AMTRAK 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 2015

OIG-A-2016-012 | September 29, 2016

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OFFICE *of* INSPECTOR GENERAL
NATIONAL RAILROAD PASSENGER CORPORATION

Memorandum

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

Gerald Sokol, Jr.
Executive Vice President and Chief Financial Officer

From: Tom Howard Tom Howard
Inspector General

Date: September 29, 2016

Subject: *Governance: Quality Control Review of the Independent Audit of Amtrak's Consolidated Financial Statements for Fiscal Year Ended 2015*
(OIG-A-2016-012)

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, 2015, 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 authorized 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 review disclosed no instances in which Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards. The key aspects of the Ernst & Young reports are discussed below.

In its audit of the company's consolidated financial statements, Ernst & Young concluded, in its report dated August 3, 2016, that the consolidated financial statements fairly presented, in all material respects, the consolidated financial position of the National Railroad Passenger Corporation and subsidiaries at September 30, 2015, and the consolidated results of their operations, and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles (GAAP). Ernst & Young's report also emphasized that without receipt of federal funding, the company will not be able to continue in its current form, and significant operating changes, restructurings, or bankruptcy might occur.

In its FY 2015 *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*, Ernst & Young identified two significant deficiencies that when aggregated, resulted in a material weakness in the design and operation of Information Systems controls. The two significant deficiencies relate to Information Technology (IT) general controls; specifically, user access and change management controls. The material weakness impacted all classes of transactions significant to financial reporting.

Ernst & Young made several recommendations to correct the material weakness, and the company agreed with all of them. In responding to the recommendations, management stated the company has implemented several corrective action plans to address the root causes and will continue to implement the corrective actions required to remediate the remaining findings. In its report on the FY 2014 consolidated financial statements E&Y reported three material weaknesses—Capital Lease Accounting, Documentation, and Analysis; Income Tax Accounting; and Financial Reporting—that were remediated during FY 2015.

Ernst & Young identified other deficiencies in internal control over financial reporting, which it provided in a management letter on September 28, 2016.

We monitored Ernst & Young's audit activities by reviewing its reports, auditor independence and qualifications, audit plans, detailed testing results, summary work papers, and quality controls. We also attended key meetings.

Our monitoring activities, as differentiated from an audit in accordance with generally accepted government auditing standards, were not intended to enable us to express an audit opinion. 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. Ernst & Young is responsible for its reports dated August 3, 2016, and the conclusions expressed in those reports.

We appreciate the courtesies and cooperation that representatives of the company and Ernst & Young extended to us during our work. If you have any questions, please contact me (Tom.Howard@amtrakoig.gov) or Kevin Winters, Deputy Inspector General/Counsel (Kevin.Winters@amtrakoig.gov) at 202-906-4600.

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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800-468-5469

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Consolidated Financial Statements

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Years Ended September 30, 2015 and 2014

With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Financial Statements

Years Ended September 30, 2015 and 2014

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Building a better working world

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, 2015 and 2014, 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 opinions 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.

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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, 2015 and 2014, 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 in 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 Resolution, 2016 and the Consolidated and Further Continuing Appropriations Act, 2016. There are currently no Federal Government subsidies appropriated by law for any period subsequent to September 30, 2016. Without the 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. 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 August 3, 2016, on our consideration of the National Railroad Passenger Corporation and subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Railroad Passenger Corporation's internal control over financial reporting and compliance.

Ernst & Young LLP

August 3, 2016

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, 2015	September 30, 2014
Assets		
Current Assets:		
Cash and cash equivalents	**$ 523,028**	$ 424,041
Restricted cash and cash equivalents	**4,978**	5,149
Accounts receivable, net of allowances of $5,067 and $4,429 as of September 30, 2015 and 2014, respectively	**308,875**	307,917
Materials and supplies, net of allowances of $27,782 and $46,074 at September 30, 2015 and 2014, respectively	**272,689**	268,410
Prepaid expenses	**27,721**	15,396
Other current assets	**36,653**	44,219
Total current assets	**1,173,944**	1,065,132
Property and equipment:		
Locomotives	**1,944,706**	1,709,439
Passenger cars and other rolling stock	**3,168,946**	2,992,737
Right-of-way and other properties	**12,124,468**	11,733,797
Construction-in-progress	**1,410,974**	1,311,304
Leasehold improvements	**556,327**	527,439
Property and equipment, gross	**19,205,421**	18,274,716
Less: Accumulated depreciation and amortization	**(7,502,347)**	(7,016,382)
Total property and equipment, net	**11,703,074**	11,258,334
Other assets, deposits, and deferred charges:		
Notes receivable on sale-leasebacks	**55,210**	54,440
Deferred charges, deposits, and other	**362,356**	76,020
Total other assets, deposits, and deferred charges	**417,566**	130,460
Total assets	**$ 13,294,584**	$ 12,453,926

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets (continued)

(In Thousands of Dollars, Except Share Data)

	September 30, 2015	September 30, 2014
Liabilities and capitalization		
Current liabilities:		
Accounts payable	**$ 380,505**	$ 337,478
Accrued expenses and other current liabilities	**629,847**	560,935
Deferred ticket revenue	**146,197**	133,733
Current maturities of long-term debt and capital lease obligations	**120,609**	106,291
Total current liabilities	**1,277,158**	1,138,437
Long-term debt and capital lease obligations:		
Capital lease obligations	**617,089**	483,088
Other long-term debt	**502,822**	681,210
Total long-term debt and capital lease obligations	**1,119,911**	1,164,298
Other liabilities and deferred credits:		
Deferred state capital payments	**1,323,929**	1,190,592
Casualty reserves	**440,708**	150,748
Deferred gain on sale-leasebacks	**49,521**	54,355
Postretirement employee benefits obligation	**863,817**	1,232,671
Environmental reserve	**46,290**	46,042
Deferred income taxes	**49,222**	226
Other liabilities	**132,404**	74,953
Total other liabilities and deferred credits	**2,905,891**	2,749,587
Total liabilities	**5,302,960**	5,052,322
Commitments and contingencies *(Note 10)*		
Capitalization:		
Preferred stock - $100 par, 109,396,994 shares authorized, issued and outstanding at September 30, 2015 and 2014	**10,939,699**	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding at September 30, 2015 and 2014	**93,857**	93,857
Other paid-in capital	**29,672,867**	28,209,068
Accumulated deficit	**(32,584,857)**	(31,352,171)
Accumulated other comprehensive loss	**(129,942)**	(488,849)
Total capitalization	**7,991,624**	7,401,604
Total liabilities and capitalization	**$ 13,294,584**	$ 12,453,926

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Operations

(In Thousands of Dollars)

	Year Ended September 30, 2015	2014
Revenues:		
Passenger related	**$ 2,478,740**	$ 2,508,165
Commuter	**122,671**	119,032
Other	**609,612**	608,389
Total revenues	**3,211,023**	3,235,586
Expenses:		
Salaries, wages, and benefits	**2,136,564**	2,105,766
Train operations	**251,855**	223,880
Fuel, power, and utilities	**283,320**	362,971
Materials	**182,601**	203,232
Facility, communication, and office related	**198,323**	190,629
Advertising and sales	**95,214**	96,381
Casualty and other claims	**90,336**	58,653
Depreciation and amortization	**747,797**	759,023
Other	**485,950**	416,205
Indirect cost capitalized to property and equipment	**(139,353)**	(133,191)
Total expenses	**4,332,607**	4,283,549
Net loss before other (income) and expense	**1,121,584**	1,047,963
Other (income) and expense:		
Interest income	**(2,259)**	(2,045)
Interest expense	**66,116**	60,989
Other income, net	**(1,751)**	(24,295)
Other expense, net	**62,106**	34,649
Loss before income taxes	**1,183,690**	1,082,612
Income tax expense	**48,996**	—
Net loss	**$ 1,232,686**	$ 1,082,612

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Comprehensive Loss

(In Thousands of Dollars)

	Year Ended September 30, 2015	2014
Net loss	**$ 1,232,686**	$ 1,082,612
Other comprehensive loss:		
Pension and other postretirement benefit items:		
Net loss arising during the period	**19,820**	133,442
Prior service credit during the period related to plan amendment	**(402,854)**	—
Amortization of actuarial loss	**(51,849)**	(38,113)
Amortization of prior service cost	**75,976**	21,754
Total pension and other postretirement benefit items	**(358,907)**	117,083
Comprehensive loss	**$ 873,779**	$ 1,199,695

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, 2013	$ 10,939,699	$ 93,857	$ 26,697,860	$ (30,269,559)	$ (371,766)	$ 7,090,091
Federal paid-in capital	—	—	1,511,208	—	—	1,511,208
Net loss	—	—	—	(1,082,612)	—	(1,082,612)
Total pension and other postretirement benefit items	—	—	—	—	(117,083)	(117,083)
Balance as of September 30, 2014	10,939,699	93,857	28,209,068	(31,352,171)	(488,849)	7,401,604
Federal paid-in capital	**—**	**—**	**1,463,799**	**—**	**—**	**1,463,799**
Net loss	**—**	**—**	**—**	**(1,232,686)**	**—**	**(1,232,686)**
Total pension and other postretirement benefit items	**—**	**—**	**—**	**—**	**358,907**	**358,907**
Balance as of September 30, 2015	**$ 10,939,699**	**$ 93,857**	**$ 29,672,867**	**$ (32,584,857)**	**$ (129,942)**	**$ 7,991,624**

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Year Ended September 30, 2015	2014
Cash flows from operating activities		
Net loss	**$ (1,232,686)**	$ (1,082,612)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**747,797**	759,023
Deferred income taxes	**48,996**	—
Gain on sale/conversion of property and equipment	**(9,253)**	(10,913)
Other	**5,619**	8,084
Changes in assets and liabilities:		
Accounts receivable	**(4,758)**	(110,637)
Materials and supplies	**(6,098)**	(13,452)
Prepaid expenses	**(12,325)**	827
Other current assets	**7,566**	(29,247)
Other assets, deposits, and deferred charges	**(287,106)**	73,017
Accounts payable, deferred ticket revenue, accrued expenses and other current liabilities	**124,609**	4,258
Deferred state capital payments	**(53,754)**	(47,532)
Other liabilities and deferred credits	**337,714**	(10,534)
Net cash used in operating activities	**(333,679)**	(459,718)
Cash flows from investing activities		
Change in restricted cash and cash equivalents	**171**	1,664
Purchases and refurbishments of property and equipment	**(1,212,991)**	(1,100,167)
Insurance proceeds attributable to casualty losses related to property and equipment	**23,192**	—
Proceeds from disposals of property and equipment	**1,475**	34,960
Net cash used in investing activities	**(1,188,153)**	(1,063,543)
Cash flows from financing activities		
Proceeds from federal paid-in capital	**1,463,799**	1,511,208
Proceeds from federal and state capital payments	**187,091**	172,129
Repayments of debt and capital lease obligations	**(121,299)**	(279,570)
Proceeds from issuance of debt	**91,228**	261,255
Net cash provided by financing activities	**1,620,819**	1,665,022
Net change in cash and cash equivalents	**98,987**	141,761
Beginning balance of cash and cash equivalents	**424,041**	282,280
Ending balance of cash and cash equivalents	**$ 523,028**	$ 424,041
Supplemental disclosure of cash payments		
Interest paid, net of amount capitalized	**$ 73,081**	$ 71,709
Supplemental disclosure of noncash investing and financing activities		
Non-cash changes in property and equipment including accruals of liability for purchases	**$ 209**	$ 1,261

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. In recent fiscal years, appropriated funds for Amtrak have been provided to the DOT, which through its agency the Federal Railroad Administration (the FRA) provides those funds to Amtrak pursuant to operating and capital funds 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 FRA, also provides financing to Amtrak through the Railroad Rehabilitation and Infrastructure Financing (RRIF) Program.

See Notes 2, 4, 5, 6 and 7 for additional information about Amtrak and its relationship with the DOT and the FRA.

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 FAST Act funding authorizations supersede those within the Passenger Rail Investment and Improvement Act of 2008 (PRIIA 2008), which was enacted on October 16, 2008 as Public Law 110-432. PRIIA 2008 authorized the appropriation of funds totaling $9.8 billion for FY2009 through FY2013 to be used by the Secretary for annual operating and capital grants to Amtrak. Pursuant to various appropriations, some of the requirements in PRIIA 2008 continue to apply in Amtrak's FY2014, FY2015 and FY2016.

The table below provides information on funding received for the Company's fiscal years ended September 30, 2016, 2015 and 2014 under the Continuing Appropriations Act or Continuing Appropriations Resolution (CR) and the Consolidated Appropriations Act or Consolidated and Further Continuing Appropriations Act (Full Year Funding) related to those years (dollars in millions):

2. Annual Funding (continued)

	CR and Full Year Funding					
	FY2016		FY2015		FY2014	
Enactment date for CR	September 30, 2015		**September 19, 2014**		October 17, 2013	
Public Law number for CR	114-53		**113-164**		113-46	
Enactment date for Full Year Funding	December 18, 2015		**December 16, 2014**		January 17, 2014	
Public Law number for Full Year Funding	114-113		**113-235**		113-76	
Appropriated capital and debt service funds	$	1,101.5	**$**	**1,140.0**	$	1,050.0
Appropriated operating service funds		288.5		**250.0**		340.0
Total funds appropriated		1,390.0		**1,390.0**		1,390.0
FRA authorized withholdings		(10.5)		**(10.7)**		(10.3)
Total appropriated funds designated for Amtrak	$	1,379.5	**$**	**1,379.3**	$	1,379.7
Funds received by Amtrak:						
In FY2014					$	1,226.0
In FY2015			**$**	**1,084.4**		153.7
In FY2016, as of August 3, 2016	$	899.5		**294.9**		—
Total funds received to date	$	899.5	**$**	**1,379.3**	$	1,379.7

Pursuant to appropriations under PRIIA 2008 and subsequent CRs and annual appropriations, the terms of Amtrak's annual operating grant generally provide funding for the associated fiscal year while the terms of the annual capital and debt service assistance grant generally provide that such funds can be retained until expended, generally expected to be by December 31 of the subsequent year. There are currently no Federal operating or capital and debt services subsidies appropriated for any period subsequent to September 30, 2016. 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 ultimately expects it will receive sufficient funds in the form of CRs or other appropriations legislation to support its operations for the foreseeable future.

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. Beginning in FY2017, rather than providing annual grants for Amtrak's capital and operating needs, it is expected that the authorized funds will be provided for activities associated with Amtrak's National Network and NEC. Amtrak is the sole eligible entity for these grant funds and payments are to be 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, $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. Although PRRIA 2015 provides that this new structure, which separates funding for the NEC and the National Network, would

2. Annual Funding (continued)

begin for Amtrak's FY2016, the FY2016 Appropriations Law was drafted before the FAST Act was enacted, which deferred the implementation until FY2017. Accordingly, for FY2016, Amtrak received a capital and debt service grant and an operating grant, consistent with past practice.

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 four subsidiaries, Chicago Union Station Company (CUS), Passenger Railroad Insurance, Limited (PRIL), Penn Station Leasing, LLC (PSL) and Washington Terminal Company (WTC). All significant 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. CUS's business is comprised of the following segments: provision of right of way and station access and use of intercity and commuter services; and lease and licensing of station space for retail services, display advertising, special events and other commercial uses.

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.

WTC was formed on December 6, 1901 and is comprised of buildings and rail yard adjacent to Washington Union Station. WTC provides switching services for passenger trains using the station or passing through the area.

Cash and Cash Equivalents

All short-term investments with original maturities of 90 days or less are considered cash and cash equivalents. These consist of bank deposits, money market fund investments, and treasury bills. Cash and cash equivalents are maintained at various financial institutions and, at times, balances may exceed federally insured limits.

Restricted Cash and Cash Equivalents

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. The balance in restricted cash and cash equivalents as

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

of September 30, 2015 and September 30, 2014 primarily consists of funds restricted for certain operations of the Amtrak Police Department.

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 and do not bear interest. 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 done. The Company recorded $121.1 million and $102.3 million of unbilled accounts receivable as of September 30, 2015 and 2014, 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 receivables are charged 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.

Derivative and Hedging Activities

Amtrak periodically enters into derivative contracts to manage a portion of its exposure to fluctuating energy prices. These derivative financial instruments, which inherently contain market risk, are generally effective in reducing fluctuations in cash flows. Amtrak does not enter into energy contracts for trading or speculative purposes.

Amtrak held no fuel derivative contracts as of September 30, 2015 and held one fuel derivative contract as of September 30, 2014. The fuel derivative contract held had a fair value of $0.9 million as of September 30, 2014. Amtrak does not designate its derivative contracts as hedging instruments. Mark-to-market gains and losses on these derivatives are recorded in current earnings in the Consolidated Statements of Operations. Changes in the fair value of its fuel derivative contracts are recorded as a component of "Fuel, power, and utilities" in the Consolidated Statements of Operations.

Amtrak periodically enters into interest rate swap agreements to manage its interest rate exposure to floating rate debt obligations. Amtrak does not designate its interest rate swaps as hedging instruments. Changes in the fair value of its interest rate swaps are recorded as a component of "Interest expense" in the Consolidated Statements of Operations.

On June 19, 2014, in conjunction with financing for the early termination of certain capital lease obligations (see Note 6), Amtrak entered into an interest rate swap arrangement to convert floating rate debt to a fixed rate. As of September 30, 2015, the fair value of the swap contract was a liability of $1.9 million, which is

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

included in “Other liabilities” in the Consolidated Balance Sheets. The liability was less than $0.1 million as of September 30, 2014.

On November 2, 2012, in conjunction with the Pennsylvania Economic Development Financing Authority (PEDFA) Garage Bond reissuance (see Note 6), Amtrak entered into an interest rate swap arrangement. As of September 30, 2015, the fair value of the PEDFA Garage Bond interest rate swap derivative contract was a liability of $0.4 million, which is included in “Other liabilities” in the Consolidated Balance Sheet. The fair value of the derivative contract was an asset of $0.5 million as of September 30, 2014, which was included in “Deferred charges, deposits, and other“ in the Consolidated Balance Sheet.

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 five 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 charged to “Accumulated depreciation” in the Consolidated Balance Sheets and no gain or loss is recognized. Gains or losses for assets under the group method related to significant premature retirements of depreciable property and the disposal of land are recorded as gains and losses in the Consolidated Statements of Operations at the time of occurrence. There were no significant premature retirements of depreciable property or disposals of land for which gains or losses were recorded in FY2015 and FY2014.

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

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

necessary to prepare such assets for their intended use are completed, at which time depreciation commences. Capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's useful life. Interest costs capitalized on construction projects were $6.5 million and $11.7 million for FY2015 and FY2014, respectively.

The useful lives of locomotives, passenger cars, and other rolling stock assets for depreciation purposes range up to 42 years. Right-of-way and other properties (excluding land) are depreciated using useful lives ranging up to 105 years. Other equipment including computers, office equipment, and maintenance equipment is depreciated using useful lives ranging from five to 24 years. Expenditures that significantly increase asset values or extend useful lives are capitalized, including major overhauls. Repair and maintenance expenditures, including preventive maintenance, are charged to operating expense when the work is performed. The cost of internally developed software is capitalized and amortized over its estimated useful life, which is generally five to ten years.

The Company accounts for asset retirement obligations (AROs) in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410, *Asset Retirement and Environmental Obligations*. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. In accordance with FASB ASC Topic 410, the Company recognizes the fair value of any liability for conditional AROs, including environmental remediation liabilities, in the period in which it is incurred, which is generally upon acquisition, construction, or development and/or through the normal operation of the asset, if sufficient information exists with which Amtrak can reasonably estimate the fair value of the obligation. Amtrak capitalizes the cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the useful life of the related asset and upon settlement of the liability Amtrak either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The asset retirement costs capitalized were $9.3 million and $9.7 million as of September 30, 2015 and 2014, respectively, and were included in "Right of way and other properties" in the Consolidated Balance Sheets.

Indirect Cost Capitalized to Property and Equipment

Overhead expense allocations represent the indirect support expenses related to specific geographic regions and departments that are involved in particular operating and 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 estimates 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

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

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, 2015. 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), one of the largest Atlantic storms on record, came ashore in the Northeast and mid-Atlantic region of the United States. NEC service was suspended on October 29th, partial service was resumed on November 1st and full service was resumed on November 15th. Amtrak sustained damage to tunnels and other structures in New York and New Jersey, requiring repair work and disrupting passenger service. Costs incurred by Amtrak, including repairs to damaged property, during FY2015 and FY2014 totaled approximately $15.7 million and $7.0 million, respectively. Amtrak currently estimates that total damages related to Sandy will be at least $1.05 billion, most of which are related to cleaning the tunnels and replacing certain assets inside them over time. The tunnels are currently operating at full capacity, concurrently with the cleaning and replacement work. The Company determined that there was no impairment to the tunnels as of September 30, 2015, and expenses related to cleaning and replacement costs are being recognized as incurred. With the assistance of a third-party consultant, the Company reviewed the impacted assets and determined that certain infrastructure assets associated with specific locations along the NEC route 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. Of this amount, $147.1 million for ventilation facilities and bridges is being accelerated over a total of five years, $33.5 million for the East River Tunnel is being accelerated over a total of 11 years, and $12.5 million for the North River Tunnel is being accelerated over a total of 17 years. The acceleration of depreciation expense increased the Company's net loss by $31.7 million in both FY2015 and FY2014.

Casualty Losses and Claims

Provision is made for Amtrak's portion of the 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, 2015 and 2014, the reserve for casualty losses and claims was $498.3 million and $196.7 million, respectively. Of the total amount reserved as of September 30, 2015 and 2014, the estimated current claims liability included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets was $57.6 million and $46.0 million, respectively. The balance of the reserve as of both September 30, 2015 and 2014 is included in "Casualty reserves" in the Consolidated Balance Sheets. The reserve balance as of September 30, 2015 includes the Company's best estimate of the liability for passenger and employee claims incurred related to the derailment of Amtrak's Train #188, which occurred on May 12, 2015 (the Train #188 Derailment). See Note 10, Commitment and Contingencies, for additional information on the derailment.

Revenue Recognition

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

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

	Year Ended September 30, 2015	2014
Ticket	**$ 2,123.8**	$ 2,147.2
State contribution	**222.8**	235.2
Food and beverage	**132.1**	125.8
Total passenger related revenue	**$ 2,478.7**	$ 2,508.2

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

"Commuter" revenue includes the revenues earned under contractual arrangements to operate various commuter rail services for a cost-based fee. These revenues are recognized when the related services are provided.

"Other" revenue, for FY2015 and FY2014, includes (i) revenue from reimbursable engineering and capital improvement activities (these revenues are generally recognized when the associated costs are incurred); (ii) other transportation revenue from use of Amtrak-owned tracks and other services (these revenues are generally recognized when the related services are provided); (iii) commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees (these revenues are generally recognized as the services are provided); (iv) amortization of state funds used to acquire depreciable assets (such payments are deferred when received and amortized over the estimated 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); and (v) freight access fee revenue from the use of Amtrak-owned tracks by freight railroad companies and other gains.

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

	Year Ended September 30, 2015	2014
Reimbursable	**$ 269.9**	$ 277.9
Other transportation	**146.6**	145.0
Commercial development	**79.9**	77.9
Amortization of state capital payments	**53.8**	47.5
Freight access fees and other	**59.4**	60.1
Total other revenue	**$ 609.6**	$ 608.4

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 $37.2 million and $36.8 million for FY2015 and FY2014, respectively.

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

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.

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

Pursuant to the provisions of Title 49 of the United States Code, Section 24301, Amtrak is exempt from all state and local taxes, including income and franchise taxes that are directly levied against the Company. Accordingly, there is no provision for state and local income or franchise taxes recorded in the consolidated financial statements for FY2015 and FY2014 (see Note 9).

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 for retroactive wages for union employees, estimated costs of asset retirement obligations, valuation allowance for deferred tax assets 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, 2015 and 2014, “Accumulated other comprehensive loss” consists of adjustments for pension and other postretirement liabilities.

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

Recently Adopted Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance seeks to improve the reporting of reclassifications out of accumulated other comprehensive income. Companies are required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amounts being reclassified are required under U.S. generally accepted accounting principles (GAAP). This ASU became effective for the Company on October 1, 2014. The adoption of this ASU did not have a material impact on its consolidated financial statements.

In November, 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. To simplify the presentation of deferred income taxes, this ASU requires deferred income tax liabilities and assets to be classified as noncurrent in a classified statement of financial position (previous guidance required separation into current and noncurrent components). For entities other than public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively. Amtrak adopted this ASU for its FY2015 financial statements. As all of Amtrak's deferred income taxes were previously classified as noncurrent, the adoption of this ASU had no impact on its 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. In August 2015, the FASB issued a deferral of the effective date of this pronouncement. The new standard will become effective for the Company beginning with the fiscal year ending September 30, 2020, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The guidance will be effective for the Company beginning with the fiscal year ending September 30, 2017, with early adoption permitted. As the Company expects to continue to receive funding from the Federal Government, Amtrak does not expect the adoption of this ASU to have a significant impact on its consolidated statements of financial condition or results of operations.

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

In April 2015, the FASB issued ASU No. 2015-03, *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Under the new guidance, the debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability. The amortization of debt issuance costs will continue to be included in interest expense. This guidance should be applied retrospectively and is effective for the Company beginning with the fiscal year ending September 30, 2017, with early adoption permitted. This ASU is not expected to have a material impact on the Company's consolidated statements of financial position or results of operations.

In May 2015, the FASB issued 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).* This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This ASU is effective for the Company beginning with the fiscal year ending September 30, 2017. Reporting entities must apply the new guidance retrospectively to all periods presented. This ASU is expected to impact the Company's fair value disclosures on pension assets, but it will not have an impact on the Company's consolidated statements of financial condition or results of operations.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The ASU simplifies the subsequent measurement of inventory by using only the lower of cost or net realizable value. The ASU defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for the Company beginning with the fiscal year ending September 30, 2018. The ASU should be applied prospectively with earlier application permitted as of the beginning of an annual reporting period. The adoption of this ASU is not expected to have a material effect on Amtrak's consolidated financial statement presentation or disclosures.

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 is effective for the Company beginning with the fiscal year ending September 30, 2021, with early adoption permitted. The Company is currently evaluating the impact of adopting this new guidance. 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 financial statements and disclosures.

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 $1.5 billion per year in each of FY2015 and FY2014.

Note 2 provides information on the Company's annual operating and capital and debt service funding. Additional federal funding received by the Company is described below.

In accordance with the Disaster Relief Appropriations Act, 2013 (Public Law No. 113-2, January 29, 2013), Amtrak was provided with a net appropriation of $30.2 million for damages incurred following Sandy on October 29, 2012, of which $7.0 million and $3.5 million was received in FY2015 and FY2014, respectively, and with a net appropriation of $185.0 million for the Hudson Yards Concrete Encasement Project, of which $28.7 million and $130.6 million was received in FY2015 and FY2014, respectively.

Since 2005, the Department of Homeland Security has awarded Amtrak a total of $159.9 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 $147.8 million and $108.3 million as of September 30, 2015 and 2014, respectively, which are included in "Other Paid-in Capital" in the Consolidated Balance Sheets and Statements of Changes in Capitalization.

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 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. As of September 30, 2015 and 2014, Amtrak cumulatively received $240.5 million and $133.7 million, respectively, which were recorded in "Other paid-in capital" in the Consolidated Balance Sheets and Statements of Changes in Capitalization.

Additional appropriations are made to directly fund operations of Amtrak's Office of Inspector General (OIG). $23.9 million was appropriated in FY2015 to be spent by September 30, 2015. Amtrak and the OIG entered into a services 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. As of September 30, 2015, Amtrak invoiced and received $22.4 million, which was recorded in "Other paid-in capital" in the Consolidated Balance Sheets and Consolidated Statements of Changes in Capitalization.

"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, 2015 and 2014, was issued in 1976 and matures on December 31, 2975, and is secured by the real and personal property of Amtrak, WTC, CUS, and PRIL. The second note has a balance of $1.1 billion

4. Accounting and Reporting for Federal Payments (continued)

as of September 30, 2015 and 2014, was issued in 1983 and matures on November 1, 2082, with successive 99-year 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. The Federal Government is entitled to repayment and interest in the event Amtrak ceases operations, is acquired by another entity, or seeks relief under bankruptcy or insolvency laws. The amount due to the Federal Government on the first note may be accelerated by enactment of federal law or upon the occurrence of an event of default under the leases and mortgage entered into by Amtrak and PSL on June 20, 2001 (see Penn Station mortgage in Note 6), or upon the occurrence of various actions concerning an Amtrak bankruptcy, reorganization, or assignment for the benefit of creditors.

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, 2015 and 2014, 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 established that no 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, 2015 and 2014, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding. The common stockholders, who acquired their stock from four railroads whose intercity rail passenger operations Amtrak assumed in 1971, have voting rights for amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors. The Act also required Amtrak to redeem at fair market value the shares of common stock outstanding as of December 2, 1997, by the end of FY2002. In an effort to comply with the Act, Amtrak made an offer to the stockholders to redeem the stock for cash at a price of $0.03 per share. By a letter, dated November 2, 2000, counsel for the four common stockholders responded to Amtrak and rejected the offer.

In May 2008, American Premier Underwriters, Inc. (APU) owner of 55.8% of Amtrak's common stock through its corporate predecessor, Penn Central, filed a lawsuit in federal court in Cincinnati, Ohio, asserting that Amtrak has "eroded" the value of the common stock. APU is seeking $52.0 million and more than 40 years of interest. The lawsuit has been dismissed twice in its entirety by the federal district court. APU appealed the second dismissal on June 29, 2015. Legal briefing before the Sixth Circuit Court of Appeals was completed in November 2015 (see Note 10). Management does not believe that the ultimate outcome of this lawsuit will have a material impact on its financial condition or results of operations.

6. Mortgages and Debt

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

	September 30, 2015		September 30, 2014	
	Current	Long-Term	Current	Long-Term
Long-term debt:				
Mortgage obligations:				
Penn Station mortgage	**$ 27,405**	**$ 64,290**	$ 25,040	$ 91,695
High speed maintenance facilities	**7,397**	**54,780**	6,954	62,177
Frequency converter facility	**1,740**	**135,115**	1,675	136,855
Subtotal	**36,542**	**254,185**	33,669	290,727
PEDFA 30th St. Garage Revenue Bonds	**1,774**	**35,421**	1,732	37,195
Term Loan A	**17,672**	**90,911**	17,192	108,582
Term Loan B	**6,248**	**56,211**	6,042	62,459
RRIF loan*	**2,455**	**69,255**	4,624	190,615
Equipment loans	**—**	**—**	4,112	—
Principal amount of long-term debt	**64,691**	**505,983**	67,371	689,578
Less unamortized discount	**(328)**	**(3,161)**	(470)	(8,368)
Total long-term debt	**$ 64,363**	**$ 502,822**	$ 66,901	$ 681,210

* Debt component of RRIF loan obligation (see below and Note 7).

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, 2015 and 2014, there were no draws against this letter of credit.

Mortgage Obligations

Penn Station Mortgage

In June 2001, PSL mortgaged a substantial portion of improvements located at Penn Station in New York, New York for $300.0 million at a fixed rate of interest of 9.25% per annum, which increased to 9.50% effective October 2002, receiving net cash proceeds of $296.2 million. Of this amount, $34.3 million was deposited into escrow for the benefit of the lender and is recorded in “Deferred charges, deposits, and other” in the Consolidated Balance Sheets as of both September 30, 2015 and 2014. Semiannual principal plus interest payments are due on the mortgage through maturity in June 2017. The outstanding balance due on the mortgage was $91.7 million and $116.7 million as of September 30, 2015 and 2014, respectively. The mortgage loan is not insured or guaranteed by any governmental entity, private mortgage or other insurer, trustee, or any other person.

6. Mortgages and Debt (continued)

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. As of September 30, 2015 and 2014, the balance of such debt was $62.2 million and $69.1 million, respectively. Amtrak's obligations are collateralized by a pledge of Amtrak's interests in the maintenance facilities.

Frequency Converter Facility

During FY2001, PEDFA completed two issues 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). The first series (Series A) for $110.8 million was issued in February 2001, at a $0.8 million discount, netting $110.0 million. The second series (Series B) for $45.0 million was issued in April 2001, at par. 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. Amtrak's obligations in connection with the Series A Bonds and the Series B Bonds (and any reissuances thereof) are collateralized by a pledge of Amtrak's interest in the Facility.

On February 15, 2012, Amtrak initiated a mandatory tender for purchase of the $45.0 million Series B bonds. The Series B bonds were remarketed to a commercial bank that agreed to hold the reissued Series B bonds (Series B 2012) for a period of five years. In connection with the mandatory tender for purchase and the issuance of the Series B 2012 bonds, the interest rate was converted to a tax-effected fraction of the one-month London Interbank Offered Rate (LIBOR) plus 0.65% per annum, which was an effective rate of 0.58% and 0.55% as of September 30, 2015 and 2014, respectively. The LIBOR-based interest rate will continue unless or until converted to another interest rate mode by Amtrak. In connection with this transaction, the Company and PEDFA executed and amended certain provisions included in the existing bond documents and lease arrangements with PEDFA.

On March 31, 2012, PEDFA issued $95.1 million of PEDFA exempt facilities revenue refunding bonds (Series A 2012) to refund Series A of 2001 with varying maturities between November 1, 2013 and 2041. The interest rates on the Series A 2012 bonds range from 3.0% to 5.0% (yields ranging from 1.1% to 4.7%), payable semiannually. The Series A 2012 Bonds were issued at a $4.6 million premium, which is being amortized on a straight-line basis (which approximates the effective interest method) over the term of the Series A 2012 bonds. The proceeds from the issuance and funds from the existing debt service reserve fund were used to (i) refund the 2001 Series A bonds outstanding in the amount of $102.4 million; (ii) pay accrued and unpaid interest on Series A bonds of $2.7 million; and (iii) pay the redemption premium of $1.0 million and the issuance costs of $1.3 million. The issuance costs were classified within "Deferred charges, deposits, and other" in the Consolidated Balance Sheets and are being amortized to interest expense over the term of each bond issuance. As of September 30, 2015 and 2014, $136.9 million and $138.5 million, respectively, of the

6. Mortgages and Debt (continued)

Series A 2012 and Series B 2012 obligations remain outstanding. Amtrak guaranteed all principal and interest payments by PEDFA on the Series A and Series B bonds.

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). The bonds had multiple maturities ending on June 1, 2033. The bonds were issued at a $0.6 million discount and Amtrak incurred $0.5 million in underwriter's fees that were being amortized on a straight-line basis over the maturity of the bonds. The bonds bore interest, by individual maturities, at fixed rates ranging from 4.50% to 5.875%. Amtrak also entered into a "Pledge and Security Agreement" with PEDFA under which Amtrak guaranteed the payment of the principal and interest on the 2003 PEDFA Garage Bonds. Amtrak's obligations with regard to the 2003 PEDFA Garage Bonds (and any reissuances thereof) are collateralized by a pledge of Amtrak's interests in the 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) in order 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 $42.0 million proceeds together with $4.2 million released from the then-existing restricted funds for the 2003 PEDFA Garage Bonds were used to refund the 2003 PEDFA Garage Bonds outstanding at that time plus accrued and unpaid interest and to pay other costs of the financing. 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. The principal outstanding under the 2012 PEDFA Garage Bonds was $37.2 million and $38.9 million as of September 30, 2015 and 2014, respectively.

On November 2, 2012, Amtrak also entered into an interest rate swap agreement to manage the interest cost and risk associated with the 2012 PEDFA Garage Bonds. The notional principal amount of the swap agreement matches the outstanding bond obligation at the end of every month. The termination date is November 1, 2019, with an option to extend to November 1, 2032, if Amtrak delivers a notice of exercise prior to October 29, 2019. Under the agreement, Amtrak pays a fixed interest rate of 1.58% and receives a variable one month LIBOR rate on the outstanding notional principal amount. As a result, the effective interest rate on the 2012 PEDFA Garage Bonds is 2.39%.

Amtrak reported capital expenditures of $35.0 million related to the construction of the parking garage in "Right-of-Way and other properties" in the Consolidated Balance Sheets as of September 30, 2015 and 2014. The project was completed in FY2006.

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) to finance the early termination of certain capital leases (see Note 7). 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

6. Mortgages and Debt (continued)

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%. The Company is repaying the two term loans in quarterly installments beginning September 20, 2014 and continuing through June 20, 2021 in the case of Term Loan A and June 20, 2024 in the case of Term Loan B. The outstanding balance under Term Loan A was $108.6 million and $125.8 million as of September 30, 2015 and 2014, respectively. The outstanding balance under Term Loan B was $62.5 million and $68.5 million as of September 30, 2015 and 2014, respectively.

RRIF Loan

On June 21, 2011, the Company entered into a $562.9 million RRIF loan financing agreement with the FRA and a related Master Lease Agreement with Wells Fargo Bank Northwest (Owner Trustee), to finance the purchase of 70 new electric locomotives, related spare parts, and improvements to existing maintenance facilities to service the new locomotives. Amtrak's obligations are collateralized by the locomotives, spare parts, and certain facilities expected to be constructed with loan proceeds. The Owner Trustee's role in the Master Lease Agreement is as a trustee for the benefit of the FRA. Amtrak is repaying the FRA advances (plus interest thereon) via quarterly lease payments under the Master Lease Agreement, beginning on September 15, 2014. Payments will continue, on a quarterly basis, for a full 25-year period at an amount sufficient to fully pay interest and amortize principal over the term. Upon acceptance of each locomotive, the associated portion of the obligation under the RRIF loan converts to a capital lease for accounting purposes (see Note 7).

During the years ended September 30, 2015 and 2014, the Company received new advances under the RRIF loan of $94.8 million and $60.6 million, respectively. As of September 30, 2015 and 2014, the total outstanding balance under the RRIF loan (debt and capital lease obligations) was $429.9 million and $344.9 million, respectively. All advances under the RRIF loan bear interest at an interest rate of 4.04% per annum. Of the total amount outstanding on September 30, 2015, $71.7 million was classified as a debt obligation and $358.2 million was classified as a capital lease obligation.

The Company incurred interest charges on the advances classified as debt obligations of $6.5 million and $11.7 million for the years ended September 30, 2015 and 2014, respectively, which were capitalized and recorded in "Construction-in-progress" in the Consolidated Balance Sheets.

Amtrak pays a 4.424% credit risk premium on all amounts advanced under the RRIF loan program. The credit risk premium may be returned by the FRA to Amtrak after the repayment of the RRIF loan. As of September 30, 2015 and 2014, the Company had paid cumulative credit risk premiums of $18.6 million and $14.4 million, respectively. The credit risk premium balance at September 30, 2015 is offset in part against the debt balance and in part against the capital lease obligation in the Consolidated Balance Sheets and is being amortized over the term of the RRIF loan using the effective interest method. The effective interest rate of the RRIF loan as of September 30, 2015 is 4.46% and will vary over time because of the additional credit risk premium with each draw. The amortization of the credit risk premium allocated to debt is capitalized along with interest expense as part of "Construction-in-progress" in the Consolidated Balance Sheets.

6. Mortgages and Debt (continued)

Equipment Loans

In 2010 and 2009, Amtrak exercised early buyout options to purchase 40 locomotives and eight superliner passenger cars under capital leases. Amtrak assumed the debt related to the capital leases as new loans from the lenders for $32.0 million. The loans were payable in semiannual payments through maturity with the final loan payments due from January 2012 through January 2015. The interest rates varied from 7.37% to 9.61%. The final principal payments on the loans were made during FY2015. The outstanding balance due on these loans was $4.1 million as of September 30, 2014.

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,	
	2015	**2014**
Mortgage obligations	**5.96 %**	6.24 %
PEDFA 30th St. Garage Revenue Bonds	**2.39**	2.39
Term loans	**2.98**	2.97
RRIF loan	**4.04**	4.04
Equipment loans	**N/A**	9.61

The overall weighted-average interest rate on all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) is 4.6% and 4.7% per annum at September 30, 2015 and 2014, respectively.

Scheduled Debt Maturities

On September 30, 2015, scheduled maturities of debt are (in thousands):

Year Ending September 30,	
2016	$ 64,691
2017	102,813
2018	41,981
2019	45,665
2020	47,524
Thereafter	268,000
Principal amount of long-term debt	570,674
Less unamortized discount	(3,489)
Total long-term debt	$ 567,185

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, 2015, the Company had failed to meet its covenant obligation under its borrowing arrangements to provide on a timely basis its audited financial statements, as

6. Mortgages and Debt (continued)

of and for the year ended September 30, 2014. Waivers were received from certain lenders where necessary to prevent a default and upon delivery of the audited financial statements for the year ended September 30, 2014 on October 1, 2015, the Company came into compliance with its financial reporting covenant obligation. However, in January 2016, the Company failed to meet its covenant obligation to provide on a timely basis its audited financial statements as of and for the year ended September 30, 2015. Waivers were received from certain lenders where necessary to prevent a default, and upon delivery of these audited financial statements, the Company will have satisfied all of its financial reporting covenant obligations.

7. Leasing Arrangements

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

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

As of September 30, 2015 and 2014, the gross amount of assets recorded under capital leases was $1.7 billion and $1.4 billion, respectively, with accumulated amortization of $0.8 billion and $0.7 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 6).

RRIF Loan

As of September 30, 2015, 51 of the 70 planned new electric locomotives were delivered to the Amtrak Equipment Trust 2011 (Trust) for the RRIF loan and leased to Amtrak. The Trustee of such Trust maintains title to the locomotives and administers the RRIF loan.

The delivery of each locomotive creates a capital lease for accounting purposes between the Company and the Trustee. As of September 30, 2015 and September 30, 2014, $358.2 million and $149.7 million, respectively, of the amount due under the RRIF loan was attributable to locomotives leased under the Trust and is recorded, net of unamortized discounts applied to the capital lease obligation of $14.7 million as of September 30, 2015 and $6.3 million as of September 30, 2014, as a capital lease obligation. See additional disclosure regarding the RRIF loan in Note 6.

7. Leasing Arrangements (continued)

Amtrak has the right to terminate the lease and purchase any or all of the locomotives at any time during the lease term by paying the remaining obligation specified in the lease.

Lease Terminations

During FY2015, Amtrak terminated one capital lease by paying an early termination price which included the purchase of the leased equipment as part of the lease termination. The lease termination amount paid by Amtrak for the terminated lease was $8.8 million. In connection with the lease termination, Amtrak acquired five Superliner II passenger cars.

During FY2014, Amtrak terminated certain capital leases by paying an early termination price which included the purchase of the leased equipment as part of the lease termination for all but one of the terminated leases. The lease termination amount paid by Amtrak for all of the terminated leases was $199.9 million. As part of the lease terminations, Amtrak acquired 83 P-42 locomotives, 29 Surfliner railcars, and seven Superliner railcars.

All the equipment purchased by Amtrak was for the normal operation of its train service, and the Company expects to continue to use the equipment for the foreseeable future.

Future Minimum Lease Payments

As of September 30, 2015, future minimum lease payments under capital leases are (in thousands):

Year ending September 30,	
2016	$ 99,206
2017	101,301
2018	87,569
2019	89,042
2020	84,239
Thereafter	544,412
Total minimum lease payments	1,005,769
Less: discounted to current period amount at interest rates ranging from 4.5% to 9.1%	(332,435)
Present value of minimum lease payments at September 30, 2015	$ 673,334

The current portion of capital lease obligations as of September 30, 2015 and 2014, was $56.2 million and $39.3 million, respectively, and is presented in "Current maturities of long-term debt and capital lease obligations" in the Consolidated Balance Sheets.

7. Leasing Arrangements (continued)

Operating Leases

As of September 30, 2015, Amtrak is obligated for the following minimum rental payments under operating lease agreements (in thousands):

Year ending September 30,		
2016	$	16,308
2017		15,599
2018		12,888
2019		9,499
2020		7,175
Thereafter		30,276
Total	$	91,745

Rent expense for FY2015 and FY2014 was $52.0 million and $53.3 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.

8. Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* 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 Company's derivative financial instruments are valued by a third-party consultant based on prevailing market data derived from proprietary models and are carried at fair value on the Consolidated Balance Sheets per FASB ASC Topic 820. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following tables present the Company's derivative assets/(liabilities) measured at fair value on a recurring basis as of September 30, 2015 and 2014, by the FASB ASC Topic 820 valuation hierarchy (in thousands).

	Level 1	Level 2	Level 3	Total
September 30, 2015				
Interest rate swaps	**$ —**	**$ (2,331)**	**$ —**	**$ (2,331)**
September 30, 2014				
Fuel derivative contracts	$ —	$ 872	$ —	$ 872
Interest rate swaps	—	481	—	481
Total	$ —	$ 1,353	$ —	$ 1,353

The estimated fair value of Amtrak's non-derivative financial instruments is as follows (in thousands):

	September 30, 2015		September 30, 2014	
	Principal Amount	Fair Value	Principal Amount	Fair Value
Mortgage obligations	**$ 290,727**	**$ 319,876**	$ 324,396	$ 357,252
PEDFA 30th St. Garage Revenue Bonds	**37,195**	**32,402**	38,927	29,273
Term Loan A	**108,583**	**108,920**	125,774	118,962
Term Loan B	**62,459**	**63,354**	68,501	67,899
RRIF loan (debt component)	**71,710**	**72,428**	195,239	230,366
Equipment loans	**—**	**—**	4,112	4,251
Total	**$ 570,674**	**$ 596,980**	$ 756,949	$ 808,003

8. Fair Value Measurements (continued)

The estimated fair values of the non-derivative financial instruments listed above are based upon discounted cash flow analyses using interest rates available to Amtrak at September 30, 2015 and 2014, for debt with the same remaining maturities.

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

9. Income Taxes

The Company recorded $49.0 million of income tax expense for the year ended September 30, 2015. This resulted from net deferred tax liabilities that arise in periods subsequent to the expiration of the Company's existing net operating losses. There was no provision or benefit for income taxes for the year ended September 30, 2014.

A reconciliation of the expected amount computed by applying the U.S. federal statutory income tax rate of 35% to Amtrak's pretax loss to Amtrak's actual income tax rate for FY2015 and FY2014 is as follows:

	Year ended September 30,	
	2015	**2014**
U.S. federal statutory income tax rate	**35.0 %**	35.0 %
Book/tax basis difference	**(25.3)**	(30.3)
Adjustments to OCI	**(10.7)**	3.8
Federal operating grants	**(7.4)**	(11.7)
Valuation allowance	**2.8**	1.7
Other	**1.5**	1.5
Effective income tax rate	**(4.1) %**	— %

9. Income Taxes (continued)

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

	September 30, 2015	September 30, 2014
Deferred tax assets:		
Net operating loss carryforward	**$ 2,563,366**	$ 2,442,944
Pension and other postretirement employee benefits	**331,436**	459,837
Capital leases	**117,842**	182,610
Claims reserves	**73,237**	67,877
Accrued vacation and other compensation accruals	**39,515**	36,796
Other accruals	**32,575**	32,499
Deferred gain on sale leaseback	**17,332**	19,024
Insurance recoveries	**15,554**	—
Inventory reserve	**9,724**	16,126
Capital loss (rate security)	**3,229**	3,229
Bad debt reserve	**1,773**	1,550
Capitalized software	**223**	251
Gross deferred tax assets	**3,205,806**	3,262,743
Less: valuation allowance	**(103,469)**	(136,037)
Net deferred tax assets	**3,102,337**	3,126,706
Deferred tax liabilities:		
Fixed assets	**(3,150,043)**	(3,113,979)
Insurance recoveries	**—**	(11,466)
Deferred rent	**(1,498)**	(1,367)
30th Street Station	**(18)**	(120)
Gross deferred tax liabilities	**(3,151,559)**	(3,126,932)
Net deferred tax liability	**$ (49,222)**	$ (226)

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 $32.6 million.

Net operating loss carryforwards were $7.3 billion and $7.0 billion as of September 30, 2015 and 2014, respectively. The carryforwards at September 30, 2015, will expire in various years from 2018 through 2035.

10. 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, 2015, 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 3, 2010, the Company entered into a four-year contract with a contractor to purchase 130 new long-distance single level cars. The Company issued a Notice to Proceed on September 7, 2010. As of September 30, 2015, 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) during the contract. As of September 30, 2015, the Company has incurred $178.4 million in project-related costs. Deliveries of the cars started in December 2014. As of September 30, 2015, the Company has taken delivery of 58 cars, and final delivery of the remaining cars is expected to be completed by April 2017.

On September 28, 2010, the Company entered into a six-year contract with a contractor to purchase 70 new electric locomotives and certain spare parts. As of September 30, 2015, the base price of the contract with change orders is $467.6 million. 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, 2015, the Company has incurred $437.2 million in project costs related to the contract, of which $406.6 million has been funded by the RRIF loan (see Note 6). As of September 30, 2015, the Company had taken delivery of 51 locomotives, and the Company took delivery of the remaining locomotives in FY2016. On September 12, 2014, the Company entered into a 15-year contract with the same contractor to provide materials and engineering technical support for the new electric locomotives. The Company is paying the contractor $7.1 million per year plus a variable amount based on total mileage of the fleet each year.

Most of the rights-of-way over which Amtrak operates are owned by other railroads. Amtrak uses such trackage under contracts 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. Costs incurred are based on usage. The total amount incurred for use of the other railroads' rights-of-way during FY2015 and FY2014, totaled

10. Commitments and Contingencies (continued)

$106.6 million and $89.5 million, respectively, and are included in "Train operations" in the Consolidated Statements of Operations.

Insurance Claims

Amtrak maintains various insurance policies to cover its liability to employees and other parties for injury or damage resulting from accidents and to cover Amtrak's loss resulting from damage to Amtrak property. The insurance policies contain large deductibles; losses within the deductibles are self-insured by Amtrak.

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 Train #188 Derailment (see below for additional disclosures on the derailment). 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 holds insurance policies to insure against catastrophic events. As of September 30, 2015, Amtrak has submitted insurance claims related to losses occasioned following Sandy totaling $1.1 billion, of which $125.0 million has been received by the Company to date. Of this amount, $30.0 million was received during FY2014 and $95.0 million was received in FY2015. Of the amount received to date, $15.7 million was recognized in the Consolidated Statement of Operations in FY2015 as a reduction to "Other" expenses to offset expenditures incurred in FY2015; and $62.8 million was recognized in FY2014, consisting of $30.0 million for business interruption and $32.8 million related to costs incurred prior to FY2015. The remaining $46.5 million is included in the "Other liabilities" section of the Consolidated Balance Sheet as of September 30, 2015. The remainder of the claim and all future claims will not be recognized by Amtrak until further confirmation of the assessed damages is agreed to by the insurers or additional cash is received.

On September 17, 2014, the Company filed a lawsuit in the United States District Court for the Southern District of New York regarding insurance claims for losses following Sandy. The complaint sought declaratory relief and alleged that in connection with outstanding claims for losses following Sandy the insurance carrier defendants breached more than 25 first-party all-risk property insurance policies that defendants sold to the Company in 2011. The lawsuit proceeded on an expedited schedule and the trial was scheduled to commence on July 14, 2015.

10. Commitments and Contingencies (continued)

On June 24, 2015, the judge ruled in the insurers' favor on their pending summary judgment motions, finding that: (a) the inundation of property in the aftermath of Sandy falls within the definition of flood in the insurance policies; (b) no ensuing loss was suffered; and (c) Amtrak's losses arose from a single occurrence. The order then dismissed the excess liability insurers on the grounds that Amtrak's insurance claim would not allow recovery from excess liability insurers whose exposure is only to claims that exceed the $125 million sub-limit for flood set forth in the various policies.

On July 2, 2015, the judge dismissed the lawsuit based on a settlement reached between Amtrak and those insurers providing coverage for liability amounts of $125 million or less.

On July 23, 2015, Amtrak appealed the June 24, 2015 decision dismissing the excess liability insurers to the United States Court of Appeals for the Second Circuit. The pending appeal is scheduled for oral argument on August 19, 2016.

Train #188 Derailment

On May 12, 2015, Amtrak Northeast Regional Train #188 from Washington, D.C. bound for New York City derailed on a 50 mph curve along the NEC in the Port Richmond neighborhood of Philadelphia, Pennsylvania. 8 people were killed and over 200 were injured. The National Transportation Safety Board's (NTSB's) preliminary analysis determined that the train was traveling 106 mph when the engineer applied the train's emergency brakes moments before the derailment. At a public meeting on May 17, 2016, the NTSB found that the engineer accelerated the train without slowing the train for the curve due to his loss of situational awareness, likely because his attention was diverted to an emergency situation involving a commuter train that had made a stop on adjacent track a couple of miles ahead after being struck by a projectile. It also cited a lack of a positive train control (PTC) system as contributing to the accident.

The NTSB made 11 safety recommendations to several groups, including Amtrak. Because Amtrak had already completed the installation of PTC on most of its portion of the Northeast Corridor, and had completed the installation of inward-facing video cameras in the fleet of ACS-64 locomotives in service on the Northeast Corridor, the NTSB only directed one new recommendation to Amtrak. It requested Amtrak to develop training for operating crew members that reinforces strategies to recognize and effectively manage multiple, concurrent tasks and prolonged, unusual situations, to sustain their attention on current and upcoming train operations. The NTSB adopted its final report on May 17, 2016.

As of August 3, 2016, the Company has received a total of 242 claims related to the Train #188 Derailment; and 102 lawsuits have been filed on behalf of 132 passengers and 2 working employees.

The Company has no obligation for passenger claims beyond the $295.0 million limit contained within the FAST Act and the amount of passenger and employee liability claims in excess of its $20.0 million liability insurance deductible are expected to be covered by insurance. As of September 30, 2015, the Company has accrued its best estimate of its liabilities. The expected medical payments to be made during FY2016 were recorded within "Accrued expenses and other current liabilities" on the Company's Consolidated Balance Sheet as of September 30, 2015. The remaining claim reserve liability was recorded within "Casualty reserves". An insurance recovery receivable was recorded within "Deferred charges, deposits and other" representing the Company's best estimate of insurance proceeds it believes are probable of recovery. The

10. Commitments and Contingencies (continued)

claim reserve liability (excluding the expected FY2016 medical payments) and the insurance receivable are both classified as long term as of September 30, 2015, as the claims are unlikely to settle in FY2016.

In addition, Amtrak suffered property damage in the incident. The estimated replacement cost of property damaged is $57.6 million. All damages in excess of Amtrak's property insurance deductible of $10.0 million are expected to be covered by insurance. As a result of the incident, Amtrak recorded in FY2015 insurance recoveries of $18.7 million based on estimated losses recognized related to capitalized assets and expenses incurred in FY2015. Amtrak recorded $4.5 million as an increase in Accumulated Depreciation related to damaged assets and $14.2 million as a reduction of "Other" expenses related to losses recognized on leased assets and cost incurred. As of August 3, 2016, the Company has received insurance proceeds of $25.5 million, of which $10.0 million was received in FY2015 and $15.5 million was received in FY2016. The amount received in FY2016 in excess of the amount recognized in the Consolidated Statement of Operations and Consolidated Balance Sheets for FY2015 will be recognized in FY2016.

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. On January 2, 2015, all of Amtrak's labor contracts except for the one with the Fraternal Order of Police (FOP) were opened for renegotiation. The FOP contract was opened on October 2, 2015. As of August 3, 2016, Amtrak was still negotiating labor contracts with all of its unionized workforce.

As of September 30, 2015, the Company has accrued $5.1 million within "Accrued expenses and other current liabilities" in the Consolidated Balance Sheet, which represents its best estimate for retroactive wage increases resulting from settlements of such agreements for services through that date. There was no accrual as of September 30, 2014, as all unions had ratified contracts as of that date.

Legal Proceedings

In May 2008, APU, corporate successor to Penn Central, filed a lawsuit in federal court in Cincinnati, Ohio, asserting that Amtrak "eroded" the value of its common stock. APU sought $52.0 million plus 40 years of interest. APU owns 55.8% of Amtrak's common stock. Under the Rail Passenger Service Act of 1970, APU was permitted to have Amtrak assume APU's responsibility to operate intercity passenger rail service in return for paying Amtrak one-half of APU's 1969 passenger service losses. APU took advantage of that opportunity, entered into a 1971 agreement with Amtrak, paid $52.0 million as required, and chose to receive Amtrak common stock at par value (rather than tax deductions of equal value). APU's claims were litigated in arbitration proceedings and before the federal court. In an order dated June 21, 2011, the federal court granted Amtrak's motion to dismiss APU's lawsuit. In a second order dated September 13, 2011, the court also denied APU's motion to alter the court's judgment for Amtrak. APU filed an appeal to the U.S. Court of Appeals for the Sixth Circuit. The Sixth Circuit affirmed the District Court's dismissal of APU's complaint except for one procedural due process claim that was remanded to the District Court. On remand, the District Court granted Amtrak's motion to dismiss the case, for a second time, and also dismissed APU's subsequent motion to reconsider or alter that decision. APU appealed the second dismissal on June 29, 2015. Legal

10. Commitments and Contingencies (continued)

briefing before the Sixth Circuit Court of Appeals was completed on November 13, 2015. The Company believes it is reasonably possible, but not probable, that a loss could be incurred related to this claim. Accordingly, Amtrak has not recorded a liability related to this claim in the consolidated financial statements.

Amtrak is involved in various other litigation and arbitration proceedings in the normal course of business, including but not limited to several distinct tort, contract 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 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 (ADA) Compliance

Under the 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, 2015, Amtrak has spent a total of $342.5 million on ADA-related projects. Approximately $31.6 million and $37.2 million of the expenditures were incurred during FY2015 and FY2014, 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 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. The FRA rules for PTC provide for exceptions to these PTC requirements, which are subject to FRA approval, on rail lines hosting passenger trains on which freight traffic volumes, and the number of passenger trains operated, do not exceed limits

10. Commitments and Contingencies (continued)

specified in the rule. In October 2015, Congress passed the Surface Transportation Extension Act of 2015, which included a three-year extension of the PTC deadline. Amtrak is working with federal authorities and 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. 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 fully PTC compliant by the original December 31, 2015 deadline, except for a few miles where technical issues are being resolved. Although all other Amtrak owned and/or operated rail lines, and Amtrak owned and controlled locomotives, are expected to be in compliance with the PTC requirements by December 31, 2018, it is possible that Amtrak service could be disrupted in areas on host railroads where PTC has not yet been fully implemented by the deadline. However, the possible impact of any such disruption cannot be estimated at this time. There is a provision in the Surface Transportation Extension Act of 2015 allowing railroads making sufficient progress installing PTC to seek an additional extension to December 31, 2020. As of September 30, 2015, Amtrak has spent $161.6 million for PTC-related projects on Amtrak owned or controlled rail lines and equipment. Approximately $28.9 million and $33.1 million of the expenditures were incurred during FY2015 and FY2014, respectively.

Kansas City Terminal Railway Co. (KCT) is a Class III railroad whose property is located in and around Kansas City, Missouri. Under federal law, Class III railroads are not required to install PTC unless the railroad carries passenger trains. Because Amtrak operates passenger service over certain KCT lines, KCT is required to install PTC on those lines. In April 2014, KCT filed a claim seeking to recover from Amtrak the full cost of installing PTC on its lines. On August 7, 2015, Amtrak and KCT reached a settlement pursuant to which Amtrak paid KCT an agreed upon amount and KCT acknowledged their obligation to complete installation of PTC on their rail lines.

Certain other host railroads over which Amtrak operates its passenger trains have asserted material claims against Amtrak to recover costs of PTC installation and maintenance, and other host railroads may assert claims in the future. Amtrak 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 will 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, 2015, 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. 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

10. Commitments and Contingencies (continued)

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 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.

11. Environmental Matters

The Company is subject to extensive and complex federal and state environmental laws and regulations that can give rise to 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 relating to properties acquired with existing environmental conditions, and to expense remediation costs incurred on properties for environmental cleanup matters occurring after acquisition. 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, 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.

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 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, 2015 and 2014, the environmental reserve was $57.6 million and $53.1 million, respectively. These reserves for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs. The current portion of the reserve was $11.3 million and $7.1 million as of September 30, 2015 and 2014, respectively, and is reported in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. Of the reserve, $40.8 million and $33.5 million, included in "Right-of-way and other properties" in the Consolidated Balance Sheets as of September 30, 2015 and 2014, respectively, relates to estimated future capital expenditures for environmental remediation.

Amtrak has not recorded any receivables for recoveries from other parties or from insurance recoveries; the amounts included in "Environmental Reserve" in the Consolidated Balance Sheets reflect only Amtrak's estimate of its portion of the gross liability. In those instances where Amtrak has received a buyout of third-party liabilities, the amounts are recorded as credits against capital expenses, and therefore are not viewed

11. Environmental Matters (continued)

as receivables. The ultimate liability for environmental remediation is difficult to determine with certainty due to, among other factors, the number of potentially responsible parties, site-specific cost sharing arrangements, the degree and types of contamination, potentially unidentified contamination, developing remediation technology, and evolving statutory and regulatory standards related to environmental matters.

Subsequent to September 30, 2015, the Company discovered polychlorinated biphenyl (PCB) contaminants in one of the railway stations it owns in areas not previously identified as having PCBs. Cleanup work has commenced and as of September 30, 2015, the Company has accrued $6.9 million, its best estimate of the costs to complete the first phase of the cleanup. It is probable that there will be a second phase to the cleanup, but those costs cannot yet be estimated and accordingly have not been accrued. The Company will accrue such costs at the time they become estimable.

Amtrak's management and 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.

12. 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.

Amtrak provides medical benefits to its qualifying retirees and life insurance to some retirees in limited circumstances under its postretirement benefits program. Railroad union employees' life insurance benefits are covered by a separate policy purchased by Amtrak. Under Amtrak's postretirement benefits program, substantially all salaried employees hired prior to April 1, 2013 may become eligible for medical benefits if they meet the service requirement and reach age 55 while they are working for Amtrak. Company-provided medical benefits are reduced when covered individuals become eligible for Medicare benefits or reach age 65, whichever comes first. Medical benefits are subject to co-payment provisions and other limitations.

On March 18, 2015, Amtrak's Board of Directors approved an amendment to freeze benefits under the Retirement Income Plan, effective June 30, 2015. This change resulted in no additional benefits being earned by participants based on service or pay after June 30, 2015. These plan changes resulted in a curtailment and required a remeasurement as of March 31, 2015. The curtailment and the remeasurement resulted in a net decrease in the projected benefit obligation as of the remeasurement date of $64.5 million which was offset against existing unrecognized losses.

Also on March 18, 2015, Amtrak's Board of Directors approved an amendment to modify its postretirement medical benefits program for nonunion employees. Effective June 30, 2015:

- Excluding certain Grandfathered Retirees and Executives, retirees age 65 and older have to obtain medical coverage through a third-party medical exchange. Amtrak funds a tax-advantaged health reimbursement account to assist retirees with medical expenses.
- Eligibility requirements for future retirees were changed to age 55 with ten years of service, or age 60 with five years of service for employees who were age 50 or over as of June 30, 2015.

12. Postretirement Employee Benefits (continued)

- Employees less than age 50 on June 30, 2015 are no longer eligible for subsidized benefits under the Plan.

These postretirement medical benefit program changes required a remeasurement as of March 31, 2015. The remeasurement resulted in a net decrease in the projected benefit obligation as of the remeasurement date of $402.9 million. The decrease in the projected benefit obligation has been reflected as a prior service credit and is being amortized over approximately four years beginning April 1, 2015.

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, 2015 and 2014 was as follows (in thousands):

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Reconciliation of projected benefit obligation:				
Obligation at October 1	**$ 517,485**	$ 422,099	**$ 1,214,456**	$ 1,120,535
Service cost	**13,849**	14,713	**30,455**	30,701
Interest cost	**21,702**	21,396	**45,882**	56,679
Actuarial loss	**9,948**	76,429	**30,475**	55,793
Employee contributions	**—**	—	**2,656**	1,794
Benefit payments	**(18,806)**	(17,152)	**(51,893)**	(51,046)
Gain due to curtailment/ plan amendment	**(64,548)**	—	**(402,854)**	—
Obligation at September 30	**$ 479,630**	$ 517,485	**$ 869,177**	$ 1,214,456
Reconciliation of fair value of plan assets:				
Plan assets at October 1	**$ 418,122**	$ 393,608	**$ —**	$ —
Actual (loss) gain on plan assets	**(12,627)**	29,119	**—**	—
Employer contributions	**14,000**	14,000	**49,238**	49,252
Participant contributions	**—**	—	**2,656**	1,794
Medicare Part D subsidy	**—**	—	**825**	981
Benefit payments, net	**(20,231)**	(18,605)	**(52,719)**	(52,027)
Plan assets at September 30	**$ 399,264**	$ 418,122	**$ —**	$ —
Funded status:				
Net liability recognized in Consolidated Balance Sheets	**$ (80,366)**	$ (99,363)	**$ (869,177)**	$ (1,214,456)
Accumulated benefit obligation at September 30	**$ (479,630)**	$ (461,126)	**$ (869,177)**	$ (1,214,456)

12. Postretirement Employee Benefits (continued)

Pension and other postretirement benefit amounts recognized in the Consolidated Balance Sheets as of September 30, 2015 and 2014 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Current liabilities	**$ 22,263**	$ 20,439	**$ 63,463**	$ 60,709
Non-current liabilities	**58,103**	78,924	**805,714**	1,153,747
Net amount recognized	**$ 80,366**	$ 99,363	**$ 869,177**	$ 1,214,456

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss in FY2015 and FY2014 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Net loss	**$ 132,703**	$ 150,116	**$ 463,580**	$ 478,196
Prior service cost	**—**	—	**(466,341)**	(139,463)
Net amount recognized	**$ 132,703**	$ 150,116	**$ (2,761)**	$ 338,733

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the plans for FY2015 and FY2014 (in thousands):

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Service cost	**$ 14,299**	$ 15,163	**$ 30,455**	$ 30,701
Interest cost	**21,702**	21,396	**45,882**	56,679
Expected return on plan assets	**(30,343)**	(29,337)	**—**	—
AOCI reclassification adjustment*:				
Amortization of prior service cost	**—**	—	**(75,976)**	(21,754)
Amortization of net loss	**6,758**	3,735	**45,091**	34,378
Net periodic benefit cost	**$ 12,416**	$ 10,957	**$ 45,452**	$ 100,004

* Reclassifications from accumulated other comprehensive income (AOCI) were recorded within "Salaries, wages, and benefits" expense in the Consolidated Statements of Operations.

The estimated net loss for the Retirement Income Plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $3.3 million.

The estimated net loss and prior service cost for the other postretirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are $50.1 million and a credit of $130.4 million, respectively.

12. Postretirement Employee Benefits (continued)

Plan Assets

The Company's pension plan asset allocation at September 30, 2015 and 2014, and target allocation for 2016, are as follows:

	Plan Assets		
	2016	2015	2014
Domestic equity securities	18-38 %	**31.1 %**	30.9 %
Global asset allocation funds	20-40	**32.9**	28.0
Fixed income securities	13-23	**17.6**	16.5
Common/collective trust	6-34	**7.2**	18.1
Real estate investment trust	0-10	**6.4**	5.3
Money market funds	0-5	**0.9**	1.2
Other assets*	N/A	**3.9**	N/A

* Other assets consist of cash being held in a noninterest-bearing trustee account.

The investment strategy for Retirement Income Plan assets is to invest the assets in a manner whereby long-term returns on the assets provide adequate funding for retiree pension payments. The investment objectives of the pension fund are to: (1) promote the growth in the plan's funded status, to the extent appropriate, minimizing reliance on employer contributions as a source of benefit security, (2) invest the assets of the plan to achieve the greatest reward consistent with a reasonable and prudent level of risk, and (3) achieve, as a minimum over time, the passively managed asset return earned by market index funds, weighted in the proportions outlined by the asset class exposures identified in the plan's strategic allocation.

Assets are strategically allocated among equity, fixed income, real estate and global asset allocation managers who have the ability to invest in stocks, bonds, and other assets in the U.S. and abroad in order to achieve diversification of investments and to reduce volatility in investment returns as well as maintain flexibility for the managers to allocate assets to areas of the market they believe have greater upside potential while avoiding areas of the market that they believe are likely to underperform. The asset allocation is evaluated and rebalanced to return each of the asset classes back to the target range percentage within six to eight weeks following the end of each quarter, unless the Retirement Investment Committee determines otherwise. As a result of the asset allocation diversification strategies, there are no significant concentrations of risk within the portfolio of investments.

The accounting guidance on fair value measurements specifies a fair value hierarchy based on the ability to observe inputs used in valuation techniques (Level 1, 2 and 3 - see Note 8). The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy. The Company does not intend to sell any of the funds at an amount different from NAV per share as of September 30, 2015, nor does the Company have any unfunded commitments related to these funds.

12. Postretirement Employee Benefits (continued)

Domestic Equity Securities

This investment category consists of common stock issued by U.S. corporations and American Depository Receipts (ADRs) issued by U.S. banks. Common stock and ADRs are traded actively on exchanges and price quotes for these shares are readily available. Starting in FY2015, the category also includes the Vanguard Russell 1000 Growth Index fund and the Vanguard Russell 1000 Value Index fund.

The Vanguard Russell 1000 Growth Index fund (fair value of $48.3 million as of September 30, 2015) seeks to closely track the Russell 1000 Growth Index, which is considered a gauge of large-cap growth U.S. stock returns.

The Vanguard Russell 1000 Value Index fund (fair value of $47.4 million as of September 30, 2015) seeks to closely track the Russell 1000 Value Index, which is considered a gauge of large-cap value U.S. stock returns.

All investments in this category are classified as Level 1 investments.

Global Asset Allocation Funds

This category consists of the BlackRock Global Allocation fund (BlackRock), PIMCO All Asset Institutional fund (PIMCO), Stone Harbor Local Markets fund (Stone Harbor) (liquidated during FY2015), and, new in FY2015, the Vanguard FTSE All World ex-US Index fund.

The BlackRock investment (fair value of $48.9 million and $51.1 million as of September 30, 2015 and 2014, respectively) seeks to provide high total investment return. It invests in domestic and foreign equities, debt securities and money market instruments.

The PIMCO investment (fair value of $43.6 million and $49.2 million as of September 30, 2015 and 2014, respectively) seeks maximum real return, consistent with preservation of real capital and prudent investment management. It targets solid real (after inflation) returns from a global opportunity of traditional and alternative asset classes.

The Vanguard FTSE All-World ex-US Index Fund (fair value of $38.9 million as of September 30, 2015) 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 Vanguard FTSE fund was selected to replace the Thornburg International Equity fund (the Thornburg Fund) due to performance issues and the departure of the Thornburg Fund's portfolio manager (see Common/ Collective Trust below for further information on the Thornburg Fund).

The Stone Harbor investment was liquidated to cash in FY2015. The liquidation proceeds are being held in a non-interesting bearing trustee account. The investment had a fair value of $16.8 million as of September 30, 2014.

All funds in this category are actively traded; price quotes for these shares are readily available; and these assets are classified as Level 1 investments.

12. Postretirement Employee Benefits (continued)

Fixed Income Securities

This investment category consists of Agency bonds, U.S. government securities, Corporate bonds, Government bonds, Municipal bonds, Asset-backed securities and Mortgage-backed securities (government and corporate). These assets are valued based on a compilation of primarily observable market information or a broker quote in a non-active market. These assets are classified as Level 2 investments.

Common/Collective Trust

As of September 30, 2015, this category consisted of an investment in the Loomis Sayles Multi Sector Credit Fund (the Loomis Sayles Fund) and the Eaton Vance Parametric Fund (the Eaton Vance Fund). At September 30, 2014, in addition to these two funds, the Company also had investments in the Thornburg International Equity Fund (the Thornburg Fund).

The Loomis Sayles Fund (fair value of $19.6 million and $20.0 million as of September 30, 2015 and 2014, respectively) seeks to generate solid long-term risk-adjusted investment performance with significant allocations to non-U.S. dollar and emerging market debt securities. Securities rated below BBB- are limited to 20-50% of the portfolio. The units are not traded on a recognized stock exchange and the value of the Loomis units is determined daily by calculating NAV. The investments in the Loomis Sayles Fund are redeemable any day the Loomis Sayles Fund is open for business.

The Eaton Vance Fund (fair value of $9.2 million and $11.9 million as of September 30, 2015 and 2014, respectively) seeks long-term capital appreciation and normally invests at least 80% of its net assets in equity securities of companies located in emerging market countries. It intends to invest primarily in securities of companies located in countries included in the MSCI Emerging Markets Index or the MSCI Frontier Markets Index. The units are not traded on a recognized stock exchange and the value of the Eaton units is determined daily by calculating NAV. The investments in the Eaton Vance Fund are redeemable any day the Eaton Vance Fund is open for business.

The Thornburg Fund (fair value of $44.0 million as of September 30, 2014) seeks long-term capital appreciation by investing in equity securities of all types. As a secondary consideration, the Thornburg Fund also seeks current income. The units are not traded on a recognized stock exchange and the value of the Thornburg Fund units is determined daily by calculating the NAV. The investments in the Thornburg Fund are redeemable any day the Thornburg Fund is open for business. During FY2015, the Vanguard FTSE fund was selected to replace the Thornburg Fund due to performance issues and the departure of the Thornburg Fund's portfolio manager.

All investments in this category are classified as Level 2 investments.

Real Estate Investment Trust

This category consists of an investment in the Morgan Stanley Prime Property fund. The fair value of the investments in the Prime Property Fund has been estimated using the NAV of the Plan's ownership interest (units) in the partner's capital. The investment in the Prime Property Fund can be redeemed on a quarterly basis but with no guarantee that cash will be available at any particular time to fund the redemption request. If the cash is not available, the redemption will be deferred at the discretion of the fund manager until sufficient

12. Postretirement Employee Benefits (continued)

cash is available. There were no unfunded withdrawal requests as of September 30, 2015 or September 30, 2014. Investments in real estate investment funds are classified as Level 2 assets.

Money Market Funds

Money market funds generally transact subscription and redemption activity at a $1.00 stable NAV. However, on a daily basis, the fund's NAV is calculated using the amortized cost (not market value) of the securities held in the fund. It is generally accepted as industry best practice that securities valued at amortized cost are Level 2 assets; amortized cost does not meet the criteria for an "active market." This factor was the primary determinant used by management to assign a fair value hierarchy of Level 2 to money market funds. Amtrak's category of investments in money market funds is comprised of JPMorgan 100% U.S. Treasury Securities Money Market Fund. Management obtained and reviewed JP Morgan's Money Market Funds Annual Report and reviewed the investment valuation for JPMorgan 100% U.S. Treasury Securities Money Market Fund in the significant accounting policies section of the report, which states 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."

12. Postretirement Employee Benefits (continued)

The following table represents the fair values of the Company's pension assets by level within the fair value hierarchy as of September 30, 2015 and 2014 (in thousands):

	Total	Level 1	Level 2	Level 3
September 30, 2015				
Agency bonds	$ 127	$ —	$ 127	$ —
U.S. government securities	3,958	—	3,958	—
Corporate bonds	20,438	—	20,438	—
Government bonds	821	—	821	—
Municipal bonds	3,297	—	3,297	—
Asset-backed securities	12,862	—	12,862	—
Mortgage-backed securities (government)	21,314	—	21,314	—
Mortgage-backed securities (corporate)	7,519	—	7,519	—
Total fixed income	70,336	—	70,336	—
Large cap	104,054	104,054	—	—
Mid cap	19,072	19,072	—	—
Small cap	917	917	—	—
Total equity securities	124,043	124,043	—	—
Money market funds	3,593	—	3,593	—
Real estate investment trust	25,525	—	25,525	—
Global asset allocation funds	131,467	131,467	—	—
Common/collective trust	28,776	—	28,776	—
Total fair value investments	383,740	$ 255,510	$ 128,230	$ —
Other assets*	15,498			
Total plan assets	$ 399,238			

* Other assets consist of cash being held in a noninterest-bearing trustee account.

12. Postretirement Employee Benefits (continued)

	Total	Level 1	Level 2	Level 3
September 30, 2014				
Agency bonds	$ 581	$ —	$ 581	$ —
U.S. government securities	5,418	—	5,418	—
Corporate bonds	17,599	—	17,599	—
Government bonds	277	—	277	—
Municipal bonds	4,400	—	4,400	—
Asset-backed securities	9,738	—	9,738	—
Mortgage-backed securities (government)	23,046	—	23,046	—
Mortgage-backed securities (corporate)	7,703	—	7,703	—
Total fixed income	68,762	—	68,762	—
Large cap	106,901	106,901	—	—
Mid cap	20,527	20,527	—	—
Small cap	1,397	1,397		
Total equity securities	128,825	128,825	—	—
Money market funds	5,474	—	5,474	—
Real estate investment trust	22,031	—	22,031	—
Global asset allocation funds	117,122	117,122	—	—
Common/collective trust	75,792	—	75,792	—
Total fair value investments	418,006	$ 245,947	$ 172,059	$ —
Other assets*	116			
Total plan assets	$ 418,122			

* Other assets consist of accrued interest and dividends receivable and pending broker settlements.

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 is expected to be approximately 7.25%.

Estimated Future Benefit Payments

Based upon the assumptions used to measure the pension and other postretirement benefit obligations as of September 30, 2015, including pension and 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):

12. Postretirement Employee Benefits (continued)

	Pension Benefits	Other Benefits
Year ending September 30,		
2016	$ 22,263	$ 63,463
2017	23,887	67,647
2018	25,329	71,653
2019	26,565	72,272
2020	27,518	71,354
2021-2025	146,482	321,855

Contributions

In FY2016, Amtrak expects to contribute $14.0 million to the defined benefit plan and $63.6 million towards other postretirement benefits.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of September 30, 2015 and 2014 are as follows:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Discount rate	**4.43 %**	4.57 %	**3.99-4.17 %**	4.57 %
Rate of compensation increase	*	4.20	**N/A**	N/A

* As a result of the March 18, 2015 amendment, no additional benefit is earned for service or pay after June 30, 2015. Accordingly, there is no longer the need to assume any future compensation increase.

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2015 and 2014 are as follows:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Discount rate	**4.08-4.57 %**	5.18 %	**4.24-4.57 %**	5.18 %
Expected long-term return on assets	**7.25**	7.50	**N/A**	N/A
Rate of compensation increase	**4.20 %**	4.20 %	**N/A**	N/A

Assumed health care cost trend rates are as follows:

	September 30,	
	2015	**2014**
Health care cost trend rate assumed for next year	**7.50-8.50 %**	7.75-8.75 %
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	**2029**	2029

12. Postretirement Employee Benefits (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the other defined benefit post retirement plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the Other Benefits plans (in thousands):

	1% Increase	1% Decrease
Effect on total of service and interest cost component	$ 16,285	$ (10,735)
Effect on postretirement benefit obligation	57,486	(52,156)

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 $1.9 million and $112.7 million for FY2015 and FY2014, respectively, for this prescription drug benefit. The significant lower reduction in FY2015 when compared to FY2014 is attributable to the March 18, 2015 amendment which modified the Company's postretirement medical benefit program.

401(k) Savings Plan

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. Prior to July 1, 2015, the maximum employer contribution was five percent. Amtrak's expenses under this plan were $13.8 million and $11.4 million for FY2015 and FY2014, 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.

13. Subsequent Events

The FAST Act

On December 4, 2015, the President signed as Public Law 114-94, the Fixing America's Surface Transportation Act. See Note 2.

Revolving Credit Facility

On July 26, 2016, Amtrak entered into a Credit Agreement with three lenders for a $100 million unsecured revolving 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 LIBOR Rate

13. Subsequent Events (continued)

plus 1.0%; 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 Standard & Poor's and Moody's ratings (Credit Ratings). Amtrak must pay a commitment fee on any undrawn portion of the revolving credit facility commitment 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 August 3, 2016, the Company has not made any draws under the facility.

Management's Evaluation

The Company has evaluated subsequent events through August 3, 2016 which is the date the financial statements were available to be issued. There were no other events that require adjustments to or disclosure in the Company's financial statements for FY2015.

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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, 2015, 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 August 3, 2016.

Federal Government Funding

As explained in Notes 1 and 2 in 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 Resolution, 2016 and the Consolidated and Further Continuing Appropriations Act, 2016. There are currently no Federal Government subsidies appropriated by law for any period subsequent to September 30, 2016. Without the 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. 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.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in Appendix A, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the aggregation of the two Information Systems significant deficiencies described in greater detail in Appendix A to be a material weakness.

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. We considered the two components of the Information Systems material weakness to individually be significant deficiencies.

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 are described in 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.

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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 result 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

August 3, 2016

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Appendix A – Material Weakness in Internal Control Over Financial Reporting

Information Systems

Information management security and change management controls are fundamental to the integrity of all information systems. Such controls, including appropriately designed and implemented preventative 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 an appropriate level of segregation of incompatible duties throughout the information system processes to validate that the integrity of Amtrak's information resources is not compromised.

As part of our fiscal year 2015 audit, we have identified two significant deficiencies that when aggregated result in a material weakness in the design and operation of information systems controls. The significant deficiencies relate to information technology general controls, specifically user access and change management controls.

- **User access** – lacked timely removal of user access, frequency, precision, and documentation of user access reviews, and timely resolution of discrepancies, segregation of privileged user access, conformity of and periodic and ongoing monitoring of infrastructure security configurations to the Company's standards for significant applications, operating systems and databases. In addition, there was a lack of controls to validate the completeness and accuracy of data and reports used in executing review controls.

  Appropriate consideration of the design of controls over user access is essential to provide a suitable framework for subsequent implementation and operation of the controls.

- **Change management** – experienced difficulties in implementing its policy of least privilege access and segregation of duties, preventing and monitoring for inconsistencies in access rights appropriateness to the production environments. Further for environments without segregation of duties within the change management process, appropriate monitoring procedures were not in place to serve as a compensating control. The Company also lacked sufficient documentation to evidence the population of program changes in the production environment for certain information systems.

The material weakness impacted application controls and IT-dependent manual controls including management review controls relying on electronic data across all classes of transactions that were significant to financial reporting process.

Recommendation:

Improvements are necessary in the controls over monitoring of compliance with information security policies, system access and unauthorized system access and the prevention of and monitoring for inconsistencies in access rights allowing a potential lack of segregation of conflicting duties.

An improved governance-based approach should result in strengthened control, monitoring, and oversight processes that will enhance the overall integrity of Amtrak's information systems. Examples of such oversight processes that should be improved include the following:

- Reviewing and evaluating identified deficiencies and instances of noncompliance with stated Amtrak policies and guidance, including the documentation of conclusions and evaluating their impact on the financial reporting.
- Consistent, current and complete system security documentation prepared by all system owners.
- Follow relevant Amtrak guidance during the review and approval of all program changes. Documentation should be prepared and retained for all phases of the change management process.
- Allow for appropriate version control throughout all phases within the change management process, including consideration of the validation of completeness and accuracy of change listing populations.
- Consider the feasibility of configuring applications and supporting infrastructure to meet the required security and authentication parameters as defined in the Company's policy and procedure and adhering to the hardening standards or, where relevant, perform a risk analysis of non-adherence to defined policy standards and document management-approved exceptions to those standards. Monitoring controls should be implemented to timely identify and rectify areas of non-compliance.
- Follow relevant Amtrak policies related to the removal of user access, assignment of privileged access rights and segregation of incompatible access rights for all significant applications and supporting infrastructure.
- Consistently execute the periodic logical user access review process and the retention of relevant documentation evidencing the completeness and accuracy of data used in the review, the completeness of the review itself, the timely resolution of identified discrepancies and the mitigation of risk.

Management's Response:

We agree with these recommendations and have implemented several corrective action plans to address the root causes. Many improvements have been made in the third and fourth quarters of our fiscal year ending September 30, 2016 and we continue to implement the corrective actions required to remediate the remaining findings.

We recently hired a Director of IT Risk and Compliance who brings to Amtrak years of experience in implementing and monitoring IT control environments. We take all risks to the IT control environment very seriously and will continue our efforts to complete remediation of the past findings and ensure our IT control environment will position us to avoid further issues in the coming audit year.

Appendix B – Status of Prior Year Deficiencies

Process	Nature of Comment	Type of Comment in Fiscal Year 2014	Current Year Status
Capital lease accounting, documentation and analysis	Lack of process to develop, document, validate and review the critical accounting conclusion for all lease arrangements.	Material Weakness	Remediated
Income Tax Accounting	Reassess the income tax process to incorporate controls to prevent, detect and resolve accounting errors timely and validate accounting conclusions.	Material Weakness	Remediated
Financial Reporting	Establish accounting policies and procedures that should be implemented to produce complete, accurate and timely financial statements.	Material Weakness	Remediated
Information Systems	Two significant deficiencies related to information technology general controls, user access and change management controls that aggregate to a material weakness in the design and operation of the information systems controls.	Material Weakness	Not Remediated – Included in the Material Weakness for Information Systems