National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Management's Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements With Report of Independent Auditors

Fiscal Year 2021

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide readers with an understanding of our results of operations, changes in financial position, and liquidity. This MD&A should be read in conjunction with our audited Consolidated Financial Statements for the fiscal years ended September 30, 2021 (FY2021) and September 30, 2020 (FY2020) and the related notes included elsewhere in this report.

FORWARD-LOOKING STATEMENT DISCLOSURE

This MD&A contains forward-looking statements that may be identified by the use of words like "may," "will," "could," "believe," "expect," "estimate," "anticipate," "project," and similar expressions. These forward-looking statements reflect our good-faith evaluation of information currently available and are subject to risks and uncertainties, including but not limited to the risk factors set forth below.

Forward-looking statements reflect our expectations, forecasts, or predictions of future conditions, events, or results based on various assumptions as well as our business plans. Forward-looking statements are not guarantees of future performance and actual results may differ materially from those envisaged by such forward-looking statements. Accordingly, readers should not place undue reliance on any such forward-looking statements. Forward-looking statements are representative only as of the date this report was prepared, and we do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments, or otherwise.

RISK FACTORS

The risks we face could adversely affect our business, results of operations, financial condition, liquidity, and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by any forward-looking statements we make. We believe the risks described below and in the other sections of this report are the most significant we face; however, these are not the only risks we face. We may face additional risks and uncertainties not currently known to us or that we currently believe are immaterial.

- We have a history of recurring operating losses and are dependent on grants from the Federal Government to operate the national passenger rail system and maintain the underlying infrastructure. These grants are usually received through annual appropriations. Appropriated funds for Amtrak are generally provided to the United States (U.S.) Department of Transportation (the DOT), which through its agency the Federal Railroad Administration (the FRA) provides us those funds pursuant to annual grant agreements. If we do not receive sufficient Federal Government funding, our ability to operate in our current form may be adversely affected.
- We face various risks related to health epidemics, pandemics and similar outbreaks, including the ongoing impact of the coronavirus pandemic (COVID). The pandemic has negatively impacted worldwide economic activity and affected demand for our services. The unprecedented and rapid spread of COVID, the uncertainty caused by new variants of the underlying virus, and the related travel restrictions and social distancing measures resulted in unprecedented reduction in travel demands which has adversely impacted our business, operating results, financial condition, and liquidity. While we have received $3.7 billion in COVID emergency relief funding through the Coronavirus Aid, Relief, and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, 2021, which is part of the Consolidated Appropriations Act, 2021, and the American Rescue Plan Act of 2021 (collectively, the COVID Relief Acts), the current level of funding may not be sufficient to fund our operations and debt obligations.

- On November 15, 2021, the Infrastructure Investment and Jobs Act (the IIJA) was signed into law (Public Law 117-58). The IIJA contains two rail-funding-related components. The first component provides us with $22.0 billion in advance appropriations over the next five years for capital investment. These funds are not available to help cover operating costs. In addition, that first component of the IIJA includes another $44.0 billion in advance appropriations for rail programs over the next five years. We will be eligible to apply for or will otherwise benefit from the majority of this funding. The second rail-funding-related component of the IIJA is a reauthorization of rail funding for the next five years. The IIJA reauthorization component authorizes a nonbinding target funding level for Amtrak of $19.2 billion for the next five years, or $3.8 billion annually on average. It also contains a similar target for FRA competitive grants of $15.3 billion, or $3.1 billion annually.

  IIJA will provide us with an unprecedented level of funding for capital projects. It will allow us and our state and commuter partners, in partnership with the FRA, to begin modernizing our assets, including by constructing new tunnels, replacing major bridges, accelerating major station development programs, expanding track and platform capacity, replacing obsolete equipment used on Amtrak's routes, acquiring new information technology systems, improving equipment maintenance facilities, acquiring new maintenance-of-way (MOW) equipment, and making MOW facility upgrades. IIJA will also provide the funding and process improvements - including development of a nationwide project pipeline - that are needed to set in motion the expansion and improvement of our network to cities and smaller communities that are underserved, or not served at all, by us today.

  Distributing and administering the IIJA funding in an expeditious, efficient, and accountable manner will require a ramp up of FRA capabilities, for which IIJA provides the necessary financial resources. It will also require us to make internal process changes to carry out projects more expeditiously and to create additional controls to ensure compliance with new rules and regulations. Execution of IIJA-funded projects will also be challenged by physical and operational constraints (e.g., limitations on the amount of time tracks can be taken out of service for construction work without degrading train operations) and the need for agreements and extensive coordination with governmental and railroad partners, and will require us to augment our workforce with many additional employees with specialized skills that will be required to carry out projects. Deficiencies or delays in administering additional funding, implementing process changes, reaching agreements for and managing very complex projects in coordination with partners, and securing necessary personnel resources could hinder our ability to comply with grant administration requirements, accurately present financial results, maintain train operational performance, and advance and complete projects in a timely manner. This could negatively impact the company's financial performance, credibility and ability to secure additional public funding.

- Through multiple continuing appropriations acts, we have been provided funding at FY2021 levels until February 18, 2022. Congress has not appropriated any FY2022 operating funds for us for the period subsequent to February 18, 2022. Without such Federal Government subsidies, we will not be able to continue to operate in our current form and significant operating changes, restructuring, or bankruptcy may occur.

- At pre-COVID train operating levels, the infrastructure on the Northeast Corridor (NEC) was approaching the limit of its capacity and needs significant rehabilitation. According to the NEC Commission, the NEC has a state of good repair backlog of approximately $42.2 billion. Some of the most critical projects - including the Hudson Tunnel - are part of the Gateway Program, a planned phased expansion and renovation of the NEC rail line between Newark, New Jersey, and New York City, New York. We are also advancing work to replace the Baltimore & Potomac

Tunnel and Susquehanna River Bridge in Maryland. It is important to note that the IIJA funds provided to Amtrak do not cover annual operating and capital expenses and are very specifically provided to address the long-standing backlog of state of good repair (SOGR) and Amtrak's modernization needs. Therefore, the IIJA funds do not diminish our regular funding needs. If sufficient funding is not secured for advancing these and other essential projects in the near term, we will face serious operational constraints in the years ahead as vital NEC infrastructure reaches the end of its useful life, resulting in degradation of service reliability and significant reductions of capacity at certain locations due to the need to shut down tunnels, tracks, and bridges for rehabilitation and major construction projects.

- The impact of COVID on long-range travel demand and preferences is not yet known and this may affect Amtrak's market and operations well beyond the end of the pandemic. COVID accelerated certain trends already occurring in the U.S., such as remote work and video conferencing instead of travel to meet in person. To the extent the changed behavior becomes the new normal after COVID, it will impact demand for Amtrak services.

- We have implemented a mandatory COVID vaccine policy to comply with a federal mandate and to provide adequate safeguards to employees, customers, and visitors in light of guidance from public health authorities. Employees were expected to submit proof of having received at least one vaccine shot by December 8, 2021. Any employees who did not submit proof of receiving at least one vaccine shot by December 8, 2021 were counseled and directed to provide such proof by January 4, 2022. Effective December 14, following a federal court decision that enjoined the enforcement of the applicable federal mandate, we announced we would incorporate into our policy, on an interim basis, a testing alternative for employees who are not vaccinated (including employees with approved medical and religious accommodations, as well as other unvaccinated employees). This testing alternative will require unvaccinated employees to submit at least weekly negative COVID tests. For unvaccinated employees who do not have an approved accommodation, this option will be available on a temporary basis, pending further legal developments, including resolution of court challenges. Should we mandate that all employees and contractors be vaccinated against the COVID virus, we could lose a significant amount of our workforce and contractors which could adversely impact our operations, passenger revenues, and capital projects.

- As a result of the pandemic and its impact on travel, we reduced service and downsized our workforce in FY2020. Although we have restored most of our train frequencies and recalled furloughed employees, our staffing levels remain below our pre-pandemic levels. As travel demand returns and we plan for capital projects to be funded by the IIJA, we expect to build our current workforce and hire a significant number of new employees with highly specialized skills. If we are unable to screen, hire, and onboard new employees, we may be unable to meet demand for rail service, which could have a negative impact on our operational efficiency and otherwise have a material adverse effect on our results of operations and financial condition. Changes in workforce demographics, training requirements, and availability of qualified personnel, particularly for engineers, conductors and on-board service employees, could have a negative impact on our ability to meet short-term demand for rail service. Unpredicted increases in such demand may exacerbate such risks and could negatively impact our operational efficiency.

- A significant portion of our equipment fleet is at or nearing the end of its useful service life. Our passenger railcar fleet averages 35 years of age and diesel locomotives nearly 24 years of age. Our older equipment has outmoded mechanical designs and systems, limited parts availability, poor reliability, commercially outdated appearances and amenities, and high operating costs. If replacement equipment is not provided, these issues may decrease customer satisfaction and the competitiveness of our services, impair on-time performance, and drive up our expenses, impacting our results of operations.

- Most of the rights-of-way over which we operate are owned by freight and other railroads, known as host railroads. Because the host railroads make all dispatching decisions about which trains have priority in using their rail line, they have significant control over our operations. Failure of host railroads to provide Amtrak trains with acceptable on-time performance (OTP) and adhere to our agreed-upon passenger train schedules could have an adverse impact on our revenues. Some freight railroads have disregarded the statutory requirement that our trains be given preference over freight. Currently, judicial enforcement of this requirement lies exclusively with the Department of Justice, which has not exercised that authority since 1979. This results in poor OTP that reduces our revenues and increases our costs. Continued non-compliance with the law by host railroads, and failure by Congress to provide us with a direct legal remedy to address non-compliance, could negatively affect our financial performance and jeopardize the continued operation of the impacted routes.
- Our current route map still closely resembles the service we provided when we began operations in 1971. The only Amtrak service in certain regions in the country (i.e., most of the South, Southwest and Mountain States) is provided by Long Distance trains that generally operate once a day or less, serve many major metropolitan areas in the middle of the night or not at all, have unreliable OTP, and continue to generate significant operating losses. In FY2021, we launched *Amtrak Connects US*, a vision to advance the development of more frequent, reliable and sustainable intercity passenger rail service to over 160 more communities and 20 million more passengers annually by 2035. To be implemented in collaboration with states, local communities, the Federal Government, and other stakeholders, the new vision builds upon our national network, integrating new and improved corridors to expand the existing system. *Amtrak Connects US*, the end product of more than two years of study and analysis and consultation with states and other stakeholders, identified approximately 30 new corridors with high demand and potential for intercity passenger rail service, and an additional 20 existing corridors that were prime candidates for service expansion. Our failure to develop and expand intercity passenger rail corridors around the nation in collaboration with our existing and new state partners to serve growing metropolitan areas and megaregions, in order to become relevant to present and future travelers in these underserved or not served regions and corridors, could negatively impact future revenue growth and financial performance and hinder our ability to attract the state funding support that has historically enabled us to expand our operations and increase our attractiveness to potential customers in other regions.
- In FY2021, our State Supported services represented 45.5% of our ridership and generated $352.8 million in State Supported route subsidy revenue, including $248.2 million funded by a portion of COVID Relief Acts funding received by us to support our state partners in making their route subsidy payments owed to Amtrak. Continued operation of State Supported routes is subject to annual operating agreements and state legislative appropriations. Failure on the part of any of the states to secure the necessary operating and capital funds from their state legislatures or decisions by states to contract with service providers other than Amtrak could put some state corridor services at risk.
- Our business is subject to federal and certain state and local laws and regulations. Our non-compliance with applicable laws or regulations could result in litigation, assessment of damages, imposition of penalties, or other consequences, any or all of which could harm our reputation and have an adverse effect on our financial results.

- Our business is subject to the impacts of climate change, including increased frequency of weather events, storm surges, heavy precipitation, and sea level rise, that could adversely impact our operations, infrastructure and facilities.
- We could experience adverse publicity, harm to our brand, reduced travel demand, and potential tort liability as a result of an accident, catastrophe, future disease outbreak, or incident that involves us, our state partners, or our host railroads, which may result in a material adverse effect on our business, operating results, and financial condition.
- Our business is subject to numerous operational risks such as equipment failure, disruption of our supply chain, information system failure or interruption, cybersecurity attacks or breaches, severe weather, natural disasters, acts of terrorism or war, criminal activity, and other events which could adversely impact our operations.
- Breaches or lapses in the security of our technology systems and the data we store could compromise passenger, employee, or business partner information and expose us to liability, possibly having a material adverse effect on our business. The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or unauthorized access to, our information or that of our customers, employees, or business partners or failure to comply with regulatory or contractual obligations with respect to such information could result in legal claims or proceedings, liability, or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations, and damage to our reputation, any or all of which could adversely affect our business. In addition, the costs to remediate breaches and similar system compromises that do occur could be material.
- Large portions of our operating costs are driven by prices for diesel fuel and electricity. To protect against increases in the market prices of electricity, we enter into forward purchases of our forecasted electricity consumption, and to protect against increases in the market prices of diesel fuel, we may enter into forward purchases for a portion of our future fuel requirements. However, these programs may not be successful in mitigating higher fuel costs due to changes in our consumption, and any price protection provided may limit the benefit we would have received under favorable market conditions.
- Due to the capital-intensive nature of our business, a significant increase in the replacement cost of our assets due to inflation or other economic conditions could adversely impact our business operations and financial results.
- Most of our employees are represented by unions, and failure to negotiate reasonable collective bargaining agreements under the terms of the Railway Labor Act could eventually result in strikes, work stoppages, or substantially higher ongoing labor costs.
- Environmental liabilities incurred in the normal course of business could have an adverse effect on our results of operations.
- Catastrophic events, including train derailments, could result in liabilities exceeding our insurance coverage.
- Any further decline in the economy that further reduces business travel or depresses consumer spending in the U.S. could have a negative impact on our revenues.

GENERAL BUSINESS DESCRIPTION

Amtrak is America's Railroad®, the nation's intercity passenger rail service and its high-speed rail operator. Our principal business is to provide rail passenger service in the major intercity travel markets of the U.S. In addition to our core business of intercity passenger railroad operations, we engage in related ancillary businesses that include:

- operating commuter railroads on behalf of various states and transit agencies;
- providing infrastructure access to commuter agencies, freight railroads, and third parties such as private developers, utilities, and others that require right-of-way access;
- performing engineering and capital improvement activities for others, including commuter agencies and freight railroads, on a cost-reimbursable basis; and
- managing and leasing of commercial real estate.

We operate a national rail network of more than 21,400 route miles serving more than 500 destinations in 46 states, the District of Columbia (D.C.), and three Canadian provinces. For all of FY2021, operations north of the U.S.-Canada border (Amtrak Cascades, *Adirondack and Maple Leaf*) were suspended because of continued closure of the border. We hope to restart Canadian service in FY2022. Additionally, we offer up to 130 Thruway routes that provide guaranteed connection to trains via buses, vans, ferries, and other modes of transportation. This extends our service to hundreds of communities not served directly by Amtrak trains in 38 states and Canada.

The *Acela* travels on the NEC between Washington, D.C., and Boston, Massachusetts. It is the fastest train in the Western Hemisphere, with a maximum speed of 150 mph (241 kph) on sections of its route between Boston and New Haven, Connecticut. Its top speed between New York City and Washington, D.C., is 135 mph (217 kph). Nearly half of our trains operate at top speeds of 100 mph (160 kph) or greater. Amtrak is the only railroad in North America to maintain right-of-way for service at speeds in excess of 125 mph (201 kph) and our engineering forces maintain more than 375 route-miles of track for 100+ mph (160+ kph) service.

The NEC is the busiest rail line in North America. Prior to COVID, there were approximately 2,200 Amtrak, commuter, and freight trains operating over some portion of the Washington, D.C.- New York - Boston NEC main line each day. There are eight commuter rail operators on the NEC. In FY2021, when customer ridership was adversely impacted by COVID for the entire year, customers made 4.4 million trips on Amtrak NEC services (*Acela* and *Northeast Regional*) compared to 6.1 million trips in FY2020, which was impacted by COVID for seven months.

In FY2021, we received funding from 20 state agencies representing 17 states for financial support of 28 short distance routes (less than 750 miles). Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) required Amtrak and its state partners to develop jointly a single, nationwide, and standardized cost-sharing methodology to charge states for State Supported intercity passenger rail service. In FY2021, 5.5 million trips were taken on our State Supported services routes as compared to 8.0 million trips in FY2020.

Five State Supported corridors had ridership of 350,000 or more in FY2021:

- *Empire Service/Maple Leaf* (New York-Albany-Buffalo-Toronto) - 0.9 million;
- *Pacific Surfliner* (San Diego-Los Angeles-San Luis Obispo) - 0.8 million;
- *San Joaquins* (Oakland/Sacramento-Bakersfield) - 0.4 million;
- *Keystone Service* (Harrisburg-Philadelphia) - 0.4 million; and
- *Capitol Corridor* (San Jose-Oakland-Sacramento-Auburn) - 0.4 million.

Amtrak operates 15 Long Distance train routes (more than 750 miles), which accounted for 18% of Amtrak ridership (2.2 million trips) in FY2021 as compared to 16% of Amtrak ridership (2.7 million trips) in FY2020. Amtrak is the only intercity passenger transportation service in an increasing number of communities that lack intercity bus and airline service. Our Long Distance trains provide the only rail service at nearly half of the stations in the Amtrak system and are the only Amtrak trains in 23 of the 46 states in the network.

Impact of COVID and our Response

Due to COVID, we, along with our state partners, experienced significant revenue losses as a result of the precipitous decline in passenger demand and bookings due to pandemic containment measures such as "shelter in place" or quarantine requirements, travel restrictions or advisories, limitations on public gatherings, social distancing recommendations, remote work arrangements, and closures of tourist destinations and attractions, as well as consumer perceptions of safety.

We continue prioritizing safety and customer experience, while recovering service levels and ridership. We have taken actions to mitigate the ongoing effect of COVID on our business, preserve cash, and improve our overall liquidity position. In our efforts to manage our financial losses, and continue to make investments in capital projects for future riders, we initiated the following revenue generating and other measures:

- *Product upgrades*: We launched and expanded several popular programs to provide customers with improved amenities, including the debut of a refreshed food and beverage menu along with top-quality dining experience for customers riding in First Class onboard *Acela* trains. We also restored and reimagined traditional dining service on several routes following pandemic-related suspension of the service.
- *Improving customer experience*: We initiated a multi-million-dollar and multi-year project aimed at improving the customer experience aboard Long Distance trains by refreshing over 450 railcar interiors.
- *Expansion of service*: The *Auto Train* generated strong ticket revenue following an expansion of private room capacity and development of new pricing and marketing tactics to promote this unique service.
- *New programs*: We debuted an online auction program that allows customers to place bids to upgrade reservations into premium classes of service in Business Class, *Acela* First Class, and private Roomette and Bedroom accommodations. We also introduced private rooms on select *Northeast Regional* trains.
- For the health and safety of customers and employees, we established a new standard of travel in an effort to simplify and safeguard the travel experience. Detailed information on our measures for health and safety of our employees and customers is as follows:
    - *Vaccination*: We introduced a compensation allowance for employees who provided proof of COVID vaccination and provided compensation for time off due to vaccine recovery. We established a business-to-business relationship with a national pharmacy to help ensure vaccine access for employees and their families.
    - *Guidance on safe travel*: We ask customers to complete their pre-trip COVID checks within 24 hours of departure, reminding passengers to not travel when they are experiencing COVID symptoms or when they meet public health criteria for quarantine.

- *Seamless gate service*: To reduce crowds at departure boards, our mobile application users automatically receive boarding gate and track information via push notification at select stations.

- *Face coverings*: We continue to require all customers and employees to wear a face mask or covering that fully covers the entire mouth and nose while onboard and in stations.

- *Physical distancing*: Signage is displayed at stations to indicate safe distances in high traffic areas. In addition, protective plastic barriers were installed at customer counters.

- *Capacity indicator*: When searching for travel options, customers see a new volume percentage next to each train for a real-time look at seat availability, providing insight into which trains were less crowded.

- *Enhanced cleaning protocols*: We enhanced cleaning frequency. In stations, commonly used surfaces are cleaned with EPA-registered disinfectants. Trains are deep cleaned and sanitized prior to service, with additional en-route cleaning to disinfect restrooms and frequently touched surfaces.

- *Partnership with Reckitt Benckiser (RB), the makers of Lysol®*: Germ-kill experts and microbiologists from RB helped strengthen and reinforce our disinfection protocols for trains and stations.

There can be no assurance that these actions will suffice to sustain our business and operations through the pandemic. During FY2020, we focused on preserving cash, reducing costs, and implementing health and safety improvements including reduction of headcount, benefits and services, putting in place cleaning, contact-free, and convenience measures in every part of the customer trip, and implementing enhanced cleaning protocols. During FY2021, we continued the activities initiated in FY2020 to help ensure the health and safety of employees and passengers, while maintaining flexibility to respond to the ever-changing face of the virus, restoring train service levels in line with growing demand, continuing to build a strong foundation for modernization and growth, and judiciously spending the COVID Relief Acts funds provided to us to support operations and returning demand. With announcements of our largest order for new trains in decades, the opening of new stations, the addition of new customer services and amenities, and our proposals for new corridor service in communities, we put in motion key initiatives to support an enhanced national rail network capable of better serving new and existing customers. We remain extremely focused on taking all measures available to manage our business during this unprecedented time, consistent with the terms of the financial assistance we have received from the U.S. Government.

COVID Relief Acts Funding

During FY2021 and FY2020, the COVID Relief Acts provided us with a total of $3.7 billion in supplemental federal grants to help offset lost revenue related to COVID and to otherwise respond to the pandemic. The funding we received included a total of $808.3 million to support our state partners in making their payments due to us under PRIIA 209 and for capital payments that our state and agency partners would otherwise have had to make to us according to the requirements of the Northeast Corridor Commuter and Intercity Rail Cost Allocation Policy required under PRIIA 212. During FY2021 and FY2020, we spent a total of $2.4 billion of the COVID Relief Acts funding, including $520.4 million of the funds received to support our state and agency partners.

FY2022 Outlook and Additional Funding

The duration and severity of the COVID pandemic remain uncertain and its further spread could result in additional adverse effects on our business, operating results, financial condition, and liquidity. There are new variants causing surges in COVID cases, and as some states across the U.S. reinstate travel restrictions and measures to contain the spread, we expect our ridership to remain suppressed and our results of operations for FY2022 to be materially impacted. With our anticipation of continued lower revenue in FY2022, we expect challenges in generating enough revenue to meet our operating expenses and capital spending requirements.

The $22.0 billion in advance appropriations the IIJA provides to Amtrak - $6.0 billion for the NEC and $16.0 billion for our National Network of state-supported and long-distance routes - will fund long-deferred investments in Amtrak's infrastructure, equipment, stations, facilities, and information technology. Many of these types of investments, along with investments to expand service, will also be eligible for competitive grants that will be awarded by the FRA under the re-imagined Federal-State Partnership for the State of Good Repair program originally created by the Fixing America's Surface Transportation (FAST) Act, which is now called the Federal-State Partnership for Intercity Passenger Rail. The IIJA provides advance appropriations of $36.0 billion for Federal-State Partnership grants, of which no more than $24.0 billion may be used for NEC projects.

Congress has not appropriated any FY2022 operating funds for us for the period subsequent to February 18, 2022. It is critical that we get additional funding in order to minimize and recover from the material adverse impact of COVID on our business operations and to be able to invest in our aging infrastructure so that Amtrak services can continue into the foreseeable future.

Fleet, Facilities and Infrastructure Assets

As of September 30, 2021, our active fleet included 20 *Acela* high speed trainsets; 1,200 passenger cars including Amfleet, Superliner, Viewliner, Horizon, Talgo, and other types; 77 *Auto Train* vehicle carriers; 220 road diesel locomotives; and 66 ACS-64 electric locomotives.

We are focused on the modernization of our passenger car, locomotive, and trainset fleets. Our current fleet predominantly consists of custom-built equipment and there is a long lead-time to procure replacement units. As part of our efforts to launch and/or complete major fleet initiatives to modernize our passenger car, locomotive, and trainset fleets, we have entered into the following agreements:

- In June 2021, we entered into an agreement to purchase certain intercity trainset equipment, including 73 base trainsets, 67 locomotives and 18 spare vehicles, with options to purchase additional trainsets.
- In December 2018, we entered into a contract to purchase 75 long-distance diesel-electric passenger locomotives with options to purchase additional locomotives. Deliveries of the locomotives started in June 2021.
- In August 2016, we entered into a contract to purchase 28 Next Generation High Speed Trainsets (the Trainsets) that will replace our existing 20 *Acela* trainsets.

We serve 526 stations in the U.S. and Canada; we own some or all station components (structures, platforms, and/or parking facilities) at 74 of these. In addition, there are 58 stations in the U.S. where we own one or more components but do not actually serve that station (instead leasing the component to other rail operators). We own most of the maintenance and repair facilities for our fleet.

Other property that we own and/or maintain includes:

- *NEC*: 363 miles of the 457-mile NEC main line which connects Washington, D.C., Philadelphia, New York City, and Boston. The NEC is generally the busiest passenger line in the country, with trains regularly reaching speeds of 125-150 mph (201-241 kph). Two sections of the NEC are owned by others: (1) the New York Metropolitan Transportation Authority owns 10 miles and Connecticut Department of Transportation owns 46 miles on Metro-North Railroad between New Rochelle, New York, and New Haven, Connecticut and (2) the Commonwealth of Massachusetts owns 38 miles between the Massachusetts/Rhode Island border and Boston that is operated and maintained by Amtrak;

- *Springfield Line*: A 60.5-mile segment of up-to-110 mph (177 kph) track between New Haven, Connecticut, and Springfield, Massachusetts;
- *Harrisburg Line*: A 104.2-mile segment of up-to-110 mph (177 kph) track in Pennsylvania between Philadelphia and Harrisburg;
- *Michigan Line*: A 95.6-mile segment of up-to-110 mph (177 kph) track from Porter, Indiana to Kalamazoo, Michigan;
- *Michigan Right-of-Way:* We also operate, maintain, and dispatch a 135-mile line between Kalamazoo and Dearborn, Michigan owned by the state of Michigan. Michigan and Amtrak have completed a series of infrastructure improvements, including replacement of worn track and upgrades to the train signaling and communication system, to further integrate this section of railroad with Amtrak's Michigan Line; and
- *Hudson Line*: We operate, maintain, and dispatch approximately 94 miles of the Hudson Line, also known as the Empire Corridor, in New York state between Poughkeepsie and Hoffmans (near Schenectady), nearly all of which is owned by CSX Transportation and leased to Amtrak.

As part of these interests, we own 18 tunnels consisting of 24 miles of track and 1,414 bridges.

Outside of the NEC, we generally contract with other railroads for the use of their tracks and other resources required to operate our trains, with incentives for on-time performance. These host railroads are responsible for the condition of their tracks and for the dispatching on their tracks. Approximately 72 percent of Amtrak's train miles are run on tracks owned by the host railroads.

The six largest host railroads for Amtrak trains in FY2021, by train-miles traveled, were:

- *BNSF Railway* - 4.3 million train-miles;
- *Union Pacific Railroad* - 4.0 million train-miles;
- *CSX Transportation* - 3.8 million train-miles;
- *Norfolk Southern Railway* - 1.9 million train-miles;
- *Metro-North Railroad* - 1.0 million train-miles; and
- *Canadian National Railway* - 0.9 million train-miles.

Relationship with Federal Government

The Federal Government through the DOT owns all of our issued and outstanding preferred stock and also provides financing to us under the Railroad Rehabilitation & Improvement Financing (RRIF) loan program (see Note 7 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding our RRIF loan financing with the Federal Government).

Employees

Excluding Amtrak's Office of Inspector General (OIG), as of September 30, 2021, we had approximately 17,000 employees and approximately 83 percent of our labor force was covered by labor agreements.

PRINCIPAL BUSINESS

Our principal business activity is to provide passenger rail service in the major intercity travel markets of the U.S. and our core operating revenue comes from passenger ridership on our trains. Our train operations are divided into three service lines:

Northeast Corridor

The NEC is a high-speed railroad developed over the course of a multi-decade partnership among Amtrak, the DOT, commuter railroads, and states. While portions of the right-of-way follow alignments that date back to the 1830s, Amtrak, the DOT, and the commuter railroads have created a network that supports an intense daily schedule of up to 2,200 trains and provides (pre-COVID) hourly or near hourly high-speed service, with a top speed (on the Boston to New York route) of 150 mph (241 kph). Prior to COVID, approximately 140 Amtrak trains were running on the NEC each day.

State Supported

Our State Supported routes operate on short-distance corridors (less than 750 miles) outside of the NEC. These routes provide a travel alternative that is generally trip-time competitive with other modes for shorter distance trips and also provide connections to our national network at larger stations. State Supported services are vital links in the Amtrak national network. The power of increasing demand for passenger rail is recognized through state investments to improve service, speed, and safety. In addition, states and communities realize stations served by Amtrak are anchors for economic development, catalysts for historic preservation and tourism growth, sites for commercial and cultural uses, and points of civic pride.

Long Distance

We operate trains on 15 Long Distance routes, all but one offering sleeping car service in addition to coaches. Our Long Distance trains provide the only rail service at nearly half of the stations in the Amtrak system and are the only Amtrak trains in 23 of the 46 states in the network. Amtrak is the only intercity passenger transportation service in many communities that lack intercity bus and airline service. Operating over routes that range up to 2,728 miles in length, the Long Distance trains serve several purposes, connecting nearby communities with one another, with major metropolitan areas, and with other Amtrak services at hubs such as Chicago. The vast majority of passengers, particularly in coach, travel over only portions of these routes. In many places, Long Distance trains have helped to "incubate" short-distance corridor service on portions of their route, and most Long Distance trains provide additional service frequency on State Supported routes and the NEC, offering travelers a greater range of travel options. The vast majority of Long Distance train-miles are on host railroad tracks owned by freight railroads. Customer OTP, measured as the percentage of customers arriving on time compared to total customers traveling by Amtrak train, for our Long Distance routes has historically been the weakest in our network. The primary reason for delays has been freight train interference. Customer OTP declined in FY2021 to 51.7%, compared to 58.7% in FY2020. In FY2020, COVID reduced both freight train and passenger train volume on host railroad tracks and, as a result, the trains that did operate in FY2020 experienced less traffic interference and correspondingly higher on-time performance than in FY2021. Long Distance routes also have the lowest operating cost recovery ratio in Amtrak's network, requiring substantial Federal Government funding.

OTHER BUSINESS ACTIVITIES

In addition to passenger-related revenue, we earn other revenue from contracts with customers, including (i) commuter and freight access fee and other revenue from the use of Amtrak-owned tracks by commuter agencies and freight railroad companies, and other revenue related to the use of Amtrak's infrastructure; (ii) revenue from reimbursable contracts, which represents amounts earned under contracts with customers pursuant to which Amtrak provides repair, maintenance, design, engineering, or construction services; (iii) revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee; (iv) commercial development revenue from communication, parking, advertising, and pipe and wire contracts; and (v) miscellaneous revenue from co-branding commissions and other sources.

Revenues from sources other than contracts with customers include (i) revenue from state partners for their State Supported route subsidy; (ii) revenue from state government capital assistance; (iii) reimbursable capital revenue; and (iv) rental income from lease contracts and miscellaneous other revenue.

RESULTS OF OPERATIONS

The following discussion presents an analysis of results of our operations for FY2021 and FY2020 (in millions):

	Year Ended September 30,			
	2021	**2020**	**$ Change**	**% Change**
Revenues:				
Revenue from contracts with customers	**$ 1,498.2**	$ 1,855.2	$ (357.0)	(19.2) %
Other	**583.6**	575.5	8.1	1.4
Total revenues	**2,081.8**	2,430.7	(348.9)	(14.4)
Total operating expenses	**4,065.8**	4,154.9	(89.1)	(2.1)
Loss from operations	**(1,984.0)**	(1,724.2)	(259.8)	15.1
Non-operating (expense) income, net	**(23.1)**	45.2	(68.3)	(151.1)
Net loss	**$ (2,007.1)**	$ (1,679.0)	$ (328.1)	19.5 %

Our total revenue decreased by $348.9 million or 14.4% in FY2021, compared with FY2020, due to the full year impact of COVID on FY2021 while FY 2020 was impacted by COVID for seven months. Revenue from contracts with customers decreased $357.0 million and other revenue increased $8.1 million. The main driver of the increase in other revenue is increased billings on State Supported routes, which was partially funded by COVID Relief Acts funding provided on behalf of our state and agency partners.

Our operating expenses decreased by $89.1 million or 2.1% in FY2021, compared with FY2020, primarily attributable to reductions in salaries, wages, and benefits expense; less spending in train operations; and savings in fuel, power, and utilities; partially offset by an increase in casualty and other claims. The overall reduction in salaries, wages, and benefits is mainly driven by lower headcount, reduced train service resulting in less overtime expense, and lower employer tax liability due to lower headcount and the employee retention credits. The employee retention credits, provided as part of the COVID Relief Acts, reduce employment taxes on qualified wages. The increase in casualty and other claims is primarily due to the derailment of Train 7 near Joplin, Montana on September 25, 2021.

Total Revenues (in millions)

	Year Ended September 30, 2021	2020	$ Change	% Change
Passenger related revenue:				
Ticket	$ **872.7**	$ 1,239.0 [1]	$ (366.3)	(29.6) %
Food and beverage	**23.0**	30.8 [1]	(7.8)	(25.3)
Total passenger related revenue	**895.7**	1,269.8	(374.1)	(29.5)
Commuter and freight access	**244.5**	235.6	8.9	3.8
Reimbursable operating	**174.6**	151.7	22.9	15.1
Commuter operations	**122.4**	124.2	(1.8)	(1.4)
Commercial development (non-lease)	**40.2**	43.8	(3.6)	(8.2)
Miscellaneous	**20.8**	30.1	(9.3)	(30.9)
Total revenues from contracts with customers	**1,498.2**	1,855.2	(357.0)	(19.2)
State Supported route subsidy	**352.8**	342.1	10.7	3.1
Amortization of deferred state government capital assistance	**139.7**	133.4	6.3	4.7
Reimbursable capital revenue	**50.1**	59.3	(9.2)	(15.5)
Lease and other revenue	**41.0**	40.7	0.3	0.7
Total revenues	**$ 2,081.8**	$ 2,430.7	$ (348.9)	(14.4) %

[1] In FY2020, the value of food and beverage provided to passengers as part of the ticket price was reported as food and beverage revenue. Beginning with FY2021, such amounts are reflected in ticket revenue. FY2020 reported Ticket revenue has been increased by $46.5 million and Food and beverage revenue decreased by the same amount to reflect the current presentation.

Total passenger related revenue decreased by $374.1 million or 29.5% in FY2021, compared with FY2020. The decrease is primarily because FY2020 had five months of revenue and operations prior to the pandemic.

Ridership and Gross Ticket Revenue

The following table provides a detailed analysis of our ridership and gross ticket revenue (in millions):

Amtrak Ridership and Gross Ticket Revenue

	Ridership (Number of Trips)			Gross Ticket Revenue ($)		
	2021	2020	% Change	2021	2020	% Change
NEC	**4.4**	6.1	(27.9) %	$ **339.0**	$ 650.4	(47.9) %
State Supported	**5.5**	8.0	(31.3)	**206.9**	281.1	(26.4)
Long Distance	**2.2**	2.7	(18.5)	**326.8**	307.5	6.3
Total	**12.1**	16.8	(28.0) %	$ **872.7**	$ 1,239.0	(29.6) %

NEC ridership and gross ticket revenue decreased by 27.9% and 47.9%, respectively, in FY2021 compared with FY2020. Our FY2021 ridership and gross ticket revenue for the NEC continued to be adversely impacted by COVID, resulting in significantly reduced customer travel demand, especially for business travel. In FY2021, *Acela* ridership and gross ticket revenue decreased by 45.8% and 62.0%, respectively, and *Northeast Regional* ridership and gross ticket revenue decreased by 21.8% and 34.5%, respectively. Although ridership and ticket revenue decreased in FY2021 as compared to FY2020, we did experience an increase in ridership and gross ticket revenue toward the end of FY2021, as the public became more comfortable traveling as infection rates declined and the number of vaccinated individuals increased. However, given the uncertainty about the future impact of current and potential future COVID variants, we do not know if these increases will continue throughout FY2022.

State Supported ridership and gross ticket revenue decreased by 31.3% and 26.4%, respectively, in FY2021 compared with FY2020. State Supported routes also continued to experience declines in ridership in FY2021 due to COVID. In FY2021, the top five State Supported routes with the largest gross ticket revenue were *Empire Service/Maple Leaf, Pacific Surfliner, San Joaquins, Keystone Service,* and *Carolinian*.

Long Distance ridership decreased by 18.5% while gross ticket revenue increased by 6.3%, in FY2021 compared with FY2020. Despite the increase in gross ticket revenue, fewer passengers were traveling, which resulted in the decrease in ridership. We temporarily reduced Long Distance train frequencies and not all Long Distance frequencies were restored until June 2021. In FY2020 the Long Distance train consists were reduced during the peak summer travel months due to passenger capacity reductions. In FY2021, the Long Distance train frequencies were restored by the beginning of the summer travel season, providing a significant boost to Long Distance revenues through the end of the fiscal year. In FY2021, the top five routes with the largest gross ticket revenue were the *Auto Train, Empire Builder, California Zephyr, Southwest Chief,* and *Silver Meteor.*

Other revenues from contracts with customers increased by $17.1 million in FY2021 compared with FY2020, primarily driven by a $22.9 million increase in reimbursable operating revenue, due to a growing amount of reimbursable contract work performed.

Revenues from sources other than contracts with customers increased by $8.1 million in FY2021 compared with FY2020, primarily driven by higher State Supported route funding of $10.7 million or 3.1%. Section 209 of PRIIA required Amtrak and its state partners to develop jointly a single, nationwide, and standardized cost-sharing methodology to charge states for State Supported intercity passenger rail service and we receive payments from our state partners to compensate for most expenses which are not covered by paid ticket revenue. Decreased ridership caused by COVID resulted in lower ticket revenue on State Supported routes, which produced higher funding requirements from State Supported route partners. The COVID Relief Acts funding that we received in both FY2021 and FY2020 included a total of $588.7 million to support our state partners in making their payments to us in accordance with PRIIA 209.

Total Operating Expenses (in millions)

	Year Ended September 30,			
	2021	**2020**	**$ Change**	**% Change**
Salaries, wages, and benefits	**$ 1,930.5**	$ 1,995.1	$ (64.6)	(3.2) %
Train operations	**217.1**	277.3	(60.2)	(21.7)
Fuel, power, and utilities	**188.4**	215.5	(27.1)	(12.6)
Materials	**162.2**	183.3	(21.1)	(11.5)
Facility, communication, and office related	**176.5**	169.7	6.8	4.0
Advertising and sales	**56.2**	56.6	(0.4)	(0.7)
Casualty and other claims	**123.9**	58.6	65.3	111.4
Depreciation and amortization	**902.3**	921.8	(19.5)	(2.1)
Other	**457.6**	417.1	40.5	9.7
Indirect cost capitalized to property and equipment	**(149.0)**	(140.1)	(8.9)	6.4
Total operating expenses	**$ 4,065.8**	$ 4,154.9	$ (89.1)	(2.1) %

Salaries, wages, and benefits decreased by $64.6 million or 3.2% in FY2021 compared with FY2020, due to a decrease in wages attributable to reduced headcount and service reductions in response to reduced travel demands; a decrease in employee health insurance and prescription cost as a result of employees delaying or not utilizing certain medical services along with the impact of reduced headcount; and a decrease in employer railroad retirement and other tax expense driven by the COVID Relief Acts employee retention credits; partially offset by incentive expense recorded in FY2021, compared to none earned in FY2020.

Train operations decreased by $60.2 million or 21.7% in FY2021 compared with FY2020, primarily due to COVID-driven reduction in train service and lower ridership resulting in reduced overall train operation cost and supply purchases. Lower schedule adherence incentive payments (net of on-time performance penalties collected) to host railroads also contributed to the decrease, as the host railroads earned lower incentives in FY2021 due to decreased on-time performance on certain routes compared to FY2020.

Fuel, power, and utilities decreased by $27.1 million or 12.6% in FY2021 compared with FY2020, primarily due to the favorable impact of forward fuel purchases in FY2021 compared to FY2020.

Materials decreased by $21.1 million or 11.5% in FY2021 compared with FY2020, primarily due to a decrease in equipment repair and maintenance material consumption due to COVID-driven reduction in services and related activities.

Facility, communication, and office related increased by $6.8 million or 4.0% in FY2021 compared with FY2020, primarily due to increases in station expenses.

Advertising and sales decreased by $0.4 million or 0.7% in FY2021 compared with FY2020, primarily due to a decrease in credit card commissions attributable to reduced travel bookings, which was offset by an increase in advertising expenses as new advertising campaigns were established in FY2021 to encourage people to ride our trains.

Casualty and other claims expenses increased by $65.3 million or 111.4% in FY2021 compared with FY2020, primarily due to the derailment of Train 7 near Joplin, Montana on September 25, 2021.

Depreciation and amortization expense decreased by $19.5 million or 2.1% in FY2021 compared with FY2020, primarily due to an adjustment in FY2021 based on changes in depreciation estimates.

Other increased by $40.5 million or 9.7% in FY2021 compared with FY2020, primarily due to an increase in professional fees and higher insurance premiums on property and liability insurance policies, partially offset by savings in data center services as a result of one of the cost reduction measures we implemented to mitigate the impact of the pandemic.

Indirect cost capitalized to property and equipment increased by $8.9 million or 6.4% in FY2021 compared with FY2020, primarily due to higher overhead rates in FY2021 compared to FY2020.

Non-operating Income (Expense) (in millions)

	Year Ended September 30,			
	2021	**2020**	**$ Change**	**% Change**
Interest income	**$ 16.1**	$ 48.6	$ (32.5)	(66.9) %
Interest expense	**(23.6)**	(30.4)	6.8	(22.4)
Other (expense) income, net	**(15.6)**	27.0	(42.6)	(157.8)
Total non-operating income, net	**$ (23.1)**	$ 45.2	$ (68.3)	(151.1) %

Interest income decreased by $32.5 million or 66.9% in FY2021 compared with FY2020 despite having higher average cash and investment balances in FY2021, primarily due to a significant drop in interest rates.

Interest expense decreased by $6.8 million or 22.4% in FY2021 compared with FY2020, primarily due to a lower outstanding balance of debt and capital lease obligations, attributable to scheduled principal payments made and several capital lease terminations in FY2021.

Other (expense) income, net was an expense of $15.6 million in FY2021 compared to income of $27.0 million in FY2020. The change is primarily attributable to a gain on sale of an asset in FY2020.

LIQUIDITY AND CAPITAL RESOURCES

Our business activities require that we maintain adequate liquidity to fund current and future needs for our business obligations and to provide for planned capital expenditures, including those to implement regulatory and legislative initiatives.

We rely on cash flows from operating activities and appropriations from the Federal Government to operate the national passenger rail system and to maintain the underlying infrastructure we own. Our primary uses of cash are to support operations; maintain and improve our infrastructure; service our debt; acquire new and maintain and/or modernize our existing locomotives, rolling stock, and other equipment; and meet other obligations.

Our grants from the Federal Government are generally (with the notable exception of the IIJA-provided advance appropriations) received through annual appropriations. Our regular annual federal appropriations totaled $2.0 billion for each of FY2021 and FY2020. In each year, the annual appropriation was $1.3 billion for the National Network (NN) and $700.0 million for the NEC. In addition to our annual federal appropriations, we received an additional $2.7 billion in FY2021 and $1.0 billion in FY2020 in COVID Relief Acts funding to help us prevent, prepare for, and respond to the COVID pandemic.

On September 30, 2021, President Biden signed into law the Extending Government Funding and Delivering Emergency Assistance Act (Public Law 117-43) and on December 3, 2021, the President signed the Further Extending Government Funding Act (Public Law 117-70) (collectively, the Continuing Appropriations Acts). The Continuing Appropriations Acts appropriated funding for Amtrak at FY2021 levels until February 18, 2022. Congress has not appropriated any FY2022 operating funds for Amtrak for the period subsequent to February 18, 2022. Federal Government subsidies are critical to maintaining our business operations and without such federal funding, we will not be able to continue to operate in our current form and significant operating changes, restructuring, or bankruptcy may occur.

See Note 2 to the Consolidated Financial Statements included elsewhere in this report for additional information regarding our annual funding.

In addition to grant funding, we entered into a debt financing arrangement in FY2016 with the Federal Government under the RRIF loan program to finance the acquisition of the Trainsets. In FY2021, we made a voluntary prepayment of $39.0 million to reduce capitalized interest that had increased principal outstanding for the RRIF loan. Scheduled principal and interest payments begin September 2022. We also have debt financing arrangements with third parties. See Note 7 to the Consolidated Financial Statements included elsewhere in this report for more detailed information regarding our debt financing arrangements.

Overview of Cash Flow (in millions)

	Year Ended September 30,			
	2021	**2020**	**$ Change**	**% Change**
Cash flows (used in) provided by:				
Operating activities	**$ (971.1)**	$ (824.6)	$ (146.5)	17.8 %
Investing activities	**(3,141.0)**	(2,029.9)	(1,111.1)	54.7
Financing activities	**4,194.8**	2,897.1	1,297.7	44.8
Net change in cash and cash equivalents, including restricted cash	**82.7**	42.6	40.1	94.1
Beginning balance of cash and cash equivalents, including restricted cash	**409.2**	366.6	42.6	11.6
Ending balance of cash and cash equivalents, including restricted cash	**$ 491.9**	$ 409.2	$ 82.7	20.2 %

Operating Cash Flows

Net operating cash outflows for FY2021 increased by $146.5 million to $971.1 million, compared with $824.6 million in FY2020. The higher FY2021 operating cash outflow was primarily due to the $328.1 million higher net loss in FY2021 attributable to revenue losses arising from the economic impacts of COVID, along with an increase in claims expenses, partially offset by COVID Relief Acts funding received for PRIIA 209 and 212 State Supported routes not yet used.

Investing Cash Flows

Cash flows relating to investing activities consist primarily of capital expenditures on property and equipment and activities related to our available-for-sale and short-term investment securities. Net cash used in investing activities increased by $1.1 billion to $3.1 billion in FY2021 compared with $2.0 billion in FY2020. Investing activities increased primarily due to higher COVID Relief Acts funding received in FY2021 than in FY2020 and subsequently invested in short-term investments and available-for-sale securities.

Financing Cash Flows

Cash flows from financing activities consist primarily of receipt of federal grant funds, state capital payments, and issuance and repayment of long-term debt and capital lease obligations. Financing activities provided cash of $4.2 billion in FY2021, $1.3 billion higher than the $2.9 billion in FY2020. The increase was primarily due to COVID Relief Acts funding received in FY2021.

Financing cash flows for FY2021 and FY2020 are discussed in more detail below:

- Net financing cash inflows for FY2021 were $4.2 billion. Annual appropriations from the Federal Government provided funding of $2.0 billion. Additionally, we received $2.7 billion in COVID Relief Acts funding, of which $2.1 billion was recorded as financing cash flows. See Note 2 to the Consolidated Financial Statements included elsewhere in this report for detailed information on annual funding from the Federal Government, including information on financial assistance received for responding to the pandemic. In addition, we received $242.1 million in state government capital assistance. Offsetting these inflows were debt and capital lease obligation payments of $193.7 million.
- Net financing cash inflows for FY2020 were $2.9 billion. Annual appropriations from the Federal Government providing funding of $2.0 billing. In addition, we received $1.0 billion of COVID Relief Act funds, of which $0.8 billion was recorded as financing cash flows. In addition, we received $271.4 million in state government capital assistance. Offsetting these inflows were debt and capital lease obligation payments of $171.0 million.

We are subject to various covenants and restrictions under our borrowing arrangements. A default by us or acceleration of our indebtedness may result in cross-default with other debt and may have a material adverse effect on us. As of September 30, 2021, we satisfied all of our covenant obligations.

Overview of Contractual Obligations and Capital Expenditures

Contractual Obligations

We have contractual obligations related to long-term debt and leases, including off-balance sheet arrangements in the form of operating leases, that we have entered into to facilitate our business operations and to supplement our funding requirements. Refer to Note 7 to the Consolidated Financial Statements included elsewhere in this report for information on our long-term debt financing and related scheduled maturities and Note 8 for information on our capital and operating leasing arrangements and related future minimum lease payment obligations.

In the normal course of business, we enter into long-term contractual commitments for future services needed for the operations of our business. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on our liquidity. See Note 11 to the Consolidated Financial Statements included elsewhere in this report for additional information.

Capital Expenditures

Our business is capital-intensive, requiring significant amounts of capital to fund the acquisition of assets. Our capital spending programs have been designed to assure our ability to provide safe, efficient, and reliable transportation services. We receive funds from state and local entities and from federal appropriations for our capital spending programs, including state of good repair spending on our infrastructure and modernization of our passenger car, locomotive, and trainset fleets.

The following table summarizes major capital expenditures by department for FY2021 and FY2020 (in millions):

	Year Ended September 30,	
	2021	**2020**
Gateway and Trainsets	**$ 594.3**	$ 427.7 [1]
Engineering	**579.3**	680.1
Mechanical	**435.4**	266.7
Other	**439.3**	398.7 [1]
Total	**$ 2,048.3**	$ 1,773.2

[1] In FY2020, expenditures for the Gateway Program and the Trainsets were reported in Other. The FY2020 amounts were reclassified to conform to the FY2021 presentation.

- ***Gateway and Trainsets*** major capital expenditures in FY2021 included $376.9 million of Gateway project costs and $217.4 million for the *Acela* trainsets.
- ***Engineering*** major capital expenditures in FY2021 included $472.0 million for right-of-way (track, signals, substations, etc.) replacement and upgrade projects; $74.5 million for station and facility upgrades; and $30.4 million for construction of and upgrades to bridges, tunnels, and culverts. Included within the right-of-way projects are $139.3 million related to Amtrak system tie and timber replacement and undercutting, surfacing, and turnout renewal programs, $58.5 million for major equipment purchases and $51.1 million for New York infrastructure renewal and track programs.
- ***Mechanical*** major capital expenditures in FY2021 included $180.7 million for new or overhauls of sleeper and baggage cars, $79.9 million for diesel locomotive acquisitions, $66.7 million for overhauls of Amfleet cars (single-level passenger cars built in the 1970s and 1980s), $51.0 million for overhauls and modifications on Superliners (bi-level passenger cars built in the 1970s and 1990s and used on Long Distance trains that do not operate over the NEC), and $49.1 million for other locomotive overhauls and modifications and facilities repairs and improvements.
- ***Other*** major capital expenditures in FY2021 included $100.0 million of right-of-way projects with host railroads or state partners, $82.1 million for projects to comply with the Americans with Disabilities Act, and $44.2 million for customer-focused station facility improvements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our Consolidated Financial Statements in accordance with GAAP requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. We base these judgments and estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Understanding the extent to which we use management judgment and estimates in applying our accounting policies is integral to understanding our financial statements. See Note 3 to our Consolidated Financial Statements included elsewhere in this report for a detailed discussion of our significant accounting policies and related management judgments and estimates.

We believe the following accounting policies require significant judgments and assumptions about material and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our results of operations or financial condition:

Property, Equipment, and Depreciation

Due to the highly capital-intensive nature of the railroad industry, capitalization and depreciation of property and equipment are substantial components of our financial statements. Property and equipment, including leasehold improvements, comprised 76.0% of our total assets at the end of FY2021, and related depreciation and amortization comprised 22.2% of total operating expenses in FY2021.

Except as described below, property and equipment that we own are carried at cost and are depreciated using the group method of depreciation (group method) in which a single composite depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. This excludes computer equipment and software, which are stated at cost and are individually depreciated on a straight-line basis over their estimated useful lives, which are generally four to ten years. Properties held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms. Land is carried at cost.

We periodically engage a civil engineering firm with expertise in railroad property usage to conduct a study to evaluate depreciation rates for assets subject to the group method. In addition to the adjustment to group depreciation rates because of periodic depreciation studies, certain other events might occur that could affect our estimates and assumptions related to depreciation. Unforeseen changes in operations or technology or assets' physical conditions could substantially alter assumptions regarding our ability to realize the return of investment on our operating assets and, therefore, affect the amount of current and future depreciation expense. Because group method depreciation expense is a function of analytical studies made of property and equipment, subsequent studies could result in different estimates of useful lives and net salvage values. If future group method depreciation studies yield results indicating that assets have shorter lives because of obsolescence, physical condition, changes in technology, or changes in net salvage values, the depreciation expense for assets under the group method could increase. Likewise, if future studies indicate that assets have longer lives, the depreciation expense for assets under the group method could decrease.

Casualty Losses and Claims

We record an estimated liability for unsettled casualty and other open claims, including personal injury, occupational injury, passenger liability, and miscellaneous liability claims. Our projections for personal injury liability and ultimate loss are undiscounted and estimated using standard actuarial methodologies, including estimates for provisions for unasserted claims. We also record insurance recovery receivables for the estimated liability for passenger and/or employee claims in excess of our self-insured retention amount. Our insurance recovery receivables represent our best estimate of insurance proceeds we believe are highly probable of recovery.

Revenue Recognition

We recognize revenue from contracts with customers as operating revenues when the related performance obligations are performed. For passenger-related revenue, amounts received for tickets that have been sold but not used are initially recorded as deferred ticket revenue and then recognized in revenue when travel occurs and the service has been provided.

In our experience, there is always a small percentage of tickets purchased by customers which expire unused. For non-refundable tickets that expire unused, we recognize revenue on the date of the scheduled travel. Refundable tickets that expire unused are recognized in revenue on the scheduled travel dates if the customers do not request a refund or exchange prior to the departure dates. We issue vouchers good for future travel within one year upon request for exchange and record revenue on issued vouchers that are estimated to expire unused (breakage). These estimates are generally based on analysis of our historical data.

Amtrak Guest Rewards Program

The Amtrak Guest Rewards (AGR) program generates customer loyalty by rewarding customers with incentives on transactions with Amtrak or its partners. This program allows AGR members to earn AGR points by purchasing a ticket and traveling on Amtrak or from transactions with other participating AGR partner companies such as credit card companies, hotels, and car rental agencies. Points can be redeemed for Amtrak travel or for non-travel such as partner gift cards or hotel/car rental certificates. To facilitate transactions with participating AGR partners, we also sell AGR points to members and partners.

When customers who are enrolled in our AGR program purchase tickets, these customers (i) earn AGR points; and (ii) receive transportation provided by Amtrak. We first value the AGR points earned and the remaining sales proceeds are allocated to transportation provided by us. To value the AGR points earned, we use the market approach to estimate the value per point and also factor in an estimated breakage for AGR points that are not likely to be redeemed. We recognize the associated value proportionally during the period in which the remaining AGR points are estimated to be redeemed. We engage an independent external actuary who uses statistical models to estimate breakage based on both historical and forecasted future redemption patterns. A change in assumptions as to the period over which AGR points are expected to be redeemed, the actual redemption activity for AGR points, or the estimated fair value of AGR points expected to be redeemed could have an impact on revenues in the year in which the change occurs and in future years.

Environmental Matters

As further described in Note 12 to the Consolidated Financial Statements included elsewhere in this report, we are subject to extensive and complex federal and state environmental laws and regulations regarding environmental issues. As a result of our operations and acquired properties, we are from time to time involved in administrative and judicial proceedings and administrative inquiries related to environmental matters. Our policy is to accrue estimated liabilities and capitalize such remediation costs if they (i) extend the life, increase the capacity, or improve the safety or efficiency of the property, (ii) mitigate or prevent environmental contamination that has not occurred but may result from future operations, (iii) are incurred in preparing the property for sale, or (iv) are incurred on property acquired with existing environmental conditions, and to expense other remediation costs. The liability is periodically adjusted based on our present estimate of the costs we will incur related to these sites and/or actual expenditures made. Some of our real estate properties may have environmentally regulated wastes or materials present. If these properties undergo excavations or major renovations or are demolished, certain environmental regulations that are in place may specify the manner in which the wastes or materials must be assessed, handled, and disposed. We have identified a number of locations for which excavations and major renovations are planned and liabilities have been recorded. In the future, we may plan other excavations, demolitions, major renovations, or other construction activities that affect similar wastes or materials.

At some locations, although a potential liability exists for the removal or remediation of environmentally regulated materials, sufficient information is not available currently to estimate the liability, as the range of time over which we may settle these obligations is unknown or the cost of remediation cannot be reasonably estimated at this time. Although we believe we have appropriately recorded reserves for known and estimable future environmental costs, we could incur significant costs that exceed reserves or require unanticipated cash expenditures.

The amounts included in the environmental reserve reflect only our estimate of our portion of the gross liability. The ultimate liability for environmental remediation is difficult to determine with certainty due to, among other factors, the number of potentially responsible parties, site-specific cost sharing arrangements, the degree and types of contamination, potentially unidentified contamination, developing remediation technology, and evolving statutory and regulatory standards related to environmental matters. In addition, for certain known sites, the ultimate liability cannot be estimated until the results of the remedial investigation phase are known. We believe that additional future remedial actions for known environmental matters will not have a material adverse effect on our results of operations or financial condition and that our environmental reserves are adequate to fund remedial actions to comply with present laws and regulations.

Postretirement Employee Benefits

Accounting for pension and other postretirement benefits requires us to make several estimates and assumptions. These include estimates and assumptions regarding the discount rates used to measure the future obligations and interest expense component of pension and other postretirement benefit expense, long-term rate of return on plan assets, health care cost trend rates, mortality rates, and other assumptions.

We engage an independent external actuary to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that we select. We review the discount rate, long-term rate of return on plan assets, mortality rates, and health care cost trend rates on an annual basis and make modifications to the assumptions based on current rates and trends as appropriate. We have a qualified, non-contributory defined benefit retirement plan (the Retirement Income Plan) whose assets are held in trust covering certain nonunion employees and certain employees who at one time held nonunion positions. Effective June 30, 2015, the Retirement Income Plan was closed to new entrants and frozen for future benefit accruals. See Note 13 to the Consolidated Financial Statements included elsewhere in this report for additional information on our postretirement employee benefit obligations.

Discount Rates

Discount rates affect the amount of liability recorded and the interest expense component of pension and other postretirement benefit expense. Discount rates reflect the rates at which pension and other post-retirement benefits could be effectively settled, or in other words, how much it would cost us to buy enough high-quality bonds to generate sufficient cash flow equal to our expected future benefit payments. We determine the discount rate based on the market yield as of each fiscal year end for high quality corporate bonds whose maturities match the plans' expected benefit payments. Each year, these discount rates are reevaluated and adjusted to reflect the best estimate of the currently effective settlement rates. If interest rates generally decline or rise, the assumed discount rates will change.

Long-term Rate of Return on Plan Assets

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for benefits included in the projected benefit obligation. Several factors are considered in developing the estimate for the long-term expected rate of return on plan assets. These include historical rates of return over the past three-, five-, and ten-year periods as well as projected long-term rates of return obtained from pension investment consultants.

Health Care Cost Trend Rates

Health care cost trend rates are based on recent plan experience and industry trends. We use guidance from employee benefits and actuarial consultants, Amtrak-specific claims trends, and health care cost studies to substantiate the inflation assumption for health care costs.

Other Assumptions

The calculations made by the actuaries also include assumptions relating to mortality rates, turnover, and retirement age. These include assumptions related to future mortality improvement, anticipated future retirement experience for our agreement and non-agreement populations, and expected employee turnover.

LEGAL PROCEEDINGS

We are involved in various litigation and arbitration proceedings in the normal course of business, including but not limited to tort, contract, eminent domain, and civil rights claims. When we conclude it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, we accrue it through a charge to earnings. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in our opinion, recorded liabilities, where applicable, are adequate to cover the future payment of such liabilities and claims. However, the final outcome of any of these lawsuits and claims cannot be predicted with certainty, and unfavorable or unexpected outcomes could result in additional accruals that could be significant to our results of operations in a particular year. Any adjustments to the recorded liability will be reflected in earnings in the periods in which such adjustments are probable and reasonably estimable. See Note 11 to the Consolidated Financial Statements included elsewhere in this report for additional information on our legal matters.

CONSOLIDATED FINANCIAL STATEMENTS

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Years Ended September 30, 2021 and 2020

With Report of Independent Auditors

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Financial Statements

Years Ended September 30, 2021 and 2020

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Report of Independent Auditors

The Board of Directors and Stockholders
National Railroad Passenger Corporation

We have audited the accompanying consolidated financial statements of National Railroad Passenger Corporation and subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations, comprehensive loss, changes in capitalization and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Railroad Passenger Corporation and subsidiaries at September 30, 2021 and 2020, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Federal Government Funding

As explained in Notes 1 and 2 to the accompanying consolidated financial statements, the Company has a history of operating losses and is dependent upon substantial Federal Government subsidies to sustain its operations and maintain its underlying infrastructure. As further explained in Note 2 to the consolidated financial statements, the Company is receiving Federal Government funding under the Continuing Appropriations Acts and the Infrastructure Investment and Jobs Act. There are currently no Federal Government operating funds appropriated by law for any period subsequent to February 18, 2022. Without the receipt of Federal Government subsidies, the Company will not be able to continue in its current form and significant operating changes, restructurings or bankruptcy might occur. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

December 17, 2021

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets

(In Thousands of Dollars, Except Share Data)

	September 30,	
	2021	2020
Assets:		
Current Assets:		
Cash and cash equivalents, including restricted cash	**$ 491,945**	$ 409,184
Short-term investments, including restricted investments	**390,176**	170,025
Available-for-sale securities, including restricted securities	**3,265,920**	2,357,271
Accounts receivable, net	**159,293**	129,396
Materials and supplies, net	**254,381**	271,380
Prepaid expenses	**86,659**	51,758
Other current assets	**179,308**	78,607
Total current assets	**4,827,682**	3,467,621
Property and equipment:		
Locomotives	**1,894,171**	1,886,945
Passenger cars and other rolling stock	**3,643,138**	3,478,968
Right-of-way and other properties	**17,288,470**	16,220,827
Construction-in-progress	**2,702,960**	2,355,958
Leasehold improvements	**1,114,087**	904,583
Property and equipment, gross	**26,642,826**	24,847,281
Less: Accumulated depreciation and amortization	**(10,325,233)**	(9,655,814)
Total property and equipment, net	**16,317,593**	15,191,467
Other assets:		
Restricted investments	**218,463**	182,695
Deferred charges, deposits, and other	**111,894**	177,927
Total other assets	**330,357**	360,622
Total assets	**$ 21,475,632**	$ 19,019,710

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets (continued)

(In Thousands of Dollars, Except Share Data)

	September 30, 2021	September 30, 2020
Liabilities and capitalization:		
Current liabilities:		
Accounts payable	**$ 548,079**	$ 510,057
Accrued expenses and other current liabilities	**1,309,403**	930,644
Deferred ticket revenue	**131,663**	60,978
Current maturities of long-term debt and capital lease obligations	**36,729**	97,384
Total current liabilities	**2,025,874**	1,599,063
Long-term debt and capital lease obligations:		
Long-term debt	**956,840**	1,015,861
Capital lease obligations	**1,732**	42,899
Total long-term debt and capital lease obligations	**958,572**	1,058,760
Other liabilities:		
Deferred state government capital assistance	**2,653,845**	2,551,431
Amtrak guest rewards program liability	**100,717**	129,117
Casualty reserves	**185,093**	217,965
Postretirement employee benefits obligation	**565,597**	613,711
Environmental reserve	**141,955**	169,025
Other liabilities	**147,690**	152,005
Total other liabilities	**3,794,897**	3,833,254
Total liabilities	**6,779,343**	6,491,077
Commitments and contingencies *(Note 11)*		
Capitalization:		
Preferred stock - $100 par, 109,396,994 shares authorized, issued and outstanding	**10,939,699**	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding	**93,857**	93,857
Other paid-in capital	**44,015,913**	39,869,509
Accumulated deficit	**(40,138,982)**	(38,131,909)
Accumulated other comprehensive loss	**(214,198)**	(242,523)
Total capitalization	**14,696,289**	12,528,633
Total liabilities and capitalization	**$ 21,475,632**	$ 19,019,710

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Operations

(In Thousands of Dollars)

	Year Ended September 30, 2021	2020
Revenues:		
Revenue from contracts with customers	**$ 1,498,234**	$ 1,855,245
Other	**583,570**	575,456
Total revenues	**2,081,804**	2,430,701
Expenses:		
Salaries, wages, and benefits	**1,930,523**	1,995,134
Train operations	**217,140**	277,275
Fuel, power, and utilities	**188,395**	215,496
Materials	**162,222**	183,324
Facility, communication, and office related	**176,543**	169,650
Advertising and sales	**56,178**	56,582
Casualty and other claims	**123,902**	58,612
Depreciation and amortization	**902,268**	921,784
Other	**457,648**	417,147
Indirect cost capitalized to property and equipment	**(149,018)**	(140,069)
Total operating expenses	**4,065,801**	4,154,935
Loss from operations	**(1,983,997)**	(1,724,234)
Non-operating income (expense):		
Interest income	**16,054**	48,648
Interest expense	**(23,574)**	(30,389)
Other (expense) income, net	**(15,556)**	26,943
Total non-operating (expense) income, net	**(23,076)**	45,202
Net loss	**$ (2,007,073)**	$ (1,679,032)

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Comprehensive Loss

(In Thousands of Dollars)

	Year Ended September 30,	
	2021	**2020**
Net loss	**$ (2,007,073)**	$ (1,679,032)
Other comprehensive income (loss):		
Pension and other postretirement benefit plans:		
Actuarial gain arising during the period, net	**26,726**	745
Amortization of net actuarial loss reclassified into earnings	**18,794**	17,466
Amortization of prior service credit reclassified into earnings	**(9,939)**	(21,857)
Other	**—**	1,509
Total change from pension and other postretirement benefit plans	**35,581**	(2,137)
Changes in unrealized (losses)/gains on available-for-sale securities, net of reclassifications into earnings due to sales and maturities	**(7,256)**	4,726
Total other comprehensive income	**28,325**	2,589
Total comprehensive loss	**$ (1,978,748)**	$ (1,676,443)

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Changes in Capitalization

(In Thousands of Dollars)

	Preferred Stock	Common Stock	Other Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of September 30, 2019	$ 10,939,699	$ 93,857	$ 37,072,889	$ (36,332,178)	$ (245,112)	$ 11,529,155
Adoption of revenue recognition standard	—	—	—	(120,699)	—	(120,699)
Federal paid-in capital	—	—	2,796,620	—	—	2,796,620
Net loss	—	—	—	(1,679,032)	—	(1,679,032)
Other comprehensive income	—	—	—	—	2,589	2,589
Balance as of September 30, 2020	10,939,699	93,857	39,869,509	(38,131,909)	(242,523)	12,528,633
Federal paid-in capital	—	—	**4,146,404**	—	—	**4,146,404**
Net loss	—	—	—	**(2,007,073)**	—	**(2,007,073)**
Other comprehensive income	—	—	—	—	**28,325**	**28,325**
Balance as of September 30, 2021	**$ 10,939,699**	**$ 93,857**	**$ 44,015,913**	**$ (40,138,982)**	**$ (214,198)**	**$ 14,696,289**

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Year Ended September 30, 2021	2020
Cash flows from operating activities:		
Net loss	**$ (2,007,073)**	$ (1,679,032)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred state government capital assistance	**(139,656)**	(133,379)
Depreciation and amortization	**902,268**	921,784
Loss/(gain) on sale of property and equipment	**5,208**	(28,904)
Other	**8,641**	14,031
Changes in assets and liabilities:		
Accounts receivable	**(36,067)**	44,384
Materials and supplies, prepaid expenses, and other current assets	**(139,478)**	(25,374)
Other assets	**66,033**	83,526
Accounts payable, deferred ticket revenue, and accrued expenses and other current liabilities	**442,155**	(21,914)
Other liabilities	**(73,086)**	321
Net cash used in operating activities	**(971,055)**	(824,557)
Cash flows from investing activities:		
Purchases of short-term investments	**(10,735,010)**	(6,594,519)
Proceeds from sales and maturities of short-term investments	**10,477,538**	6,474,664
Purchases of available-for-sale securities	**(9,660,932)**	(7,869,152)
Proceeds from sales and maturities of available-for-sale securities	**8,764,087**	7,613,796
Purchases and refurbishments of property and equipment	**(1,996,304)**	(1,726,555)
Proceeds from disposals of property and equipment and other	**9,613**	71,856
Net cash used in investing activities	**(3,141,008)**	(2,029,910)
Cash flows from financing activities:		
Proceeds from federal paid-in capital	**4,146,404**	2,796,620
Proceeds from state government capital assistance	**242,070**	271,409
Repayments of debt and capital lease obligations	**(193,650)**	(170,975)
Net cash provided by financing activities	**4,194,824**	2,897,054
Net change in cash and cash equivalents, including restricted cash	**82,761**	42,587
Beginning balance of cash and cash equivalents, including restricted cash	**409,184**	366,597
Ending balance of cash and cash equivalents, including restricted cash	**$ 491,945**	$ 409,184
Supplemental disclosure of cash payments:		
Interest paid, net of amount capitalized	**$ 32,300**	$ 32,596
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of property and equipment from state government capital assistance	**$ —**	$ 27,761
Other non-cash changes in property, including accruals of amounts due for purchases	**$ 52,255**	$ 50,548

See accompanying notes.

1. Nature of Operations

The National Railroad Passenger Corporation (Amtrak or the Company) was incorporated in 1971 pursuant to the Rail Passenger Service Act of 1970 and is authorized to operate a nationwide system of passenger rail transportation. The United States government (the Federal Government) through the Secretary of the United States Department of Transportation (the DOT) owns all issued and outstanding preferred stock. Amtrak's principal business is to provide rail passenger transportation service in the major intercity travel markets of the United States. The Company also operates commuter rail operations on behalf of certain states and transit agencies, provides equipment and right-of-way maintenance services, and has leasing operations.

The Company has a history of recurring operating losses and is dependent on subsidies from the Federal Government to operate the national passenger rail system and maintain the underlying infrastructure. These subsidies are usually received through annual appropriations. Appropriated funds for Amtrak are generally provided to the DOT, which through its agency the Federal Railroad Administration (the FRA) provides those funds to Amtrak pursuant to annual grant agreements. Amtrak's ability to continue operating in its current form is dependent upon the continued receipt of subsidies from the Federal Government. The DOT, through its National Surface Transportation and Innovative Finance Bureau (also referred to as the Build America Bureau), also provides financing to Amtrak through the Railroad Rehabilitation and Infrastructure Financing (RRIF) Program.

In March 2020, the World Health Organization declared the outbreak of the 2019 coronavirus (COVID) disease as a pandemic (the pandemic). The unprecedented and rapid spread of COVID and the related travel restrictions and social distancing measures resulted in significantly reduced travel demands and adversely impacted the Company's fiscal year (FY) 2021 and FY2020 financial results. Although demand increased in the summer of FY2021 as restrictions eased, it had not returned to pre-pandemic levels by the end of FY2021.

In both FY2021 and FY2020, Amtrak received significant supplemental financial assistance from the Federal Government to respond to and recover from the pandemic. In FY2020, to alleviate the effect of the pandemic, the Company also made adjustments to train service, including service frequency reductions, and implemented multiple cost management programs, including a voluntary separation program, an involuntary separation program, and furloughs of employees covered by collective bargaining agreements which took effect primarily during the first quarter of FY2021. As of September 30, 2021, the Company recalled all of its furloughed employees and restored its long-distance services to pre-pandemic levels.

The Company evaluated if the pandemic and ongoing operating losses raise substantial doubt about Amtrak's ability to continue in the foreseeable future, considered to be through the end of December 2022, and concluded that the Company's forecasted cash flows, including anticipated Federal and state funding and credit arrangements, are sufficient to cover Amtrak's operations for the next year.

See Notes 2, 4, 5, and 7 for additional information about Amtrak and its relationship with the Federal Government, including funding received to assist the Company in responding to the pandemic under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), the Emergency Coronavirus

1. Nature of Operations (continued)

Relief Act of 2020 (ECRA), which is part of the Consolidated Appropriations Act, 2021, and the American Rescue Plan Act of 2021 (ARPA) (collectively, the COVID Relief Acts).

2. Annual Funding

On December 4, 2015, Public Law 114-94, the Fixing America's Surface Transportation Act (the FAST Act), was enacted. Title XI - Rail of the FAST Act, cited as the Passenger Rail Reform and Investment Act of 2015, authorized funding to the Secretary of the DOT (the Secretary) for annual grants to Amtrak totaling $8.1 billion for FY2016 through FY2020. Of the five-year total authorized for Amtrak, $2.6 billion was for the Northeast Corridor (NEC) and $5.5 billion was for Amtrak's National Network (NN), as defined in the FAST Act. The FAST Act also authorized an additional $2.2 billion over five years for other competitive rail grant programs in which Amtrak could participate.

FAST Act extensions through December 3, 2021 were enacted as part of the Continuing Appropriations Act, 2021 and Other Extensions Act (Public Law 116-159); the Surface Transportation Extension Act of 2021 (Public Law 117-44); and the Further Surface Transportation Extension Act of 2021 (Public Law 117-52).

Between March 2020 and March 2021, the Company was provided a combined $3.7 billion in supplemental appropriations via the COVID Relief Acts, which sought to help Amtrak prevent, prepare for, and respond to the pandemic. Of this total, $2.7 billion was received in FY2021 and $1.0 billion was received in FY2020. Details of each relief act and its supplemental funding allocations are in the table below (in millions of dollars).

	ARPA	ECRA	CARES
Public Law numbers for COVID Relief Acts funding	PL 117-2	PL 116-260	PL 116-136
Enactment dates for COVID Relief Acts funding	March 11, 2021	December 27, 2020	March 27, 2020
NEC funding, excluding allocation to states and agencies under the Passenger Rail Investment and Improvement Act of 2008 (PRIIA)	$ 882.5	$ 567.6	$ 492.0
NN funding, excluding allocation to states and agencies under PRIIA	532.8	147.7	287.0
PRIIA Section 212 and Section 209 state and agency funding	284.7	284.7	239.0
Total funds appropriated	**1,700.0**	**1,000.0**	**1,018.0**
FRA authorized withholdings	(2.0)	(2.0)	—
Total COVID emergency relief funding received	$ 1,698.0	$ 998.0	$ 1,018.0

The COVID Relief Acts funding received by Amtrak and intended for Amtrak's state and agency partners was recorded as an advance payment from the states and agencies. The balance of the COVID Relief Acts funding was recorded as other paid-in capital.

2. Annual Funding (continued)

On September 30, 2021, President Biden signed into law the Extending Government Funding and Delivering Emergency Assistance Act (Public Law 117-43) and subsequent to September 30, 2021, the President signed the Making Further Continuing Appropriations for the Fiscal Year Ending September 30, 2022, and for Other Purposes (Public Law 117-70) (collectively, the Continuing Appropriations Acts). The Continuing Appropriations Acts appropriated funding for Amtrak at FY2021 levels until February 18, 2022. Congress has not appropriated any FY2022 operating funds for the Company for the period subsequent to February 18, 2022. Without such Federal Government subsidies, Amtrak will not be able to continue to operate in its current form and significant operating changes, restructuring, or bankruptcy may occur. Such changes or restructuring would likely result in asset impairments.

On November 15, 2021, the Infrastructure Investment and Jobs Act (the IIJA) was signed into law (Public Law 117-58). The IIJA contains two rail-funding-related components. The first component provides $22.0 billion in advance appropriations for Amtrak over the next five years for capital investment. These funds are not available to help cover operating costs. In addition, that first component of the IIJA includes another $44.0 billion in advance appropriations for rail programs over the next five years. Amtrak will be eligible to apply for or will otherwise benefit from the majority of this funding. All of these advance appropriations are guaranteed, and Congress does not have to take any additional action through the regular appropriations process in order for Amtrak to receive them.

The second rail-funding-related component of the IIJA is a reauthorization of rail funding for the next five years, which replaces the FAST Act (as extended). The IIJA reauthorization component authorizes a non-binding target funding level for Amtrak of $19.2 billion for the next five years, or $3.8 billion annually on average. It also contains a similar target for FRA competitive grants of $15.3 billion, or $3.1 billion annually. Additionally, the bill’s policy provisions largely continue structures and processes established by the FAST Act.

The table below provides information on funding for the Company’s FY2022, FY2021, and FY2020 as provided by various continuing resolutions (CRs), the Consolidated Appropriations Act (Full Year Funding) related to those years, the IIJA appropriations, and the three COVID Relief Acts described above (dollars in millions):

2. Annual Funding (continued)

	FY2022		FY2021		FY2020
Enactment dates for CRs and COVID Relief Acts funding	September 30, 2021 December 3, 2021		**October 1, 2020 December 11, 2020 December 18, 2020 December 20, 2020 December 22, 2020 December 27, 2020 March 11, 2021**		September 27, 2019 November 21, 2019 March 27, 2020
Public Law (PL) numbers for CRs and COVID Relief Acts funding	PL 117-43 PL 117-70		**PL 116-159 PL 116-215 PL 116-225 PL 116-226 PL 116-246 PL 116-260 PL 117-2**		PL 116-59 PL 116-69 PL 116-136
Enactment date for Full Year Funding	N/A	[1]	**December 27, 2020**	[2]	December 20, 2019
PL number for Full Year Funding	N/A	[1]	**PL 116-260**	[2]	PL 116-94
The IIJA	November 15, 2021				
PL number for IIJA funding	PL 117-58	[3]			
Appropriated for National Network	$ 502.2		**$ 2,374.2**		$ 1,826.0
Appropriated for NEC	270.4		**2,325.8**		1,192.0
Total funds appropriated	772.6		**4,700.0**		3,018.0
FRA authorized withholdings	(6.6)		**(21.0)**		(17.0)
Total appropriated funds designated for Amtrak	$ 766.0		**$ 4,679.0**		$ 3,001.0
Funds received by Amtrak:					
In FY2020					$ 3,001.0
In FY2021			**$ 4,679.0**		
In FY2022, as of December 17, 2021	$ —		**—**		—
Total funds received, as of December 17, 2021	$ —		**$ 4,679.0**		$ 3,001.0

[1] FY2022 full year funding is not yet enacted.

[2] The Consolidated Appropriations Act, 2021, PL 116-260, provided both regular appropriations for FY2021 and additional supplemental funding for the Company's response to the pandemic.

[3] FY2022 funding levels from IIJA have not been determined as of December 17, 2021; and therefore, no amounts are included in the above table.

See Note 4 for information on additional grants received by the Company.

3. Basis of Presentation and Summary of Significant Accounting Policies

Method of Accounting

The accompanying Consolidated Financial Statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The Consolidated Financial Statements reflect the consolidated operations of Amtrak and its wholly owned subsidiaries, Passenger Railroad Insurance, Limited (PRIL) and Washington Terminal Company (WTC). All intercompany balances and transactions have been eliminated.

PRIL was incorporated on December 18, 1996 under the laws of Bermuda to provide excess liability and property insurance coverage to Amtrak. In addition, PRIL provides insurance and reinsurance coverage to third parties performing work on Amtrak property.

WTC was formed on December 6, 1901 and its assets are comprised of buildings and rail yard adjacent to Washington Union Station. This entity has no operations.

Cash and Cash Equivalents

Short-term highly liquid investments that have a maturity at the date of acquisition of three months or less and are readily convertible to known amounts of cash without incurring penalties are generally considered cash equivalents. Cash and cash equivalents are maintained at various financial institutions and, at times, the balance may exceed federally insured limits.

The Company considers funds that are set aside and restricted for specific purposes as restricted cash and cash equivalents. As of September 30, 2021 and 2020, the Company's cash and cash equivalents include restricted cash of $20.9 million and $12.7 million, respectively. The Company's restricted cash and cash equivalents consist of funds held in trust restricted from withdrawals based upon certain collateral requirements and funds restricted for certain operations of the Amtrak Police Department.

Short-Term Investments

Short-term investments are investments in money market funds that seek to preserve the investment by maintaining stable market net asset value (NAV) of $1. These investments include $283.0 million and $32.4 million, as of September 30, 2021 and 2020, respectively, of restricted investments acquired using the COVID Relief Acts funding provided for the purpose of supporting Amtrak's state partners in making their State Supported route subsidy payments and capital payments due to Amtrak. See Note 2 for additional information on funding received in FY2021 and FY2020.

Money market funds are accounted for as equity securities and are carried at market NAV. Because of their stable NAV of $1, there are no realized gains or losses on sale or unrealized gains or losses on market value adjustments on these investments. Return on investment in the form of dividends is recorded within "Interest income" in the Consolidated Statements of Operations.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Available-for-Sale Securities

Available-for-sale securities are comprised of investments in marketable debt securities that when acquired are classified and accounted for as available-for-sale securities. These securities include restricted investments, $37.5 million and $68.1 million as of September 30, 2021 and 2020, respectively, that represent available-for-sale securities acquired using COVID Relief Acts funding provided for the purpose of supporting Amtrak's state and agency partners in making their State Supported route subsidy payments and capital payments due to Amtrak. See Note 2 for additional information on grant funding received in FY2021 and FY2020.

Available-for-sale securities are measured at fair value in the Consolidated Balance Sheets and unrealized gains and losses are included in the Consolidated Statements of Comprehensive Loss. Realized gains and losses are recognized when the securities are sold based on the specific identification method and realized gains and losses, interest, and dividends are recorded within “Interest income” in the Consolidated Statements of Operations.

Fuel Purchase Agreements

The Company periodically enters into agreements to purchase fuel in the future to manage a portion of its exposure to fluctuating energy prices. These agreements, which inherently contain market risk, are generally effective in reducing fluctuations in cash flows. The Company does not enter into energy agreements for trading or speculative purposes.

The Company does not designate these agreements as hedging instruments. Realized and unrealized gains and losses on these agreements are recorded in current earnings as a component of “Fuel, power, and utilities” in the Consolidated Statements of Operations.

During FY2021, $5.7 million was recorded in realized gains on the Company's fuel purchase agreements. During FY2020, the Company recorded $16.1 million in realized losses on its fuel purchase agreements. The Company had no outstanding future fuel purchase agreements as of September 30, 2021.

Accounts Receivable

Accounts receivable in the Consolidated Balance Sheets includes billed and unbilled accounts receivable. Billed accounts receivable represents amounts for which invoices have been sent to customers. These accounts receivable are recorded at the invoiced amount. Unbilled accounts receivable represents amounts recognized as revenue for which invoices have not yet been sent to customers but for which services and work have been performed. The Company recorded $48.5 million and $30.6 million of unbilled accounts receivable as of September 30, 2021 and 2020, respectively. The Company does not extend credit and payment is always due at the point of sale for passenger tickets, food and beverage, and related services sold to customers. With regard to non-passenger-related sales, the Company generally provides payment terms that typically range from 30 to 60 days. The Company does not require collateral from customers. Customer accounts outstanding longer than the payment terms are considered past due.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Materials and Supplies

Materials and supplies, which are stated at weighted-average cost, net of allowance for shrinkage and obsolescence, consist primarily of items for repairs and maintenance of property and equipment. The allowance for shrinkage and obsolescence, $53.4 million and $49.3 million as of September 30, 2021 and 2020, respectively, is recorded based on specific identification and expected usage rates.

Property, Equipment, and Depreciation

Except as described below, property and equipment owned by the Company are carried at cost and depreciated using the group method of depreciation (group method) in which a single composite depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. This excludes computer equipment and software, which are stated at cost and are individually depreciated on a straight-line basis over their estimated useful lives, which are generally four to ten years. Properties held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms, and the related depreciation expense is reported within “Depreciation and amortization” in the Consolidated Statements of Operations. Land is carried at cost.

For assets depreciated under the group method, upon normal sale or retirement, the cost less the net salvage value is applied to “Accumulated depreciation and amortization” in the Consolidated Balance Sheets and no gain or loss is recognized. Gains or losses on the disposal of land and accelerated depreciation related to significant premature retirements of assets under the group method are recorded in the Consolidated Statements of Operations at the time of occurrence. There were no significant premature retirements of depreciable property or disposals of land for which gains or losses were recorded in FY2021 or FY2020.

Amtrak periodically engages an outside civil engineering firm with expertise in railroad property usage to conduct a study to evaluate depreciation rates for assets subject to the group method. In addition to the adjustment to group depreciation rates because of periodic depreciation studies, certain other events might occur that could affect Amtrak’s estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter assumptions regarding Amtrak’s ability to realize the return on its investment in operating assets and, therefore, affect the amounts of current and future depreciation expense. Because group method depreciation expense is a function of analytical studies made of property and equipment, subsequent studies could result in different estimates of useful lives and net salvage values. If future group method depreciation studies yield results indicating that assets have shorter lives because of obsolescence, physical condition, changes in technology, or changes in net salvage values, the depreciation expense for assets under the group method could increase. Likewise, if future studies indicate that assets have longer lives, the depreciation expense for assets under the group method could decrease. The Company conducted a depreciation study in FY2021 and implemented the study results prospectively. The study resulted in a $71.1 million reduction in depreciation expense in FY2021 due to change in the timing of recognition of the expense.

Construction-in-progress is stated at cost and includes direct costs of construction and interest capitalized during the period of construction of major facilities, locomotives, and passenger cars. Construction-in-

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

progress is transferred to property and equipment when substantially all the activities necessary to prepare such assets for their intended use are completed, at which time depreciation commences. When constructed assets are funded through long-term debt, capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's useful life. Total interest incurred by the Company was $38.1 million and $44.8 million for FY2021 and FY2020, respectively, of which $14.5 million and $14.4 million was capitalized for FY2021 and FY2020, respectively.

The useful lives of locomotives, passenger cars, and other rolling stock assets for depreciation purposes range up to 40 years. Depreciable right-of-way and other properties are depreciated using useful lives ranging up to 90 years. Within other properties is computers, office equipment, and maintenance equipment which are depreciated using useful lives ranging from four to 53 years. Expenditures that significantly increase asset values or extend useful lives are capitalized, including major overhauls. Repair and maintenance expenditures, including preventive maintenance, are charged to operating expense when the work is performed. The cost of internally developed software is capitalized and amortized over its estimated useful life, which is generally five to ten years.

The Company accounts for asset retirement obligations (AROs) in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410, *Asset Retirement and Environmental Obligations*. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or normal use of the asset. In accordance with FASB ASC Topic 410, the Company recognizes the fair value of any liability for conditional AROs, including environmental remediation liabilities, in the period in which it is incurred, which is generally upon acquisition, construction, or development and/or through the normal operation of the asset, if sufficient information exists with which Amtrak can reasonably estimate the fair value of the obligation. Amtrak capitalizes the cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the useful life of the related asset and upon settlement of the liability Amtrak either settles the obligation for its recorded amount or incurs a gain or loss. The asset retirement cost capitalized was $10.1 million as of both September 30, 2021 and 2020, and was included in "Right-of-way and other properties" in the Consolidated Balance Sheets.

Indirect Cost Capitalized to Property and Equipment

Capitalized overhead cost represents the indirect support expenses related to specific geographic regions and departments that are involved in particular capital projects. These indirect costs, which include fringe benefits allocable to direct labor, are capitalized along with the direct costs of labor, material, and other direct costs. Amtrak's overhead rates are updated at the end of each fiscal year based upon the actual activity and costs incurred during the fiscal year.

Impairment of Long-Lived Assets

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate that their carrying amounts may not be recoverable. Initial assessments of recoverability are based on an estimate of undiscounted future net cash flows. If impairment indicators are present, the assets are evaluated for sale or other disposition, and their carrying amounts are reduced to fair value based on discounted cash flows or other estimates of fair value.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

In performing its impairment analysis, the Company assumes future Federal Government subsidies at levels that are at least consistent with the historical funding levels, excluding the COVID Relief Acts funding, discussed in Note 2. With the passage of the IIJA, the Company's future funding levels will be significantly higher than historical funding levels. At its anticipated level of funding, the Company determined that no indicators of impairment existed as of both September 30, 2021 and 2020.

Restricted Investments

Restricted investments represent investments acquired using the funds received under a settlement agreement with one of the Company's state partners that requires the Company to utilize the funds only for certain agreed-upon capital projects and deposits into a debt service reserve account to meet requirements established by the 2016 RRIF Loan (see Note 7). These investments have been classified as restricted and non-current. The interest earned on the funds received under the settlement agreement can be withdrawn by the Company for its general use. Once the 2016 RRIF Loan debt service reserve account is fully funded, any excess funds in that account can also be withdrawn by the Company for general use, provided that Amtrak is not in default under the 2016 RRIF Loan and that withdrawal requests can only be made once per year. These investments are accounted for as available-for-sale securities, except for $42.8 million and $5.5 million in money market funds that are accounted for as equity securities as of September 30, 2021 and 2020, respectively.

Casualty Losses and Claims

Provision is made for Amtrak’s estimated liability for unsettled casualty and other open claims. An insurance recovery receivable is recorded for the estimated liability for passenger and/or employee claims in excess of the Company's self-insured retention amount. The insurance recovery expected to be collected within one year is recorded in “Other current assets” and amounts expected to be collected beyond one year are recorded in “Deferred charges, deposits, and other” in the Consolidated Balance Sheets. These receivables represent the Company's best estimate of insurance proceeds it believes are highly probable of recovery.

Personal injury liability and ultimate loss projections are undiscounted and estimated using standard actuarial methodologies. The actuarial estimates include an estimate for unasserted claims. As of September 30, 2021 and 2020, the reserve for casualty losses and claims was $387.6 million and $290.3 million, respectively. The reserve balance as of September 30, 2021 includes the Company's best estimate of the liability for passenger and employee claims incurred related to the derailment which occurred in September 2021 (see Note 11). Of the total amount reserved as of September 30, 2021 and 2020, the estimated current claims liability included in “Accrued expenses and other current liabilities” in the Consolidated Balance Sheets was $202.5 million and $72.3 million, respectively. The remaining reserve as of both September 30, 2021 and 2020 is included in “Casualty reserves” in the Consolidated Balance Sheets.

Revenue Recognition

“Revenue from contracts with customers” in the Consolidated Statements of Operations includes (i) all passenger related revenue (i.e. ticket and food and beverage sales); (ii) commuter and freight access fee

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

and other revenue from the use of Amtrak-owned tracks by commuter agencies and freight railroad companies, and other revenue related to the use of Amtrak's infrastructure; (iii) revenue from reimbursable contracts, which represents amounts earned under contracts with customers pursuant to which the Company provides repair, maintenance, design, engineering, or construction services; (iv) revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee; (v) commercial development revenue from communication, parking, advertising, and pipe and wire contracts; and (vi) miscellaneous revenue from co-branding commissions and other sources.

The components of "Revenue from contracts with customers" are as follows (in millions):

	Year Ended September 30,	
	2021	**2020**
Ticket	**$ 872.7**	$ 1,239.0 [1]
Food and beverage	**23.0**	30.8 [1]
Total passenger related revenue	**895.7**	1,269.8
Commuter and freight access	**244.5**	235.6
Reimbursable operating	**174.6**	151.7
Commuter operations	**122.4**	124.2
Commercial development (non-lease)	**40.2**	43.8
Miscellaneous	**20.8**	30.1
Total revenue from contracts with customers	**$ 1,498.2**	$ 1,855.2

[1] In FY2020, the value of food and beverage provided to passengers as part of the ticket price was reported as food and beverage revenue. Beginning with FY2021, such amounts are reflected in ticket revenue. FY2020 reported Ticket revenue has been increased by $46.5 million and Food and beverage revenue decreased by the same amount to reflect the current presentation.

Revenue from contracts with customers is recognized as operating revenues when the related performance obligations are performed. For passenger related revenue, amounts received for tickets that have been sold but not used are reflected initially as "Deferred ticket revenue" in the Consolidated Balance Sheets then recognized in revenue when travel occurs. Commuter and freight access revenues are recognized when the access service has been provided for the period. Reimbursable revenues are recognized when related costs are incurred. Commuter operations revenues are recognized as commuter operating services are provided to the customers. Commercial development (non-lease) revenues are recognized when the related services are provided to customers.

Non-refundable tickets expire and are recognized in revenue on the date of the scheduled travel. Refundable tickets expire and are recognized in revenue on the scheduled travel dates if the customers do not request a refund or exchange prior to travel in accordance with the Company's refund and exchange policy. The Company issues vouchers good for future travel within one year upon request for exchange and records revenue on issued vouchers that are estimated to expire unused (breakage). The Company uses its historical experience to estimate voucher breakage.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

"Other" revenue in the Consolidated Statements of Operations includes income from sources other than contracts with customers and includes (i) revenue from state partners for their State Supported route subsidy; (ii) revenue from state government capital assistance; and (iii) rental income from lease contracts and miscellaneous other revenue.

The components of "Other" revenue are as follows (in millions):

	Year Ended September 30,	
	2021	**2020**
State Supported route subsidy	**$ 352.8**	$ 342.1
Amortization of deferred state government capital assistance	**139.7**	133.4
Reimbursable capital revenue	**50.1**	59.3
Lease and other revenue	**41.0**	40.7
Total other revenue	**$ 583.6**	$ 575.5

State Supported route subsidy and reimbursable capital revenue are recognized in revenue in the periods when the related expenses are incurred. State government capital assistance is recorded as "Deferred state government capital assistance" in the Company's Consolidated Balance Sheets when received and is then amortized into revenue to offset the related asset's depreciation expense over the estimated life of the related asset.

For revenue transactions that involve more than one performance obligation, the Company defers the revenue associated with any unsatisfied performance obligation until the obligation is satisfied, considered to occur when control of a product is transferred to the customer or a service is completed.

Amtrak Guest Rewards Program

The Amtrak Guest Rewards (AGR) program generates customer loyalty by rewarding customers with incentives to travel on Amtrak. This program allows AGR members to earn AGR points by traveling on Amtrak or from transactions with other participating AGR partner companies such as credit card companies, hotels, and car rental agencies. Points can be redeemed for Amtrak travel or for non-travel such as partner gift cards or hotel/car rental certificates. To facilitate transactions with participating AGR partners, Amtrak also sells AGR points to members and partners.

To reflect the AGR points earned, the loyalty program includes two types of transactions that are considered revenue arrangements with multiple performance obligations: (1) AGR points earned with travel and (2) AGR points sold to members/partners.

AGR points earned with travel

Passenger ticket sales earning AGR points under the Company's loyalty program provide customers with (1) AGR points earned and (2) transportation provided by Amtrak. Amtrak values AGR points earned first and the remaining sales proceeds are allocated to Amtrak transportation. To value the AGR points earned, the Company uses the market approach to estimate the value per point and also factors in an estimated breakage for AGR points that are not likely to be redeemed. The Company uses statistical models to

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

estimate breakage based on both historical and forecasted future redemption patterns. A change in assumptions as to the actual redemption activity for AGR points or the estimated price per point expected to be redeemed could have a material impact on the Company's revenue in the year in which the change occurs and in future years.

For each passenger ticket sold to a customer who is an AGR member, the Company records the portion of the ticket price allocable to AGR points earned but not yet redeemed, net of estimated breakage, as "Amtrak guest rewards program liability" on the Consolidated Balance Sheets and the remaining portion of the passenger ticket sale for currently booked travel as "Deferred ticket revenue" on the Consolidated Balance Sheets. The "Deferred ticket revenue" is then recorded to "Revenue from contracts with customers" on the Consolidated Statements of Operations when Amtrak provides transportation or if the ticket goes unused and is forfeited.

The AGR liability is recognized in revenue based on the redemption types: (1) Amtrak travel redemption and (2) partner gift cards/certificates/points redemption. Upon redemption by a customer of AGR points for future Amtrak travel, Amtrak reclassifies the AGR liability to "Deferred ticket revenue" and then recognizes it within "Revenue from contracts with customers" when Amtrak provides transportation or if the ticket goes unused and is forfeited. When customers redeem AGR points for partner gift cards/certificates/points, Amtrak considers itself to be an agent of the transaction and recognizes revenue on a net basis at points redemption.

AGR points sold to members/partners

Customers may earn AGR points based on their spending with participating companies such as credit card companies, hotels, and car rental agencies with which the Company has marketing agreements to sell AGR points. Amtrak sells AGR points to those partner companies at agreed-upon rates. Payments are typically due monthly based on the volume of points sold during the period. AGR members may also purchase AGR points from the Company. Amtrak recognizes in "Amtrak guest rewards program liability" in the Consolidated Balance Sheets the payments collected from partners and members. The AGR liability is recognized in revenue based on the redemption types as described above.

As of September 30, 2021 and 2020, the Company's AGR program liability was $149.3 million and $158.9 million, respectively. The current portion of the liability was $48.6 million and $29.8 million as of September 30, 2021 and 2020, respectively, and is reported in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets.

Advertising Expenses

The Company records advertising expenses as incurred and reports these amounts in "Advertising and sales" in the Consolidated Statements of Operations. Advertising expenses were $32.6 million and $25.8 million for FY2021 and FY2020, respectively.

Income Taxes

The Company accounts for its income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Management evaluates its potential exposures from tax positions taken that have been or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. Management considers the possibility of alternative outcomes based upon historical experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions), and advice from tax experts. The Company has evaluated income tax positions taken in prior years and believes that all positions are more likely than not to be sustained in an audit.

Pursuant to the provisions of Title 49 of the United States Code, Section 24301, Amtrak is exempt from all state and local taxes, including income and franchise taxes that are directly levied against the Company. Accordingly, there is no provision for state and local income or franchise taxes recorded in the Consolidated Financial Statements for FY2021 and FY2020. The COVID Relief Acts funding described in Note 2 did not materially impact the Company's accounting for income taxes.

See Note 10 for additional information.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of revenues and expenses during the reporting period. The Company bases these estimates on historical experience, the current economic environment, and various other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. The Company's significant estimates include: estimated useful lives of property and equipment, estimates of casualty reserves, estimate of AGR program liability, pension and other postretirement employee benefits cost and obligations (including expected return on plan assets, discount rates, and health care cost trend rates), estimated future valuation of certain assets in connection with the Company's tax planning strategy, and environmental reserves.

Comprehensive Loss

Amtrak reports a comprehensive loss in the Consolidated Statements of Comprehensive Loss. Comprehensive loss is defined as changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. As of September 30, 2021 and 2020, "Accumulated other comprehensive loss" consists of adjustments for pension and other postretirement liabilities and unrealized gains and losses on available-for-sale securities.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Issued but Not Yet Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU was issued to increase transparency and comparability among companies by requiring most leases to be included in the balance sheet and by expanding disclosures on leasing arrangements. This ASU, along with subsequently issued ASUs providing guidance and practical expedients for implementation, are effective for the Company in FY2023. Early adoption is permitted, but the Company does not intend to early adopt.

The Company is still evaluating the impact of the guidance and is in the process of identifying the population of lease arrangements that are within the scope of the guidance and reviewing the systems and processes that are relevant to the implementation of this standard. As the Company is and will continue to be involved in multiple leasing arrangements whereby the Company is either the lessee or the lessor, the adoption of the ASU is expected to have a significant impact on the Company's Consolidated Balance Sheets due to recognition of assets and liabilities for leases currently accounted for as operating leases. However, the Company does not expect the guidance to have a material impact on its Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

4. Accounting and Reporting for Federal Payments

Certain funds are provided to Amtrak during the year through federal payments. These federal payments, which are recorded when received in "Other paid-in capital" in the Consolidated Balance Sheets and Consolidated Statements of Changes in Capitalization, totaled $4.1 billion and $2.8 billion for FY2021 and FY2020, respectively.

Note 2 provides information on the Company's annual funding. Additional federal funding received by the Company, all of which was recorded within "Other paid-in capital" when received, is described below.

Since FY2005, the Department of Homeland Security has awarded Amtrak a total of $225.5 million in grants from the Intercity Passenger Rail Grants Program, American Recovery and Reinvestment Act Rail and Transit Security Grant Program, and other security grants. Funding is provided on a reimbursable basis. Amtrak has cumulatively received $186.0 million and $179.7 million as of September 30, 2021 and 2020, respectively.

Appropriations are made to directly fund operations of Amtrak's Office of Inspector General (OIG). Amtrak and the OIG entered into a service agreement on January 8, 2010, whereby Amtrak would continue to provide accounting and financial management services for the OIG. Amtrak is reimbursed for expenses incurred upon the submission of invoices to the OIG. Amtrak was appropriated $25.3 million and $24.3 million for FY2021 and FY2020, respectively, and Amtrak received $23.6 million and $22.6 million in FY2021 and FY2020, respectively.

"Other paid-in capital", included in the Consolidated Balance Sheets and Consolidated Statements of Changes in Capitalization, also includes the effects of certain funding received from the Federal Government for the acquisition of and improvements to property and equipment. In exchange for this funding, Amtrak issued two promissory notes to the United States of America. The first note has a balance of $4.0 billion as of September 30, 2021 and 2020, was issued in 1976 and matures on December 31, 2975, and is secured by the real and personal property of Amtrak, WTC, and PRIL. The second note has a

4. Accounting and Reporting for Federal Payments (continued)

balance of $1.1 billion as of September 30, 2021 and 2020, was issued in 1983 and matures on November 1, 2082, with successive 99-year automatic renewal terms, if the note has not been paid at maturity or accelerated in accordance with its terms, and is secured by all rolling stock owned by Amtrak. Neither of the notes bears interest, unless prepaid, which Amtrak does not intend to do, or unless the note is accelerated in accordance with its terms. The amount due to the Federal Government on the first note may be accelerated by enactment of federal law or upon the occurrence of various actions concerning an Amtrak bankruptcy, reorganization, or assignment for the benefit of creditors. The Federal Government is entitled to repayment and interest under the second note in the event Amtrak ceases operations, is acquired by another entity, or seeks relief under bankruptcy or insolvency laws.

5. Capitalization

Preferred and Common Stock

For funds received from the Federal Government prior to December 2, 1997, the Rail Passenger Service Act (49 U.S.C. 24304) required Amtrak to issue to the Secretary preferred stock equal in par value to all federal operating payments and most federal capital payments received subsequent to October 1, 1981, as well as capital and certain operating payments received prior to that date. As of September 30, 2021 and 2020, 109,396,994 shares of $100 par value preferred stock were authorized, all of which were issued and outstanding. All issued and outstanding preferred shares are held by the Secretary for the benefit of the Federal Government. The Amtrak Reform and Accountability Act of 1997 (the Act) resulted in significant modifications to Amtrak’s capital structure. The Act abolished the voting rights and the liquidation preference of the preferred stockholder and abolished the requirement that additional preferred stock be issued by Amtrak in exchange for federal grants received. At the time of enactment of the Act, the minimum undeclared cumulative preferred dividend in arrears for all series issued and currently outstanding approximated $5.8 billion and ranged between $0.02 and $97.08 per share. Each share of preferred stock is convertible into ten shares of common stock at the option of the preferred stockholder.

As of September 30, 2021 and 2020, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding. The common stockholders, who acquired their stock from four railroads whose intercity rail passenger operations Amtrak assumed in 1971, have voting rights for amendments to Amtrak’s Articles of Incorporation proposed by the Board of Directors and for certain other extraordinary events.

Accumulated Other Comprehensive Loss

The Company's accumulated other comprehensive loss consists of balances related to pension and other postretirement benefit plans and net unrealized gains or losses associated with available-for-sale securities. The balance related to pension and other postretirement benefit plans primarily consists of a net actuarial loss. The reclassifications from accumulated other comprehensive loss include amortization of prior service credits (net) based on average remaining service period of eligible employees, amortization of actuarial loss (net) based on life expectancy, and unrealized gains and losses on available-for-sale securities reclassified into earnings based on the specific identification method upon sales, maturities, and redemptions.

5. Capitalization (continued)

The table below presents the changes in the accumulated other comprehensive loss balances, by components, and the amounts reclassified into earnings (in thousands):

	Pension and Other Postretirement Benefit Plans	Available-for-Sale Securities	Total
Balance as of September 30, 2019	$ (247,484)	$ 2,372	$ (245,112)
Other comprehensive income before reclassifications	2,254	6,475	8,729
Amounts reclassified from accumulated other comprehensive loss into earnings	(4,391)	(1,749)	(6,140)
Net change	(2,137)	4,726	2,589
Balance as of September 30, 2020	(249,621)	7,098	(242,523)
Other comprehensive income (loss) before reclassifications	**26,726**	**(7,922)**	**18,804**
Amounts reclassified from accumulated other comprehensive loss into earnings	**8,855**	**666**	**9,521**
Net change	**35,581**	**(7,256)**	**28,325**
Balance as of September 30, 2021	**$ (214,040)**	**$ (158)**	**$ (214,198)**

6. Available-for-Sale Securities

The Company's investments in debt securities are accounted for as available-for-sale securities and are recorded as “Available-for-sale securities” and “Restricted investments” in the Consolidated Balance Sheets. These investments are recorded at fair value with unrealized gains and losses recorded as a component of comprehensive loss in the Consolidated Statements of Comprehensive Loss.

6. Available-for-Sale Securities (continued)

The amortized cost, gross unrealized gains and losses, and fair value by major security type of available-for-sale securities are as follows (in thousands):

	September 30, 2021			
	Total Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Total Fair Value
Corporate bonds	**$ 1,600,607**	**$ (827)**	**$ 807**	**$ 1,600,587**
Commercial paper	**961,726**	**(4)**	**21**	**961,743**
U.S. Treasury securities	**273,793**	**(57)**	**313**	**274,049**
Certificates of deposit	**167,362**	**—**	**8**	**167,370**
Other	**438,244**	**(471)**	**51**	**437,824**
Total available-for-sale securities	**$ 3,441,732**	**$ (1,359)**	**$ 1,200**	**$ 3,441,573**

	September 30, 2020			
	Total Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Total Fair Value
Corporate bonds	$ 679,555	$ (251)	$ 2,729	$ 682,033
Commercial paper	720,010	(7)	139	720,142
U.S. Treasury securities	704,627	(1)	3,214	707,840
Certificates of deposit	222,341	—	68	222,409
Other	200,847	(9)	1,216	202,054
Total available-for-sale securities	$ 2,527,380	$ (268)	$ 7,366	$ 2,534,478

The gross realized gains, gross realized losses, and sales proceeds, excluding proceeds received on maturities, of available-for-sale securities are as follows (in thousands):

	Year Ended September 30,	
	2021	2020
Gross realized gains	**$ 2,150**	$ 4,423
Gross realized losses	**(66)**	(10)
Total proceeds	**2,103,478**	954,304

6. Available-for-Sale Securities (continued)

The amortized cost and fair value of the available-for-sale securities by remaining contractual maturity are as follows (in thousands):

	September 30, 2021	
	Amortized Cost	Fair Value
Within one year	$ 2,287,667	$ 2,287,999
After one year through five years	1,138,687	1,138,197
After five years through ten years	14,954	14,953
After ten years	424	424
Total available-for-sale securities	$ 3,441,732	$ 3,441,573

The fair value and gross unrealized losses for available-for-sale securities aggregated by major security type and the length of time the individual securities have been in a continuous unrealized loss position are as follows (in thousands):

	September 30, 2021					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Corporate bonds	$ (827)	$ 975,905	$ —	$ —	$ (827)	$ 975,905
Commercial paper	(4)	142,844	—	—	(4)	142,844
U.S. Treasury securities	(57)	80,201	(1)	2,336	(58)	82,537
Other	(470)	304,464	—	91	(470)	304,555
Total	$ (1,358)	$ 1,503,414	$ (1)	$ 2,427	$ (1,359)	$ 1,505,841

	September 30, 2020					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Corporate bonds	$ (251)	$ 143,651	$ —	$ —	$ (251)	$ 143,651
Commercial paper	(7)	30,376	—	—	(7)	30,376
U.S. Treasury securities	(1)	9,346	—	—	(1)	9,346
Other	(4)	9,457	(5)	1,765	(9)	11,222
Total	$ (263)	$ 192,830	$ (5)	$ 1,765	$ (268)	$ 194,595

The Company does not believe that any individual unrealized loss in available-for-sale securities as of September 30, 2021 represents a credit loss. The Company does not intend to sell the debt securities in an unrealized or unrecognized loss position as of the balance sheet date. Additionally, it is not more likely than not that the Company will be required to sell the debt securities before the anticipated recovery of its remaining amortized cost of the debt securities in an unrealized or unrecognized loss position at September 30, 2021. There were no impairment losses recognized in earnings on available-for-sale securities in FY2021 or FY2020.

7. Long-term Debt

Total long-term debt is recorded at amortized cost in the Consolidated Balance Sheets and consists of the following (in thousands):

	September 30, 2021		September 30, 2020	
	Current	Long-Term	Current	Long-Term
Mortgage obligations:				
Frequency converter facility	**$ 6,765**	**$ 77,840**	$ 11,175	$ 84,605
High speed maintenance facilities	**—**	**—**	9,639	—
Other	**986**	**—**	—	—
Subtotal	**7,751**	**77,840**	20,814	84,605
Senior notes:				
Secured senior notes	**5,000**	**266,680**	9,000	271,680
Unsecured senior notes	**6,000**	**79,948**	2,000	85,948
Subtotal	**11,000**	**346,628**	11,000	357,628
Secured promissory note	**8,293**	**7,656**	—	—
Term Loan A	**—**	**—**	15,156	—
Term Loan B	**—**	**—**	7,386	21,633
2016 RRIF loan	**5,186**	**551,921**	—	583,020
Principal amount of long-term debt	**32,230**	**984,045**	54,356	1,046,886
Less: unamortized discount/premium/ issuance cost	**(2,721)**	**(27,205)**	(384)	(31,025)
Total long-term debt	**$ 29,509**	**$ 956,840**	$ 53,972	$ 1,015,861

Letters of Credit

The Company has unsecured commercial letters of credit of $4.3 million that support the issuance of auto fleet insurance. As of September 30, 2021 and 2020, there were no draws against these letters of credit.

Revolving Credit Facility

On October 7, 2020, the Company entered into a $250 million unsecured revolving credit facility with four lenders for working capital and to enhance Amtrak's liquidity. The facility expires on October 7, 2023. Borrowings under the facility will have an interest rate based on the interest rate option selected by Amtrak from the following options: (a) the Base Rate Option, which is a variable rate equal to the highest of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5%, and (iii) the LIBOR Index Rate, plus 1.0%; or (b) the LIBOR Rate Option, equal to the LIBOR rate for the applicable period set on the date of determination plus an applicable margin based on the Company’s Standard & Poor’s and Moody’s ratings (Credit Ratings). Both the Base Rate Option and the LIBOR Rate Option have a minimum rate of 0.25%. Amtrak must pay a commitment fee on any undrawn portion of the revolving credit facility of 15 basis points and subject to increase based on Amtrak’s Credit Ratings. The facility provides for use of an agreed-upon replacement rate in case LIBOR is no longer available and the use of the Base Rate Option until such agreement is reached. Under the facility, Amtrak is subject to restrictive covenants and financial

7. Long-Term Debt (continued)

covenants that require the Company and its subsidiaries to maintain certain financial ratios on a consolidated basis. The Company has not made any draws under the facility.

Mortgage Obligations

Frequency Converter Facility

During FY2001, the Pennsylvania Economic Development Financing Authority (PEDFA) completed two issues, Series A and Series B, of exempt facilities revenue bonds, the net proceeds of which were used to finance part of the costs associated with Amtrak's construction of a frequency converter facility (the Facility). Amtrak procured the bond proceeds of each issue through a structured financing arrangement with PEDFA. Under this arrangement, Amtrak leased the Facility to PEDFA until November 2041, under a long-term ground lease, in exchange for the total net proceeds. Simultaneously, Amtrak leased the Facility back from PEDFA through June 2033, with an option to extend this term through November 2041. PEDFA also has the right to extend Amtrak's leaseback term through November 2041.

On March 31, 2012, PEDFA issued $95.1 million of PEDFA exempt facilities revenue refunding bonds (Series A 2012 bonds), with varying maturities between November 1, 2013 and 2041, to refund the Series A of 2001. The interest rates on the Series A 2012 bonds range from 3.0% to 5.0% (yields ranging from 1.1% to 4.7%).

On February 15, 2012, the Series B bonds were reissued to a commercial bank for a period of five years (Series B 2012 bonds). The Series B 2012 Bonds continued to have a November 2041 maturity date, but the bond documents provided for a mandatory redemption on February 15, 2017. The interest rate was converted to a tax-effected fraction of the sum of one-month LIBOR plus the applicable spread (based on Amtrak's credit rating) per annum.

On February 15, 2017, at the Company's direction, PEDFA issued $45 million of PEDFA exempt facilities revenue refunding bonds (Series B 2017 bonds) to redeem the Series B 2012 bonds. The Series B 2017 bonds were issued to the same commercial bank for another period of five years with an interest rate of a tax-effected fraction of the sum of three-month LIBOR plus the applicable spread based on the Company's credit rating, which was an effective rate of 0.85% and 1.05% as of September 30, 2021 and 2020, respectively. The Series B 2017 bonds are being repaid in equal quarterly payments of $2.25 million over a five-year period, with the first payment made on May 15, 2017.

Amtrak's obligations in connection with the Series A Bonds and the Series B Bonds are cross-collateralized by a pledge of Amtrak's interest in the Facility. In addition, Amtrak guaranteed all principal and interest payments by PEDFA on the Series A and Series B bonds.

High Speed Maintenance Facilities

On October 30, 2012, Amtrak purchased the equity ownership interests related to leveraged lease agreements under which Amtrak leases three Acela maintenance facilities. As a result of the buyout, Amtrak no longer made lease payments relating to the equity interest, but continued to make payments servicing the leveraged lease debt. The final payment was made in FY2021.

7. Long-Term Debt (continued)

Senior Notes

On December 6, 2016, the Company issued 3.60% senior secured notes for $365 million due November 15, 2033 and 3.81% senior unsecured notes for $135 million due November 15, 2031 (the Notes). The proceeds from the Notes were used to pay off an outstanding capital lease obligation and other related project costs. The secured notes are secured by locomotives acquired by the original capital lease obligation. The Company is repaying the Notes in semi-annual installments beginning in May 2017 and continuing each May 15 and November 15 thereafter to and including November 15, 2033 for the senior secured notes and November 15, 2031 for the senior unsecured notes.

Secured Promissory Note

On December 23, 2020, the Company issued a promissory note for $23.7 million. The proceeds from the note were used to pay off certain outstanding capital lease obligations. The note is secured by a cash collateral deposit of the same amount. The Company is repaying the note starting from February 22, 2021 through March 24, 2024 according to a payment schedule. The promissory note bears no explicit interest. The imputed incremental borrowing rate for the promissory note is 1.75%.

Term Loan A and Term Loan B

On June 19, 2014, the Company entered into a $200.0 million long-term loan, secured by certain of the Company's P-42 diesel locomotives, of which $130.0 million was financed with one commercial lender (Term Loan A) and $70.0 million was financed with a different commercial lender (Term Loan B). Under the terms of the agreement for Term Loan A, the Company incurred interest at a rate of LIBOR plus 1.0%. At the time that Term Loan A was entered into, the Company entered into an interest rate swap agreement, the impact of which made the effective interest rate on Term Loan A 2.76%. Under the agreement for Term Loan B, the Company incurred interest at a fixed rate of 3.36%. Term Loan A matured on June 20, 2021 and Term Loan B, which was scheduled to mature on June 20, 2024, was terminated early by the Company and paid in full in June 2021.

2016 RRIF Loan

On August 16, 2016, the Company entered into a $2.45 billion financing agreement with the Federal Government under the RRIF Loan program to finance the acquisition of 28 Next Generation High-Speed Trainsets (the Trainsets), related spare parts, and improvements to existing facilities and properties (the 2016 RRIF Loan). Amtrak's obligations under the 2016 RRIF Loan are collateralized by a pledge of the Trainsets, spare parts, and the debt service reserve account required under the financing agreement. See Note 11 for a description of the contracts issued to a vendor for the construction and delivery of the Trainsets and related services.

Starting June 15, 2021, the Company is required to fund and maintain a restricted debt service reserve account equal, over time, to increasing percentages of the projected first year debt service payments to support future debt service. The Company deposited $36.1 million to the debt service reserve account in FY2021.

7. Long-Term Debt (continued)

Amtrak is required to begin making repayments on borrowings under the 2016 RRIF Loan on September 15, 2022.

All borrowings under the 2016 RRIF Loan bear interest at a rate of 2.23% per annum. The Company also pays a credit risk premium of 5.80% for all amounts borrowed under the 2016 RRIF Loan. The amortization of the credit risk premium is recognized as interest expense. The Company is capitalizing all interest expense recognized during the construction period allocated to the Trainsets as part of Construction-in-progress in the Consolidated Balance Sheets.

During FY2021, no amounts were borrowed and $39.0 million was repaid. During FY2020, no amounts were borrowed or repaid. Total interest incurred in FY2021 was $14.8 million, of which $14.5 million was capitalized within "Construction-in-progress" in the Consolidated Balance Sheets. In FY2020, total interest incurred was $14.4 million, all of which was capitalized within "Construction-in progress".

Interest Rates

The annual weighted-average interest rates for all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) are shown below:

	September 30,	
	2021	**2020**
Mortgage obligations	**4.78 %**	4.81 %
Senior notes	**3.65**	3.65
Secured promissory note	**1.75**	N/A
Term loans	**N/A**	3.15
2016 RRIF Loan	**2.23**	2.23

The overall weighted-average interest rate on all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) is 2.94% and 2.99% per annum at September 30, 2021 and 2020, respectively.

7. Long-Term Debt (continued)

Scheduled Long-Term Debt Maturities

On September 30, 2021, scheduled maturities of long-term debt are as follows (in thousands):

Year Ending September 30,	
2022	$ 32,230
2023	53,073
2024	50,708
2025	52,736
2026	53,350
Thereafter	774,178
Principal amount of long-term debt	1,016,275
Less: unamortized discount/premium/issuance cost	(29,926)
Total long-term debt	$ 986,349

Amtrak is subject to various covenants and restrictions under its borrowing arrangements. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default with other debt and may have a material adverse effect on the Company. As of September 30, 2021, the Company had satisfied all of its debt covenant obligations.

8. Leasing Arrangements

Amtrak leases equipment, primarily passenger cars and locomotives, and related maintenance infrastructure under capital leasing arrangements. Amtrak has entered into various lease transactions in which the lease structure contains variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions and have no other activities, assets, or liabilities outside of the lease transactions. In some of the arrangements, Amtrak has the option to purchase some or all of the assets at a fixed price, thereby creating variable interests for Amtrak in the VIEs.

Amtrak maintains and operates the assets based on contractual obligations within the lease arrangements, which set specific guidelines consistent with industry standards. As such, Amtrak has no control over activities that could materially impact the fair value of the leased assets. Amtrak does not hold the power to direct the activities of the VIEs and, therefore, does not control the ongoing activities that have a significant impact on the economic performance of the VIEs. Additionally, Amtrak does not have the obligation to absorb losses or the right to receive benefits of the VIEs.

As of September 30, 2021 and 2020, the gross amount of assets recorded under capital leases was $479.3 million and $1.2 billion, respectively, with accumulated amortization of $304.0 million and $1.0 billion, respectively. During FY2021, Amtrak terminated several capital leases with total outstanding principal of $41.3 million. Amtrak paid the lease terminations and related claims through either a cash settlement or cash collateralization of the remaining rent. In connection with the lease terminations, Amtrak acquired legal or beneficial ownership of the equipment under these terminated capital leases.

8. Leasing Arrangements (continued)

Amtrak is subject to various covenants and restrictions under its leasing arrangements. Amtrak has given guarantees or entered into reimbursement agreements in connection with certain of these lease transactions. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default to other Amtrak indebtedness, and may have a material adverse effect on the Company (see Note 7).

Future Minimum Lease Payments

As of September 30, 2021, future minimum lease payments under capital leases are as follows (in thousands):

Year ending September 30,	
2022	$ 7,560
2023	670
2024	84
2025	86
2026	87
Thereafter	2,910
Total minimum lease payments	11,397
Less: discounted to current period amount at interest rates ranging from 6.6% to 9.1%	(2,445)
Present value of minimum lease payments at September 30, 2021	$ 8,952

The current portion of capital lease obligations as of September 30, 2021 and 2020 was $7.2 million and $43.4 million, respectively, and is presented in "Current maturities of long-term debt and capital lease obligations" in the Consolidated Balance Sheets.

Operating Leases

As of September 30, 2021, Amtrak is obligated for the following minimum rental payments under operating lease agreements (in thousands):

Year ending September 30,	
2022	$ 29,337
2023	26,089
2024	21,489
2025	16,561
2026	14,353
Thereafter	29,938
Total	$ 137,767

Rent expense for FY2021 and FY2020 was $50.2 million and $58.9 million, respectively.

Amtrak leases offices, operating areas, stations, and other terminal space. These leases often contain renewal options to enable the Company to retain the use of facilities. Some of the leases contain escalation

8. Leasing Arrangements (continued)

clauses that increase the rents based on a fixed or variable rate, such as an inflation factor index. Under certain leases, the Company is obligated to pay additional amounts based on the facility's operating expenses.

9. Fair Value Measurement

FASB ASC Topic 820, *Fair Value Measurement,* defines fair value for financial reporting, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. FASB ASC Topic 820 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

- Level 1 - observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).
- Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

The fair value measurement of an asset or liability is assigned a level based on the lowest level of any input that is significant to the fair value measurement.

Financial Instruments Measured at Fair Value

The Company's financial instruments measured at fair value on a recurring basis on the Consolidated Balance Sheets as of September 30, 2021 and 2020 are as follows (in thousands):

	Fair Value Measurement as of September 30, 2021		
	Level 1	Level 2	Total
Available-for-sale securities:			
Corporate bonds	$ —	$ 1,600,587	$ 1,600,587
Commercial paper	—	961,743	961,743
U.S. Treasury securities	—	274,049	274,049
Certificates of deposit	—	167,370	167,370
Other	23,009 [1]	414,815	437,824
Total available-for-sale securities	23,009	3,418,564	3,441,573
Money market funds	432,986	—	432,986
Total financial instruments, at fair value	$ 455,995	$ 3,418,564	$ 3,874,559

[1] Includes receivables and payables related to unsettled transactions.

9. Fair Value Measurements (continued)

	Fair Value Measurement as of September 30, 2020		
	Level 1	Level 2	Total
Available-for-sale securities:			
Corporate bonds	$ —	$ 682,033	$ 682,033
Commercial paper	—	720,142	720,142
U.S. Treasury securities	—	707,840	707,840
Certificates of deposit	—	222,409	222,409
Other	(44,278) [1]	246,332	202,054
Total available-for-sale securities	(44,278)	2,578,756	2,534,478
Money market funds	175,513	—	175,513
Fuel purchase agreements	—	1,185	1,185
Total financial instruments, at fair value	$ 131,235	$ 2,579,941	$ 2,711,176

[1] Includes receivables and payables related to unsettled transactions.

Valuation Techniques

The fair values of the Company's available-for-sale debt securities and money market funds are measured using prices received from pricing services, prices received from alternative pricing sources, and mathematically derived calculated prices using market observable inputs. Pricing methodologies used in determining the fair value incorporate terms and conditions of the security, current performance data, proprietary pricing models, real-time quotes from contributing dealers, trade prices, and other market data. The Company’s fuel purchase agreements were valued by a third-party consultant based on prevailing market data derived from proprietary models.

9. Fair Value Measurements (continued)

The following is a description of the valuation techniques and inputs used for the fair value measurement of the Company's financial instruments, including the general fair value hierarchy classification of each category:

Financial Instruments	Valuation Techniques and Inputs Used	Fair Value Hierarchy Level
Corporate bonds	Market approach using prices from pricing services	Level 2
Commercial paper	Cost approach using calculated prices based on amortization schedule	Level 2
U.S. Treasury securities	Market approach using prices from pricing services	Level 2
Certificates of deposit	Cost approach using calculated prices based on amortization schedule	Level 2
Other (cash, receivables, payables and other securities, including agency discount notes, asset-backed securities, and sovereign bonds)	Cash, receivables, and payables - carrying value Securities - market approach using prices from pricing services	Cash, receivables, and payables - Level 1 Other securities - Level 2
Money market funds	Market approach using market observable fixed net asset value of $1	Level 1
Fuel purchase agreements	Market approach using daily mid-market mark for the underlying diesel fuel price to value the contract	Level 2

See Note 13 for fair value measurements for assets held by the Company's Retirement Income Plan.

10. Income Taxes

The Company recorded no income tax expense in FY2021 and FY2020. A reconciliation of the actual effective income tax rate for FY2021 and FY2020 to the expected amount computed by applying the U.S. federal statutory income tax rate to Amtrak's pretax loss is as follows:

	Year Ended September 30,	
	2021	**2020**
U.S. federal statutory income tax rate	**21.0 %**	21.0 %
Impact of:		
Expiration of net operating loss (NOL)	**(12.6)**	(2.1)
Valuation allowance	**(9.0)**	(21.5)
Other	**(0.5)**	(0.1)
State government capital assistance	**1.1**	1.3
Adoption of revenue recognition standard	**N/A**	1.4
Effective income tax rate	**— %**	— %

10. Income Taxes (continued)

Deferred income tax assets and liabilities were comprised of the following (in thousands):

	September 30, 2021	September 30, 2020
Deferred tax assets:		
NOL carryforward	**$ 1,913,332**	$ 1,834,211
Deferred state government capital assistance	**205,205**	161,766
Postretirement employee benefits obligation	**127,997**	139,380
Claims reserves	**52,462**	41,790
Accrued vacation and other compensation accruals	**36,604**	25,484
Amtrak guest rewards program liability	**31,353**	33,364
Other accruals	**18,883**	14,381
Materials and supplies reserves	**11,224**	10,347
Other	**13,162**	31,871
Gross deferred tax assets	**2,410,222**	2,292,594
Less: valuation allowance	**(943,863)**	(765,408)
Net deferred tax assets	**1,466,359**	1,527,186
Deferred tax liabilities:		
Property and equipment	**(1,466,359)**	(1,527,186)
Gross deferred tax liabilities	**(1,466,359)**	(1,527,186)
Net deferred tax liability	**$ —**	$ —

Amtrak has recorded valuation allowances against net deferred tax assets as it is more likely than not that the results of future operations will not generate sufficient taxable income to realize deferred tax assets, which primarily relate to NOL carryforwards. In FY2021, the valuation allowance increased by $178.5 million.

NOL carryforwards were $9.1 billion and $8.7 billion as of September 30, 2021 and 2020, respectively. An NOL carryforward of $1.2 billion from FY2001 and $171.3 million from FY2000 expired unused during FY2021 and FY2020, respectively. The remaining carryforwards generated from years through FY2017 will expire in various years from FY2022 through FY2037. The NOLs generated beginning in FY2018 may be carried forward indefinitely and will not expire; however, they can only be used to offset 80% of taxable income in any given future year.

The Company is subject to examination by the Internal Revenue Service and tax authorities in other jurisdictions in which it operates. Generally, the Company’s tax years still subject to examination are FY2018 and forward.

11. Commitments and Contingencies

Financial Assistance

Amtrak receives significant financial assistance from the Federal Government in the form of grants and entitlements. The right to these resources, including the funding received in FY2021 and FY2020 under the COVID Relief Acts described in Note 2, is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances because of these audits become a liability of the Company. The Company does not believe that the liabilities that may result from such audits for periods through September 30, 2021, would have a material effect on its financial position or the results of operations.

Commitments

Amtrak has various purchase commitments related to capital improvements pertaining to the ordinary conduct of business. In addition, Amtrak has entered into various agreements with states, cities, and other local transportation authorities and private companies pursuant to which Amtrak is required to fund various railroad facility and infrastructure improvements, and to fund the remanufacture and supply of railroad passenger equipment. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on the Company’s liquidity.

Philadelphia 30th Street Redevelopment

On January 22, 2021, the Company entered into a Ground Lease and Development Agreement with a master developer (the Developer) to redevelop the William H. Gray III 30th Street Station, Philadelphia, Pennsylvania (the Station Redevelopment). In addition to the Station Redevelopment, the Developer also is providing operating and maintenance service to the station. The base price of the Station Redevelopment is approximately $0.5 billion. Amtrak is financing the Station Redevelopment through the Developer by paying off the Station Redevelopment costs over a 50-year term pursuant to an approved payment schedule. The notice to proceed for the Station Redevelopment was issued on October 1, 2021 after completion of a series of post-due-diligence tasks. As the Station Redevelopment progresses, at each month end starting from September 2021, the Company recognizes “Construction-in-progress” and an associated liability to the Developer. At September 30, 2021, the Company has recognized $11.7 million in construction and other project-related costs, all of which were capitalized as part of “Construction-in-progress” in the Consolidated Balance Sheets. The Station Redevelopment is expected to be fully completed by May 30, 2026.

Virginia Funding Agreement

On March 26, 2021, Amtrak entered into a funding agreement with the Commonwealth of Virginia under which Virginia is committed to undertake a program of investments and Amtrak will contribute up to $944 million towards the construction of certain key elements under the first two phases of the program. The objective of the program is to develop and expand passenger rail service in Virginia and beyond. The Company makes quarterly payments to Virginia based on actual expenditures Virginia incurs under the program. As of September 30, 2021, the Company has incurred $13.1 million related to the program, all of

11. Commitments and Contingencies (continued)

which was capitalized under "Construction-in-progress" in the Consolidated Balance Sheets. The first two phases of the program are expected to be completed by September 30, 2031.

ICT Equipment Purchase

On June 24, 2021, Amtrak entered into an agreement with a contractor to purchase certain intercity trainsets (ICT) equipment, including 73 base trainsets, 67 locomotives and 18 spare vehicles, with options to purchase additional trainsets. As of September 30, 2021, the base price for the ICT equipment purchase contract is $2.6 billion. The Company makes payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones) during the contract. As of September 30, 2021, the Company has incurred $133.5 million in construction and other project-related costs which were capitalized under "Construction-in-progress" in the Consolidated Balance Sheets.

Also on June 24, 2021, the Company entered into a technical support and spares supply agreement (TSSSA) with the same contractor to provide technical support, spares, and other related services for the twenty-year period commencing upon the conditional acceptance of the first trainset. The base price for the TSSSA is approximately $281 million plus overhaul material costs within the contract period. As of September 30, 2021, the Company has not incurred any cost related to the TSSSA.

Long Distance Diesel-electric Locomotives Purchase

On December 20, 2018, Amtrak entered into an agreement with a contractor to purchase 75 long distance diesel-electric passenger locomotives with options to purchase additional locomotives. As of September 30, 2021, the base price with change orders for the 75 locomotives is $456.8 million. The Company makes payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones) during the contract. As of September 30, 2021 and 2020, the Company has incurred $288.2 million and $208.8 million, respectively, in construction and other project-related costs which were capitalized under "Construction-in-progress" in the Consolidated Balance Sheets. Deliveries of the locomotives started in June 2021.

Also on December 20, 2018, the Company entered into a TSSSA with the same contractor to provide technical support, spares, and other related services for the twenty-three year period commencing upon the acceptance of the first locomotive. Acceptance of the locomotive follows the delivery and testing by Amtrak and the FRA. The base price for the TSSSA is approximately $285 million plus overhaul material costs within the contract period. As of September 30, 2021 and 2020, the Company has not incurred any cost related to the TSSSA.

New Acela Trainsets Purchase

On August 8, 2016, the Company entered into a Purchase Agreement with a contractor for the acquisition of the Trainsets to replace the Company's current *Acela Express* equipment which runs on the NEC. The base price of the contract with change orders is $1.5 billion. Financing for the contract was obtained under the 2016 RRIF Loan (see Note 7). The Company issued a Notice to Proceed (NTP) to the contractor on August 16, 2016. The Company makes payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones) during the contract. The Company has incurred $1.1 billion and $898.0 million in construction and other project-related costs as of

11. Commitments and Contingencies (continued)

September 30, 2021 and 2020, respectively. Of the total cost incurred, $1.0 billion and $881.4 million were capitalized as part of "Construction-in-progress" in the Consolidated Balance Sheets as of September 30, 2021 and 2020, respectively. The remaining costs were either recorded within "Deferred charge, deposits, and other" and will be amortized into expense over time or were expensed in the year incurred and reported in the Consolidated Statements of Operations for those years.

Also on August 8, 2016, the Company entered into a TSSSA with the same contractor to provide technical support, spares, and other related services for the fifteen-year period commencing upon acceptance of the first trainset. Acceptance of the locomotive follows the delivery and testing by Amtrak and the FRA. The base price for the technical support and spares supply agreement with change orders is $637.0 million. The Company incurred $63.0 million and $32.9 million in cost related to the agreement as of September 30, 2021 and 2020, respectively which is recorded in Deferred charges, deposits and other.

Host Railroad Agreements

Most of the rights-of-way over which Amtrak operates are owned by other railroads. Amtrak operates over such rights-of-way under agreements with these railroads. The terms of the agreements range up to twenty years, although they may remain in effect longer if neither party seeks to renegotiate. Payments to these railroads vary based on levels of usage and performance. The total amount incurred by Amtrak for operations over the right-of-way during FY2021 and FY2020 totaled $133.2 million and $176.7 million, respectively, and are included primarily in "Train operations" in the Consolidated Statements of Operations.

Risk of Liability and Insurance

The Amtrak Reform and Accountability Act of 1997 (the Act) limited the amount railroad passengers may recover from a single accident to an aggregate of $200.0 million. The FAST Act required the Secretary to increase the limit on passenger liability claims based on the change in the consumer price index since December 2, 1997. On January 11, 2016, the Secretary issued its calculation setting the new limit at $294.3 million effective February 11, 2016. The FAST Act requires the limit to be adjusted every five years after the date of the FAST Act's enactment. On February 25, 2021, the limit was increased to $322.9 million. Amtrak purchases excess liability insurance for passenger liability claims subject to the statutory cap and for non-passenger liability not limited by the Act.

Amtrak operates a majority of its passenger rail service on tracks owned by freight railroads. Amtrak indemnifies these railroads for certain liabilities that arise as a result of its operations on freight tracks. Its indemnity generally applies to bodily injury and property damage claims made by its employees, passengers, and third parties struck by its trains, and for damage to its equipment. The freight railroads generally indemnify Amtrak for bodily injury and property damage claims made by freight railroad employees and third parties, and for damage to freight railroad equipment, lading, and property.

Amtrak maintains insurance for its liability to employees and other parties for injury or damage to their property and for damage to Amtrak property. Amtrak self-insures a portion of these liabilities.

11. Commitments and Contingencies (continued)

Derailment

On September 25, 2021, westbound Amtrak train No. 7 traveling from Chicago to Seattle/Portland, derailed near Joplin, Montana (the Derailment). There were 149 passengers and 16 crew members onboard. Three passengers were killed and at least 118 passengers and crew members were injured. 21 passengers have filed lawsuits. Five railcars were destroyed in the Derailment.

The National Transportation Safety Board (NTSB) is the lead agency in the investigation of the Derailment. On October 26, 2021, the NTSB issued its preliminary report. The preliminary report indicates that (1) the maximum allowable speed on this section of track was 79 mph for passenger trains, (2) preliminary data from the leading locomotive's event recorder showed that train No. 7 was traveling between 75 and 78 mph when its emergency brakes were activated, (3) the positive train control system was enabled and operating at the time of the derailment, and (4) future investigative activity will focus on track and engineering, equipment, survival factors, and passenger railcar crash worthiness. The NTSB investigation is still ongoing.

As of September 30, 2021, the Company has accrued its best estimate of its liabilities for passenger and employee claims. The expected claim payments to be made during FY2022 were recorded within "Accrued expenses and other current liabilities" on the Company's Consolidated Balance Sheets. The remaining claim reserve liability was recorded within "Casualty reserves".

Labor Agreements

Excluding employees within Amtrak's OIG, 83.3% of Amtrak's labor force is covered by labor agreements. Under the Railway Labor Act, labor contracts never expire but are instead opened at agreed-upon times for mandatory bargaining, known as Section 6, as referenced in the Railway Labor Act. Although there are no timeframes for negotiations to be completed, it is almost certain there will be retroactive wage increases in the settlements, consistent with prior agreements. During FY2018, the Company ratified labor contracts with all its unionized workforce. All of the Company's collective bargaining agreements are currently open for mandatory bargaining. The soonest that any negotiated change would be effective is January 1, 2022, for all unions except the Fraternal Order of Police (FOP). The earliest that any negotiated change would be effective for the FOP is October 1, 2022.

Legal Proceedings

Amtrak is involved in various litigation and arbitration proceedings in the normal course of business, including but not limited to tort, contract, eminent domain, and civil rights claims. When management concludes that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, it is accrued through a charge to earnings. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in management's opinion, recorded liabilities, where applicable, are adequate to cover the future payment of such liabilities and claims. However, the outcome of any of these lawsuits and claims cannot be predicted with certainty, and unfavorable or unexpected outcomes could result in additional accruals that could be significant to Amtrak's results of operations in a particular year. Any adjustments to the recorded liability will be reflected in earnings in the periods in which such adjustments are probable and reasonably estimable.

11. Commitments and Contingencies (continued)

Americans with Disabilities Act Compliance

Under the Americans with Disabilities Act (ADA), stations in the intercity rail transportation system served by Amtrak were required to be readily accessible to and usable by individuals with disabilities no later than July 26, 2010. This requirement applies to all components of a station used by the general public, including passenger platforms, designated waiting areas, ticketing areas, restrooms, and in some cases, concession areas. The Company has developed a plan to bring the station components for which it is legally responsible into ADA compliance. This plan is regularly updated and adjusted based on new information and external factors, such as direction the Company receives from the FRA and other government agencies. On June 9, 2015, the Department of Justice (DOJ) provided Amtrak with a Letter of Findings and Conclusions regarding ADA compliance at Amtrak. On December 2, 2020, DOJ and Amtrak entered into a joint settlement agreement pursuant to which the Company agreed, among other things, to bring into compliance the station components for which it is legally responsible. Amtrak is working to obtain sufficient funding to achieve full ADA compliance of all station components for which it is responsible under the ADA. The extent of these estimated costs and effects of non-compliance on operations cannot be determined at this time. Further, the nature of all expenditures that will be incurred, and the effect on operating results, have not yet been fully analyzed. Accordingly, the accompanying Consolidated Financial Statements do not reflect the costs of Amtrak becoming fully compliant with the ADA. As of September 30, 2021 and 2020, Amtrak has spent a total of $746.4 million and $656.5 million, respectively, on ADA-related projects. Approximately $89.9 million and $103.9 million of the expenditures were incurred during FY2021 and FY2020, respectively.

Positive Train Control

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation included a mandate that all Class I railroads and each railroad hosting intercity or commuter rail passenger service (with some limited exceptions) should have Positive Train Control (PTC) systems installed and operating by the initial deadline of December 31, 2015. Subsequently, the Surface Transportation Extension Act of 2015 extended this deadline to December 31, 2018, or December 31, 2020 for railroads meeting specific statutory criteria. Amtrak and all of its host railroads have been fully PTC compliant since December 31, 2020. Amtrak has completed the installation of PTC on all Amtrak owned or controlled tracks which require PTC, and Amtrak trains operating on these tracks have PTC protection. Additionally, Amtrak is operating PTC on all host railroad tracks that require PTC.

As of September 30, 2021 and 2020, Amtrak has spent $332.5 million and $302.1 million, respectively, for PTC-related projects on Amtrak owned or controlled rail lines and equipment. Approximately $30.4 million and $36.4 million of the expenditures were incurred during FY2021 and FY2020, respectively.

Certain host railroads have asserted material claims against Amtrak to recover costs of PTC installation and Amtrak's contribution to the costs incurred by certain host railroads over which Amtrak operates its passenger trains have not been finalized. They also may assert future claims to recover from Amtrak certain PTC maintenance costs. The Company is in the process of analyzing the documents provided to date by the host railroads and evaluating whether Amtrak would be responsible for certain of the costs incurred by the host railroads in connection with their implementation of PTC on host railroad owned property. Amtrak is in arbitration with one host railroad regarding PTC.

11. Commitments and Contingencies (continued)

As of September 30, 2021 and 2020, Amtrak accrued its best estimate of the liability associated with PTC installation and maintenance costs on host railroad track for amounts determined to be both probable and reasonably estimable. The portion of the liability that Amtrak expects to pay in FY2022 is recorded within "Accrued expenses and other current liabilities", and the remaining portion is recorded within "Other liabilities", in the Consolidated Balance Sheets. Amtrak anticipates that additional accruals, which may be material, may be recorded in the future once the Company completes its analysis of submitted claims and its negotiations with the host railroads. It is possible that Amtrak may incur additional material liability in excess of the amount recognized to date, but such amounts cannot be estimated at this time. Accruals for amounts to be paid to these host railroads will be reflected in the periods in which such liability becomes probable and reasonably estimable. Amtrak believes that it may be able to recover some of the PTC installation and maintenance costs to be paid to the host railroads from the state agencies for which Amtrak provides service. Amtrak records the state reimbursement when it is agreed-upon between Amtrak and the state.

12. Environmental Matters

The Company is subject to extensive and complex federal and state environmental laws and regulations regarding environmental issues. As a result of its operations and acquired properties, Amtrak is from time to time involved in administrative and judicial proceedings and administrative inquiries related to environmental matters. Amtrak's policy is to accrue estimated liabilities and capitalize such remediation costs if they extend the life, increase the capacity, or improve the safety or efficiency of the property; mitigate or prevent environmental contamination that has not occurred but may result from future operations; are incurred in preparing the property for sale; or are incurred on property acquired with existing environmental conditions; and to expense other remediation costs. The liability is periodically adjusted based on Amtrak's present estimate of the costs it will incur related to these sites and/or actual expenditures made. Some of the Company's real estate properties may have the presence of environmentally regulated wastes or materials. If these properties undergo excavations or major renovations or are demolished, certain environmental regulations that are in place may specify the manner in which the wastes or materials must be assessed, handled, and disposed. The Company has identified a number of locations for which excavations and major renovations are planned and liabilities have been recorded. In the future, the Company may plan other excavations, demolitions, major renovations, or other construction activities that affect similar wastes or materials.

At some locations, although a potential liability exists for the removal or remediation of environmentally regulated materials, sufficient information is not available currently to estimate the liability, as the range of time over which the Company may settle these obligations is unknown or the cost of remediation cannot be reasonably estimated at this time. Although the Company believes it has appropriately recorded current and long-term reserves for known and estimable future environmental costs, it could incur significant costs that exceed reserves or require unanticipated cash expenditures.

As of September 30, 2021 and 2020, the environmental reserve was $154.1 million and $178.1 million, respectively. These reserves for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs. The current portion of the reserve was $12.1 million and $9.1 million as of September 30, 2021 and 2020,

12. Environmental Matters (continued)

respectively, and is reported in “Accrued expenses and other current liabilities” in the Consolidated Balance Sheets. The balance of the reserve as of both September 30, 2021 and 2020 is reported as “Environmental reserve” in the Consolidated Balance Sheets. Costs related to estimated future capital expenditures for environmental remediation were $133.5 million and $154.3 million as of September 30, 2021 and 2020, respectively, and are included in “Right-of-way and other properties” in the Consolidated Balance Sheets.

The amounts included in environmental reserves in the Consolidated Balance Sheets reflect only Amtrak’s estimate of its portion of the gross liability. The ultimate liability for environmental remediation is difficult to determine with certainty due to, among other factors, the number of potentially responsible parties, site-specific cost sharing arrangements, the degree and types of contamination, potentially unidentified contamination, developing remediation technology, and evolving statutory and regulatory standards related to environmental matters. In addition, for certain known sites, the ultimate liability cannot be estimated until the results of the remedial investigation phase are known.

Amtrak’s management and legal counsel believe that additional future remedial actions for known environmental matters will not have a material adverse effect on the Company’s results of operations or financial condition and that its environmental reserves are adequate to fund remedial actions to comply with present laws and regulations.

13. Postretirement Employee Benefits

Amtrak has a qualified non-contributory defined benefit retirement plan (the Retirement Income Plan) whose assets are held in trust covering certain nonunion employees and certain union employees who at one time held nonunion positions. Effective June 30, 2015, the Retirement Income Plan was closed to new entrants and frozen for future benefit accruals. Amtrak provides medical benefits to its qualifying retirees and life insurance to some retirees in limited circumstances under its postretirement benefits program. The headcount reductions implemented in FY2020 in response to the impacts of COVID-19 (see Note 1) resulted in a curtailment of the Company's postretirement benefits program offered to nonunion employees. This resulted in a $3.2 million increase in projected benefit obligation in FY2020.

Obligations and Funded Status

The liability of the Company’s pension benefits under its Retirement Income Plan as well as other postretirement benefits plans as of September 30, 2021 and 2020 is as follows (in thousands):

13. Postretirement Employee Benefits (continued)

	Pension Benefits		Other Benefits	
	2021	**2020**	**2021**	**2020**
Reconciliation of projected benefit obligation:				
Obligation at October 1	**$ 529,553**	$ 499,061	**$ 596,052**	$ 632,733
Service cost	**—**	—	**12,066**	13,106
Interest cost	**13,929**	15,558	**14,764**	18,864
Actuarial loss (gain)	**2,677**	40,956	**(16,787)**	(27,266)
Employee contributions	**—**	—	**1,530**	1,864
Benefit payments	**(27,130)**	(26,022)	**(47,572)**	(46,407)
Other	**—**	—	**—**	3,158
Obligation at September 30	**$ 519,029**	$ 529,553	**$ 560,053**	$ 596,052
Reconciliation of fair value of plan assets:				
Plan assets at October 1	**$ 461,891**	$ 447,554	**$ —**	$ —
Actual return on plan assets	**35,672**	43,309	**—**	—
Employer contributions	**—**	—	**46,042**	44,543
Participant contributions	**—**	—	**1,530**	1,864
Medicare Part D subsidy		—	**57**	50
Benefit payments, net	**(27,990)**	(28,972)	**(47,629)**	(46,457)
Plan assets at September 30	**$ 469,573**	$ 461,891	**$ —**	$ —
Funded status:				
Accumulated benefit obligation at September 30	**$ (519,029)**	$ (529,553)	**$ (560,053)**	$ (596,052)
Projected benefit obligation at September 30	**(519,029)**	(529,553)	**(560,053)**	(596,052)
Fair value of plan assets	**469,573**	461,891	**—**	—
Net unfunded status of the plan	**$ (49,456)**	$ (67,662)	**$ (560,053)**	$ (596,052)
Net liability recognized in Consolidated Balance Sheets	**$ (49,456)**	$ (67,662)	**$ (560,053)**	$ (596,052)

13. Postretirement Employee Benefits (continued)

Pension and other postretirement benefit amounts recorded in the Consolidated Balance Sheets as of September 30, 2021 and 2020 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2021	**2020**	**2021**	**2020**
Accrued expenses and other current liabilities	**$ 30**	$ 22	**$ 43,882**	$ 49,981
Postretirement employee benefits obligation	**49,426**	67,640	**516,171**	546,071
Net amount recognized	**$ 49,456**	$ 67,662	**$ 560,053**	$ 596,052

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss in FY2021 and FY2020 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2021	**2020**	**2021**	**2020**
Net actuarial loss	**$ 146,218**	$ 160,937	**$ 67,821**	$ 98,622
Prior service cost	**—**	—	**—**	(9,939)
Net amount recognized	**$ 146,218**	$ 160,937	**$ 67,821**	$ 88,683

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the plans for FY2021 and FY2020 (in thousands):

	Pension Benefits		Other Benefits	
	2021	**2020**	**2021**	**2020**
Service cost	**$ —**	$ —	**$ 12,066**	$ 13,106
Interest cost	**13,929**	15,558	**14,764**	18,864
Expected return on plan assets	**(23,374)**	(25,924)	**—**	—
Accumulated Other Comprehensive Loss reclassification adjustment:				
Amortization of prior service credit	**—**	—	**(9,939)**	(21,857)
Amortization of actuarial loss	**4,780**	4,079	**14,014**	13,387
Other expenses	**1,204**	3,181		—
Other	**—**	—	**—**	1,509
Net periodic benefit (income) cost	**$ (3,461)**	$ (3,106)	**$ 30,905**	$ 25,009

Service cost is recorded in “Salaries, wages, and benefits” on the Consolidated Statements of Operations. All other components of net periodic benefit costs are recorded in “Other (expense) income, net” on the Consolidated Statements of Operations.

13. Postretirement Employee Benefits (continued)

During FY2021, the Retirement Income Plan incurred a net actuarial loss of $2.7 million, consisting primarily of a $10.7 million experience loss and a $1.5 million loss due to changes in the mortality table, partially offset by a $9.5 million gain due to an increase in the discount rate because of increases in the corporate bond rates in FY2021. During FY2020, the Retirement Income Plan incurred a net actuarial loss of $41.0 million, consisting primarily of a $30.1 million loss due to a decrease in the discount rate because of decreases in the corporate bond rates in FY2020 and a $15.2 million loss due to changes in the mortality table and longevity improvement scale, partially offset by a $4.3 million net gain due to changes in other demographic assumptions (e.g. retirement rates, withdrawal rates, optional payment forms, etc.) and experience.

During FY2021, the other postretirement benefits plans incurred a combined net actuarial gain of $16.8 million, consisting primarily of a $10.4 million gain from an increase in discount rate, along with favorable changes in claims of $8.9 million and in actual versus expected plan experience of $7.8 million, partially offset by $7.9 million change in other demographic assumptions (e.g. retirement rates, withdrawal rates), $1.5 million loss from change in trend rates and elimination of excise tax, and $0.9 million due to changes in the mortality table. During FY2020, the other postretirement benefits plans incurred a combined net actuarial gain of $27.3 million, consisting primarily of a $40.0 million gain due to change in trend rates and elimination of excise tax, a $24.3 million gain due to change in participation rates, and a $17.9 million gain due to change in spouse coverage percentages, partially offset by a $30.0 million loss due to a decrease in the discount rate because of decreases in corporate bond rates in FY2020, a $13.5 million loss due to changes in the mortality table and longevity improvement scale, and a $10.7 million net loss due to changes in other demographic assumptions (e.g. retirement rates, withdrawal rates) and actual versus expected plan experience for claims, retirement, mortality, and turnover.

Plan Assets

The Company’s pension plan asset allocation at September 30, 2021 and 2020, and initial target allocation for FY2022, are as follows:

	Plan Assets		
	2022	**2021**	**2020**
Fixed income debt securities	60.0 %	**60.2 %**	63.7 %
Commingled funds	22.0	**21.8**	—
Mutual funds	8.0	**7.6**	—
Money market fund	9.0	**6.9**	3.9
Other [1]	1.0	**3.5**	1.3
Domestic equity fund	—	—	16.4
International equity fund	—	—	7.5
Diversified fixed income fund	—	—	7.2
Total	100.0 %	**100.0 %**	100.0 %

[1] Other consisted of cash, receivables and payables related to unsettled transactions.

13. Postretirement Employee Benefits (continued)

The long-term objective for assets held by the Retirement Income Plan is to generate investment returns that, in combination with funding contributions from the Company, provide adequate assets to meet all current and future benefit obligations of the Retirement Income Plan. The Retirement Income Plan seeks to maintain or reduce investment risk levels unless the funded status decreases significantly, with the ultimate goal to be in a position to defease the pension liability. Over the long term, it is anticipated that asset-liability management strategy will be the key determinant of the returns generated by the pension assets and the associated volatility of returns and funded status. In particular, the allocation and structure of the “growth portfolio” and the structure of the long-term fixed income portfolio (longer duration fixed income securities and similar investments) are the key elements of the asset-liability strategy for the pension investment program. In the growth portfolio, the Plan invests in Commingled funds and Mutual funds, which include equity securities and similar investments. The Retirement Income Plan’s asset allocation strategy is primarily based on the Retirement Income Plan’s current funded status. The Retirement Income Plan’s return requirements and risk tolerance will change over time. As a result of the Retirement Income Plan’s asset allocation strategies, there are no significant concentrations of risk within the portfolio of investments.

Following is a description of the valuation techniques and inputs used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Level 1 Investments

Money Market Fund

Money market funds generally transact subscription and redemption activity at a $1.00 stable NAV. Investments in money market funds can be redeemed on a daily basis. Amtrak’s investment in money market funds consists of the JPMorgan 100% U.S. Treasury Securities Money Market Fund. The fund's NAV is published regularly and the fair value is deemed readily determinable.

Domestic Equity Fund

This investment category consisted of the Vanguard Total Stock Market Index Fund which is made up of U.S. equity securities and seeks to closely track the performance of the Center for Research in Security Prices U.S. Total Market Index. This fund is considered a gauge of small-, mid-, and large-cap growth and value stocks regularly traded on the New York Stock Exchange and NASDAQ. This investment was liquidated in FY2021.

International Equity Fund

This investment category consisted of the Vanguard FTSE All-World ex-US Index Fund which includes stocks of companies located in developed and emerging markets around the world. The fund seeks to track the performance of a benchmark index that measures the investment return of stocks of companies located in developed and emerging markets around the world, excluding the United States. The fund is actively traded and the quoted price for this fund is readily available. This investment was liquidated in FY2021.

13. Postretirement Employee Benefits (continued)

Diversified Fixed Income Fund

This investment category consisted of the PIMCO Diversified Income Fund which includes investment grade corporate, high yield and emerging market fixed income securities in its portfolio composition. This fund actively manages a portfolio that invests across a broad universe of fixed income instruments in the global credit markets. The fund is actively traded and the quoted price for this fund is readily available. This investment was liquidated in FY2021.

Level 2 Investments

Fixed Income Debt Securities

This investment category consists of corporate bonds, government bonds, municipal bonds, and U.S. government securities. These investments are valued using prices provided by independent pricing services based on compilation of primarily observable market information or broker quotes in a non-active market.

Commingled Funds

This category consists of global stocks and a diversified portfolio of assets. Investments in commingled funds are valued at the NAV of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service.

Mutual Funds

This category consists of Goldman Sachs Multi-Manager Funds and Tactical Tilts. The Multi-Manager funds include investments in non-core fixed income and real assets. Tactical Tilts are implemented using a combination of different investment vehicles and instruments, including Goldman Sachs Asset Management funds, exchange-traded funds, options, futures, forwards, and swaps. These investments are valued at the NAV of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service.

13. Postretirement Employee Benefits (continued)

The following tables present the fair values of the Company's pension investments by level within the fair value hierarchy (as described in Note 9) as of September 30, 2021 and 2020 (in thousands):

	Total	Level 1	Level 2
September 30, 2021			
Fixed income debt securities:			
Corporate bonds	**$ 229,801**	**$ —**	**$ 229,801**
U.S. government securities	**28,137**	**—**	**28,137**
Government bonds	**13,910**	**—**	**13,910**
Municipal bonds	**10,992**	**—**	**10,992**
Total fixed income debt securities	**282,840**	**—**	**282,840**
Commingled funds	**102,281**	**—**	**102,281**
Mutual funds	**35,614**	**—**	**35,614**
Money market funds	**32,395**	**32,395**	**—**
Total investments, at fair value	**$ 453,130**	**$ 32,395**	**$ 420,735**
Other[1]	**16,443**		
Total plan assets	**$ 469,573**		

[1] Other primarily consisted of cash, receivables, and payables related to unsettled transactions.

	Total	Level 1	Level 2
September 30, 2020			
Fixed income debt securities:			
Corporate bonds	$ 256,203	$ —	$ 256,203
U.S. government securities	4,176	—	4,176
Government bonds	17,956	—	17,956
Municipal bonds	16,048	—	16,048
Total fixed income debt securities	294,383	—	294,383
Domestic equity fund	75,714	75,714	—
International equity fund	34,800	34,800	—
Diversified fixed income fund	33,028	33,028	—
Money market fund	17,788	17,788	—
Total investments, at fair value	$ 455,713	$ 161,330	$ 294,383
Other[1]	6,178		
Total plan assets	$ 461,891		

[1] Other primarily consisted of cash, receivables, and payables related to unsettled transactions.

13. Postretirement Employee Benefits (continued)

Rate of Return

Several factors are considered in developing the estimate for the long-term expected rate of return on plan assets. These include historical rates of return over the past three-, five- and ten-year periods as well as projected long-term rates of return obtained from pension investment consultants.

In the short term, there may be fluctuations of positive and negative yields year over year, but over the long term, the return based on target asset allocation is expected to be approximately 5.0%.

Estimated Future Benefit Payments

Based upon the assumptions used to measure the pension and other postretirement benefit obligations as of September 30, 2021, including other postretirement benefits attributable to estimated future employee service, Amtrak expects that pension benefits and other postretirement benefits to be paid over the next ten years will be as follows (in thousands):

	Pension Benefits	Other Benefits
Year ending September 30,		
2022	$ 30,261	$ 43,882
2023	29,903	40,350
2024	30,047	38,770
2025	30,126	38,349
2026	30,183	37,264
2027-2031	147,823	179,253

Contributions

In FY2022, Amtrak does not expect to contribute to the Retirement Income Plan and expects to contribute $43.9 million towards other postretirement benefits.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of September 30, 2021 and 2020 are as follows:

	Pension Benefits		Other Benefits	
	2021	**2020**	**2021**	**2020**
Discount rate	**2.87 %**	2.71 %	**2.65-2.88 %**	2.49-2.68 %

13. Postretirement Employee Benefits (continued)

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2021 and 2020 are as follows:

	Pension Benefits		Other Benefits	
	2021	**2020**	**2021**	**2020**
Discount rate	**2.71 %**	3.21 %	**2.49-2.68 %**	3.07-3.13 %
Expected long-term rate of return	**5.25 %**	6.00 %	**N/A**	N/A

Assumed health care cost trend rates are as follows:

	September 30,	
	2021	**2020**
Health care cost trend rate assumed for next year	**6.25-6.84 %**	6.41-6.91 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00 %**	5.00 %
Year that the rate reaches the ultimate trend rate	**2028**	2026

Prescription Drug Benefits

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Medicare Act) was signed into law. The Medicare Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Amtrak elected to record an estimate of the effects of the Medicare Act in accounting for its postretirement benefit plans and provide disclosures required by ASC Topic 715, *Compensation - Retirement Benefits*. Amtrak's accumulated pension benefit obligation for its other benefits is reduced by $0.3 million for both FY2021 and FY2020 for this prescription drug benefit.

401(k) Savings Plans

Amtrak provides a 401(k) savings plan for nonunion employees. Under the plan, Amtrak matches a portion of employee contributions up to seven percent of the participant's salary, subject to applicable limitations. During FY2020, as one of the steps taken by the Company to maximize liquidity in light of the uncertainty surrounding the impact of COVID-19, the Company temporarily suspended employer matching contributions under the plan. Employer matching contributions were resumed in October 2020. Amtrak's expenses under this plan were $19.0 million and $12.2 million for FY2021 and FY2020, respectively.

Additionally, Amtrak provides a 401(k) savings plan for union employees. Amtrak does not match any portion of the employee contributions under this plan.

14. Subsequent Events

The Company has evaluated subsequent events through December 17, 2021, which is the date the financial statements are available to be issued, and concluded that there were no additional subsequent events requiring disclosure.

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