OFFICE of INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

GOVERNANCE:

Quality Control Review of the Independent Audit of Amtrak's Consolidated Financial Statements for Fiscal Year Ended 2018

OIG-A-2019-007 | May 2, 2019

OFFICE *of* INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

Memorandum

To: Jeffrey R. Moreland
Chairman, Audit and Finance Committee, Amtrak Board of Directors

Swati Sharma
Acting Chief Financial Officer and Treasurer

From: Kevin H. Winters
Inspector General

Date: May 2, 2019

Subject: *Governance: Quality Control Review of the Independent Audit of Amtrak's Consolidated Financial Statements for Fiscal Year Ended 2018*
(OIG-A-2019-007)

Amtrak (the company) contracted with the independent certified public accounting firm of Ernst & Young LLP to audit its consolidated financial statements as of September 30, 2018, and for the year then ended, and to provide a report on internal control over financial reporting and on compliance and other matters. Because the company receives federal assistance, it must obtain an audit performed in accordance with generally accepted government auditing standards.

As required by the Inspector General Act of 1978, we monitored the audit activities of Ernst & Young to help ensure audit quality and compliance with auditing standards. Our monitoring focused on two Ernst & Young reports and disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards. We reached this conclusion by monitoring Ernst & Young's audit activities, which included reviewing its reports, auditor independence and qualifications, audit plans, detailed testing results, summary work papers, and quality controls. We also attended key meetings.

Ernst & Young's first report was its audit of the company's consolidated financial statements for fiscal year (FY) 2018. In a report dated January 28, 2019,[1] Ernst & Young concluded that the company's consolidated financial statements were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting

[1] Ernst & Young LLP, *Fiscal Year 2018 Consolidated Financial Statements*, Report of Independent Auditors, January 28, 2019.

principles. Further, the report emphasized that, without receipt of federal government funding, the company will not be able to continue in its current form, and significant operating changes, restructurings, or bankruptcy might occur.

In its second report, the FY 2018 *Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* (FY 2018 report), Ernst & Young continued to identify a longstanding significant deficiency[2] in the design and operation of the company's information systems controls.

Ernst & Young acknowledged in its FY 2018 report that Amtrak has taken various actions to address this deficiency, including enhancing the design of these controls. Nevertheless, it concluded that Amtrak's aggregated information systems control deficiencies continue to "result in a significant deficiency in the operation of information system access controls" and made several recommendations. In response, management agreed that the company needs to make further progress to complete the remediation and stated that it is confident it is taking the appropriate corrective actions.

Ernst & Young identified other deficiencies in internal controls over financial reporting that did not rise to the level of a significant deficiency, which it provided in a separate management letter issued to the company on February 15, 2019.

While our review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards, we note that our monitoring activities were not intended to enable us to express an audit opinion in accordance with generally accepted government auditing standards. Accordingly, we do not express an opinion on the company's consolidated financial statements or conclusions about the effectiveness of internal controls and compliance with laws and regulations. As such, Ernst & Young is responsible for its reports and the conclusions expressed in those reports.

If you have any questions, please contact me at Kevin.Winters@amtrakoig.gov or at 202-906-4600.

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[2] A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

OIG MISSION AND CONTACT INFORMATION

Mission

The Amtrak OIG's mission is to provide independent, objective oversight of Amtrak's programs and operations through audits and investigations focused on recommending improvements to Amtrak's economy, efficiency, and effectiveness; preventing and detecting fraud, waste, and abuse; and providing Congress, Amtrak management, and Amtrak's Board of Directors with timely information about problems and deficiencies relating to Amtrak's programs and operations.

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Contact Information

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CONSOLIDATED FINANCIAL STATEMENTS

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Years Ended September 30, 2018 and 2017

With Report of Independent Auditors

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Financial Statements

Years Ended September 30, 2018 and 2017

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Report of Independent Auditors

The Board of Directors and Stockholders
National Railroad Passenger Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Railroad Passenger Corporation and subsidiaries (Amtrak or the Company), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

A member firm of Ernst & Young Global Limited

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

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, 2018 and 2017, 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, 2019. The Company expects to receive additional Federal Government funding through continuing resolutions for fiscal year 2019 or until the formal appropriations bill is signed into law. There are currently no Federal Government subsidies appropriated by law for any period subsequent to February 15, 2019. Without the receipt of Federal Government funding, Amtrak 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 28, 2019, on our consideration of the National Railroad Passenger Corporation and subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the National Railroad Passenger Corporation and subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Railroad Passenger Corporation and subsidiaries' internal control over financial reporting and compliance.

Ernst & Young LLP

January 28, 2019

A member firm of Ernst & Young Global Limited

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets

(In Thousands of Dollars, Except Share Data)

	September 30, 2018	September 30, 2017
Assets:		
Current Assets:		
Cash and cash equivalents, including restricted cash of $8,397 and $8,435 as of September 30, 2018 and 2017, respectively	**$ 500,901**	$ 1,101,694
Available-for-sale securities	**1,126,385**	—
Accounts receivable, net of allowances of $1,826 and $7,296 as of September 30, 2018 and 2017, respectively	**397,771**	336,361
Materials and supplies, net of allowances of $35,167 and $28,476 as of September 30, 2018 and 2017, respectively	**290,683**	269,221
Prepaid expenses	**56,460**	54,345
Other current assets	**17,110**	36,932
Total current assets	**2,389,310**	1,798,553
Property and equipment:		
Locomotives	**1,972,117**	2,045,794
Passenger cars and other rolling stock	**3,416,621**	3,312,883
Right-of-way and other properties	**14,712,562**	13,522,441
Construction-in-progress	**1,891,527**	2,262,063
Leasehold improvements	**672,341**	616,188
Property and equipment, gross	**22,665,168**	21,759,369
Less: Accumulated depreciation and amortization	**(8,826,794)**	(8,410,751)
Total property and equipment, net	**13,838,374**	13,348,618
Other assets, deposits, and deferred charges:		
Notes receivable on sale-leasebacks	**56,892**	56,397
Deferred charges, deposits, and other	**148,271**	48,978
Total other assets, deposits, and deferred charges	**205,163**	105,375
Total assets	**$ 16,432,847**	$ 15,252,546

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets (continued)

(In Thousands of Dollars, Except Share Data)

	September 30, 2018	2017
Liabilities and capitalization:		
Current liabilities:		
Accounts payable	**$ 549,151**	$ 471,944
Accrued expenses and other current liabilities	**843,075**	877,032
Deferred ticket revenue	**155,909**	150,456
Current maturities of long-term debt and capital lease obligations	**146,941**	136,170
Total current liabilities	**1,695,076**	1,635,602
Long-term debt and capital lease obligations:		
Capital lease obligations	**136,576**	189,704
Other long-term debt	**771,991**	863,041
Total long-term debt and capital lease obligations	**908,567**	1,052,745
Other liabilities and deferred credits:		
Deferred state capital payments	**2,235,689**	2,062,908
Casualty reserves	**217,986**	149,266
Deferred gain on sale-leasebacks	**32,680**	39,852
Postretirement employee benefits obligation	**559,539**	655,400
Environmental reserve	**139,737**	116,017
Deferred income taxes	**—**	53,159
Other liabilities	**94,100**	113,134
Total other liabilities and deferred credits	**3,279,731**	3,189,736
Total liabilities	**5,883,374**	5,878,083
Commitments and contingencies *(Note 11)*		
Capitalization:		
Preferred stock - $100 par, 109,396,994 shares authorized, issued and outstanding at September 30, 2018 and 2017	**10,939,699**	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding at September 30, 2018 and 2017	**93,857**	93,857
Other paid-in capital	**35,112,208**	33,091,896
Accumulated deficit	**(35,451,262)**	(34,634,057)
Accumulated other comprehensive loss	**(145,029)**	(116,932)
Total capitalization	**10,549,473**	9,374,463
Total liabilities and capitalization	**$ 16,432,847**	$ 15,252,546

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Operations

(In Thousands of Dollars)

	Year Ended September 30, 2018	2017
Revenues:		
Passenger related	**$ 2,581,740**	$ 2,543,899
Other	**804,993**	761,806
Total revenues	**3,386,733**	3,305,705
Expenses:		
Salaries, wages and benefits	**2,020,565**	2,084,564
Train operations	**299,956**	287,559
Fuel, power and utilities	**269,811**	239,742
Materials	**178,475**	165,347
Facility, communication and office related	**178,782**	179,939
Advertising and sales	**93,227**	106,949
Casualty and other claims	**119,374**	70,686
Depreciation and amortization	**807,122**	767,013
Other	**422,935**	454,442
Indirect cost capitalized to property and equipment	**(151,296)**	(145,846)
Total expenses	**4,238,951**	4,210,395
Loss before other (income) and expense	**852,218**	904,690
Other (income) and expense:		
Interest income	**(20,837)**	(9,055)
Interest expense	**44,509**	53,956
Loss on early extinguishment of debt	**—**	18,682
Other income, net	**(5,526)**	(1,672)
Other expense, net	**18,146**	61,911
Loss before income taxes	**870,364**	966,601
Income tax (benefit) expense	**(53,159)**	2,110
Net loss	**$ 817,205**	$ 968,711

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Comprehensive Loss

(In Thousands of Dollars)

	Year Ended September 30,	
	2018	**2017**
Net loss	**$ 817,205**	$ 968,711
Other comprehensive loss:		
Pension and other postretirement benefit items:		
Net gain arising during the period	**(75,350)**	(111,411)
Amortization of actuarial loss	**(28,446)**	(39,699)
Amortization of prior service credit	**131,540**	130,496
Settlement loss	**—**	(5,408)
Total pension and other postretirement benefit items	**27,744**	(26,022)
Unrealized losses on available-for-sale securities, net	**353**	—
Comprehensive loss	**$ 845,302**	$ 942,689

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, 2016	$ 10,939,699	$ 93,857	$ 31,203,808	$ (33,665,346)	$ (142,954)	$ 8,429,064
Federal paid-in capital	—	—	1,888,088	—	—	1,888,088
Net loss	—	—	—	(968,711)	—	(968,711)
Other comprehensive income	—	—	—	—	26,022	26,022
Balance as of September 30, 2017	10,939,699	93,857	33,091,896	(34,634,057)	(116,932)	9,374,463
Federal paid-in capital	**—**	**—**	**2,020,312**	**—**	**—**	**2,020,312**
Net loss	**—**	**—**	**—**	**(817,205)**	**—**	**(817,205)**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(28,097)**	**(28,097)**
Balance as of September 30, 2018	**$ 10,939,699**	**$ 93,857**	**$ 35,112,208**	**$ (35,451,262)**	**$ (145,029)**	**$ 10,549,473**

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Year Ended September 30, 2018	Year Ended September 30, 2017
Cash flows from operating activities		
Net loss	**$ (817,205)**	$ (968,711)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**807,122**	767,013
Deferred income tax (benefit) expense	**(53,159)**	2,110
Loss (gain) on sale of/recovery on property and equipment	**9,585**	(4,038)
Loss on early extinguishment of debt	**—**	18,682
Other	**6,156**	6,421
Changes in assets and liabilities:		
Accounts receivable	**(65,653)**	(47,078)
Materials and supplies	**(31,152)**	(16,030)
Prepaid expenses	**(2,115)**	(16,798)
Other current assets	**19,822**	269,410
Other assets, deposits, and deferred charges	**(99,788)**	(5,998)
Accounts payable, deferred ticket revenue, accrued expenses and other current liabilities	**20,042**	(244,415)
Deferred state capital payments	**(111,847)**	(83,685)
Other liabilities and deferred credits	**(53,925)**	(32,746)
Net cash used in operating activities	**(372,117)**	(355,863)
Cash flows from investing activities		
Purchase of available-for-sale securities	**(3,145,368)**	—
Proceeds from sales and maturities of available-for-sale securities	**2,024,411**	—
Purchases and refurbishments of property and equipment	**(1,292,929)**	(1,586,398)
Insurance proceeds attributable to casualty losses related to property and equipment	**3,920**	10,523
Proceeds from disposals of property and equipment	**10,352**	1,452
Net cash used in investing activities	**(2,399,614)**	(1,574,423)
Cash flows from financing activities		
Proceeds from federal paid-in capital	**2,020,312**	1,888,088
Proceeds from state capital payments	**284,628**	382,974
Repayments of debt and capital lease obligations	**(134,002)**	(624,651)
Proceeds from issuance of debt	**—**	625,115
Net cash provided by financing activities	**2,170,938**	2,271,526
Net change in cash and cash equivalents, including restricted cash	**(600,793)**	341,240
Beginning balance of cash and cash equivalents, including restricted cash	**1,101,694**	760,454
Ending balance of cash and cash equivalents, including restricted cash	**$ 500,901**	$ 1,101,694
Supplemental disclosure of cash payments		
Interest paid, net of amount capitalized	**$ 47,772**	$ 56,721
Supplemental disclosure of non-cash investing and financing activities		
Other non-cash changes in property, includes accruals of amounts due for purchases	**$ 31,795**	$ 215,129
Debt and capital lease reduction through use of escrow deposits	**$ —**	$ 34,770

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 the National Surface Transportation and Innovative Finance Bureau of the Federal Government (also referred to as the Build America Bureau), also provides financing to Amtrak through the Railroad Rehabilitation and Infrastructure Financing (RRIF) Program.

See Notes 2, 4, 5, and 7 for additional information about Amtrak and its relationship with the Federal Government.

2. Annual Funding

On December 4, 2015, the President signed as Public Law 114-94, the Fixing America's Surface Transportation Act (the FAST Act). Title XI-Rail of the FAST Act, cited as the Passenger Rail Reform and Investment Act of 2015 (PRRIA 2015), authorizes funding to the Secretary of the DOT (the Secretary) for annual grants to Amtrak totaling $8.1 billion for fiscal years (FY) 2016 through 2020. PRRIA 2015 directs $2.6 billion of this support to Amtrak's Northeast Corridor (NEC) and $5.5 billion to Amtrak's National Network as defined in the FAST Act, and it authorizes an additional $2.2 billion for other rail grant programs in which Amtrak may participate.

The Company has been provided funding for FY2019 through (a) the Department of Defense and Labor, Health and Human Services and Education Appropriations Act, 2019, and Continuing Appropriations Act, 2019 (Public Law 115-245), (b) Making Further Continuing Appropriations for Fiscal Year 2019 (Public Law 115-298), and (c) the Further Additional Continuing Appropriations Act, 2019 (H.J. Res. 28), which provide continued appropriations until February 15, 2019 (collectively, the Continuing Appropriations Acts, 2019). There are currently no federal funds appropriated for the Company for any period subsequent to February 15, 2019. Without such 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. The Company expects to receive additional funding through continuing resolutions (CRs) for FY2019 or until the formal appropriations bill is signed into law.

2. Annual Funding (continued)

PRRIA 2015 mandates reforms for Amtrak and its grant programs. Requirements include the development of five-year plans for business lines and assets to be used as the basis for Amtrak's annual grants, separate financial reporting for the National Network and the NEC, and a process for transferring funds between the two accounts. Amtrak is the sole eligible entity for grant funds made pursuant to PRRIA 2015 and payments are advanced with 50% provided at the beginning of each fiscal year and 25% paid in each of the following two quarters. PRRIA 2015 directs the formation of committees and, where applicable, requires Amtrak to work in partnership with stakeholders including representatives of transit, state and federal rail transportation authorities to plan, implement, and fund certain rail programs. There are also competitive and partnership grant programs authorized to which Amtrak may apply: for FY2016 through FY2020, a total of $1.1 billion is authorized for rail infrastructure and safety improvements, $1.0 billion for Federal-State partnership grants for State-of-Good Repair projects, and $100 million for rail restoration and enhancement grants. In FY2018, Amtrak was awarded $21.7 million through these programs for implementation of Positive Train Control (PTC) (see Note 11) and track improvements of which $0.7 million was received in FY2018. No funds were received through these programs in FY2017.

2. Annual Funding (continued)

The table below provides information on funding for the Company's fiscal years ended September 30, 2019, 2018 and 2017 under CRs and the Consolidated Appropriations Act or Consolidated and Further Continuing Appropriations Act (collectively, Full Year Funding) related to those years (dollars in millions):

	FY2019		FY2018		FY2017
Enactment dates for CRs	September 28, 2018 December 7, 2018 January 25, 2019		**September 8, 2017 December 8, 2017 December 22, 2017 January 22, 2018 February 9, 2018**		September 29, 2016 December 10, 2016 April 28, 2017
Public Law (PL) or House Joint Resolution (H.J. Res.) numbers for CRs	PL 115-245 PL 115-298 H.J. Res. 28		**PL 115-56 PL 115-90 PL 115-96 PL 115-120 PL 115-123**		PL 114-223 PL 114-254 PL 115-30
Enactment date for Full Year Funding	N/A [1]		**March 23, 2018**		May 5, 2017
Public Law number for Full Year Funding	N/A [1]		**PL 115-141**		PL 115-31
Appropriated for National Network	$ 240.6		**$ 1,291.6**		$ 1,167.0
Appropriated for NEC	121.1		**650.0**		328.0
Total funds appropriated	361.7		**1,941.6**		1,495.0
FRA authorized withholdings	(3.1)		**(16.7)**		(14.5)
Total appropriated funds designated for Amtrak	$ 358.6 [2]		**$ 1,924.9**		$ 1,480.5
Funds received by Amtrak:					
In FY2017					$ 1,480.5
In FY2018			**$ 1,924.9**		—
In FY2019, as of January 28, 2019	$ 358.6		**—**		—
Total funds received to date	$ 358.6		**$ 1,924.9**		$ 1,480.5

[1] FY2019 full year funding is not yet in place.

[2] Amount represents the funding appropriated by PL 115-245 through December 7, 2018. Information on additional funding appropriated by PL 115-298 and H.J. Res. 28, which collectively appropriated funding through February 15, 2019, is not available as of January 28, 2019. In addition, the public law number for H.J. Res. 28 has not yet been assigned.

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 subsidiaries, all of which are wholly owned, Chicago Union Station Company (CUS) (prior to its May 11, 2017 merger into the Company), Passenger Railroad Insurance, Limited (PRIL), Penn Station Leasing, LLC (PSL) (prior to its March 29, 2018 dissolution) and Washington Terminal Company (WTC). All intercompany balances and transactions have been eliminated.

CUS was incorporated on July 3, 1913 as the Union Station Company, for the purpose of constructing, operating and maintaining a new railroad terminal in the City of Chicago. The name was officially changed to Chicago Union Station Company on May 7, 1915. Amtrak acquired 50% stock ownership interest in CUS in 1976 as part of the conveyance of the NEC and off-Corridor properties. Amtrak purchased the remaining 50% stock ownership in 1984. On May 11, 2017, CUS was merged into Amtrak.

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 also provides insurance and reinsurance coverage to third parties performing work on Amtrak property.

PSL was formed on April 17, 2001 to acquire and lease back to Amtrak the real property and improvements located in New York, commonly known as Penn Station. On June 14, 2017, Amtrak made the final mortgage payment for Penn Station and dissolved PSL on March 29, 2018.

WTC was formed on December 6, 1901 and is 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.

Restricted cash and cash equivalents consist primarily of funds received that are restricted for specific purposes or cash set aside and restricted for specific payments. Restricted cash and cash equivalents consists of a money market fund held in trust restricted from withdrawals based upon certain collateral requirements and funds restricted for certain operations of the Amtrak Police Department.

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

Available-for-Sale Securities

Available-for-sale securities are comprised of debt and marketable securities that when acquired are classified and accounted for as available-for-sale securities. These 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 in the Consolidated Statements of Operations.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable in the Consolidated Balance Sheets include billed and unbilled accounts receivable. Billed accounts receivable represent amounts for which invoices have been sent to customers. These accounts receivable are recorded at the invoiced amount. Unbilled accounts receivable represent 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 $35.0 million and $68.4 million of unbilled accounts receivable as of September 30, 2018 and 2017, respectively.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's billed accounts receivable. To determine its allowance for doubtful accounts, the Company evaluates historical loss experience and the characteristics of current accounts, as well as general economic conditions and trends. Uncollectible billed accounts receivable is applied against the allowance.

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 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 three 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

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

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 FY2018 or FY2017.

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.

Construction-in-progress is stated at cost and includes direct costs of construction and interest expense capitalized during the period of construction of major facilities, locomotives, and passenger cars. Construction-in-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 cost incurred by the Company was $48.7 million and $59.4 million for FY2018 and FY2017, respectively, of which interest cost capitalized on construction projects was $4.2 million and $5.4 million for FY2018 and FY2017, respectively.

The useful lives of locomotives, passenger cars, and other rolling stock assets for depreciation purposes range up to 40 years. Right-of-way and other properties (excluding land) are depreciated using useful lives ranging up to 60 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

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

the obligation for its recorded amount or incurs a gain or loss upon settlement. The asset retirement cost capitalized was $10.1 million as of September 30, 2018 and 2017, and was included in "Right-of-way and other properties" in the Consolidated Balance Sheets.

Nonreciprocal Transfer of Asset

On February 17, 2010, Amtrak entered into a preliminary memorandum of understanding with two developers to redevelop a building adjacent to Penn Station to accommodate a combination of transportation, public, commercial and other facilities including the creation of the new Daniel Patrick Moynihan Station. One of the developers is responsible for securing public and private partners to assist in the financing of the project. Amtrak owns and uses Penn Station as a major transportation hub for Amtrak's Northeast Corridor service. In addition, Amtrak has ownership of the subsurface and train shed areas below the building.

The project is divided into two phases. In June 2017, the first phase of the development was completed and placed into service. Substantially all cost of the first phase work was paid for by one of the developers using federal and state funding grants. The title of certain improvements in the first phase was transferred to Amtrak in June 2017. In accordance with FASB ASC Topic 845, *Nonmonetary Transactions*, Amtrak recognized an asset of $244.6 million at acceptance, which was the estimated fair market value of the transferred improvements at that time. At the same time, a deferred gain of $240.4 million was recorded, which is being amortized over the life of the asset using the straight-line method. For FY2018 and FY2017, a total of $6.0 million and $1.5 million, respectively, of deferred gain was amortized and recognized in operating revenue.

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.

In performing its impairment analysis, the Company assumes future Federal Government subsidies at levels consistent with the historical funding levels discussed in Note 2. The Company believes funding at historical levels is the best estimate to be used of the future. At this approximate level of funding, the Company determined that no indicators of impairment existed as of September 30, 2018. If future Federal Government funding drops below historical levels, substantial impairment may occur as discussed in Note 2.

On October 29, 2012, Super Storm Sandy (Sandy) came ashore in the Northeast and mid-Atlantic region of the United States. Amtrak sustained damage to tunnels and other structures in New York and New Jersey.

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

The Company determined that there was no impairment to the tunnels, but certain infrastructure assets would need to be replaced sooner than previously anticipated. Accordingly, the Company assigned unique group depreciation rates to these assets. As a result, depreciation expense totaling $193.1 million is being accelerated over the remaining life of these assets. The acceleration of depreciation expense increased the Company's net loss by $9.7 million and $11.7 million in FY2018 and FY2017, respectively.

Casualty Losses and Claims

Provision is made for Amtrak's estimated actuarial liability for unsettled casualty and other claims. Personal injury liability and ultimate loss projections are undiscounted and estimated using standard actuarial methodologies. These actuarial estimates include an estimate for unasserted claims. As of September 30, 2018 and 2017, the reserve for casualty losses and claims was $314.7 million and $201.0 million, respectively. The reserve balance as of September 30, 2018 includes the Company's best estimate of the liability for passenger and employee claims incurred related to two derailments which occurred in FY2018. See Note 11 for additional information on these two derailments. Of the total amount reserved as of September 30, 2018 and 2017, the estimated current claims liability included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets was $96.7 million and $51.8 million, respectively. The balance of the reserve as of both September 30, 2018 and 2017 is included in "Casualty reserves" in the Consolidated Balance Sheets.

Revenue Recognition

"Passenger related" revenue in the Consolidated Statements of Operations includes ticket revenue, state contribution revenue associated with requested service performed by Amtrak, and food and beverage revenue as follows (in millions):

	Year Ended September 30, 2018	2017
Ticket	**$ 2,207.2**	$ 2,180.8
State contribution	**233.8**	224.0
Food and beverage	**140.7**	139.1
Total passenger related revenue	**$ 2,581.7**	$ 2,543.9

These revenues are recognized as operating revenues when the related services are performed. Amounts received for tickets that have been sold but not used are reflected as "Deferred ticket revenue" in the Consolidated Balance Sheets.

"Other" revenue, for FY2018 and FY2017, includes (i) freight and commuter access fee and other revenue from the use of Amtrak-owned tracks by freight railroad companies and commuter agencies, and other revenue related to the use of Amtrak's infrastructure; (ii) revenue from reimbursable engineering and capital improvement activities (these revenues are generally recognized as the associated costs are incurred); (iii) revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee (these revenues are recognized when the related services are performed); (iv) amortization of state funds used to acquire depreciable assets (such payments are deferred when received and amortized over the estimated

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

life of the related assets purchased with the funds, and the unamortized amounts are included in "Deferred state capital payments" in the Consolidated Balance Sheets); (v) commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees (these revenues are generally recognized as the services are performed); and (vi) other transportation revenue from the use of Amtrak-owned tracks and other services (these revenues are generally recognized when the related services are performed).

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

	Year Ended September 30, 2018	2017
Freight and commuter access fees and other	**$ 225.2**	$ 204.0
Reimbursable	**223.6**	231.6
Commuter	**119.0**	121.2
Amortization of state capital payments	**111.8**	83.7
Commercial development	**84.2**	83.4
Other transportation	**41.2**	37.9
Total other revenue	**$ 805.0**	$ 761.8

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 $32.8 million and $46.0 million for FY2018 and FY2017, 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 differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. 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. In December 2017, the Tax Cuts and Jobs Act was enacted which, among other things, reduced the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. See Note 10 for information on the impact of this legislation.

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.

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

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 FY2018 and FY2017 (see Note 10).

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. Some of the more significant estimates include: allowance for doubtful accounts and obsolescence of material and supplies, estimated useful lives of property and equipment, calculation of accelerated depreciation related to Sandy, recoverability of long-lived assets, estimates of wrecked and damaged equipment, estimates of casualty reserves, pension and other postretirement employee benefits expense and obligations (including expected return on plan assets, discount rates, and health care cost trend rates), estimated costs of asset retirement obligations, valuation allowance for deferred tax assets, 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, 2018 and 2017, “Accumulated other comprehensive loss” consists of adjustments for pension and other postretirement liabilities and unrealized losses on available-for-sale securities.

Recently Adopted Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, removing the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The practical expedient in ASC Topic 820 permits the reporting entity to measure the fair value of certain investments using the NAV per share of the investment. The new guidance in ASU 2015-07 removes the requirement to classify such investments under the fair value hierarchy classification. The guidance, which is required to be applied retrospectively to all period presented, is effective for the Company beginning with FY2018 and requires the amendments to be applied retrospectively to all periods presented. The Company has presented these investments in accordance with the new guidance for FY2018 and FY2017. See Note 13. As the guidance only changes the presentation requirements of certain investments measured at fair value using the NAV per share practical expedient, the adoption of the guidance did not have a material impact on the Company's Consolidated Financial Statements.

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

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)*, providing guidance on the accounting for income taxes in the context of the Tax Cuts and Jobs Act and related clarifications by the Securities Exchange Commission in Staff Accounting Bulletin (SAB) No. 118. The guidance requires that for the impact of tax law changes that are reasonably estimable, entities recognize provisional amounts in the first year of their financial statements subsequent to enactment. The guidance provides a one-year measurement period in which to refine previously recorded provisional amounts based on new information or interpretation. The Company adopted this guidance in FY2018. See Note 10.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*, modifying the existing disclosure guidance for employers that sponsor defined benefit pension or other postretirement plans by adding, removing and clarifying certain disclosure requirements. The guidance, which is required to be applied retrospectively to all periods presented, is effective for the Company beginning with FY2022, with early adoption permitted. The Company early adopted this guidance in FY2018 for its presentation and disclosure of postretirement employee benefits for FY2018 and FY2017. See Note 13. As the guidance only impacts the Company's disclosure of postretirement employee benefits, the adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

Recently Issued but Not Yet Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods and services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from the contracts. The new standard will become effective for the Company beginning with FY2020, and can be adopted either retrospectively to each prior reporting period presented (full retrospective method) or as a cumulative effect adjustment as of the date of adoption (modified retrospective method). The Company currently expects to adopt the new standard using the modified retrospective method. The Company currently expects the new guidance to impact its liability related to its guest rewards program and is still evaluating the impact of adopting this new standard on other elements of its revenue. For its guest rewards program, the new standard will require the Company to change its current policy which is based on the incremental cost approach and to apply the relative selling price approach, which is expected to increase the Company’s guest reward liability in its Consolidated Balance Sheets.

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 beginning with FY2021, with early adoption permitted. The Company is still evaluating the impact of the guidance,

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

but 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.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, to require that an employer reports the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments in this ASU also allow only the service cost component to be eligible for capitalization when applicable. The ASU will be effective for the Company beginning with FY2020 and must be applied retrospectively for pension cost reporting and prospectively for the potential capitalization of service cost. The Company expects the new guidance to impact the presentation of net periodic pension and postretirement benefit cost (net benefit cost) in its Consolidated Statements of Operations with the service cost component included within "salaries, wages and benefits" expenses and the other components included separately within "other (income) and expense" in its Consolidated Statements of Operations for all periods presented. Additionally, upon adoption of the guidance, only the service cost component will be included in the indirect costs eligible to be capitalized to property and equipment. The Company does not expect these changes to have a material impact on its Consolidated Financial Statements.

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 $2.0 billion and $1.9 billion for FY2018 and FY2017, 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.

In accordance with the Disaster Relief Appropriations Act, 2013 (Public Law No. 113-2, January 29, 2013), Amtrak was provided with grants totaling $235.0 million for the Hudson Yards Concrete Encasement Project, of which Amtrak has cumulatively received $234.8 million and $231.4 million as of September 30, 2018 and 2017, respectively.

Since 2005, the Department of Homeland Security has awarded Amtrak a total of $180.0 million in annual 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 $166.1 million and $160.5 million as of September 30, 2018 and 2017, respectively.

In May 2011, the DOT awarded Amtrak $449.9 million in American Recovery and Reinvestment Act of 2009 High Speed Intercity Passenger Rail funding to upgrade its rail infrastructure to support more frequent and

4. Accounting and Reporting for Federal Payments (continued)

faster high-speed rail service, and to improve reliability of current service between New York and Washington. The funding supports the project to upgrade electrical power, signal systems, and track and overhead catenary wires between Trenton and New Brunswick, New Jersey — one of the busiest segments of the NEC and where the densest concentration of Acela Express high-speed rail operations occurs. Funding is provided on a reimbursable basis. Amtrak cumulatively received $440.9 million as of both September 30, 2018 and 2017.

Additional 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 $23.3 million for both FY2018 and FY2017 and Amtrak received $21.0 million and $21.8 million in FY2018 and FY2017, respectively.

"Other paid-in capital", included in the Consolidated Balance Sheets and 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, 2018 and 2017, 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 balance of $1.1 billion as of September 30, 2018 and 2017, 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. 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, 2018 and 2017, 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, 2018 and 2017, 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

5. Preferred and Common Stock (continued)

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.

6. Available-for-Sale Securities

Investments in available-for-sale securities are recorded at fair value with unrealized gains and losses recorded as a component of comprehensive loss in the Consolidated Statement of Comprehensive Loss for FY2018. The Company acquired these investments in FY2018 and therefore, held no investments in securities classified as available-for-sale as of September 30, 2017.

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, 2018			
	Total Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Total Fair Value
U.S. Treasury securities	$ 415,565	$ (131)	$ 2	$ 415,436
Corporate bonds	296,591	(188)	11	296,414
Commercial paper	272,516	(37)	2	272,481
Certificates of deposit	79,620	(3)	2	79,619
Money market funds	8,449	—	—	8,449
Other	53,997	(12)	1	53,986
Total available-for-sale securities	$ 1,126,738	$ (371)	$ 18	$ 1,126,385

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

	Year Ended September 30, 2018
Gross realized gains	$ 9
Gross realized losses	(8)
Total proceeds	1,471,052

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

	September 30, 2018	
	Amortized Cost	Fair Value
Within one year	$ 1,064,909	$ 1,064,633
After one year through five years	55,417	55,338
After five years through ten years	1,705	1,706
After ten years	4,707	4,708
Total available-for-sale securities	$ 1,126,738	$ 1,126,385

6. Available-for-Sale Securities (continued)

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, 2018					
	Less Than Twelve Consecutive Months		Twelve Consecutive Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ (131)	$ 390,145	$ —	$ —	$ (131)	$ 390,145
Corporate bonds	(188)	234,739	—	—	(188)	234,739
Commercial paper	(37)	188,898	—	—	(37)	188,898
Certificates of deposit	(3)	22,059	—	—	(3)	22,059
Other	(12)	47,318	—	—	(12)	47,318
Total	$ (371)	$ 883,159	$ —	$ —	$ (371)	$ 883,159

The Company does not believe that any individual unrealized loss in available-for-sale securities as of September 30, 2018 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, 2018. There were no impairment losses recognized in earnings on available-for-sale securities during FY2018.

7. Mortgages and Debt

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

	September 30, 2018		September 30, 2017	
	Current	Long-Term	Current	Long-Term
Mortgage obligations:				
High speed maintenance facilities	$ **13,034**	$ **23,514**	$ 10,349	$ 36,548
Frequency converter facility	**11,015**	**106,855**	10,920	117,870
Subtotal	**24,049**	**130,369**	21,269	154,418
Senior notes:				
Secured senior notes	**27,000**	**304,680**	25,500	331,680
Unsecured senior notes	**16,000**	**103,000**	16,000	119,000
Subtotal	**43,000**	**407,680**	41,500	450,680
PEDFA 30th St. Garage Revenue Bonds	**1,906**	**29,837**	1,861	31,743
Term Loan A	**19,192**	**34,883**	18,671	54,075
Term Loan B	**6,908**	**36,162**	6,681	43,070
2016 RRIF loan	**—**	**143,482**	—	140,327
Principal amount of mortgages and debt	**95,055**	**782,413**	89,982	874,313
Less: unamortized discount/premium/ issuance cost	**(506)**	**(10,422)**	(577)	(11,272)
Total mortgages and debt	$ **94,549**	$ **771,991**	$ 89,405	$ 863,041

Letters of Credit

The Company has an unsecured commercial letter of credit of $2.5 million that supports the issuance of auto fleet insurance. As of September 30, 2018 and 2017, there were no draws against this letter of credit.

Revolving Credit Facility

On July 26, 2016, Amtrak entered into a Credit Agreement with three lenders for a $100 million unsecured revolving credit facility. Borrowings under the facility will be used to enhance Amtrak's liquidity. The facility will expire on July 26, 2021. Borrowings under the facility have an interest rate based on the interest rate option selected by Amtrak. The Company may select (a) the base rate option, which is a variable rate equal to the highest of (i) the Federal Funds Open Rate plus 0.5%, (ii) the Prime Rate, and (iii) the Daily London Interbank Offered Rate (LIBOR) plus 1.0%, plus in all cases an applicable margin based on the Company's Standard & Poor's and Moody's ratings (Credit Ratings); or (b) the LIBOR rate option, which is equal to the LIBOR rate for the applicable period plus a margin based on the Company's Credit Ratings. Amtrak must pay a commitment fee on any undrawn portion of the revolving credit facility ranging between 8.5 and 25 basis points based on Amtrak's Credit Ratings. Under the facility, Amtrak is subject to restrictive covenants and financial covenants that require the Company and its subsidiaries to maintain certain financial ratios on a consolidated basis. As of September 30, 2018 and 2017, the Company has not made any draws under the facility.

7. Mortgages and Debt (continued)

Mortgage Obligations

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 makes lease payments relating to the equity interest, but continues to make payments servicing the leveraged lease debt. Amtrak's obligations are collateralized by a pledge of Amtrak's interests in the maintenance facilities.

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 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 2.7% and 2.0% as of September 30, 2018 and September 30, 2017, respectively. The Series B 2017 bonds will be 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.

7. Mortgages and 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.

PEDFA 30th St. Garage Revenue Bonds

On January 7, 2003, PEDFA issued $50.0 million of Revenue Bonds (the 2003 PEDFA Garage Bonds) for the purpose of financing the construction and other related costs of a parking garage located at the 30th Street Station in Philadelphia, Pennsylvania (30th Street Station Garage).

On November 2, 2012, at Amtrak's request, PEDFA issued $42.0 million of Revenue Bonds (the 2012 PEDFA Garage Bonds) to refinance the 2003 PEDFA Garage Bonds. At the date of issuance, the 2012 PEDFA Garage Bonds were remarketed to a commercial bank that agreed to hold them for a period of seven years. The 2012 PEDFA Garage Bonds mature in 20 years, with mandatory purchase by Amtrak at par plus accrued interest at the end of the seventh year unless an extension agreement is executed with the commercial bank that holds them. Interest accrues at a variable one month LIBOR rate. On November 2, 2012, Amtrak also entered into an interest rate swap agreement to manage the interest rate risk associated with the 2012 PEDFA Garage Bonds. As a result, the effective interest rate on the 2012 PEDFA Garage Bonds is 2.39%.

Amtrak's obligations with regard to the 2012 PEDFA Garage Bonds are collateralized by a pledge of Amtrak's interests in the 30th Street Station Garage.

Term Loan A and Term Loan B

On November 27, 2013, the Company entered into a $130.0 million credit facility with PNC National Bank, N.A. (the Bridge Loan). On June 19, 2014, the Company converted the Bridge Loan 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 PNC Equipment Finance, LLC (Term Loan A) and $70.0 million was financed with RBS Asset Finance Inc. (Term Loan B). Under the terms of the agreement for Term Loan A, the Company incurs 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 incurs interest at a rate of 3.36%. Term Loan A and Term Loan B will mature on June 20, 2021 and June 20, 2024, respectively.

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,

7. Mortgages and Debt (continued)

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 will be 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. Acceptance of the Trainsets is expected to occur between December 2020 and March 2022. Amtrak is not required to begin making repayments on borrowings under the 2016 RRIF Loan until September 15, 2022.

All borrowings under the 2016 RRIF Loan bear interest at a rate of 2.23% per annum. The Company is capitalizing interest incurred during the construction period of the Trainsets as part of Construction-in-progress in the Consolidated Balance Sheets. 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 and during the construction period is being capitalized as part of "Construction-in-progress" in the Consolidated Balance Sheets.

No amounts were borrowed or repaid during FY2018. Interest cost incurred in FY2018 of $3.5 million was capitalized into "Construction-in-Progress" in the Consolidated Balance Sheets. During FY2017, Amtrak drew $137.5 million under the 2016 RRIF Loan, paid $8.0 million in credit risk premiums and incurred interest cost of $3.3 million, all of which was capitalized into "Construction-in-progress" in the Consolidated Balance Sheets. No amounts were repaid during FY2017.

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,	
	2018	**2017**
Mortgage obligations	**4.77 %**	4.51 %
Senior notes	**3.66**	3.66
PEDFA 30th St. Garage Revenue Bonds	**2.39**	2.39
Term loans	**3.03**	3.00
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 3.5% per annum at September 30, 2018 and 2017.

7. Mortgages and Debt (continued)

Scheduled Mortgages and Debt Maturities

On September 30, 2018, scheduled maturities of mortgages and debt are as follows (in thousands):

Year Ending September 30,		
2019	$	95,055
2020		92,823
2021		56,355
2022		29,603
2023		42,988
Thereafter		560,644
Principal amount of mortgages and debt		877,468
Less: unamortized discount/premium/issuance cost		(10,928)
Total mortgages and debt	$	866,540

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, 2018, 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 both September 30, 2018 and 2017, the gross amount of assets recorded under capital leases was $1.3 billion, with accumulated amortization of $0.9 billion and $0.8 billion, respectively.

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).

8. Leasing Arrangements (continued)

Future Minimum Lease Payments

As of September 30, 2018, future minimum lease payments under capital leases are as follows (in thousands):

Year ending September 30,		
2019	$	65,508
2020		60,697
2021		56,029
2022		33,051
2023		12,475
Thereafter		4,267
Total minimum lease payments		232,027
Less: discounted to current period amount at interest rates ranging from 5.0% to 9.1%		(43,059)
Present value of minimum lease payments at September 30, 2018	$	188,968

The current portion of capital lease obligations as of September 30, 2018 and 2017, was $52.4 million and $46.8 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, 2018, Amtrak is obligated for the following minimum rental payments under operating lease agreements (in thousands):

Year ending September 30,		
2019	$	16,195
2020		13,743
2021		12,633
2022		12,204
2023		11,167
Thereafter		41,100
Total	$	107,042

Rent expense for FY2018 and FY2017 was $53.3 million and $53.1 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 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,* clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of 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.

Available-for-Sale Securities Measured at Fair Value

During FY2018, the Company acquired available-for-sale securities consisting of U.S. Treasury securities, corporate bonds, commercial paper, certificates of deposit, money market funds, and other debt investments. These available-for-sale securities are measured at fair value on a recurring basis on the Consolidated Balance Sheet as of September 30, 2018. The Company did not have any available-for-sale securities as of September 30, 2017.

The estimated fair value of the Company's available-for-sale securities, which are measured at fair value in the Consolidated Balance Sheets are as follows (in thousands):

	Fair Value Measurement as of September 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale securities				
U.S. Treasury securities	$ —	$ 415,436	$ —	$ 415,436
Corporate bonds	—	296,414	—	296,414
Commercial paper	—	272,481	—	272,481
Certificates of deposit	—	79,619	—	79,619
Money market funds	8,449	—	—	8,449
Other	254	53,732	—	53,986
Total available-for-sale securities	$ 8,703	$ 1,117,682	$ —	$ 1,126,385

9. Fair Value Measurements (continued)

Valuation Techniques

The Company utilizes investment management services for measuring fair market value of its available-for-sale securities. The investment management firm uses various valuation techniques to measure the fair value of the Company's available-for-sale securities using market price quotes from pricing services, prices received from alternative pricing sources, and mathematically derived calculated prices using market observable inputs for each category type. Pricing methodologies used by the investment management firm 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 following is a description of the valuation techniques and inputs used for the fair value measurement of the available-for-sale securities, including the general fair value hierarchy classification of each category:

Available-for-sale Securities	Valuation Techniques and Inputs Used	Fair Value Hierarchy Level
U.S. Treasury securities	Market approach valuation using quoted price from pricing services	Level 2
Corporate bonds	Market approach valuation using quoted price from pricing services	Level 2
Commercial paper	Cost based calculated price provided by investment management firm	Level 2
Certificates of deposit	Cost based calculated price provided by investment management firm	Level 2
Money market funds	Market observable fixed NAV of $1 quoted price provided by investment management firm	Level 1
Other (cash and other securities including sovereign bonds and agency securities)	Market approach valuation using quoted price from pricing services	Cash - Level 1, other securities - Level 2

9. Fair Value Measurements (continued)

Fair Value of Financial Instruments Measured at Amortized Cost

The estimated fair value of Amtrak's financial instruments measured at amortized cost on the Company's Consolidated Balance Sheets is as follows (in thousands):

	September 30, 2018		September 30, 2017	
	Principal Amount	**Fair Value**	**Principal Amount**	**Fair Value**
Mortgage obligations	$ **154,418**	$ **164,809**	$ 175,687	$ 188,548
Senior Notes	**450,680**	**442,808**	492,180	507,526
PEDFA 30th St. Garage Revenue Bonds	**31,743**	**31,018**	33,604	34,005
Term Loan A	**54,075**	**53,719**	72,746	73,511
Term Loan B	**43,070**	**42,748**	49,751	51,116
2016 RRIF Loan	**143,482**	**120,754**	140,327	127,532
Total	**$ 877,468**	**$ 855,856**	$ 964,295	$ 982,238

The estimated fair values of the financial instruments listed above are based upon discounted cash flow analysis using interest rates available to Amtrak at September 30, 2018 and 2017, for debt with the same remaining maturities.

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

For cash and cash equivalents, including restricted cash and cash equivalents; accounts receivable; accounts payable; and accrued expenses and other current liabilities, the carrying amounts approximate fair value given the short-term nature of the financial instruments.

10. Income Taxes

The Company recorded a benefit of $53.2 million and an expense of $2.1 million related to income taxes for the years ended September 30, 2018 and 2017, respectively. In FY2018, the income tax benefit related primarily to the impact of the Tax Cuts and Jobs Act (TCJA). The TCJA, which was enacted on December 22, 2017, reduced the statutory U.S. corporate tax rate from 35% to 21% effective January 1, 2018, and made numerous other changes. The TCJA rate decrease resulted in a blended U.S. tax rate for the Company for FY2018 of 24.5%. Provisions of TCJA with significant current year impact to the Company were the decrease in U.S. federal income tax rate, the unlimited carry forward of net operating losses (NOLs), and the taxation of the receipt of state and municipal grants. Income tax expense recorded in FY2017 resulted from net deferred tax liabilities that arose in periods subsequent to the expiration of the Company's then-existing NOLs calculated in accordance with the requirements of FASB ASC 740, *Income Taxes*, prior to the enactment of the TCJA.

Also on December 22, 2017, the Securities and Exchange Commission (SEC) issued SAB No. 118, which provides guidance on accounting for the impact of the TCJA, and allows companies to record provisional amounts during a measurement period not to exceed one year from the enactment date. The Company has elected to apply the guidance provided in SAB No. 118 in its Consolidated Financial Statements. The income tax benefit recognized in FY2018 relates to the provisional estimate of the impact of TCJA, net of the impact on the Company's valuation allowance, applying the guidance under SAB No. 118. The Company has made a reasonable estimate of the impact of the TCJA but this estimate could change based on future guidance from the Internal Revenue Service, the SEC, or the FASB.

A reconciliation of the actual effective income tax rate for FY2018 and FY2017 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,	
	2018	**2017**
U.S. federal statutory income tax rate	**24.5 %**	35.0 %
Impact of:		
Enactment of TCJA	**(18.2)**	N/A
Expiration of FY1998 NOL	**(6.7)**	—
Book/tax basis difference	**(2.0)**	(1.2)
Adjustments to Other comprehensive loss	**0.8**	(0.9)
State capital payments	**3.1**	3.0
Valuation allowance	**4.6**	(35.1)
Other	**—**	(1.0)
Effective income tax rate	**6.1 %**	(0.2) %

10. Income Taxes (continued)

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

	September 30, 2018	September 30, 2017
Deferred tax assets:		
Net operating loss carryforward	**$ 1,751,540**	$ 2,827,329
Postretirement employee benefits obligation	**131,389**	253,079
State capital payments	**49,688**	—
Claims reserves	**45,807**	67,394
Capital lease obligations	**39,683**	82,452
Accrued vacation and other compensation accruals	**25,595**	87,982
Other accruals	**19,937**	34,641
Materials and supplies reserves	**7,385**	9,967
Deferred gain on sale leaseback	**6,863**	13,948
Insurance recoveries	**936**	10,098
Other	**464**	2,750
Gross deferred tax assets	**2,079,287**	3,389,640
Less: valuation allowance	**(346,534)**	(386,798)
Net deferred tax assets	**1,732,753**	3,002,842
Deferred tax liabilities:		
Property and equipment	**(1,732,483)**	(3,054,745)
Deferred rent	**(270)**	(1,256)
Gross deferred tax liabilities	**(1,732,753)**	(3,056,001)
Net deferred tax liability	**$ —**	$ (53,159)

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. In the current year, the valuation allowance decreased by $40.3 million.

NOL carryforwards were $8.3 billion and $8.1 billion as of September 30, 2018 and 2017, respectively. An NOL carryforward of $239 million from FY1998 expired unused during FY2018. The remaining carryforwards generated from years through FY2017 will expire in various years from FY2019 through FY2037. As a result of the TCJA, the NOL generated in FY2018 may be carried forward indefinitely and will not expire.

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 FY2015 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 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, 2018, 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.

On August 8, 2016, the Company entered into a Purchase Agreement with a contractor for the acquisition of 28 Trainsets, to replace the Company's current *Acela Express* equipment which runs on the NEC (the Next-Generation High-Speed Trainsets Project). The base price of the contract 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 will make 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, 2018, Amtrak has received letters of credit for a total of $434.9 million for which Amtrak is the beneficiary. Additional letters of credit will be issued during the construction period. The Company has incurred $563.2 million and $551.5 million in Trainsets procurement project related costs as of September 30, 2018 and 2017, respectively. Of the total cost incurred, $550.6 million and $541.8 million was capitalized as part of "Construction-in-progress" in the Consolidated Balance Sheets as of September 30, 2018 and 2017, respectively. The remaining costs 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 technical support and spares supply agreement 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, expected in December 2020. The base price for the technical support and spares supply agreement is $637.6 million. As of September 30, 2017, the Company incurred $4.3 million in cost related to the agreement. No additional costs were incurred in FY2018.

On August 3, 2010, the Company entered into a contract with a contractor to purchase 130 new long-distance single level cars. The Company issued an NTP to the contractor on September 7, 2010. As of September 30, 2018, the base price of the contract with change orders is $299.5 million. The Company makes payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones), e.g. design, fabrication, testing and manufacturing of the cars, during the contract.

11. Commitments and Contingencies (continued)

As of September 30, 2018, the Company has incurred $240.4 million in project-related costs. Deliveries of the cars started in December 2014. As of September 30, 2018, the Company has taken delivery of 93 cars. The contractor's most recent delivery schedule shows delivery of the final cars in December 2020.

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 FY2018 and FY2017 totaled $158.5 million and $141.9 million, respectively, and are included in "Train operations" in the Consolidated Statements of Operations.

Risk of Liability and Insurance

The Amtrak Reform and Accountability Act of 1997 limited the amount railroad passengers may recover from a single accident to an aggregate of $200.0 million. In December 2015, the FAST Act increased the limit to $295.0 million for the FY2015 derailment of Amtrak Train No. 188. The FAST Act also required the DOT Secretary to calculate a revised claim limit for all other railroad passenger claims from a single incident based on the consumer price index since December 2, 1997. On January 11, 2016, the DOT Secretary issued its calculation setting the new limit at $294.3 million effective February 11, 2016. The FAST Act requires this to be adjusted every five years after the date of the FAST Act's enactment, so this new claim limit will remain effective through 2020. As non-passenger liability is not limited and there is also a need to insure in the event of multiple occurrences per policy period, Amtrak purchases excess liability insurance limits beyond the statutory cap.

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 various insurance policies to cover its liability to employees and other parties for injury or damage resulting from accidents, to cover Amtrak's loss resulting from damage to Amtrak property and to insure against catastrophic events. Losses within the self-insured retentions and deductibles under these policies are self-insured by Amtrak.

FY2018 Derailments

On December 18, 2017, westbound Amtrak train No. 501 derailed from a bridge over Interstate 5 near Dupont, Washington (the Train No. 501 Derailment). The preliminary report issued by the National Transportation Safety Board (NTSB) indicates that the train derailed on a 30 mph curve at a speed of 78 mph. The NTSB has not issued its final report.

There were 77 passengers, five Amtrak employees and a technician on board. Three passengers were killed and 62 passengers and crew members were injured. Eight individuals in highway vehicles were also injured. As of September 30, 2018, nine lawsuits on behalf of passengers, employees and motorists have been filed.

11. Commitments and Contingencies (continued)

On February 4, 2018, southbound Amtrak train No. 91 collided with a stationary CSX Transportation local freight train on a track siding after being diverted onto the siding from the main track (the Train No. 91 Derailment). The preliminary investigation suggests that a CSX maintenance crew aligned the switch to move rail traffic from the main track onto the siding and secured it in place. The NTSB has not issued its final report.

There were eight crew members and 140 passengers on board. The engineer and conductor of the Amtrak train died as a result of the collision. 116 passengers and crew members were injured. There was one minor injury on the CSX freight train. As of September 30, 2018, four lawsuits on behalf of passengers and employees have been filed.

For both derailments, the amount of total passenger and employee liability claims in excess of the $20.0 million self-insured retention per incident are expected to be covered by insurance. As of September 30, 2018, the Company has accrued its best estimate of its liabilities. The claim payments expected to be made during FY2019 are recorded within “Accrued expenses and other current liabilities” and the remaining claim reserve liability is recorded within “Casualty reserves” in the Consolidated Balance Sheets. The Company recorded an insurance recovery receivable representing the Company’s best estimate of insurance proceeds it believes are probable of recovery. Proceeds expected to be collected in FY2019 and subsequent to FY2019 are recorded within "Other current assets" and “Deferred charges, deposits, and other”, respectively, on the Consolidated Balance Sheets.

In addition, Amtrak suffered property losses in both derailments. All damages in excess of Amtrak’s property insurance deductible, $0.1 million for the Train No. 501 Derailment and $10.0 million for the Train No. 91 Derailment are expected to be covered by insurance.

Labor Agreements

Excluding employees within Amtrak’s OIG, approximately 85% of Amtrak’s labor force is covered by labor agreements. Under the Railway Labor Act, labor contracts never expire but are instead opened periodically for renegotiation. Although there are no timeframes for negotiations to be completed, it is likely there could be retroactive wage increases in settlements, consistent with prior agreements. During FY2018, the Company ratified labor contracts with all of its unionized workforce, which provide terms and conditions of employment through September 2022 for the Fraternal Order of Police and December 2021 for the remainder of its unionized workforce, and paid retroactive wage increases in accordance with the negotiated terms. As all of the unions had ratified contracts as of the end of FY2018, no accrual for retroactive wage increases was recorded as of September 30, 2018. As of September 30, 2017, the Company accrued $125.9 million in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets.

Legal Proceedings

Amtrak is involved in various litigation and arbitration proceedings in the normal course of business, including but not limited to several distinct tort, contract, eminent domain and civil rights claims. The outcome of these matters cannot be predicted with certainty. 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

11. Commitments and Contingencies (continued)

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 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 known.

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, 42 U.S.C. §12162(e). 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. DOJ has indicated, both in its Letter of Findings and in its communications with Amtrak's counsel, that DOJ intends to work cooperatively with Amtrak to negotiate a settlement or consent decree. 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 financial statements do not reflect the costs of Amtrak becoming fully compliant with the ADA. As of September 30, 2018, Amtrak has spent a total of $475.0 million on ADA-related projects. Approximately $50.1 million and $44.4 million of the expenditures were incurred during FY2018 and FY2017, 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 should have PTC systems installed and operating by December 31, 2015, provided, however, that a Class I railroad is only required to install PTC on routes where there are five million or more gross tons of railroad traffic per year and the presence of either passenger trains or poison by inhalation hazardous materials. PTC is a system of functional requirements for monitoring and controlling train movements and is a type of train protection system. The FRA rules for PTC provide for exceptions to these PTC requirements which are subject to FRA approval. These exceptions are available when the number of passenger trains operated, and the freight traffic volume on rail lines hosting passenger trains, do not exceed limits specified in the rules.

In October 2015, Congress passed the Surface Transportation Extension Act of 2015, which permits a railroad to request FRA's approval for an "alternative schedule" with a deadline extending beyond December 31, 2018, but no later than December 31, 2020, for full PTC system implementation. Due to the difficulties encountered in the process of testing PTC system implementation with a large number of freight and commuter partners, along with the technical complexities, Amtrak was required to submit an alternative schedule request to the FRA to enable the Company to continue operating while it finalizes testing of its system and the systems

11. Commitments and Contingencies (continued)

of its hosts and tenants. This alternative schedule was required due to the FRA's interpretation of the law that full implementation status would not be considered achieved until all non-Amtrak trains operating on Amtrak's PTC-equipped lines were also PTC-compliant. To be considered "fully implemented" required that all other railroads operating across any of Amtrak's PTC-equipped lines were deemed capable of operating under Amtrak's PTC system. Amtrak's alternative schedule request was approved by the FRA and Amtrak is working actively with its host railroad partners to achieve FRA defined criteria.

All of Amtrak's host railroads also applied for alternative schedules and received extension until December 31, 2020. Amtrak is working with federal authorities and with commuter and freight railroads to ensure Amtrak trains are compliant with PTC systems adopted for use by host railroads.

Additional funding to fully comply with PTC requirements is necessary and will be requested from the Company's federal and various state partners. Compliance with PTC requirements on the host railroads outside of the NEC could result in significant costs to Amtrak. Amtrak's contribution to PTC installation and maintenance on host railroad property has not yet been defined. Accordingly, the accompanying financial statements do not reflect an estimated liability for the cost of Amtrak becoming fully compliant with PTC.

The NEC rail line owned or controlled by the Company between Boston and Washington was PTC compliant by the original December 31, 2015 deadline, except for a few miles where technical issues are still being resolved. All Amtrak owned and/or operated rail lines, and Amtrak owned and controlled locomotives, are expected to be in compliance with the PTC requirements by the required date of December 31, 2020. As of September 30, 2018, Amtrak has spent $222.9 million for PTC-related projects on Amtrak owned or controlled rail lines and equipment. Approximately $31.5 million and $11.0 million of the expenditures were incurred during FY2018 and FY2017, respectively.

Certain host railroads over which Amtrak operates its passenger trains have asserted material claims against Amtrak to recover costs of PTC installation and maintenance. They may also 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 the likelihood that 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 believes that it may not be responsible for all costs claimed to date by the host railroads, and is evaluating the claims to ensure that all exemptions have been obtained and that the claimed costs are required to be paid by Amtrak pursuant to the terms of the operating agreements in place between Amtrak and its host railroads, and by statute.

As of September 30, 2018, Amtrak has accrued its best estimate of the liability associated with PTC installation related to host railroad PTC implementation for the incurred amounts determined to be both probable and reasonably estimable. The portion of the liability that Amtrak expects to pay in FY2019 was recorded within "Accrued expenses and other current liabilities", and the remaining portion was recorded within "Other liabilities" in the Consolidated Balance Sheets. Amtrak anticipates that additional accruals, which may be material, could be recorded in the future once the Company completes its analysis of those claims and its negotiations with the hosts. Accordingly, Amtrak believes that it is reasonably possible that it 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 railroads will be reflected in the periods in which such liability becomes probable and estimable. In addition, Amtrak believes that it may be eligible to recover some

11. Commitments and Contingencies (continued)

of the amounts to be paid to the host railroads from the state agencies for which Amtrak has agreements to provide service; however, Amtrak has not recorded any amounts related to this potential recovery.

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 facilities, 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 a result of any of the foregoing. Based upon information currently available, the Company believes its environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect its overall financial condition, results of operations, or liquidity.

As of September 30, 2018 and 2017, the environmental reserve was $156.8 million and $135.5 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 $17.1 million and $19.5 million as of September 30, 2018 and 2017, respectively, and is reported in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. Of the reserve, $132.4 million and $110.1 million, included in "Right-of-way and other properties" in the Consolidated Balance Sheets as of September 30, 2018 and 2017, respectively, relates to estimated future capital expenditures for environmental remediation.

The amounts included in "Environmental Reserve" 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

12. Environmental Matters (continued)

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.

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. Prior to FY2016, 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.

On August 10, 2016, the Retirement Income Plan was amended to permit retirees with vested balances greater than $1,000 and who are not actively receiving benefits from the plan to receive a lump sum payment equal to the actuarial equivalent of the retiree's accrued benefit or an actuarial equivalent immediate annuity in the applicable normal annuity form under the plan. In December 2016 and January 2017, the Company made settlement payments totaling $21.9 million. As a result of the settlement, in FY2017 the projected benefit obligation was reduced by $22.7 million, and the Company reclassified $5.4 million related net loss from "Accumulated other comprehensive loss" on its Consolidated Balance Sheet to "Salaries, wages and benefits" expense on the Consolidated Statement of Operations.

13. Postretirement Employee Benefits (continued)

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, 2018 and 2017 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2018	**2017**	**2018**	**2017**
Reconciliation of projected benefit obligation:				
Obligation at October 1	**$ 465,116**	$ 495,789	**$ 694,222**	$ 794,748
Service cost	**—**	—	**13,831**	17,447
Interest cost	**18,105**	18,374	**24,638**	26,542
Actuarial gain	**(21,337)**	(5,220)	**(73,314)**	(92,823)
Employee contributions	**—**	—	**2,579**	2,797
Benefit payments	**(23,956)**	(43,827)	**(55,975)**	(54,489)
Obligation at September 30	**$ 437,928**	$ 465,116	**$ 605,981**	$ 694,222
Reconciliation of fair value of plan assets:				
Plan assets at October 1	**$ 436,255**	$ 426,142	**$ —**	$ —
Actual gain on plan assets	**8,261**	42,084	**—**	—
Employer contributions	**—**	14,000	**53,396**	51,692
Participant contributions	**—**	—	**2,579**	2,797
Medicare Part D subsidy	**—**	—	**56**	74
Benefit payments, net	**(26,271)**	(45,971)	**(56,031)**	(54,563)
Plan assets at September 30	**$ 418,245**	$ 436,255	**$ —**	$ —
Funded status:				
Accumulated benefit obligation at September 30	**$ (437,928)**	$ (465,116)	**$ (605,981)**	$ (694,222)
Projected benefit obligation at September 30	**(437,928)**	(465,116)	**(605,981)**	(694,222)
Fair value of plan assets	**418,245**	436,255	**—**	—
Net unfunded status of the plan	**$ (19,683)**	$ (28,861)	**$ (605,981)**	$ (694,222)
Net liability recognized in Consolidated Balance Sheets	**$ (19,683)**	$ (28,861)	**$ (605,981)**	$ (694,222)

Pension and other postretirement benefit amounts recognized in the Consolidated Balance Sheets as of September 30, 2018 and 2017 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2018	**2017**	**2018**	**2017**
Current liabilities	**$ 14,000**	$ 14,000	**$ 52,125**	$ 53,683
Non-current liabilities	**5,683**	14,861	**553,856**	640,539
Net amount recognized	**$ 19,683**	$ 28,861	**$ 605,981**	$ 694,222

13. Postretirement Employee Benefits (continued)

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss in FY2018 and FY2017 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Net loss	**$ 107,889**	$ 112,697	**$ 110,663**	$ 209,651
Prior service cost	**—**	—	**(73,876)**	(205,416)
Net amount recognized	**$ 107,889**	$ 112,697	**$ 36,787**	$ 4,235

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the plans for FY2018 and FY2017 (in thousands):

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Service cost	**$ 1,270**	$ 1,370	**$ 13,831**	$ 17,447
Interest cost	**18,105**	18,374	**24,638**	26,542
Expected return on plan assets	**(26,495)**	(27,942)	**—**	—
AOCI reclassification adjustment[1]:				
Amortization of prior service credit	**—**	—	**(131,540)**	(130,496)
Amortization of net loss	**2,771**	2,796	**25,675**	36,903
Settlement loss	**—**	5,408	**—**	—
Net periodic benefit (income) cost	**$ (4,349)**	$ 6	**$ (67,396)**	$ (49,604)

[1] Reclassifications from Accumulated Other Comprehensive Income (AOCI) were recorded within “Salaries, wages, and benefits” expense in the Consolidated Statements of Operations.

During FY2018, the Retirement Income Plan incurred a net actuarial gain of $21.3 million, consisting of a $22.4 million gain due to an increase in the discount rate because of increases in corporate bond rates in FY2018 and a $1.4 million gain due to favorable change in mortality rates that reflect lower future longevity improvements, partially offset by a $2.5 million loss due to actual versus expected plan experience for retirement, mortality and turnover.

The other postretirement benefits plans incurred a combined net actuarial gain of $73.3 million, consisting primarily of a $32.5 million gain due to an increase in the discount rate because of increases in corporate bond rates in FY2018, a $31.3 million gain due to lower FY2018 medical expenses, a $5.0 million gain due to a favorable change in the health care cost trend and a $3.2 million gain due to actual versus expected plan experience for retirement, mortality and turnover.

13. Postretirement Employee Benefits (continued)

Plan Assets

The Company's pension plan asset allocation at September 30, 2018 and 2017, and initial target allocation for 2019, are as follows:

	Plan Assets		
	2019	2018	2017
Fixed income securities	70.0 %	**64.2 %**	66.3 %
Domestic equity securities	15.3	**17.2**	15.0
Global asset allocation funds	14.7	**16.1**	11.6
Money market funds	—	**1.3**	1.9
Real estate investment trust	—	**—**	5.4
Other[1]	—	**1.2**	(0.2)
Total	100.0 %	**100.0 %**	100.0 %

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

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 investment objectives seek to reduce funded status volatility as the Retirement Income Plan's funded status increases and ultimately would position the Retirement Income Plan 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 level of the "return-seeking portfolio" (which includes domestic and international equity, global investment grade bonds, high yield bonds, bank loans, emerging market debt and real estate) and the structure of the long-term fixed income portfolio" (primarily longer duration investment grade fixed income securities denominated in U.S dollars) are the key elements of the asset-liability strategy for the pension investment program. The Retirement Income Plan's strategic allocation policy is 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

Domestic Equity Securities

Investments in this category consist of the Vanguard Total Stock Market Index Fund which is made up of equity securities and seeks to closely track the performance of the Center for Research and Security UT Total

13. Postretirement Employee Benefits (continued)

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.

Global Asset Allocation Funds

This category is composed of investments in the Vanguard FTSE All-World ex-US Index Fund (Vanguard INTL) and the PIMCO Diversified Income fund (PIMCO DIF).

The Vanguard INTL investment (fair value of $35.8 million and $34.4 million as of September 30, 2018 and 2017, respectively) 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 PIMCO DIF investment (fair value of $31.7 million and $16.1 million as of September 30, 2018 and 2017, respectively) actively manages a portfolio that invests across a broad universe of fixed income instruments in the global credit markets.

Both funds in this category are actively traded and price quotes for these shares are readily available.

Money Market Funds

Money market funds generally transact subscription and redemption activity at a $1.00 stable NAV. Investments in the money market funds can be redeemed on a daily basis. Amtrak's category of investments in money market funds consists of the JPMorgan 100% U.S. Treasury Securities Money Market Fund. The significant accounting policy section of JP Morgan's Money Market Funds Annual Report states for the investment valuation for JPMorgan 100% U.S. Treasury Securities Money Market Fund that, "Each Fund has elected to use the amortized cost method of valuation pursuant to Rule 2a-7 under the 1940 Act provided that certain conditions are met, including that the Fund's Board of Trustees continues to believe that the amortized cost valuation method fairly reflects the market based NAV per share of the Fund".

Level 2 Investments

Fixed Income Securities

This investment category consists of U.S. government securities, corporate bonds, government bonds, and municipal bonds. These assets are valued based on a compilation of primarily observable market information or a broker quote in a non-active market.

Investments Measured at NAV

Prior to adoption of ASU 2015-07, the investment described below which is measured at fair value using the NAV practical expedient permitted under Topic 820 was classified as a Level 2 investment. Following the

13. Postretirement Employee Benefits (continued)

adoption of the guidance in ASU 2015-07 which required retrospective application, this investment is presented separately for FY2017. This investment was liquidated in FY2018.

Real Estate Investment Trust

As of September 30, 2017, this category consisted of an investment in the Morgan Stanley Prime Property fund which is a fully specified, open-ended, commingled real estate investment fund diversified by property type and location designed to provide a stable, income-driven rate of return over the long-term with potential for growth of income and appreciation of value. The fund invests in core private equity real estate investments with the objective of achieving in the long run an aggregate annual return on invested equity of 8%-10%, gross of fees, with majority of returns from income, with modest appreciation, and using leverage when appropriate. The fair value of the investments in the Prime Property Fund was estimated using the NAV of the Plan's ownership interest (units) in the partner's capital. The investment in the Prime Property Fund was redeemable on a quarterly basis, but with no guarantee that cash would be available at any particular time to fund the redemption request. If the cash would not be available, the redemption would have been deferred at the discretion of the fund manager until sufficient cash is available. There were no unfunded withdrawal requests as of September 30, 2017. The investment was liquidated in FY2018.

The following table represents the fair values of the Company's pension assets by level within the fair value hierarchy (as described in Note 9) as of September 30, 2018 and 2017 (in thousands):

	Total	Level 1	Level 2	Level 3
September 30, 2018				
Fixed income securities:				
U.S. government securities	$ 3,494	$ —	$ 3,494	$ —
Corporate bonds	230,482	—	230,482	—
Government bonds	16,055	—	16,055	—
Municipal bonds	18,589	—	18,589	—
Total fixed income securities	268,620	—	268,620	—
Domestic equity securities	72,049	72,049	—	—
Global asset allocation funds	67,483	67,483	—	—
Money market funds	5,026	5,026	—	—
Total investments, at fair value	$ 413,178	$ 144,558	$ 268,620	$ —
Other[1]	5,067			
Total plan assets	$ 418,245			

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

13. Postretirement Employee Benefits (continued)

	Total	Level 1	Level 2	Level 3
September 30, 2017				
Fixed income securities:				
U.S. government securities	$ 10,173	$ —	$ 10,173	$ —
Corporate bonds	239,014	—	239,014	—
Government bonds	19,897	—	19,897	—
Municipal bonds	20,543	—	20,543	—
Total fixed income securities	289,627	—	289,627	—
Domestic equity securities	65,387	65,387	—	—
Global asset allocation funds	50,514	50,514	—	—
Money market funds	8,147	8,147	—	—
Total investments at fair value excluding those measured at net asset value	$ 413,675	$ 124,048	$ 289,627	$ —
Investments measured at net asset value using the practical expedient:				
Real estate investment trust	23,463			
Total investments, at fair value	437,138			
Other[1]	(883)			
Total plan assets	$ 436,255			

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

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 current asset allocation is expected to be approximately 6.0%.

13. Postretirement Employee Benefits (continued)

Estimated Future Benefit Payments

Based upon the assumptions used to measure the pension and other postretirement benefit obligations as of September 30, 2018, 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,		
2019	$ 26,084	$ 52,125
2020	26,714	50,088
2021	27,322	48,055
2022	27,779	46,540
2023	27,975	44,311
2024-2028	140,227	226,731

Contributions

In FY2019, Amtrak expects to contribute $14.0 million to the defined benefit plan and $52.1 million towards other postretirement benefits.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of September 30, 2018 and 2017 are as follows:

	Pension Benefits		Other Benefits	
	2018	**2017**	**2018**	**2017**
Discount rate	**4.30 %**	3.86 %	**4.25 %**	3.68-3.70 %

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2018 and 2017 are as follows:

	Pension Benefits		Other Benefits	
	2018	**2017**	**2018**	**2017**
Discount rate	**3.86 %**	3.74-4.29 %	**3.68-3.70 %**	3.44-3.50 %
Expected long-term return on assets	**6.25 %**	7.00 %	**N/A**	N/A

13. Postretirement Employee Benefits (continued)

Assumed health care cost trend rates are as follows:

	September 30,	
	2018	**2017**
Health care cost trend rate assumed for next year	**7.09-7.84 %**	7.71-8.89 %
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	**2026**	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 $0.7 million and $1.1 million for FY2018 and FY2017, respectively, 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. Amtrak's expenses under this plan were $19.0 million and $18.4 million for FY2018 and FY2017, respectively.

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

14. Subsequent Events

Settlement Agreement with State Partner

On December 27, 2018, Amtrak entered into an agreement with one of the Company's state partners whereby Amtrak received approximately $182 million as payment for its outstanding receivables as of September 30, 2018. As part of that agreement, the Company designated the proceeds for use towards ongoing capital projects with the aforementioned state partner.

Management's Evaluation

The Company has evaluated subsequent events through January 28, 2019, which is the date the financial statements were available to be issued. There were no other subsequent events that require adjustments to or disclosure in the Company's financial statements for FY2018.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors and Stockholders
National Railroad Passenger Corporation

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of National Railroad Passenger Corporation and subsidiaries (Amtrak or the Company), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of operations, comprehensive loss, changes in capitalization and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2019.

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, 2019. The Company expects to receive additional Federal Government funding through continuing resolutions for fiscal year 2019 or until the formal appropriations bill is signed into law. There are currently no Federal Government subsidies appropriated by law for any period subsequent to February 15, 2019. Without the receipt of Federal Government funding, Amtrak 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Amtrak's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Amtrak's internal control. Accordingly, we do not express an opinion on the effectiveness of Amtrak's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a

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material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in Appendix A that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Amtrak's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Amtrak's Response to Findings

Amtrak's response to the findings identified in our audit is described in the accompanying Appendix A. Amtrak's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it. The status of prior year instances of deficiencies is presented in Appendix B.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

January 28, 2019

A member firm of Ernst & Young Global Limited

Appendix A – Significant Deficiency in Internal Control Over Financial Reporting

Information Systems

Access and change management controls are fundamental to the integrity of all information systems. Such controls, including appropriately designed and implemented preventive controls and monitoring controls for proper assessment and timely remediation, can help manage risks such as unauthorized access and changes to critical data and programs. These controls include logical access restrictions and administration of user access throughout the information system processes to validate that the integrity of Amtrak's information resources is not compromised.

As part of our fiscal year 2018 audit, we identified information technology general control deficiencies that when aggregated, result in a significant deficiency in the operation of information systems access controls. Although certain control deficiencies were recurring from prior years, those control deficiencies continued to narrow in scope. In addition, Amtrak designed and implemented a compensating control to mitigate the risk associated with deficiencies identified as the controls were not executed consistently or operating throughout the fiscal year. The compensating control, however, was not appropriately implemented and did not operate at a consistently precise level for the identified deficiencies.

- Inconsistent administration of privileged IT access (referred to as Superuser access).
- Lack of timely monitoring of privileged IT activities.
- Lack of timely de-provisioning of user access.
- Lack of consistent execution of the periodic user access reviews, including retention of relevant documentation evidencing the completeness and accuracy of data used in the review, segregation of duties between users and reviewers, and timely resolution of identified discrepancies and the mitigation of risk.
- Lack of appropriate password parameters for certain applications.
- Lack of comprehensive documentation to properly evaluate IT general controls for the financial reporting objectives.
- Lack of appropriate approvals to support the provisioning of access to applications.

In the current fiscal year, Amtrak enhanced the design of controls to remediate the prior year control deficiencies and designed and implemented a compensating monitoring control to determine if risks, as a result of identified deficiencies, were mitigated. Amtrak will need to continue to demonstrate improvement and consistency in the execution and operation of such controls. Consistent execution and operation of Amtrak's IT general controls should result in strengthened control, monitoring and oversight processes that will enhance the overall integrity of Amtrak's information systems.

The significant deficiency impacted application controls and IT-dependent manual controls, including management review controls relying on electronic data across transactions that were significant to the financial reporting process.

Recommendation:

Improvements are necessary in the controls over monitoring of compliance with Amtrak's policies, including the prevention of and monitoring for inconsistencies in access rights allowing potential inappropriate system activity and the monitoring of privileged activity in key systems. Oversight processes should be improved to appropriately implement, consistently execute and ensure that the controls are operating at a consistently precise level throughout the fiscal year.

- Consistently maintain appropriate privileged IT access throughout the fiscal year.
- Consistently execute the monitoring of privileged activity within the specified time period.
- Consistently follow relevant Amtrak policies related to the de-provisioning of user access for all significant applications and supporting infrastructure.
- Consistently execute the periodic user access review process including the examination and retention of completeness and accuracy of data used in the review, appropriate segregation of duties between users and reviewers, and the timely resolution of identified discrepancies and the mitigation of associated risks.
- Enhance the IT control documentation, including risk assessment and identification of controls and financially relevant applications to improve the effectiveness of IT general controls.

Management's Response:

While Amtrak made notable progress during the current fiscal year towards the remediation of information technology control deficiencies that when aggregated resulted in a significant deficiency in internal control over financial reporting in the prior year, Amtrak management agrees that further progress is required to complete the remediation.

The Company is focusing on several efforts to strengthen the IT control environment, including:

- Adopting the Committee of Sponsoring Organizations (COSO) framework to identify and document information technology general controls relevant to financial reporting.

Appendix A – Significant Deficiency in Internal Control Over Financial Reporting (continued)

- Performing monitoring activities to help the Company ensure that internal controls continue to operate effectively and do not deteriorate due to the passage of time.

- Developing a training program to increase awareness and ownership of internal controls throughout the IT department.

- Continuing to focus on developing and propagating relevant policies, procedures and processes to govern the Company's IT practices and on enhancing oversight responsibilities to ensure that the proper controls are implemented and executed consistently as designed.

Management remains committed to action plans seeking continuous improvement through ongoing efforts to strengthen the Company's internal control environment and is confident that the appropriate corrective action measures are being carried out to remediate the significant deficiency.

Appendix B – Status of Prior Year Deficiencies

Process	Nature of Comment	Type of Comment in Fiscal Year 2017	Current Year Status
Information Systems	Information technology general controls that when aggregated result in a significant deficiency in the design and operation of the information systems controls.	Significant Deficiency	Significant Deficiency for Information Systems – during fiscal year 2018, the Company enhanced the design of controls and designed and implemented a compensating control to determine risk mitigation for certain information technology general controls that were not operating throughout the fiscal year.