any bona-fide offers of a sale arrangement within the calendar year of 2009, nor is the Corporation aware of any potential sales that require analysis under AS 42.40.260.

ALASKARAILROAD.COM