National Railroad Passenger Corporation and Subsidiaries (Amtrak)

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

Fiscal Year 2019

AMTRAK

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide readers with an understanding of our results of operations, changes in financial position, and liquidity. This MD&A should be read in conjunction with our audited Consolidated Financial Statements for the fiscal years ended September 30, 2019 (FY2019) and September 30, 2018 (FY2018) and the related notes included elsewhere in this report.

FORWARD-LOOKING STATEMENT DISCLOSURE

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

- We have a history of recurring operating losses and are dependent on grants from the Federal Government to operate the national passenger rail system and maintain the underlying infrastructure. These grants are usually received through annual appropriations. Appropriated funds for Amtrak are generally provided to the United States Department of Transportation (the DOT), which through its agency the Federal Railroad Administration (the FRA) provides us those funds pursuant to annual grant agreements. If we do not receive sufficient Federal Government funding in the form of grants and subsidies, our ability to operate in our current form may be adversely affected;
- Title XI-Rail of the Fixing America's Surface Transportation Act (the FAST Act), cited as the Passenger Rail Reform and Investment Act of 2015, authorized funding to the Secretary of the DOT (the Secretary) for annual grants to Amtrak totaling $8.1 billion for FY2016 through FY2020. The FAST Act expires at the end of FY2020 and currently there is no new surface transportation bill passed to authorize continued funding to Amtrak in FY2021 and beyond. While passage of a new surface transportation bill is not required in order for us to receive federal grant funding, a substantial delay or reduction in funding could negatively impact our ability to maintain our current operations and to continue our capital spending on essential infrastructure projects;
- An outbreak of disease or similar public health threat, or fear of such an event, that affects travel demand or results in travel restrictions could have a material adverse impact on our business operations, financial condition, and results of operations. Starting in late 2019, there was an outbreak of a novel strain of coronavirus (COVID-19) in Wuhan, China that has since spread to other regions in China and the rest of the world. It has recently been declared a pandemic by the World Health Organization and is impacting worldwide economic activity. COVID-19 poses the risk that we or our employees, contractors, suppliers, customers, and other business partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. Since March 2020, we have had significantly reduced ticket bookings and increased ticket cancellations and while the fluid and developing nature of the current situation has made it difficult for us to forecast the impact it will have on our business, our results of operations for FY2020 are expected to be materially adversely affected. Considering that the COVID-19 outbreak has become one of the biggest threats to the global economy and financial markets, the U.S. Congress passed and the President signed into law on March 27, 2020, the $2.2 trillion Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) to provide emergency assistance and health care response for individuals, families, and businesses affected by the 2020 coronavirus pandemic. The CARES Act provides us with $1.0 billion in federal grants to help offset our additional costs and lost revenue related to COVID-19, which includes $239.0 million to support

our state partners in funding State Supported service, However, considering the serious implications the pandemic and associated U.S. response is having on our business operations and ticket sales, our ability to operate our trains and generate enough revenue to meet our operating expenses and service our debt obligations may be adversely impacted;

- The infrastructure on the Northeast Corridor (NEC) is approaching the limit of its capacity and needs significant rehabilitation. According to the NEC Commission, the NEC has a state of good repair backlog of approximately $45.2 billion. Two of the most critical projects - the Hudson Tunnel and the Portal Bridge - are part of the Gateway Program, a planned phased expansion and renovation of the NEC rail line between Newark, New Jersey, and New York City, New York. We are also advancing work to replace the Baltimore & Potomac Tunnel and Susquehanna River Bridge in Maryland. If sufficient funding is not secured for advancing these and other essential projects in the very near term, we will face serious operational constraints in the years ahead as vital NEC infrastructure reaches the end of its useful life, resulting in degradation of service reliability and significant reductions of capacity at certain locations due to the need to shut down tunnels, tracks, and bridges for rehabilitation and major construction projects;
- A significant portion of our equipment fleet is at or nearing the end of its useful service life. Our passenger railcar fleet averages nearly 34 years of age and diesel locomotives nearly 22 years of age. Our older equipment has outmoded mechanical designs and systems, limited parts availability, poor reliability, commercially outdated appearances and amenities, and high operating costs. If replacement equipment is not provided or not delivered on schedule, these issues may decrease customer satisfaction and the competitiveness of our services, impair on-time performance, and drive up our expenses, impacting our results of operations;
- Most of the rights-of-way over which we operate are owned by freight and other railroads, known as host railroads. Because the host railroads make all dispatching decisions about which trains have priority in using their rail line, they have significant control over our operations. Failure of host railroads to provide Amtrak trains with acceptable on-time performance (OTP) and adhere to our agreed-upon passenger train schedules could have an adverse impact on our revenues. Many freight railroads today are disregarding the statutory requirement that our trains be given preference over freight, since there is currently no enforcement. This results in poor OTP that reduces our revenues and increases our costs. Continued non-compliance with the law by host railroads, and failure by Congress to provide us with a legal remedy to address non-compliance, could negatively affect our financial performance and jeopardize the continued operation of the impacted routes;
- While there has been a growth in our State Supported services, our current route map still closely resembles the service Amtrak provided when we began operations in 1971. The only Amtrak service in most of the fastest growing regions in the country (i.e., the South, Southwest and Mountain States), is provided by Long Distance trains that operate once a day or less, serve many major metropolitan areas in the middle of the night or not at all, have unreliable on-time performance, and continue to generate significant operating losses. They do not serve the significant demand for more frequent, reliable, trip time competitive passenger rail service in short distance corridors between major cities in these fast-growing regions. Our failure to restructure the service we provide on our Long Distance network by adding new corridor routes serving growing metropolitan areas and megaregions, in order to become relevant to present and future travelers in these underserved or not served regions and corridors that account for the vast majority of the nation's population growth, could negatively impact future revenue growth and financial performance and hinder our ability to attract the state funding support that has enabled us to expand our operations and increase our attractiveness to potential customers in other regions;

- In FY2019, our State Supported services represented 47.4% of our ridership and generated $538.1 million in revenue. Continued operation of State Supported routes is subject to annual operating agreements and state legislative appropriations. Failure on the part of any of the states to secure the necessary operating and capital funds from their state legislatures or decisions by states to contract with service providers other than Amtrak could put some state corridor services at risk;
- Our business is subject to federal and certain state and local laws and regulations;
- Positive Train Control (PTC) is a system of functional requirements for monitoring and controlling train movements and is a type of train protection system. We and the host railroads are required to complete installation of PTC by December 31, 2020. Our and our host railroads' compliance with PTC requirements by the deadline is critical to our ability to continue operating our business and provide services with required enhanced safety measures. We are working actively with the FRA and our host railroad partners to achieve PTC compliance by the deadline. Additional funding to fully comply with PTC requirements is necessary and will be requested from our federal and various state partners. If we or our host railroads fail to meet the deadline, our operations could be adversely affected. See Note 11 to the Consolidated Financial Statements included elsewhere in this report for further information on PTC;
- We could experience adverse publicity, harm to our brand, reduced travel demand, and potential tort liability as a result of an accident, catastrophe, disease outbreak, or incident that involves us, our state partners, or our host railroads, which may result in a material adverse effect on our business, operating results, and financial condition;
- Our business is capital intensive and without sufficient capital investment we may be unable to maintain and improve current infrastructure and rolling stock in order to operate our rail services in a safe and efficient manner;
- Our business is subject to numerous operational risks such as equipment failure; disruption of our supply chain; information system failure, interruption, or security breach; severe weather; natural disasters; acts of terrorism or war; criminal activity; and other events which could adversely impact our operations;
- Large portions of our operating costs are driven by prices for diesel fuel and electricity. To protect against increases in the market prices of electricity we enter into forward purchases of our forecasted electricity consumption and to protect against increases in the market prices of diesel fuel we may hedge a portion of our future fuel requirements. However, these hedging programs may not be successful in mitigating higher fuel costs due to changes in our consumption, and any price protection provided may limit the benefit we would have received under favorable market conditions;
- Due to the capital-intensive nature of our business, a significant increase in the replacement cost of our assets due to inflation or other economic conditions could adversely impact our business operations and financial results;
- Most of our employees are represented by unions, and failure to negotiate reasonable collective bargaining agreements under the terms of the Railway Labor Act could eventually result in strikes, work stoppages, or substantially higher ongoing labor costs;
- Environmental liabilities incurred in the normal course of business could have an adverse effect on our results of operations;
- Catastrophic events could result in liabilities exceeding our insurance coverage; and
- Any decline in the economy that reduces business travel or depresses consumer spending in the United States could have a negative impact on our revenues.

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

GENERAL BUSINESS DESCRIPTION

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

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

We operate a national rail network of more than 21,400 route miles serving more than 500 destinations in 46 states, the District of Columbia (D.C.), and three Canadian provinces. Additionally, we offer approximately 150 Thruway routes that provide guaranteed connection to trains via buses, vans, ferries, and other modes of transportation. This extends our service to more than 400 communities not served directly by Amtrak trains in 38 states and Canada.

As of September 30, 2019, our active fleet included 20 *Acela* high-speed trainsets; 1,374 passenger cars including *Amfleet, Superliner, Viewliner, Horizon, Talgo,* and other types; 80 *Auto Train* vehicle carriers; 230 road diesel locomotives; and 66 ACS-64 electric locomotives.

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

- In December 2018, we entered into a contract to purchase 75 long-distance diesel-electric passenger locomotives with options to purchase additional locomotives. Deliveries of the locomotives are expected to start in 2021.
- In August 2016, we entered into a contract to purchase 28 Next-Generation High-Speed trainsets that will replace our existing 20 *Acela* trainsets. Acceptance of these trainsets is expected to start in 2021.
- In August 2010, we entered into a contract to purchase 130 long-distance single level cars. As of September 30, 2019, we have taken delivery of 103 cars.

The *Acela* travels on the NEC between Washington, D.C., and Boston, Massachusetts. It is the fastest train in the Western Hemisphere, with a maximum speed of 150 mph (241 kph) on sections of its route between Boston and New Haven, Connecticut. Its top speed between New York City and Washington, D.C., is 135 mph (217 kph). Nearly half of our trains operate at top speeds of 100 mph (160 kph) or greater. Amtrak is the only railroad in North America to maintain right-of-way for service at speeds in excess of 125 mph (201 kph) and our engineering forces maintain more than 350 route-miles of track for 100+ mph (160+ kph) service.

The NEC is the busiest railroad segment in North America with approximately 2,200 Amtrak, commuter, and freight trains operating over some portion of the Washington, D.C. to Boston route each day. In FY2019, customers made 18.8 million trips on the NEC. This included all Amtrak trains that traveled over some portion of the NEC spine (Washington-New York-Boston) and connecting corridors to Harrisburg, Pennsylvania; Springfield, Massachusetts; Albany, New York; and Richmond, Virginia. Eight commuter rail services operate on the NEC.

We serve 526 stations in the United States and Canada. At these stations, Amtrak owns 76 station structures, 49 platforms and 39 parking facilities. In addition, there are 58 stations in the United States where Amtrak owns one or more station components (i.e., station structure, platform, parking facility) but does not serve the station. We own 18 tunnels consisting of 24 miles of track and 1,414 bridges. We own most of the maintenance and repair facilities for our fleet.

In FY2019, we received funding from 21 state agencies representing 18 states for financial support of 29 short distance routes (less than 750 miles). Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) required Amtrak and its state partners to develop jointly a single, nationwide, and standardized cost-sharing methodology to charge states for State Supported intercity passenger rail service. In FY2019, 15.4 million trips were taken on our State Supported services routes.

Five State Supported corridors had ridership of one million or more in FY2019:

- *Pacific Surfliner* (San Diego-Los Angeles-San Luis Obispo) - 2.8 million;
- *Capitol Corridor* (San Jose-Oakland-Sacramento-Auburn) - 1.8 million;
- *Empire Service* (New York-Albany-Buffalo-Toronto) - 1.6 million;
- *Keystone Service* (Harrisburg-Philadelphia) - 1.6 million; and
- *San Joaquins* (Oakland/Sacramento-Bakersfield) - 1.1 million.

Five other State Supported corridors had ridership in excess of 500,000 in FY2019:

- *Hiawatha Service* (Chicago-Milwaukee) - 0.9 million;
- *Amtrak Cascades* (Eugene-Portland-Seattle-Vancouver) - 0.8 million;
- *Lincoln Service* (Chicago-St. Louis) - 0.6 million;
- *Downeaster* (Boston-Portland-Brunswick) - 0.6 million; and
- *Wolverine* (Chicago-Detroit-Pontiac) - 0.5 million.

Amtrak operates 15 Long Distance train routes (more than 750 miles), which accounted for 14% of Amtrak ridership (4.6 million trips) in FY2019. Amtrak is the only intercity passenger transportation service in an increasing number of communities that lack intercity bus and airline service. Our Long Distance trains provide the only rail service at nearly half of the stations in the Amtrak system and are the only Amtrak trains in 23 of the 46 states in the network.

Amtrak owned and/or maintained property includes:

- *NEC*: 363 miles of the 457-mile NEC spine which connects Washington, D.C., Philadelphia, New York City, and Boston. The NEC is the busiest passenger line in the country, with trains regularly reaching speeds of 125-150 mph (201-241 kph). Two sections of the NEC are owned by others: (1) the New York Metropolitan Transportation Authority (10 miles) and Connecticut Department of Transportation (46 miles) own 56 miles on Metro-North Railroad between New Rochelle, New York, and New Haven, Connecticut and (2) the Commonwealth of Massachusetts owns 38 miles between the Massachusetts/Rhode Island border and Boston that is operated and maintained by Amtrak;

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

Outside of the NEC, we contract with other railroads for the use of their tracks and other resources required to operate our trains, with incentives for on-time performance. These host railroads are responsible for the condition of their tracks and for the dispatching on their tracks. Approximately 70 percent of Amtrak's train miles are run on tracks owned by the host railroads.

The six largest host railroads for Amtrak trains in FY2019, by train-miles traveled, were:

- *BNSF Railway* - 6.9 million train-miles;
- *Union Pacific Railroad* - 6.1 million train-miles;
- *CSX Transportation* - 5.0 million train-miles;
- *Norfolk Southern Railway* - 2.5 million train-miles;
- *Canadian National Railway* - 1.4 million train-miles; and
- *Metro-North Railroa*d - 1.4 million train-miles.

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

Excluding Amtrak's Office of Inspector General (OIG), we have approximately 18,600 employees and approximately 84 percent of our labor force is covered by labor agreements.

PRINCIPAL BUSINESS

Amtrak's intercity train operations are divided into three service lines.

Northeast Corridor

The NEC is a high-speed railroad developed over the course of a multi-year partnership among Amtrak, the DOT, commuter railroads, and states. While portions of the right-of-way follow alignments that date back to the 1830s, Amtrak, the DOT, and the commuter railroads have created a network that supports an intense daily schedule of approximately 2,200 trains and provides hourly high-speed service, with a top speed (on the Boston to New York route) of 150 mph (241 kph). Approximately 140 Amtrak trains run on the NEC each day. In each of the two principal city pairs (New York to Washington, D.C. and New York to Boston), we carry more passengers than all of the airlines serving these routes, and our share of the air-rail market in some intermediate city pairs is even larger.

State Supported

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

Long Distance

We operate trains on 15 Long Distance routes, all but two on a daily basis and all but one operating overnight and offering sleeping car service in addition to coaches. Operating over routes that range up to 2,728 miles in length, the Long Distance trains serve several purposes, connecting nearby communities with one another, with major metropolitan areas, and with other Amtrak services at hubs such as Chicago. The vast majority of passengers, particularly in coach, travel over only portions of these routes. In many places, Long Distance trains have helped to "incubate" short-distance corridor service on portions of their route, and most Long Distance trains provide additional service frequency on State Supported routes and/or the NEC, offering travelers a greater range of travel options. The vast majority of Long Distance train-miles are on host railroad tracks owned by freight railroads. Customer OTP for our Long Distance routes is the weakest in our network. Customer OTP (measured as the percentage of customers arriving on time compared to total customers traveling by Amtrak train) in FY2019 was 42.0%, a decline from 43.0% in FY2018. The primary reason for delays was freight train interference. Long Distance routes also have the lowest operating cost recovery ratio in Amtrak's network requiring substantial Federal Government subsidy.

OTHER BUSINESS

Revenues from our other business activities include (i) freight and commuter access fee and other revenue from the use of Amtrak-owned tracks by freight railroad companies and commuter agencies, and other revenue related to the use of Amtrak's infrastructure; (ii) revenue from reimbursable engineering and capital improvement activities; (iii) revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee; (iv) amortization of state funds used to acquire depreciable assets; (v) commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees; and (vi) other.

RESULTS OF OPERATIONS

The following discussion presents an analysis of results of our operations for FY2019 and FY2018 (in millions):

	Year Ended September 30,			
	2019	2018	$ Change	% Change
Total revenues	**$ 3,503.5**	$ 3,386.7	$ 116.8	3.4 %
Total operating expenses	**4,396.7**	4,239.0	157.7	3.7
Other (income) expense, net	**(12.3)**	18.1	(30.4)	168.0
Loss before income taxes	**880.9**	870.4	10.5	1.2
Income tax benefit	**—**	(53.2)	53.2	(100.0)
Net loss	**$ 880.9**	$ 817.2	$ 63.7	7.8 %

Our operating revenue, consisting of ticket revenue, food and beverage revenue, State Supported revenue, and other revenue (excluding capital project related revenue and amortization of state capital payments), covered 99.1% and 94.9% of our qualified operating expenses in FY2019 and FY2018, respectively. We define qualified operating expenses as total operating expenses excluding depreciation and amortization expense, capital project related expenditures not eligible for capitalization, the non-cash portion of pension and postretirement employee benefit cost, and OIG expenses. Other income and expense, net, which primarily consists of interest income and interest expense, is excluded from both operating revenue and operating expenses.

Total Revenues (in millions)

	Year Ended September 30,			
	2019	2018	$ Change	% Change
Passenger related:				
Ticket revenue	**$ 2,288.5**	$ 2,207.2	$ 81.3	3.7 %
State Supported	**234.2**	233.8	0.4	0.2
Food and beverage	**143.9**	140.7	3.2	2.3
Total passenger related revenue	**2,666.6**	2,581.7	84.9	3.3
Other	**836.9**	805.0	31.9	4.0
Total revenues	**$ 3,503.5**	$ 3,386.7	$ 116.8	3.4 %

Total revenues increased $116.8 million or 3.4% in FY2019 compared with FY2018. The increase is primarily attributable to higher passenger related revenue as a result of increased ridership across all service lines. We achieved record system-wide ridership and gross ticket revenue in both FY2019 and FY2018, compared to prior years.

Ridership and Gross Ticket Revenue

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

Amtrak Ridership and Gross Ticket Revenue

	Ridership (Number of Trips)			Gross Ticket Revenue[1] ($)		
	2019	**2018**	**% Change**	**2019**	**2018**	**% Change**
NEC	**12.5**	12.1	3.3 %	**$ 1,321.6**	$ 1,263.7	4.6 %
State Supported	**15.4**	15.1	2.0	**538.1**	521.2	3.2
Long Distance	**4.6**	4.5	2.2	**494.6**	486.2	1.7
Total	**32.5**	31.7	2.5 %	**$ 2,354.3**	$ 2,271.1	3.7 %

[1] Gross ticket revenue in this table includes food and beverage provided as part of the ticket price.

NEC ridership and gross ticket revenue increased by 3.3% and 4.6%, respectively, in FY2019 compared with FY2018. We achieved record ridership and gross ticket revenue for the NEC in both FY2019 and FY2018, compared to prior years. In FY2019, *Acela* ridership increased by 4.3% and *Northeast Regional* ridership increased by 2.9%. *Acela* gross ticket revenue increased by 6.0% and *Northeast Regional* gross ticket revenue increased by 3.3%. Gross ticket revenue growth outpaced ridership in part because of price increases and more effective revenue management implemented during the year.

State Supported ridership and gross ticket revenue increased by 2.0% and 3.2%, respectively, in FY2019 compared with FY2018. State Supported also achieved record gross ticket revenue in both FY2019 and FY2018, compared to prior years. Routes with larger increases in gross ticket revenue include *Washington - Norfolk Northeast Regional, Keystone Service, Amtrak Cascades, Empire Service, Capitol Corridor, Maple Leaf, Hiawatha,* and *Piedmont*.

Long Distance ridership and gross ticket revenue increased by 2.2% and 1.7%, respectively, in FY2019 compared with FY2018. Routes with larger increases in gross ticket revenue include *Auto Train, Silver Star, Coast Starlight, Silver Meteor, Lake Shore Limited, Southwest Chief,* and *Cardinal*, whereas routes with larger decreases in FY2019 were *Palmetto, City of New Orleans, California Zephyr,* and *Capitol Limited*.

State Supported Revenue

Section 209 of PRIIA required Amtrak and its state partners to develop jointly a single, nationwide, and standardized cost-sharing methodology to charge states for State Supported intercity passenger rail service. In FY2019, we received funding from 21 state agencies representing 18 states to bring service to their communities, and these services comprised more than half of our departures. Total State Supported revenue of $234.2 million increased by $0.4 million or 0.2% in FY2019 and came from California, Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, Missouri, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington, and Wisconsin.

Other Revenue

Components of other revenue are as follows (in millions):

	Year Ended September 30, 2019	Year Ended September 30, 2018	$ Change	% Change
Freight and commuter access fees and other	**$ 232.8**	$ 225.2	$ 7.6	3.4 %
Reimbursable	**209.3**	223.6	(14.3)	(6.4)
Commuter	**138.8**	119.0	19.8	16.6
Amortization of state capital payments	**127.4**	111.8	15.6	14.0
Commercial development	**86.1**	84.2	1.9	2.3
Other	**42.5**	41.2	1.3	3.2
Total other revenue	**$ 836.9**	$ 805.0	$ 31.9	4.0 %

In FY2019 other revenue increased by $31.9 million or 4.0% compared with FY2018, primarily driven by higher commuter revenue and higher state capital amortization due to additional assets placed in service. The increase was partially offset by a decrease in reimbursable work performed for various states.

Total Operating Expenses (in millions)

	Year Ended September 30, 2019	Year Ended September 30, 2018	$ Change	% Change
Salaries, wages, and benefits	**$ 2,167.8**	$ 2,020.6	$ 147.2	7.3 %
Train operations	**306.6**	300.0	6.6	2.2
Fuel, power, and utilities	**260.2**	269.8	(9.6)	(3.6)
Materials	**187.4**	178.5	8.9	5.0
Facility, communication, and office related	**181.6**	178.8	2.8	1.6
Advertising and sales	**99.5**	93.2	6.3	6.8
Casualty and other claims	**65.6**	119.4	(53.8)	(45.1)
Depreciation and amortization	**870.2**	807.1	63.1	7.8
Other	**412.2**	422.9	(10.7)	(2.5)
Indirect cost capitalized to property and equipment	**(154.4)**	(151.3)	(3.1)	2.0
Total operating expenses	**$ 4,396.7**	$ 4,239.0	$ 157.7	3.7 %

Salaries, wages, and benefits expenses increased by $147.2 million or 7.3% in FY2019 compared with FY2018, primarily due to reduction in amortization credits related to FY2015 pension plan amendments, higher short-term incentive bonuses earned by employees, and a favorable retroactive wage adjustment recorded in FY2018 upon ratification of union contracts in that year. The increases were partially offset by lower medical insurance expense due to a decrease in employees' health insurance and prescription plan cost, lower severance expense, and lower employee headcount in FY2019.

Train operations expenses increased by $6.6 million or 2.2% in FY2019 compared with FY2018, primarily due to an increase in connecting motor coach expenses upon signing new contracts in FY2019 and an increase in food cost due to increased ridership and menu upgrades on certain routes.

Fuel, power, and utilities expenses decreased by $9.6 million or 3.6% in FY2019 compared with FY2018, primarily due to lower fuel prices and increased savings due to lower volume of fuel consumption driven by fuel saving initiatives focused on reducing locomotive idle time.

Materials expenses increased by $8.9 million or 5.0% in FY2019 compared with FY2018, primarily due to increased work performed for state partners for locomotive overhauls and other reimbursable projects.

Facility, communication, and office related expenses increased by $2.8 million or 1.6% in FY2019 compared with FY2018, primarily due to an increase in building maintenance services and an elevator and escalator replacement reimbursable project in Massachusetts, partially offset by savings in telephone, data communication, and office expenses due to efforts implemented to reduce costs.

Advertising and sales expenses increased by $6.3 million or 6.8% in FY2019 compared with FY2018, primarily due to a planned increase in advertising spending in FY2019 to help achieve ridership and revenue targets and an increase in commissions and fees paid to credit card companies and travel agents resulting from increased ridership and ticket sales.

Casualty and other claims expenses decreased by $53.8 million or 45.1% in FY2019 compared with FY2018, primarily due to the impact of recording $40.0 million for self-insurance retention amounts in FY2018 for two derailments which occurred in that year.

Depreciation and amortization expense increased by $63.1 million or 7.8% in FY2019 compared with FY2018, primarily due to increased fixed asset base in FY2019 and accelerated depreciation related to assets planned to be retired in the coming years.

Other expenses decreased by $10.7 million or 2.5% in FY2019 compared with FY2018, primarily due to a decrease in professional fees, consultants, data processing expenses, and road maintenance services, and favorable management of insurance costs, partially offset by an increase in expense of conceptual design costs on various projects and an increase in outsourced services upon closing of a call center.

Indirect cost capitalized to property and equipment increased by $3.1 million or 2.0% in FY2019 compared with FY2018, primarily due to an overall increase in capital spending in FY2019.

Other Income and Expense (in millions):

	Year Ended September 30,			
	2019	**2018**	**$ Change**	**% Change**
Interest income	**$ (51.4)**	$ (20.9)	$ (30.5)	145.9 %
Interest expense	**40.8**	44.5	(3.7)	(8.3)
Other income, net	**(1.7)**	(5.5)	3.8	(69.1)
Other (income) expense, net	**$ (12.3)**	$ 18.1	$ (30.4)	(168.0) %

Interest income increased by $30.5 million or 145.9% in FY2019 compared with FY2018, primarily due to higher average cash and investment balances in FY2019 and strategic management of cash and investment portfolios to generate higher returns by investing in higher yield debt securities.

Interest expense decreased by $3.7 million or 8.3% in FY2019 compared with FY2018, primarily due to a lower outstanding balance of debt and capital lease obligations, excluding the 2016 RRIF loan from the DOT, attributable to scheduled principal payments made in FY2019. Interest incurred on the 2016 RRIF loan is capitalized into the cost of the assets constructed with the borrowed funds.

Other income, net decreased by $3.8 million or 69.1% in FY2019 compared with FY2018, primarily because of royalty payments collected in FY2018 and gains realized on sales of property in FY2018.

Income Tax Benefit

We did not record any income taxes in FY2019 and recorded an income tax benefit of $53.2 million in FY2018. The FY2018 income tax benefit was primarily related to the impact of the Tax Cuts and Jobs Act (TCJA), which was enacted on December 22, 2017. Provisions of the TCJA with significant impact to us were the decrease in the United States federal income tax rate, the unlimited carryforwards of net operating losses, and the taxation of the receipt of state and municipal grants.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Our grants from the Federal Government are received through annual appropriations. The annual federal appropriations under the FAST Act totaled $1.9 billion for both FY2019 and FY2018. Of the $1.9 billion appropriated each year, $1.3 billion was for the National Network and $650.0 million was for the NEC. On December 20, 2019, we were appropriated full year funding totaling $2.0 billion for FY2020. See Note 2 to the Consolidated Financial Statements included elsewhere in this report for additional information regarding our annual funding.

In addition to the $2.0 billion in FY2020 annual federal appropriations noted above, on March 27, 2020, we were appropriated an additional $1.0 billion under the CARES Act (Public Law number 116-136) to help offset our additional costs and lost revenue related to COVID-19. See the forward-looking statement disclosure section of this MD&A for further information on the impact of the coronavirus pandemic.

Overview of Cash Flow (in millions)

	Year Ended September 30,			
	2019	**2018**	**$ Change**	**% Change**
Cash flows (used in) provided by:				
Operating activities	**$ (46.2)**	$ (372.1)	$ 325.9	(87.6) %
Investing activities	**(2,598.0)**	(2,399.6)	(198.4)	8.3
Financing activities	**2,509.9**	2,170.9	339.0	15.6
Net change in cash and cash equivalents, including restricted cash	**(134.3)**	(600.8)	466.5	(77.6)
Beginning balance of cash and cash equivalents, including restricted cash	**500.9**	1,101.7	(600.8)	(54.5)
Ending balance of cash and cash equivalents, including restricted cash	**$ 366.6**	$ 500.9	$ (134.3)	(26.8) %

Operating Cash Flows

Net operating cash outflows for FY2019 decreased by $325.9 million to $46.2 million, compared with $372.1 million in FY2018. The lower FY2019 operating cash outflow was primarily due to funds received in FY2019 under a settlement agreement with one of our state partners and payment in FY2018 of retroactive wage increases upon ratification of union contracts in FY2018.

Investing Cash Flows

Cash flows relating to investing activities consist primarily of capital expenditures on property and equipment and activity related to our available-for-sale securities. Net cash used in investing activities increased by $198.4 million to $2.6 billion in FY2019 compared with $2.4 billion in FY2018, primarily driven by increased capital expenditures on property and equipment and increased investment in available-for-sale securities as excess cash was strategically invested in debt securities to generate higher yield.

Financing Cash Flows

Cash flows from financing activities consist primarily of receipt of federal grant funds, state capital payments, and issuance and repayment of long-term debt and capital lease obligations. Financing activities provided cash of $2.5 billion in FY2019, $339.0 million higher when compared with $2.2 billion in FY2018. The year-over-year increase was primarily driven by $394.9 million net draw under the 2016 RRIF loan in FY2019.

Financing cash flows for FY2019 and FY2018 are discussed in more detail below:

- Net financing cash inflows for FY2019 were $2.5 billion. Annual appropriations from the Federal Government provided funding of $1.9 billion. In addition, we received $294.3 million in state capital payments and we drew $419.2 million under the 2016 RRIF loan and paid $24.3 million in related credit risk premiums (see Note 7 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding RRIF loan financing with the Federal Government). Offsetting these inflows were long-term debt and capital lease obligation payments of $140.0 million.
- Net financing cash inflows for FY2018 were $2.2 billion. Annual appropriations from the Federal Government provided funding of $1.9 billion. In addition, we received $284.6 million in state capital payments. Offsetting these inflows were long-term debt and capital lease obligation payments of $134.0 million.

We are subject to various covenants and restrictions under our borrowing arrangements. A default by us or acceleration of our indebtedness may result in cross-default with other debt and may have a material adverse effect on us. As of September 30, 2019, we satisfied all of our covenant obligations.

Overview of Contractual Obligations and Capital Expenditures

Contractual Obligations

The following table outlines our material obligations under long-term debt and capital and operating leases as of September 30, 2019 (in millions):

	Payments Due by Period				
	Total	**Up to 1 year**	**>1 year to 3 years**	**>3 years to 5 years**	**> 5 years**
Long-term debt[1]	$ 1,209.1	$ 120.7	$ 84.7	$ 108.3	$ 895.4
Capital leases[2]	166.5	60.7	89.1	13.6	3.1
Operating leases[2]	171.5	29.6	51.4	40.0	50.5
Total	**$ 1,547.1**	**$ 211.0**	**$ 225.2**	**$ 161.9**	**$ 949.0**

1 As described in Note 7 to the Consolidated Financial Statements.
2 As described in Note 8 to the Consolidated Financial Statements.

In the normal course of business, we enter into long-term contractual commitments for future services needed for the operations of our business. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on our liquidity. Such commitments are not included in the above table.

Please refer to Notes 7 and 8 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding our long-term debt and leasing arrangements.

Off Balance Sheet Arrangements

Off balance sheet arrangements consist of obligations related to operating leases, which are included in the table of contractual obligations above and disclosed in Note 8 to the Consolidated Financial Statements included elsewhere in this report.

Capital Expenditures

Capital spending programs have been designed to assure our ability to provide safe, efficient, and reliable transportation services. We receive funds from state and local entities and from federal appropriations for our capital spending programs, including state of good repair spending on our infrastructure and modernization of our passenger car, locomotive, and trainset fleets.

The following table summarizes major capital expenditures by department for FY2019 and FY2018 (in millions):

	Year Ended September 30,	
	2019	**2018** [1]
Engineering	**$ 660.2**	$ 623.2
Mechanical	**383.5**	259.4
Information Technology (IT)	**93.1**	68.2
Other	**288.5**	339.3
Total	**$ 1,425.3**	**$** 1,290.1

[1] The FY2018 amounts in the table above have been updated to exclude capital project-related expenditures not eligible for capitalization under generally accepted accounting principles (GAAP).

- ***Engineering*** major capital expenditures in FY2019 included $539.0 million for right-of-way (track, signals, substations, etc.) replacement and upgrade projects; $66.2 million for station and facility upgrades; and $43.0 million for construction and upgrades to bridges, tunnels, and culverts. Included within the right-of-way projects are $218.1 million related to Amtrak NEC tie and timber replacement, and undercutting, surfacing, and turnout renewal programs.
- ***Mechanical*** major capital expenditures in FY2019 included $156.5 million for diesel locomotive acquisition, $75.9 million for overhauls of Amfleet cars (single-level passenger cars built in the 1970s and 1980s), $60.9 million for overhauls and modifications on Superliners (bi-level passenger cars built for us in the 1970s and 1990s and used on Long Distance trains that do not operate over the NEC), and $51.4 million for other locomotive and passenger car overhauls and modifications.
- ***IT*** major capital expenditures in FY2019 included $16.5 million for upgrading mainframe and hardware infrastructure and deploying new cloud-based solutions and $11.7 million for integrated hybrid architecture that provides customers with omnichannel experience (a marketing initiative to offer customers a personalized and seamless experience when searching, planning, and booking their travel).

- ***Other*** major capital expenditures in FY2019 included $57.9 million for projects for compliance with the Americans with Disabilities Act, $38.9 million related to construction of the Moynihan Station Train Hall, and $23.8 million on NEC infrastructure and joint benefit capital projects funded by Amtrak and states pursuant to Section 212 of PRIIA.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

Property, Equipment, and Depreciation

Due to the highly capital-intensive nature of the railroad industry, capitalization and depreciation of property and equipment are substantial components of our financial statements. Property and equipment, including leasehold improvements, comprised 80.4% of our total assets at the end of FY2019, and related depreciation and amortization comprised 19.8% of total operating expenses in FY2019.

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

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

Casualty Losses and Claims

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

Environmental Matters

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

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

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

Postretirement Employee Benefits

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

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

Discount Rates

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

Long-term Rate of Return on Plan Assets

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

Health Care Cost Trend Rates

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

Other Assumptions

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

LEGAL PROCEEDINGS

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

CONSOLIDATED FINANCIAL STATEMENTS

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Years Ended September 30, 2019 and 2018

With Report of Independent Auditors

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Financial Statements

Years Ended September 30, 2019 and 2018

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Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

Report of Independent Auditors

The Board of Directors and Stockholders
National Railroad Passenger Corporation

We have audited the accompanying consolidated financial statements of National Railroad Passenger Corporation and subsidiaries (Amtrak or the Company), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, comprehensive loss, changes in capitalization and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Building a better working world

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, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Federal Government Funding

As explained in Notes 1 and 2 to the accompanying consolidated financial statements, the Company has a history of operating losses and is dependent upon substantial Federal Government subsidies to sustain its operations and maintain its underlying infrastructure. As further explained in Note 2 to the consolidated financial statements, the Company is receiving Federal Government funding under the Continuing and Consolidated Appropriations Acts, 2020. There are currently no Federal Government subsidies appropriated by law for any period subsequent to September 30, 2020. Without the receipt of Federal Government funding, Amtrak will not be able to continue in its current form and significant operating changes, restructurings or bankruptcy might occur. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

January 28, 2020

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets

(In Thousands of Dollars, Except Share Data)

	September 30, 2019	September 30, 2018
Assets:		
Current Assets:		
Cash and cash equivalents, including restricted cash of $10,338 and $8,397 as of September 30, 2019 and 2018, respectively	**$ 366,597**	$ 500,901
Available-for-sale securities	**2,131,045**	1,126,385
Accounts receivable, net of allowances of $2,130 and $1,826 as of September 30, 2019 and 2018, respectively	**175,581**	397,771
Materials and supplies, net of allowances of $41,571 and $35,167 as of September 30, 2019 and 2018, respectively	**275,853**	290,683
Prepaid expenses	**51,980**	56,460
Other current assets	**61,099**	17,110
Total current assets	**3,062,155**	2,389,310
Property and equipment:		
Locomotives	**1,899,139**	1,972,117
Passenger cars and other rolling stock	**3,388,648**	3,416,621
Right-of-way and other properties	**15,497,729**	14,712,562
Construction-in-progress	**1,891,883**	1,891,527
Leasehold improvements	**767,897**	672,341
Property and equipment, gross	**23,445,296**	22,665,168
Less: Accumulated depreciation and amortization	**(9,092,154)**	(8,826,794)
Total property and equipment, net	**14,353,142**	13,838,374
Other assets, deposits, and deferred charges:		
Restricted investments	**183,392**	—
Notes receivable on sale-leasebacks	**54,201**	56,892
Deferred charges, deposits, and other	**207,252**	148,271
Total other assets, deposits, and deferred charges	**444,845**	205,163
Total assets	**$ 17,860,142**	$ 16,432,847

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets (continued)

(In Thousands of Dollars, Except Share Data)

	September 30, 2019	September 30, 2018
Liabilities and capitalization:		
Current liabilities:		
Accounts payable	**$ 455,460**	$ 549,151
Accrued expenses and other current liabilities	**886,134**	843,075
Deferred ticket revenue	**161,395**	155,909
Current maturities of long-term debt and capital lease obligations	**170,121**	146,941
Total current liabilities	**1,673,110**	1,695,076
Long-term debt and capital lease obligations:		
Long-term debt	**1,055,402**	771,991
Capital lease obligations	**86,311**	136,576
Total long-term debt and capital lease obligations	**1,141,713**	908,567
Other liabilities and deferred credits:		
Deferred state capital payments	**2,385,640**	2,235,689
Casualty reserves	**235,128**	217,986
Deferred gain on sale-leasebacks	**28,164**	32,680
Postretirement employee benefits obligation	**634,791**	559,539
Environmental reserve	**128,622**	139,737
Other liabilities	**103,819**	94,100
Total other liabilities and deferred credits	**3,516,164**	3,279,731
Total liabilities	**6,330,987**	5,883,374
Commitments and contingencies *(Note 11)*		
Capitalization:		
Preferred stock - $100 par, 109,396,994 shares authorized, issued and outstanding	**10,939,699**	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding	**93,857**	93,857
Other paid-in capital	**37,072,889**	35,112,208
Accumulated deficit	**(36,332,178)**	(35,451,262)
Accumulated other comprehensive loss	**(245,112)**	(145,029)
Total capitalization	**11,529,155**	10,549,473
Total liabilities and capitalization	**$ 17,860,142**	$ 16,432,847

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Operations

(In Thousands of Dollars)

	Year Ended September 30,	
	2019	**2018**
Revenues:		
Passenger related	**$ 2,666,591**	$ 2,581,740
Other	**836,924**	804,993
Total revenues	**3,503,515**	3,386,733
Expenses:		
Salaries, wages, and benefits	**2,167,838**	2,020,565
Train operations	**306,578**	299,956
Fuel, power, and utilities	**260,208**	269,811
Materials	**187,374**	178,475
Facility, communication, and office related	**181,625**	178,782
Advertising and sales	**99,503**	93,227
Casualty and other claims	**65,627**	119,374
Depreciation and amortization	**870,193**	807,122
Other	**412,242**	422,935
Indirect cost capitalized to property and equipment	**(154,440)**	(151,296)
Total expenses	**4,396,748**	4,238,951
Loss before other (income) and expense	**893,233**	852,218
Other (income) and expense:		
Interest income	**(51,415)**	(20,837)
Interest expense	**40,770**	44,509
Other income, net	**(1,672)**	(5,526)
Other (income) expense, net	**(12,317)**	18,146
Loss before income taxes	**880,916**	870,364
Income tax benefit	**—**	(53,159)
Net loss	**$ 880,916**	$ 817,205

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Comprehensive Loss

(In Thousands of Dollars)

	Year Ended September 30,	
	2019	**2018**
Net loss	**$ 880,916**	$ 817,205
Other comprehensive loss:		
Pension and other postretirement benefit plans:		
Actuarial loss (gain) arising during the period, net	**76,364**	(75,350)
Amortization of net actuarial loss reclassified into earnings	**(13,987)**	(28,446)
Amortization of prior service credit reclassified into earnings	**40,431**	131,540
Total change from pension and other postretirement benefit plans	**102,808**	27,744
Changes in unrealized (gains) losses on available-for-sale securities, net of reclassifications into earnings due to sales and maturities	**(2,725)**	353
Total other comprehensive loss	**100,083**	28,097
Total comprehensive loss	**$ 980,999**	$ 845,302

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, 2017	$ 10,939,699	$ 93,857	$ 33,091,896	$ (34,634,057)	$ (116,932)	$ 9,374,463
Federal paid-in capital	—	—	2,020,312	—	—	2,020,312
Net loss	—	—	—	(817,205)	—	(817,205)
Other comprehensive loss	—	—	—	—	(28,097)	(28,097)
Balance as of September 30, 2018	10,939,699	93,857	35,112,208	(35,451,262)	(145,029)	10,549,473
Federal paid-in capital	—	—	**1,960,681**	—	—	**1,960,681**
Net loss	—	—	—	**(880,916)**	—	**(880,916)**
Other comprehensive loss	—	—	—	—	**(100,083)**	**(100,083)**
Balance as of September 30, 2019	**$ 10,939,699**	**$ 93,857**	**$ 37,072,889**	**$ (36,332,178)**	**$ (245,112)**	**$ 11,529,155**

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Year Ended September 30, 2019	2018
Cash flows from operating activities:		
Net loss	**$ (880,916)**	$ (817,205)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred state capital payments	**(127,369)**	(111,847)
Depreciation and amortization	**870,193**	807,122
Deferred income tax benefit	**—**	(53,159)
Loss on sale of property and equipment	**4,756**	9,585
Other	**(7,492)**	6,156
Changes in assets and liabilities:		
Accounts receivable	**218,214**	(65,653)
Materials and supplies	**3,839**	(31,152)
Prepaid expenses	**4,480**	(2,115)
Other current assets	**(43,989)**	19,822
Other assets, deposits, and deferred charges	**(56,290)**	(99,788)
Accounts payable, deferred ticket revenue, accrued expenses and other current liabilities	**(24,249)**	20,042
Other liabilities and deferred credits	**(7,423)**	(53,925)
Net cash used in operating activities	**(46,246)**	(372,117)
Cash flows from investing activities:		
Purchases of available-for-sale securities	**(10,757,545)**	(3,145,368)
Proceeds from sales and maturities of available-for-sale securities	**9,596,061**	2,024,411
Purchases and refurbishments of property and equipment	**(1,446,339)**	(1,292,929)
Insurance proceeds attributable to casualty losses related to property and equipment	**107**	3,920
Proceeds from disposals of property and equipment	**9,728**	10,352
Net cash used in investing activities	**(2,597,988)**	(2,399,614)
Cash flows from financing activities:		
Proceeds from federal paid-in capital	**1,960,681**	2,020,312
Proceeds from state capital payments	**294,306**	284,628
Repayments of debt and capital lease obligations	**(139,984)**	(134,002)
Proceeds from issuance of debt, net of credit risk premium	**394,927**	—
Net cash provided by financing activities	**2,509,930**	2,170,938
Net change in cash and cash equivalents, including restricted cash	**(134,304)**	(600,793)
Beginning balance of cash and cash equivalents, including restricted cash	**500,901**	1,101,694
Ending balance of cash and cash equivalents, including restricted cash	**$ 366,597**	$ 500,901
Supplemental disclosure of cash payments:		
Interest paid, net of amount capitalized	**$ 40,066**	$ 47,772
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of property and equipment from state capital contributions	**$ 16,986**	$ —
Other non-cash changes in property, including accruals of amounts due for purchases	**$ 25,393**	$ 31,795

See accompanying notes.

1. Nature of Operations

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

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

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

2. Annual Funding

On December 4, 2015, the President signed as Public Law 114-94, the Fixing America's Surface Transportation Act (the FAST Act). Title XI-Rail of the FAST Act, cited as the Passenger Rail Reform and Investment Act of 2015, authorizes funding to the Secretary of the DOT (the Secretary) for annual grants to Amtrak totaling $8.1 billion for fiscal year (FY) 2016 through FY2020. Of the total amount authorized for Amtrak, $2.6 billion of this support is for the Northeast Corridor (NEC) and $5.5 billion is for Amtrak's National Network as defined in the FAST Act. The FAST Act also authorizes an additional $2.2 billion for other rail grant programs in which Amtrak may participate. Congress may appropriate more or less than the authorized annual funding amount each year.

The Company has been appropriated full year funding for FY2020 through (a) the Continuing Appropriations Act, 2020, and Health Extenders Act of 2019 (Public Law 116-59), (b) the Further Continuing Appropriations Act, 2020, and Further Health Extenders Act of 2019 (Public Law 116-69), and (c) the Further Consolidated Appropriations Act, 2020 (Public Law 116-94) (collectively, the Continuing and Consolidated Appropriations Acts, 2020). Without Federal Government subsidies, Amtrak will not be able to continue to operate in its current form and significant operating changes, restructuring or bankruptcy may occur. Such changes or restructuring would likely result in asset impairments.

In addition to authorizing funding for Amtrak, the FAST Act also 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 grant requests, separate reporting for the National Network and the NEC, and a process for transferring funds between the two accounts. Amtrak is the sole eligible entity for the NEC

2. Annual Funding (continued)

and National Network grant funds, and payments may be advanced with 50% provided at the beginning of each fiscal year and 25% paid in each of the following two quarters. The FAST Act also directs the formation of committees to facilitate improved cooperation 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 also are competitive and partnership grant programs authorized to which Amtrak may apply: for FY2016 through FY2020, a total of $1.1 billion is authorized for rail infrastructure and safety improvements, $1.0 billion for Federal-State partnership grants for State-of-Good Repair projects, and $100 million for rail restoration and enhancement grants. See Note 4 for details.

While the FAST Act expires at the end of FY2020, passage of a new surface transportation bill is not required in order for Amtrak to receive its federal grant funding in FY2021 and beyond. The actual spending decisions are made by the Appropriations Committee and subsequently by Congress on an annual basis even if the authorization for Amtrak grants has expired. Amtrak does not anticipate any disruption in its federal grant funding due to a delay in the passage of a new surface transportation bill.

The table below provides information on funding for the Company's FY2020, FY2019, and FY2018 under various continuing resolutions (CRs) (for continuing and further continuing appropriations) and the Consolidated Appropriations Act (Full Year Funding) related to those years (dollars in millions):

	FY2020	FY2019	FY2018
Enactment dates for CRs	September 27, 2019 November 21, 2019	September 28, 2018 December 7, 2018 January 25, 2019	September 8, 2017 December 8, 2017 December 22, 2017 January 22, 2018 February 9, 2018
Public Law (PL) numbers for CRs	PL 116-59 PL 116-69	**PL 115-245** **PL 115-298** **PL 116-5**	PL 115-56 PL 115-90 PL 115-96 PL 115-120 PL 115-123
Enactment date for Full Year Funding	December 20, 2019	**February 15, 2019**	March 23, 2018
Public Law number for Full Year Funding	PL 116-94	**PL 116-6**	PL 115-141
Appropriated for National Network	$ 1,300.0	**$ 1,291.6**	$ 1,291.6
Appropriated for NEC	700.0	**650.0**	650.0
Total funds appropriated	2,000.0	**1,941.6**	1,941.6
FRA authorized withholdings	(17.0)	**(16.7)**	(16.7)
Total appropriated funds designated for Amtrak	$ 1,983.0	**$ 1,924.9**	$ 1,924.9
Funds received by Amtrak:			
In FY2018			$ 1,924.9
In FY2019		**$ 1,924.9**	—
In FY2020, as of January 28, 2020	$ —	**—**	—
Total funds received, as of January 28, 2020	$ —	**$ 1,924.9**	$ 1,924.9

3. Basis of Presentation and Summary of Significant Accounting Policies

Method of Accounting

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

Principles of Consolidation

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

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

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

Cash and Cash Equivalents

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

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

Available-for-Sale Securities

Available-for-sale securities are comprised of debt and marketable securities that when acquired are classified and accounted for as available-for-sale securities. These available-for-sale securities are measured at fair value in the Consolidated Balance Sheets and unrealized gains and losses are included in the Consolidated Statements of Comprehensive Loss. Realized gains and losses are recognized when the securities are sold based on the specific identification method and realized gains and losses, interest and dividends are recorded in the Consolidated Statements of Operations.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable in the Consolidated Balance Sheets include billed and unbilled accounts receivable. Billed accounts receivable represent amounts for which invoices have been sent to customers. These accounts receivable are recorded at the invoiced amount. Unbilled accounts receivable represent amounts recognized as revenue for which invoices have not yet been sent to customers but for which services and work have been performed. The Company recorded $31.7 million and $35.0 million of unbilled accounts receivable as of September 30, 2019 and 2018, respectively.

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

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

Materials and Supplies

Materials and supplies, which are stated at weighted-average cost, net of allowance for shrinkage and obsolescence, consist primarily of items for repairs and maintenance of property and equipment. The allowance for shrinkage and obsolescence is recorded based on specific identification and expected usage rates.

Property, Equipment, and Depreciation

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

For assets depreciated under the group method, upon normal sale or retirement, the cost less the net salvage value is applied to "Accumulated depreciation and amortization" in the Consolidated Balance Sheets and no gain or loss is recognized. Gains or losses on the disposal of land and accelerated depreciation related to significant premature retirements of assets under the group method are recorded in the Consolidated Statements of Operations at the time of occurrence. There were no significant premature retirements of depreciable property or disposals of land for which gains or losses were recorded in FY2019 or FY2018.

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.

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

Construction-in-progress is transferred to property and equipment when substantially all the activities necessary to prepare such assets for their intended use are completed, at which time depreciation commences. When constructed assets are funded through long-term debt, capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's useful life. Total interest cost incurred by the Company was $49.6 million and $48.7 million for FY2019 and FY2018, respectively, of which interest cost capitalized on construction projects was $8.8 million and $4.2 million for FY2019 and FY2018, respectively.

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

The Company accounts for asset retirement obligations (AROs) in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410, *Asset Retirement and Environmental Obligations*. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. In accordance with FASB ASC Topic 410, the Company recognizes the fair value of any liability for conditional AROs, including environmental remediation liabilities, in the period in which it is incurred, which is generally upon acquisition, construction, or development and/or through the normal operation of the asset, if sufficient information exists with which Amtrak can reasonably estimate the fair value of the obligation. Amtrak capitalizes the cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the useful life of the related asset and upon settlement of the liability Amtrak either settles the obligation for its recorded amount or incurs a gain or loss. The asset retirement cost capitalized was $10.1 million as of both September 30, 2019 and 2018, and was included in "Right-of-way and other properties" in the Consolidated Balance Sheets.

Indirect Cost Capitalized to Property and Equipment

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

Impairment of Long-Lived Assets

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

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

In performing its impairment analysis, the Company assumes future Federal Government subsidies at levels consistent with the historical funding levels discussed in Note 2. The Company believes funding at historical levels is the best estimate to be used for the future. At this approximate level of funding, the Company determined that no indicators of impairment existed as of September 30, 2019. If future Federal Government funding drops below historical levels, substantial impairment may occur as discussed in Note 2.

On October 29, 2012, Superstorm Sandy (Sandy) came ashore in the Northeast and mid-Atlantic region of the United States. Amtrak sustained damage to tunnels and other structures in New York and New Jersey. The Company determined that there was no impairment to the tunnels, but certain infrastructure assets would need to be replaced sooner than previously anticipated. Accordingly, the Company assigned unique group depreciation rates to these assets. As a result, depreciation expense totaling $193.1 million is being accelerated over the remaining life of these assets. The acceleration of depreciation expense increased the Company's net loss by $15.3 million and $9.7 million in FY2019 and FY2018, respectively.

Restricted Investments

Restricted investments represent investments acquired using the funds received under a settlement agreement with one of the Company's state partners that requires the Company to utilize the funds only for certain agreed-upon capital projects and accordingly, have been classified as restricted and non-current. The interest earned on these investments can be withdrawn by the Company for its general use. These investments are accounted for as available-for-sale securities.

Casualty Losses and Claims

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

Personal injury liability and ultimate loss projections are undiscounted and estimated using standard actuarial methodologies. The actuarial estimates include an estimate for unasserted claims. As of September 30, 2019 and 2018, the reserve for casualty losses and claims was $364.6 million and $314.7 million, respectively. Of the total amount reserved as of September 30, 2019 and 2018, the estimated current claims liability included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets was $129.5 million and $96.7 million, respectively. The balance of the reserve as of both September 30, 2019 and 2018 is included in "Casualty reserves" in the Consolidated Balance Sheets.

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

Revenue Recognition

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

	Year Ended September 30,	
	2019	2018
Ticket	**$ 2,288.5**	$ 2,207.2
State contribution	**234.2**	233.8
Food and beverage	**143.9**	140.7
Total passenger related revenue	**$ 2,666.6**	$ 2,581.7

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

"Other" revenue includes (i) freight and commuter access fee and other revenue from the use of Amtrak-owned tracks by freight railroad companies and commuter agencies, and other revenue related to the use of Amtrak's infrastructure; (ii) revenue from reimbursable engineering and capital improvement activities (these revenues are generally recognized as the associated costs are incurred); (iii) revenue earned under contractual arrangements to operate various commuter rail services for a cost-based fee (these revenues are recognized when the related services are performed); (iv) amortization of state funds used to acquire depreciable assets (such payments are deferred when received and amortized over the estimated life of the related assets purchased with the funds, and the unamortized amounts are included in "Deferred state capital payments" in the Consolidated Balance Sheets); (v) commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees (these revenues are generally recognized as the services are performed); and (vi) other.

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

	Year Ended September 30,	
	2019	2018
Freight and commuter access fees and other	**$ 232.8**	$ 225.2
Reimbursable	**209.3**	223.6
Commuter	**138.8**	119.0
Amortization of state capital payments	**127.4**	111.8
Commercial development	**86.1**	84.2
Other	**42.5**	41.2
Total other revenue	**$ 836.9**	$ 805.0

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

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 $36.3 million and $32.8 million for FY2019 and FY2018, respectively.

Income Taxes

The Company accounts for its income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In December 2017, the Tax Cuts and Jobs Act was enacted which, among other things, reduced the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. See Note 10 for information on the impact of this legislation.

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

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 FY2019 and FY2018 (see Note 10).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of revenues and expenses during the reporting period. The Company bases these estimates on historical experience, the current economic environment, and various other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. The Company's significant estimates include: estimated useful lives of property and 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 future valuation of certain assets in connection with the Company's tax planning strategy, and environmental reserves.

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

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, 2019 and 2018, "Accumulated other comprehensive loss" consists of adjustments for pension and other postretirement liabilities and unrealized gains and losses on available-for-sale securities.

Previously Issued but Not Yet Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods and services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from the contracts. The new standard will become effective for the Company beginning with FY2020 with a cumulative effect adjustment as of the date of adoption (modified retrospective method). The Company expects the new guidance to impact the accounting for its guest rewards program and will require the Company to (1) change its method to estimate the guest rewards liability from the incremental cost approach to the relative selling price approach, which is expected to increase the guest rewards liability by approximately $150 million on October 1, 2019 and (2) change the timing of recognizing revenue associated with redemption of guest rewards from recognizing revenue at the time of redemption to recognizing revenue when travel occurs. The Company is still evaluating the impact of the new standard on funding received from its state and agency partners.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU was issued to increase transparency and comparability among companies by requiring most leases to be included in the balance sheet and by expanding disclosures on leasing arrangements. This ASU along with subsequently issued ASUs providing guidance and practical expedients for implementation are effective for the Company beginning with FY2022, with early adoption permitted. The Company is still evaluating the impact of the guidance and is in the process of identifying the population of lease arrangements that are within the scope of the guidance and reviewing the systems and processes that are relevant to the implementation of this standard. As the Company is and will continue to be involved in multiple leasing arrangements whereby the Company is either the lessee or the lessor, the adoption of the ASU is expected to have a significant impact on the Company's Consolidated Balance Sheets due to recognition of assets and liabilities for leases currently accounted for as operating leases. However, the Company does not expect the guidance to have a material impact on its Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The new standard changes how the Company will present pension and other postretirement employee benefit expense in its income statement and will reduce capitalizable pension and other postretirement benefit expenses. Currently, all components of postretirement benefit expense recorded in the Consolidated

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

Statements of Operations are presented as “Salaries, wages, and benefits” within operating expense. Under the new guidance, the service cost component of the postretirement benefit expense will continue to be presented as “Salaries, wages, and benefits” while all other components of postretirement benefit expense will be presented as “Other income, net” within non-operating expense. The new standard is effective for the Company beginning with FY2020 and will be applied retrospectively such that FY2019 amounts presented in the Company's FY2020 Consolidated Financial Statements will be adjusted to conform to the new standard. The impact of ASU 2017-07 on the Company's Consolidated Financial Statements is not expected to be material.

4. Accounting and Reporting for Federal Payments

Certain funds are provided to Amtrak during the year through federal payments. These federal payments, which are recorded when received in “Other paid-in capital” in the Consolidated Balance Sheets and Consolidated Statements of Changes in Capitalization, totaled $2.0 billion for both FY2019 and FY2018.

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

Since FY2005, the Department of Homeland Security has awarded Amtrak a total of $205.1 million in grants from the Intercity Passenger Rail Grants Program, American Recovery and Reinvestment Act Rail and Transit Security Grant Program, and other security grants. Funding is provided on a reimbursable basis. Amtrak has cumulatively received $172.6 million and $164.2 million as of September 30, 2019 and 2018, respectively.

Appropriations are made to directly fund operations of Amtrak’s Office of Inspector General (OIG). Amtrak and the OIG entered into a service agreement on January 8, 2010, whereby Amtrak would continue to provide accounting and financial management services for the OIG. Amtrak is reimbursed for expenses incurred upon the submission of invoices to the OIG. Amtrak was appropriated $23.3 million for both FY2019 and FY2018 and Amtrak received $23.5 million and $21.0 million in FY2019 and FY2018, respectively.

“Other paid-in capital”, included in the Consolidated Balance Sheets and Consolidated Statements of Changes in Capitalization, also includes the effects of certain funding received from the Federal Government for the acquisition of and improvements to property and equipment. In exchange for this funding, Amtrak issued two promissory notes to the United States of America. The first note has a balance of $4.0 billion as of September 30, 2019 and 2018, was issued in 1976 and matures on December 31, 2975, and is secured by the real and personal property of Amtrak, WTC, and PRIL. The second note has a balance of $1.1 billion as of September 30, 2019 and 2018, was issued in 1983 and matures on November 1, 2082, with successive 99-year automatic renewal terms, if the note has not been paid at maturity or accelerated in accordance with its terms, and is secured by all rolling stock owned by Amtrak. Neither of the notes bears interest, unless prepaid, which Amtrak does not intend to do, or unless the note is accelerated in accordance with its terms. The amount due to the Federal Government on the first note may be accelerated by enactment of federal law or upon the occurrence of various actions concerning an Amtrak bankruptcy, reorganization, or assignment for the benefit of creditors. The Federal Government is entitled to repayment and interest under the second note in the event Amtrak ceases operations, is acquired by another entity, or seeks relief under bankruptcy or insolvency laws.

5. Stockholders' Equity

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, 2019 and 2018, 109,396,994 shares of $100 par value preferred stock were authorized, all of which were issued and outstanding. All issued and outstanding preferred shares are held by the Secretary for the benefit of the Federal Government. The Amtrak Reform and Accountability Act of 1997 (the Act) resulted in significant modifications to Amtrak's capital structure. The Act abolished the voting rights and the liquidation preference of the preferred stockholder and abolished the requirement that additional preferred stock be issued by Amtrak in exchange for federal grants received. At the time of enactment of the Act, the minimum undeclared cumulative preferred dividend in arrears for all series issued and currently outstanding approximated $5.8 billion and ranged between $0.02 and $97.08 per share. Each share of preferred stock is convertible into ten shares of common stock at the option of the preferred stockholder.

As of September 30, 2019 and 2018, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding. The common stockholders, who acquired their stock from four railroads whose intercity rail passenger operations Amtrak assumed in 1971, have voting rights for amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors and for certain other extraordinary events.

Accumulated Other Comprehensive Loss

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

5. Stockholders' Equity (continued)

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

	Pension and Other Postretirement Benefit Plans	Available-for-Sale Securities	Total
Balance as of September 30, 2017	$ 116,932	$ —	$ 116,932
Other comprehensive (income) loss income before reclassifications	(75,350)	353	(74,997)
Amounts reclassified from accumulated other comprehensive loss into earnings	103,094	—	103,094
Net change	27,744	353	28,097
Balance as of September 30, 2018	144,676	353	145,029
Other comprehensive loss (income) before reclassifications	**76,364**	**(3,015)**	**73,349**
Amounts reclassified from accumulated other comprehensive loss into earnings	**26,444**	**290**	**26,734**
Net change	**102,808**	**(2,725)**	**100,083**
Balance as of September 30, 2019	**$ 247,484**	**$ (2,372)**	**$ 245,112**

6. Available-for-Sale Securities

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

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

	September 30, 2019			
	Total Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Total Fair Value
U.S. Treasury securities	**$ 719,397**	**$ (6)**	**$ 710**	**$ 720,101**
Commercial paper	**662,362**	**(31)**	**99**	**662,430**
Corporate bonds	**463,632**	**(21)**	**1,405**	**465,016**
Certificates of deposit	**211,977**	**(10)**	**60**	**212,027**
Money market funds	**55,657**	**—**	**—**	**55,657**
Other	**199,040**	**(3)**	**169**	**199,206**
Total available-for-sale securities	**$ 2,312,065**	**$ (71)**	**$ 2,443**	**$ 2,314,437**

6. Available-for-Sale Securities (continued)

	September 30, 2018			
	Total Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Total Fair Value
U.S. Treasury securities	$ 415,565	$ (131)	$ 2	$ 415,436
Commercial paper	272,516	(37)	2	272,481
Corporate bonds	296,591	(188)	11	296,414
Certificates of deposit	79,620	(3)	2	79,619
Money market funds	8,449	—	—	8,449
Other	53,997	(12)	1	53,986
Total available-for-sale securities	$ 1,126,738	$ (371)	$ 18	$ 1,126,385

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

	Year Ended September 30,	
	2019	2018
Gross realized gains	$ **238**	$ 9
Gross realized losses	**(103)**	(8)
Total proceeds	**4,194,953**	1,471,052

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

	September 30, 2019	
	Amortized Cost	Fair Value
Within one year	**$ 2,098,895**	**$ 2,100,039**
After one year through five years	**208,227**	**209,458**
After five years through ten years	**3,550**	**3,548**
After ten years	**1,393**	**1,392**
Total available-for-sale securities	**$ 2,312,065**	**$ 2,314,437**

6. Available-for-Sale Securities (continued)

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

	September 30, 2019					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	**$ (6)**	**$ 11,218**	**$ —**	**$ —**	**$ (6)**	**$ 11,218**
Commercial paper	**(31)**	**155,915**	**—**	**—**	**(31)**	**155,915**
Corporate bonds	**(19)**	**60,066**	**(2)**	**4,010**	**(21)**	**64,076**
Certificates of deposit	**(10)**	**54,365**	**—**	**—**	**(10)**	**54,365**
Other	**(3)**	**14,639**	**—**	**—**	**(3)**	**14,639**
Total	**$ (69)**	**$ 296,203**	**$ (2)**	**$ 4,010**	**$ (71)**	**$ 300,213**

	September 30, 2018					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ (131)	$ 390,145	$ —	$ —	$ (131)	$ 390,145
Commercial paper	(37)	188,898	—	—	(37)	188,898
Corporate bonds	(188)	234,739	—	—	(188)	234,739
Certificates of deposit	(3)	22,059	—	—	(3)	22,059
Other	(12)	47,318	—	—	(12)	47,318
Total	$ (371)	$ 883,159	$ —	$ —	$ (371)	$ 883,159

The Company does not believe that any individual unrealized loss in available-for-sale securities as of September 30, 2019 represents a credit loss. The Company does not intend to sell the debt securities in an unrealized or unrecognized loss position as of the balance sheet date. Additionally, it is not more likely than not that the Company will be required to sell the debt securities before the anticipated recovery of its remaining amortized cost of the debt securities in an unrealized or unrecognized loss position at September 30, 2019. There were no impairment losses recognized in earnings on available-for-sale securities in FY2019 or FY2018.

7. Long-term Debt

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

	September 30, 2019		September 30, 2018	
	Current	**Long-Term**	**Current**	**Long-Term**
Mortgage obligations:				
High speed maintenance facilities	**$ 13,875**	**$ 9,639**	$ 13,034	$ 23,514
Frequency converter facility	**11,075**	**95,780**	11,015	106,855
Subtotal	**24,950**	**105,419**	24,049	130,369
Senior notes:				
Secured senior notes	**24,000**	**280,680**	27,000	304,680
Unsecured senior notes	**15,052**	**87,948**	16,000	103,000
Subtotal	**39,052**	**368,628**	43,000	407,680
PEDFA 30th St. Garage Revenue Bonds	**29,837**	**—**	1,906	29,837
Term Loan A	**19,727**	**15,156**	19,192	34,883
Term Loan B	**7,143**	**29,019**	6,908	36,162
2016 RRIF loan	**—**	**570,189**	—	143,482
Principal amount of long-term debt	**120,709**	**1,088,411**	95,055	782,413
Less: unamortized discount/premium/ issuance cost	**(853)**	**(33,009)**	(506)	(10,422)
Total long-term debt	**$ 119,856**	**$ 1,055,402**	$ 94,549	$ 771,991

Letters of Credit

The Company has unsecured commercial letters of credit of $3.1 million that support the issuance of auto fleet insurance. As of September 30, 2019 and 2018, there were no draws against these letters of credit.

Revolving Credit Facility

On July 26, 2016, Amtrak entered into a Credit Agreement with three lenders for a $100 million unsecured revolving credit facility. Borrowings under the facility will be used to enhance Amtrak's liquidity. The facility will expire on July 26, 2021. Borrowings under the facility have an interest rate based on the interest rate option selected by Amtrak. The Company may select (a) the base rate option, which is a variable rate equal to the highest of (i) the Federal Funds Open Rate plus 0.5%, (ii) the Prime Rate, and (iii) the Daily London Interbank Offered Rate (LIBOR) plus 1.0%, plus in all cases an applicable margin based on the Company's Standard & Poor's and Moody's ratings (Credit Ratings); or (b) the LIBOR rate option, which is equal to the LIBOR rate for the applicable period plus a margin based on the Company's Credit Ratings. Amtrak must pay a commitment fee on any undrawn portion of the revolving credit facility ranging between 8.5 and 25 basis points based on Amtrak's Credit Ratings. Under the facility, Amtrak is subject to restrictive covenants and financial covenants that require the Company and its subsidiaries to maintain certain financial ratios on a consolidated basis. As of and during the years ended September 30, 2019 and 2018, the Company has not made any draws under the facility.

7. Long-term Debt (continued)

Mortgage Obligations

High Speed Maintenance Facilities

On October 30, 2012, Amtrak purchased the equity ownership interests related to leveraged lease agreements under which Amtrak leases three Acela maintenance facilities. As a result of the buyout, Amtrak no longer makes lease payments relating to the equity interest, but continues to make payments servicing the leveraged lease debt. Amtrak's obligations are collateralized by a pledge of Amtrak's interests in the maintenance facilities.

Frequency Converter Facility

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

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

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

On February 15, 2017, at the Company's direction, PEDFA issued $45 million of PEDFA exempt facilities revenue refunding bonds (Series B 2017 bonds) to redeem the Series B 2012 bonds. The Series B 2017 bonds were issued to the same commercial bank for another period of five years with an interest rate of a tax-effected fraction of the sum of three-month LIBOR plus the applicable spread based on the Company's credit rating, which was an effective rate of 2.32% and 2.70% as of September 30, 2019 and 2018, respectively. The Series B 2017 bonds will be repaid in equal quarterly payments of $2.25 million over a five-year period, with the first payment made on May 15, 2017.

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

7. Long-term Debt (continued)

Senior Notes

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

PEDFA 30th St. Garage Revenue Bonds

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

On November 2, 2012, at Amtrak’s request, PEDFA issued $42.0 million of revenue bonds (the 2012 PEDFA Garage Bonds) to refinance the 2003 PEDFA Garage Bonds. At the date of issuance, the 2012 PEDFA Garage Bonds were remarketed to a commercial bank that agreed to hold them for a period of seven years with mandatory purchase by Amtrak at par plus accrued interest at the end of the seventh year. Interest accrued at a variable one month LIBOR rate. On November 2, 2012, Amtrak also entered into an interest rate swap agreement to manage the interest rate risk associated with the 2012 PEDFA Garage Bonds. As a result, the effective interest rate on the 2012 PEDFA Garage Bonds was 2.39%. Amtrak completed the purchase of the 2012 PEDFA Garage Bonds via mandatory tender on November 2, 2019, and now holds the bonds, which mature in 2032. Amtrak's obligations are collateralized by a pledge of Amtrak's interests in the 30th Street Station Garage.

Term Loan A and Term Loan B

On November 27, 2013, the Company entered into a $130.0 million credit facility with PNC National Bank, N.A. (the Bridge Loan). On June 19, 2014, the Company converted the Bridge Loan into a $200.0 million long-term loan, secured by certain of the Company’s P-42 diesel locomotives, of which $130.0 million was financed with PNC Equipment Finance, LLC (Term Loan A) and $70.0 million was financed with RBS Asset Finance Inc. (Term Loan B). Under the terms of the agreement for Term Loan A, the Company incurs interest at a rate of LIBOR plus 1.0%. At the time that Term Loan A was entered into, the Company entered into an interest rate swap agreement, the impact of which made the effective interest rate on Term Loan A 2.76%. Under the agreement for Term Loan B, the Company incurs interest at a rate of 3.36%. Term Loan A and Term Loan B will mature on June 20, 2021 and June 20, 2024, respectively.

2016 RRIF Loan

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

7. Long-term Debt (continued)

description of the contracts issued to a vendor for the construction and delivery of the Trainsets and related services.

Starting June 15, 2021, the Company will be required to fund and maintain a restricted debt service reserve account equal, over time, to increasing percentages of the projected first year debt service payments to support future debt service. Amtrak is required to begin making repayments on borrowings under the 2016 RRIF Loan on September 15, 2022.

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

In FY2019, the Company drew $419.2 million under the 2016 RRIF Loan and paid $24.3 million in credit risk premiums. Total interest incurred in FY2019 and FY2018 was $8.8 million and $3.5 million, respectively, all of which was capitalized within "Construction-in-progress". No amounts were borrowed in FY2018 or repaid during FY2019 and FY2018.

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,	
	2019	**2018**
Mortgage obligations	**4.86 %**	4.77 %
Senior notes	**3.65**	3.66
PEDFA 30th St. Garage Revenue Bonds	**2.39**	2.39
Term loans	**3.07**	3.03
2016 RRIF Loan	**2.23**	2.23

The overall weighted-average interest rate on all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) is 3.05% and 3.51% per annum at September 30, 2019 and 2018, respectively.

7. Long-term Debt (continued)

Scheduled Long-term Debt Maturities

On September 30, 2019, scheduled maturities of long-term debt are as follows (in thousands):

Year Ending September 30,	
2020	$ 120,709
2021	54,356
2022	30,366
2023	52,522
2024	55,784
Thereafter	895,383
Principal amount of long-term debt	1,209,120
Less: unamortized discount/premium/issuance cost	(33,862)
Total long-term debt	$ 1,175,258

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, 2019, the Company had satisfied all of its debt covenant obligations.

8. Leasing Arrangements

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

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

As of September 30, 2019 and 2018, the gross amount of assets recorded under capital leases was $1.2 billion and $1.3 billion, respectively, with accumulated amortization of $0.9 billion as of both years.

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

8. Leasing Arrangements (continued)

Future Minimum Lease Payments

As of September 30, 2019, future minimum lease payments under capital leases are as follows (in thousands):

Year ending September 30,		
2020	$	60,697
2021		56,029
2022		33,051
2023		12,475
2024		1,183
Thereafter		3,084
Total minimum lease payments		166,519
Less: discounted to current period amount at interest rates ranging from 5.0% to 9.1%		(29,943)
Present value of minimum lease payments at September 30, 2019	$	136,576

The current portion of capital lease obligations as of September 30, 2019 and 2018 was $50.3 million and $52.4 million, respectively, and is presented in “Current maturities of long-term debt and capital lease obligations” in the Consolidated Balance Sheets.

Operating Leases

As of September 30, 2019, Amtrak is obligated for the following minimum rental payments under operating lease agreements (in thousands):

Year ending September 30,		
2020	$	29,608
2021		26,432
2022		24,957
2023		22,840
2024		17,189
Thereafter		50,463
Total	$	171,489

Rent expense for FY2019 and FY2018 was $56.1 million and $54.7 million, respectively.

Amtrak leases offices, operating areas, stations, and other terminal space. These leases often contain renewal options to enable the Company to retain the use of facilities. Some of the leases contain escalation clauses that increase the rents based on a fixed or variable rate, such as an inflation factor index. Under certain leases, the Company is obligated to pay additional amounts based on the facility’s operating expenses.

9. Fair Value Measurement

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

The three levels are defined as follows:

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

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

Available-for-Sale Securities Measured at Fair Value

The Company's available-for-sale securities, including restricted investments, consist of U.S. Treasury securities, commercial paper, corporate bonds, certificates of deposit, money market funds, and other investments. These available-for-sale securities are measured at fair value on a recurring basis on the Consolidated Balance Sheets as of September 30, 2019 and 2018.

The estimated fair value of the Company's available-for-sale securities are as follows (in thousands):

	Fair Value Measurement as of September 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale securities:				
U.S. Treasury securities	$ —	$ 720,101	$ —	$ 720,101
Commercial paper	—	662,430	—	662,430
Corporate bonds	—	465,016	—	465,016
Certificates of deposit	—	212,027	—	212,027
Money market funds	55,657	—	—	55,657
Other	(31,191) [1]	230,397	—	199,206
Total available-for-sale securities	$ 24,466	$ 2,289,971	$ —	$ 2,314,437

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

9. Fair Value Measurements (continued)

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

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

Valuation Techniques

The fair values of the Company's available-for-sale securities are measured using prices received from pricing services, prices received from alternative pricing sources, and mathematically derived calculated prices using market observable inputs. Pricing methodologies used in determining the fair value incorporate terms and conditions of the security, current performance data, proprietary pricing models, real-time quotes from contributing dealers, trade prices, and other market data.

The following is a description of the valuation techniques and inputs used for the fair value measurement of the available-for-sale securities, including the general fair value hierarchy classification of each category:

Available-for-Sale Securities	Valuation Techniques and Inputs Used	Fair Value Hierarchy Level
U.S. Treasury securities	Market approach using prices from pricing services	Level 2
Commercial paper	Cost approach using calculated prices based on amortization schedule	Level 2
Corporate bonds	Market approach using prices from pricing services	Level 2
Certificates of deposit	Cost approach using calculated prices based on amortization schedule	Level 2
Money market funds	Market approach using market observable fixed net asset value of $1	Level 1
Other (cash, receivables, payables and other securities, including agency discount notes, asset-backed securities, and sovereign bonds)	Cash, receivables, and payables - carrying value Securities - market approach using prices from pricing services	Cash, receivables, and payables - Level 1 Other securities - Level 2

9. Fair Value Measurements (continued)

Fair Value of Financial Instruments Measured at Amortized Cost

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

	September 30, 2019		September 30, 2018	
	Principal Amount	Fair Value	Principal Amount	Fair Value
Mortgage obligations	**$ 130,369**	**$ 147,316**	$ 154,418	$ 164,809
Senior Notes	**407,680**	**439,050**	450,680	442,808
PEDFA 30th St. Garage Revenue Bonds	**29,837**	**29,846**	31,743	31,018
Term Loan A	**34,883**	**35,013**	54,075	53,719
Term Loan B	**36,162**	**37,056**	43,070	42,748
2016 RRIF Loan	**570,189**	**569,035**	143,482	120,754
Total	**$ 1,209,120**	**$ 1,257,316**	$ 877,468	$ 855,856

The estimated fair values of the financial instruments listed above are based upon a discounted cash flow analysis using interest rates available to Amtrak at September 30, 2019 and 2018 for debt with the same remaining maturities.

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

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

10. Income Taxes

The Company recorded no income tax expense in FY2019 and recorded an income tax benefit of $53.2 million in FY2018. The FY2018 income tax benefit related primarily to the impact of the Tax Cuts and Jobs Act (TCJA). The TCJA, which was enacted on December 22, 2017, reduced the statutory U.S. corporate tax rate from 35% to 21% effective January 1, 2018, and made numerous other changes. The TCJA rate decrease resulted in a tax rate for the Company for FY2019 of 21.0% and a blended rate for FY2018 of 24.5%. Provisions of the TCJA with significant impact to the Company were the decrease in U.S. federal income tax rate, the unlimited carryforward of net operating losses (NOLs), and the taxation of the receipt of state and municipal grants.

On December 22, 2017, the Securities and Exchange Commission (SEC) issued SAB No. 118, which provides guidance on accounting for the impact of the TCJA, and allows companies to record provisional amounts during a measurement period not to exceed one year from the enactment date. The Company elected to apply the guidance provided in SAB No. 118 in its FY2018 Consolidated Financial Statements. The income tax benefit recognized in FY2018 related to the provisional estimate of the impact of the TCJA, net of the impact on the Company's valuation allowance, applying the guidance under SAB No. 118. In FY2019, the Company completed its accounting for the enactment-date income tax effects of the TCJA and concluded that no adjustments were required to the provisional amounts recorded in FY2018.

A reconciliation of the actual effective income tax rate for FY2019 and FY2018 to the expected amount computed by applying the U.S. federal statutory income tax rate to Amtrak's pretax loss is as follows:

	Year Ended September 30,	
	2019	**2018**
U.S. federal statutory income tax rate	**21.0 %**	24.5 %
Impact of:		
Expiration of NOL	**(19.0)**	(6.7)
Valuation allowance	**(6.3)**	4.6
Enactment of the TCJA	**—**	(18.2)
State capital payments	**2.6**	3.1
Other	**1.7**	(1.2)
Effective income tax rate	**— %**	6.1 %

10. Income Taxes (continued)

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

	September 30, 2019	September 30, 2018
Deferred tax assets:		
Net operating loss carryforward	**$ 1,647,301**	$ 1,751,540
Postretirement employee benefits obligation	**143,690**	131,389
State capital payments	**104,442**	49,688
Claims reserves	**43,045**	45,807
Accrued vacation and other compensation accruals	**35,203**	25,595
Capital lease obligations	**28,681**	39,683
Other accruals	**18,727**	19,937
Materials and supplies reserves	**8,730**	7,385
Deferred gain on sale leaseback	**5,914**	6,863
Other	**496**	1,400
Gross deferred tax assets	**2,036,229**	2,079,287
Less: valuation allowance	**(402,315)**	(346,534)
Net deferred tax assets	**1,633,914**	1,732,753
Deferred tax liabilities:		
Property and equipment	**(1,633,849)**	(1,732,483)
Deferred rent	**(65)**	(270)
Gross deferred tax liabilities	**(1,633,914)**	(1,732,753)
Net deferred tax liability	**$ —**	$ —

Amtrak has recorded valuation allowances against net deferred tax assets as it is more likely than not that the results of future operations will not generate sufficient taxable income to realize deferred tax assets. In the current year, the valuation allowance increased by $55.8 million.

NOL carryforwards were $7.8 billion and $8.3 billion as of September 30, 2019 and 2018, respectively. An NOL carryforward of $796.8 million from FY1999 and $239.1 million from FY1998 expired unused during FY2019 and FY2018, respectively. The remaining carryforwards generated from years through FY2017 will expire in various years from FY2020 through FY2037. As a result of the TCJA, the NOLs generated in FY2019 and FY2018 may be carried forward indefinitely and will not expire. The NOL generated in FY2019 can be used to offset 80% of taxable income in any given future year. There is no such limitation for the FY2018 NOL.

The Company is subject to examination by the Internal Revenue Service and tax authorities in other jurisdictions in which it operates. Generally, the Company's tax years still subject to examination are FY2016 and forward.

11. Commitments and Contingencies

Financial Assistance

Amtrak receives significant financial assistance from the Federal Government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances because of these audits become a liability of the Company. The Company does not believe that the liabilities that may result from such audits for periods through September 30, 2019, 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 December 20, 2018, Amtrak entered into an agreement with a contractor to purchase 75 long distance diesel-electric passenger locomotives with options to purchase additional locomotives. As of September 30, 2019, the base price with change orders for the 75 locomotives is $449.6 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, 2019, the Company has incurred $156.5 million in construction and other project-related costs which were capitalized under "Construction-in-progress". Deliveries of the locomotives are expected to start in February 2021 and the final locomotive is expected to be delivered in July 2024.

Also on December 20, 2018, the Company entered into a technical support and spares supply agreement (TSSSA) with the same contractor to provide technical support, spares, and other related services for the twenty-three year period commencing upon the acceptance of the first locomotive. The base price for the TSSSA is approximately $285 million plus overhaul material costs within the contract period. As of September 30, 2019, the Company has not incurred any cost related to the TSSSA.

On August 8, 2016, the Company entered into a Purchase Agreement with a contractor for the acquisition of the Trainsets to replace the Company's current *Acela Express* equipment which runs on the NEC. The base price of the contract with change orders is $1.5 billion. Financing for the contract was obtained under the 2016 RRIF Loan (see Note 7). The Company issued a Notice to Proceed (NTP) to the contractor on August 16, 2016. The Company 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, 2019, Amtrak received letters of credit for a total of $434.9 million for which Amtrak is the beneficiary. The Company has incurred $578.6 million and $563.2 million in construction and other project-related costs as of September 30, 2019 and 2018, respectively. Of the total cost incurred, $563.4 million and $550.6 million was capitalized as part of "Construction-in-progress" in the Consolidated Balance Sheets as of September

11. Commitments and Contingencies (continued)

30, 2019 and 2018, respectively. The remaining costs were expensed in the year incurred and reported in the Consolidated Statements of Operations for those years.

Also on August 8, 2016, the Company entered into a TSSSA with the same contractor to provide technical support, spares, and other related services for the fifteen-year period commencing upon acceptance of the first trainset, expected in April 2021. The base price for the technical support and spares supply agreement with change orders is $636.2 million. The Company incurred $25.7 million and $4.3 million in cost related to the agreement as of September 30, 2019 and 2018, respectively.

On August 3, 2010, the Company entered into a contract with a contractor to purchase 130 new long-distance single level cars. The Company issued an NTP to the contractor on September 7, 2010. As of September 30, 2019, the base price of the contract with change orders is $299.5 million. The Company makes payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones), e.g. design, fabrication, testing, and manufacturing of the cars, during the contract. The Company has incurred $272.0 million and $240.4 million in construction and other project-related costs as of September 30, 2019 and 2018, respectively. Deliveries of the cars started in December 2014. As of September 30, 2019, the Company has taken delivery of 103 cars. The contractor's most recent delivery schedule shows delivery of the final cars in December 2020.

Most of the rights-of-way over which Amtrak operates are owned by other railroads. Amtrak operates over such rights-of-way under agreements with these railroads. The terms of the agreements range up to twenty years, although they may remain in effect longer if neither party seeks to renegotiate. Payments to these railroads vary based on levels of usage and performance. The total amount incurred by Amtrak for operations over the right-of-way during FY2019 and FY2018 totaled $173.7 million and $158.5 million, respectively, and are included primarily in "Train operations" in the Consolidated Statements of Operations.

Risk of Liability and Insurance

The Amtrak Reform and Accountability Act of 1997 limited the amount railroad passengers may recover from a single accident to an aggregate of $200.0 million. In December 2015, the FAST Act increased the limit to $295.0 million for the FY2015 derailment of Amtrak Train No. 188. The FAST Act also required the 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 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 also is 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.

11. Commitments and Contingencies (continued)

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

Labor Agreements

Excluding employees within Amtrak's OIG, 84.3% of Amtrak's labor force is covered by labor agreements. Under the Railway Labor Act, labor contracts never expire but are instead opened periodically for renegotiation. Although there are no timeframes for negotiations to be completed, it is likely there could be retroactive wage increases in settlements, consistent with prior agreements. During FY2018, the Company ratified labor contracts with all of its unionized workforce, which provide terms and conditions of employment through September 2022 for the Fraternal Order of Police and December 2021 for the remainder of its unionized workforce, and paid retroactive wage increases in accordance with the negotiated terms.

Legal Proceedings

Amtrak is involved in various litigation and arbitration proceedings in the normal course of business, including but not limited to tort, contract, eminent domain and civil rights claims. When management concludes that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, it is accrued through a charge to earnings. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in management's opinion, recorded liabilities, where applicable, are adequate to cover the future payment of such liabilities and claims. However, the 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 probable and reasonably estimable.

Americans with Disabilities Act Compliance

Under the Americans with Disabilities Act (ADA), stations in the intercity rail transportation system served by Amtrak were required to be readily accessible to and usable by individuals with disabilities no later than July 26, 2010. This requirement applies to all components of a station used by the general public, including passenger platforms, designated waiting areas, ticketing areas, restrooms, and in some cases, concession areas. The Company has developed a plan to bring the station components for which it is legally responsible into ADA compliance. This plan is regularly updated and adjusted based on new information and external factors, such as direction the Company receives from the FRA and other government agencies. On June 9, 2015, the Department of Justice (DOJ) provided Amtrak with a Letter of Findings and Conclusions regarding ADA compliance at Amtrak. DOJ 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 and the parties have completed that negotiation; the proposed consent decree is being reviewed within DOJ. 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

11. Commitments and Contingencies (continued)

Consolidated Financial Statements do not reflect the costs of Amtrak becoming fully compliant with the ADA. As of September 30, 2019 and 2018, Amtrak has spent a total of $552.5 million and $475.0 million, respectively, on ADA-related projects. Approximately $77.5 million and $50.1 million of the expenditures were incurred during FY2019 and FY2018, respectively.

Positive Train Control

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation included a mandate that all Class I railroads and each railroad hosting intercity or commuter rail passenger service should have PTC systems installed and operating by December 31, 2015; provided, however, that a Class I railroad is only required to install PTC on routes where there are five million or more gross tons of railroad traffic per year and the presence of either passenger trains or poison by inhalation hazardous materials. PTC is a system of functional requirements for monitoring and controlling train movements and is a type of train protection system. The FRA rules for PTC provide for exceptions to these PTC requirements which are subject to FRA approval. These exceptions are available when the number of passenger trains operated, and the freight traffic volume on rail lines hosting passenger trains, do not exceed certain limits specified in the law.

In October 2015, Congress passed the Surface Transportation Extension Act of 2015, which permits a railroad implementing PTC to request FRA's approval for an "alternative schedule" with a deadline extending beyond December 31, 2018, but no later than December 31, 2020, for full PTC system implementation. Due to the difficulties encountered in the process of testing PTC system implementation with a large number of freight and commuter partners, along with the technical complexities, Amtrak was required to submit an alternative schedule request to the FRA to enable the Company to continue operating while it finalizes testing of its system and the systems of its hosts and tenants. To be considered "fully implemented" required that all railroads operating across any of Amtrak's PTC-equipped lines be capable of operating under Amtrak's PTC system. Amtrak's alternative schedule request was approved by the FRA and Amtrak is working actively with its host railroad partners to achieve full implementation. Most of Amtrak's host railroads also applied for alternative schedules and received extension until December 31, 2020. Amtrak is working with federal authorities and with commuter and freight railroads to ensure Amtrak trains are compliant with the PTC systems being installed on host railroads.

Additional funding to fully comply with PTC requirements is necessary and will be requested from various federal and state partners. Compliance with PTC requirements on the host railroads outside of the NEC could result in significant costs to Amtrak. Amtrak's contribution to PTC installation and maintenance on host railroad property has not yet been defined.

As of September 30, 2019, Amtrak completed the installation of PTC on 899 of 900 miles of Amtrak owned or controlled tracks, and Amtrak trains are operating on these tracks with PTC protection. The remaining one mile is expected to be completed in 2020. Additionally, of the 19,119 miles of host railroad tracks that Amtrak trains operate over and that require PTC, Amtrak is operating PTC on 17,068 miles of them. As of September 30, 2019 and 2018, Amtrak has spent $265.7 million and $222.9 million, respectively, for PTC-related projects on Amtrak owned or controlled rail lines and equipment. Approximately $42.8 million and $31.5 million of the expenditures were incurred during FY2019 and FY2018, respectively.

11. Commitments and Contingencies (continued)

Certain host railroads over which Amtrak operates its passenger trains have asserted material claims against Amtrak to recover costs of PTC installation and maintenance. They also may assert future claims to recover from Amtrak certain PTC maintenance costs. The Company is in the process of analyzing the documents provided to date by the host railroads and evaluating whether Amtrak would be responsible for certain of the costs incurred by the host railroads in connection with their implementation of PTC on host railroad-owned property.

As of September 30, 2019 and 2018, Amtrak accrued its best estimate of the liability associated with PTC installation on host railroads for amounts determined to be both probable and reasonably estimable. The portion of the liability that Amtrak expects to pay in the subsequent year was recorded within “Accrued expenses and other current liabilities”, and the remaining portion was recorded within “Other liabilities” in the Consolidated Balance Sheets. Amtrak anticipates that additional accruals, which may be material, could be recorded in the future once the Company completes its analysis of submitted claims and its negotiations with the host railroads. It is possible that Amtrak may incur additional material liability in excess of the amount recognized to date but such amounts cannot be estimated at this time. Accruals for amounts to be paid to these host railroads will be reflected in the periods in which such liability becomes probable and estimable. Amtrak believes that it may be able to recover some of the amounts to be paid to the host railroads from the state agencies for which Amtrak provides service. Amtrak only records the state reimbursement when it is agreed-upon between Amtrak and the state.

12. Environmental Matters

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

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

12. Environmental Matters (continued)

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, 2019 and 2018, the environmental reserve was $141.1 million and $156.8 million, respectively. These reserves for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs. The current portion of the reserve was $12.5 million and $17.1 million as of September 30, 2019 and 2018, respectively, and is reported in “Accrued expenses and other current liabilities” in the Consolidated Balance Sheets. Costs related to estimated future capital expenditures for environmental remediation were $117.1 million and $132.4 million as of September 30, 2019 and 2018, respectively, and are included in “Right-of-way and other properties” in the Consolidated Balance Sheets.

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

Amtrak’s management and legal counsel believe that additional future remedial actions for known environmental matters will not have a material adverse effect on the Company’s results of operations or financial condition.

13. Postretirement Employee Benefits

Amtrak has a qualified non-contributory defined benefit retirement plan (the Retirement Income Plan) whose assets are held in trust covering certain nonunion employees and certain union employees who at one time held nonunion positions. Effective June 30, 2015, the Retirement Income Plan was closed to new entrants and frozen for future benefit accruals. Amtrak provides medical benefits to its qualifying retirees and life insurance to some retirees in limited circumstances under its postretirement benefits program.

13. Postretirement Employee Benefits (continued)

Obligations and Funded Status

The liability of the Company's pension benefits under its Retirement Income Plan as well as other postretirement benefits plans as of September 30, 2019 and 2018 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2019	**2018**	**2019**	**2018**
Reconciliation of projected benefit obligation:				
Obligation at October 1	**$ 437,928**	$ 465,116	**$ 605,981**	$ 694,222
Service cost	**—**	—	**11,643**	13,831
Interest cost	**18,276**	18,105	**24,658**	24,638
Actuarial loss (gain)	**68,320**	(21,337)	**39,841**	(73,314)
Employee contributions	**—**	—	**2,174**	2,579
Benefit payments	**(25,463)**	(23,956)	**(51,564)**	(55,975)
Obligation at September 30	**$ 499,061**	$ 437,928	**$ 632,733**	$ 605,981
Reconciliation of fair value of plan assets:				
Plan assets at October 1	**$ 418,245**	$ 436,255	**$ —**	$ —
Actual return on plan assets	**56,800**	8,261	**—**	—
Employer contributions	**—**	—	**49,390**	53,396
Participant contributions	**—**	—	**2,174**	2,579
Medicare Part D subsidy	**—**	—	**42**	56
Benefit payments, net	**(27,491)**	(26,271)	**(51,606)**	(56,031)
Plan assets at September 30	**$ 447,554**	$ 418,245	**$ —**	$ —
Funded status:				
Accumulated benefit obligation at September 30	**$ (499,061)**	$ (437,928)	**$ (632,733)**	$ (605,981)
Projected benefit obligation at September 30	**(499,061)**	(437,928)	**(632,733)**	(605,981)
Fair value of plan assets	**447,554**	418,245	**—**	—
Net unfunded status of the plan	**$ (51,507)**	$ (19,683)	**$ (632,733)**	$ (605,981)
Net liability recognized in Consolidated Balance Sheets	**$ (51,507)**	$ (19,683)	**$ (632,733)**	$ (605,981)

13. Postretirement Employee Benefits (continued)

Pension and other postretirement benefit amounts are recorded in the Consolidated Balance Sheets as of September 30, 2019 and 2018 as follows (in thousands):

	Pension Benefits		Other Benefits	
	2019	**2018**	**2019**	**2018**
Accrued expenses and other current liabilities	**$ 22**	$ 14,000	**$ 49,427**	$ 52,125
Postretirement employee benefits obligation	**51,485**	5,683	**583,306**	553,856
Net amount recognized	**$ 51,507**	$ 19,683	**$ 632,733**	$ 605,981

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss in FY2019 and FY2018 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2019	**2018**	**2019**	**2018**
Net actuarial loss	**$ 141,654**	$ 107,889	**$ 139,275**	$ 110,663
Prior service cost	**—**	—	**(33,445)**	(73,876)
Net amount recognized	**$ 141,654**	$ 107,889	**$ 105,830**	$ 36,787

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the plans for FY2019 and FY2018 (in thousands):

	Pension Benefits		Other Benefits	
	2019	**2018**	**2019**	**2018**
Service cost	**$ 1,330**	$ 1,270	**$ 11,643**	$ 13,831
Interest cost	**18,276**	18,105	**24,658**	24,638
Expected return on plan assets	**(24,284)**	(26,495)	**—**	—
AOCI reclassification adjustment[1]:				
Amortization of prior service credit	**—**	—	**(40,431)**	(131,540)
Amortization of actuarial loss	**2,759**	2,771	**11,228**	25,675
Net periodic benefit (income) cost	**$ (1,919)**	$ (4,349)	**$ 7,098**	$ (67,396)

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

During FY2019, the Retirement Income Plan incurred a net actuarial loss of $68.3 million, consisting primarily of a $58.2 million loss due to a decrease in the discount rate because of decreases in the corporate bond rates in FY2019 and a $16.1 million loss due to actual versus expected plan experience for retirement, mortality, and turnover, partially offset by a $5.7 million gain due to use of a recently released updated mortality table and due to a change in mortality rates that reflect lower future longevity improvements. During FY2018, the Retirement Income Plan incurred a net actuarial gain of $21.3 million, consisting of a $22.4 million gain due

13. Postretirement Employee Benefits (continued)

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

During FY2019, the other postretirement benefits plans incurred a combined net actuarial loss of $39.8 million, consisting primarily of a $66.7 million loss due to a decrease in the discount rate because of decreases in corporate bond rates in FY2019 and a $2.9 million loss due to actual versus expected plan experience for retirement, mortality, and turnover, partially offset by a $17.8 million gain due to lower FY2019 medical expenses, a $8.0 million gain due to use of a recently released updated mortality table and due to a change in mortality rates that reflect lower future longevity improvements, and a $2.0 million gain due to a favorable change in the health care cost trend. During FY2018, the other postretirement benefits plans incurred a combined net actuarial gain of $73.3 million, consisting primarily of a $32.5 million gain due to an increase in the discount rate because of increases in corporate bond rates in FY2018, a $31.3 million gain due to lower FY2018 medical expenses, a $5.0 million gain due to a favorable change in the health care cost trend and a $3.2 million gain due to actual versus expected plan experience for retirement, mortality, and turnover.

Plan Assets

The Company's pension plan asset allocation at September 30, 2019 and 2018, and initial target allocation for 2020, are as follows:

	Plan Assets		
	2020	2019	2018
Fixed income debt securities	70.0 %	**67.4 %**	64.2 %
Domestic equity fund	15.3	**15.1**	17.2
International equity fund	7.6	**7.5**	8.5
Diversified fixed income fund	7.1	**7.1**	7.6
Money market fund	—	**2.5**	1.3
Other[1]	—	**0.4**	1.2
Total	100.0 %	**100.0 %**	100.0 %

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

The long-term objective for assets held by the Retirement Income Plan is to generate investment returns that, in combination with funding contributions from the Company, provide adequate assets to meet all current and future benefit obligations of the Retirement Income Plan. The Retirement Income Plan seeks to maintain or reduce investment risk levels unless the funded status increases significantly, with the ultimate goal to be in a position to defease the pension liability. Over the long term, it is anticipated that asset-liability management strategy will be the key determinant of the returns generated by the pension assets and the associated volatility of returns and funded status. In particular, the level of the "return-seeking portfolio" (which includes domestic and international equity, global investment grade bonds, high yield bonds, bank loans, and emerging market debt) and the structure of the long-term fixed income portfolio (primarily longer duration investment grade fixed income securities denominated in U.S. dollars) are the key elements of the asset-liability strategy for

13. Postretirement Employee Benefits (continued)

the pension investment program. The Retirement Income Plan's asset allocation strategy is primarily based on the Retirement Income Plan's current funded status. The Retirement Income Plan's return requirements and risk tolerance will change over time. As a result of the Retirement Income Plan's asset allocation strategies, there are no significant concentrations of risk within the portfolio of investments.

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

Level 1 Investments

Domestic Equity Fund

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

International Equity Fund

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

Diversified Fixed Income Fund

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

Money Market Fund

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

Level 2 Investments

Fixed Income Securities

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

13. Postretirement Employee Benefits (continued)

The following tables present the fair values of the Company's pension investments by level within the fair value hierarchy (as described in Note 9) as of September 30, 2019 and 2018 (in thousands):

	Total	Level 1	Level 2	Level 3
September 30, 2019				
Fixed income debt securities:				
Corporate bonds	**$ 263,926**	**$ —**	**$ 263,926**	**$ —**
Municipal bonds	**19,424**	**—**	**19,424**	**—**
Government bonds	**15,789**	**—**	**15,789**	**—**
U.S. government securities	**2,376**	**—**	**2,376**	**—**
Total fixed income debt securities	**301,515**	**—**	**301,515**	**—**
Domestic equity fund	**67,583**	**67,583**	**—**	**—**
International equity fund	**33,415**	**33,415**	**—**	**—**
Diversified fixed income fund	**31,911**	**31,911**	**—**	**—**
Money market fund	**11,128**	**11,128**	**—**	**—**
Total investments, at fair value	**$ 445,552**	**$ 144,037**	**$ 301,515**	**$ —**
Other[1]	**2,002**			
Total plan assets	**$ 447,554**			

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

	Total	Level 1	Level 2	Level 3
September 30, 2018				
Fixed income debt securities:				
Corporate bonds	$ 230,482	$ —	$ 230,482	$ —
Municipal bonds	18,589	—	18,589	—
Government bonds	16,055	—	16,055	—
U.S. government securities	3,494	—	3,494	—
Total fixed income debt securities	268,620	—	268,620	—
Domestic equity fund	72,049	72,049	—	—
International equity fund	35,825	35,825	—	—
Diversified fixed income fund	31,658	31,658	—	—
Money market fund	5,026	5,026	—	—
Total investments, at fair value	$ 413,178	$ 144,558	$ 268,620	$ —
Other[1]	5,067			
Total plan assets	$ 418,245			

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

13. Postretirement Employee Benefits (continued)

Rate of Return

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

In the short-term, there may be fluctuations of positive and negative yields year over year, but over the long-term, the return based on current asset allocation is expected to be approximately 6.0%.

Estimated Future Benefit Payments

Based upon the assumptions used to measure the pension and other postretirement benefit obligations as of September 30, 2019, including other postretirement benefits attributable to estimated future employee service, Amtrak expects that pension benefits and other postretirement benefits to be paid over the next ten years will be as follows (in thousands):

	Pension Benefits	Other Benefits
Year ending September 30,		
2020	$ 28,965	$ 49,427
2021	28,365	47,493
2022	28,151	45,552
2023	28,345	43,088
2024	28,504	42,876
2025-2029	142,225	215,454

Contributions

In FY2020, Amtrak does not expect to contribute to the Retirement Income Plan and expects to contribute $49.4 million towards other postretirement benefits.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of September 30, 2019 and 2018 are as follows:

	Pension Benefits		Other Benefits	
	2019	**2018**	**2019**	**2018**
Discount rate	**3.21 %**	4.30 %	**3.07-3.13 %**	4.25 %
Expected long-term rate of return	**6.00 %**	6.00 %	**N/A**	N/A

13. Postretirement Employee Benefits (continued)

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2019 and 2018 are as follows:

	Pension Benefits		Other Benefits	
	2019	**2018**	**2019**	**2018**
Discount rate	**4.30 %**	3.86 %	**4.25 %**	3.68-3.70 %
Expected long-term rate of return	**6.00 %**	6.25 %	**N/A**	N/A

Assumed health care cost trend rates are as follows:

	September 30,	
	2019	**2018**
Health care cost trend rate assumed for next year	**6.75-7.38 %**	7.09-7.84 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00 %**	5.00 %
Year that the rate reaches the ultimate trend rate	**2026**	2026

Prescription Drug Benefits

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Medicare Act) was signed into law. The Medicare Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Amtrak elected to record an estimate of the effects of the Medicare Act in accounting for its postretirement benefit plans and provide disclosures required by ASC Topic 715, *Compensation - Retirement Benefits*. Amtrak's accumulated pension benefit obligation for its other benefits is reduced by $0.6 million and $0.7 million for FY2019 and FY2018, respectively, for this prescription drug benefit.

401(k) Savings Plans

Amtrak provides a 401(k) savings plan for nonunion employees. Under the plan, Amtrak matches a portion of employee contributions up to seven percent of the participant's salary, subject to applicable limitations. Amtrak's expenses under this plan were $20.6 million and $19.0 million for FY2019 and FY2018, respectively.

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

14. Subsequent Events

The Company has evaluated subsequent events through January 28, 2020, which is the date the financial statements are available to be issued.