

**UNITED STATES  
POSTAL REGULATORY COMMISSION  
Washington, D.C. 20268-0001**

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended SEPTEMBER 30, 2015  
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number N/A



**UNITED STATES POSTAL SERVICE**

(Exact name of registrant as specified in its charter)

**Washington, D.C.**

(State or other jurisdiction of incorporation or organization)

**41-0760000**

(I.R.S. Employer Identification No.)

**475 L'Enfant Plaza, S.W.**

**Washington, DC 20260**

**(202) 268-2000**

(Address and telephone number, including area code, of registrant's principal executive offices)

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**

N/A

**Name of each exchange on which registered**

N/A

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☒ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐ Not Applicable ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐ Not Applicable ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes ☐ No ☐ Not Applicable ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Not Applicable ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of shares of common stock held by non-affiliates as of March 31, 2015: N/A

The number of shares of common stock outstanding as of November 13, 2015: N/A

Documents Incorporated by Reference: None

**United States Postal Service**  
**ANNUAL REPORT ON FORM 10-K**  
**For the Fiscal Year Ended September 30, 2015**

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# PART I

## ITEM 1. BUSINESS

In accordance with the provisions of the *Postal Reorganization Act* (“PRA”), the United States Postal Service (“Postal Service,” “USPS,” “we,” “our” and “us”) began operations on July 1, 1971, succeeding the cabinet-level Post Office Department established in 1792. The PRA established us as an “independent establishment of the executive branch of the Government of the United States” with the mandate to offer a “fundamental service” to the nation “at fair and reasonable rates.” We do not receive tax dollars for operating expenses and rely solely on the sale of postage, products and services to fund our operations.

We serve individuals and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the nation and internationally. As a result, we maintain a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represented more than 3% of operating revenue for the years ended September 30, 2015, 2014 and 2013.

As an establishment of the executive branch, we align specific objectives with those of the U.S. government. We are subject to numerous federal, state and local regulatory and reporting laws, as well as environmental laws and regulations. Our governing statute is codified in Title 39 of the United States Code. The *Postal Accountability and Enhancement Act of 2006, Public Law 109-435* (“PAEA”) made revisions to the PRA and established the Postal Regulatory Commission (“PRC”), endowing it with regulatory and oversight obligations.

We operate and manage a very extensive and integrated retail, distribution, transportation and delivery network. Although PAEA divides our services into Market-Dominant and Competitive services, we monitor revenue by mail classes and weights, and we operate as a single segment throughout the U.S., its possessions and territories.

As used herein, except as otherwise indicated by the context, all references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters.

### Governance

Our eleven-seat Board of Governors (“Board”) generally consists of our Postmaster General, Deputy Postmaster General and nine independent governors (“Governors”). The Governors are appointed by the President of the United States with the advice and consent of the United States Senate. The Postmaster General is appointed by the Governors, and the Deputy Postmaster General is appointed by the Governors and the Postmaster General.

The Board is required by law to have a quorum of six members in order to take certain actions. In December 2014, due to the term expiration of one Governor and U.S. Senate inaction on pending nominees, the number of sitting Board members dropped to five, thereby rendering the Board unable to assemble a quorum.

In November 2014, while the Board still had a quorum, it issued a resolution that established a Temporary Emergency Committee of the Board (“TEC”) to exercise certain powers reserved to the Board during a period in which it is unable to assemble a quorum. The TEC consists of the remaining members of the Board and exercises those Board powers necessary for operational continuity. The TEC will continue in existence until the Board is again able to assemble a quorum. The establishment of the TEC was publicly announced in a Federal Register notice on December 16, 2014.

The Federal Register notice also announced a resolution issued by the Governors in November 2014 regarding the exercise of those powers conferred by law solely on the Governors, as distinguished from the full Board. Powers conferred solely upon the Governors include the appointment and removal of the Postmaster General and the establishment of prices and classifications for our services. The Governors determined that they could continue exercising the Governors’ independent powers with less than a quorum.

As described later in *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Legislative Update*, in 2015, the President of the United States made five Governor nominations, and each of these awaits U.S. Senate action. If the U.S. Senate does not confirm any of the Governor nominees prior to December 8, 2015, the date on which two of our three active Governors’ terms expire, our Board will consist of only one Governor, our Postmaster General and Deputy Postmaster General.

## Services

We fulfill our legal mandate to provide universal service at a fair price by offering a variety of postal services to our many customers. Prices and fees are determined by our Governors, subject to a review process by the PRC. Within each class of mail, including *First-Class Mail*, *Standard Mail*, *Periodicals*, *International* and *Other* services, prices do not vary unreasonably by customer for the level of service provided. The PAEA classifies our services into two broad categories: Market-Dominant and Competitive “products,” however, the term “services” is often used in this report for consistency with other descriptions of services we offer.

Services are sold by approximately 32,000 post offices, stations and branches, plus a large network of Contract Postal Units, Community Post Offices, Village Post Offices, commercial outlets which sell stamps and services on our behalf and through our website [www.usps.com](http://www.usps.com). Mail deliveries are made to approximately 155 million city, rural, PO Box and highway delivery points. Operations are conducted primarily in the domestic market, with international revenue representing approximately 4% of operating revenue for the year ended September 30, 2015.

## PRICING AND CLASSIFICATION

Market-Dominant services account for approximately 76% of our annual operating revenues. Such services include, but are not limited to, *First-Class Mail*, *Standard Mail*, *Periodicals* and certain parcel services. Price increases for these services are generally subject to a price cap based on the Consumer Price Index for All Urban Consumers (“CPI-U”). Prices for Market-Dominant services are set by our Governors and reviewed by the PRC for legal compliance. Prices for certain Market-Dominant services increased an average of 1.9% in May 2015, 1.7% in January 2014 and 2.6% in January 2013. We anticipate no additional price increases in 2016 for our Market-Dominant services.

In December 2013, the PRC ruled that we could collect a 4.3% exigent surcharge on Market-Dominant services beginning in January 2014, until such time as the exigent surcharge produces \$3.2 billion in incremental revenue, or \$2.8 billion in contribution, a figure that the PRC determined was lost due to the Great Recession’s suppression of mail volume.

We appealed the PRC’s decision to the U.S. Court of Appeals for the District of Columbia Circuit (the “Court”), arguing that the PRC attributed to the Great Recession far too little lost mail volume and that the exigent surcharge should remain in effect indefinitely. In June 2015, the Court ruled on the appeal and remanded the case back to the PRC for further review, primarily related to the PRC’s methodology for calculating mail volume lost due to the Great Recession. Although the Court largely upheld the PRC’s analytical framework, it vacated one key aspect of the methodology for calculating mail volume lost due to the Great Recession and suggested the PRC reconsider another element of its methodology.

On July 29, 2015, the PRC announced that it has authorized us to collect an additional \$1.4 billion in revenue through the existing exigent surcharge, which now may remain in effect until it produces \$4.6 billion in incremental revenue. Because of this extension, the exigent surcharge is expected to remain in place until approximately April 2016. We have appealed one aspect of the PRC’s July 2015 decision, but that will not impact our ability to collect the additional \$1.4 billion in revenue authorized by the PRC. Absent a successful appeal, when the exigent surcharge expires, the prices of most Market-Dominant services will decline, which will have an adverse impact on our future operating revenue and liquidity. As of September 30, 2015, we collected an estimated \$3.5 billion in incremental revenue from the surcharge.

Competitive services, such as *Priority Mail*, *Priority Mail Express*, *Parcel Select* and *Parcel Return Service* and some types of *International* mail, have greater pricing flexibility and are commonly referred to as “Shipping and Package Services.” Prices for Competitive services are set by our Governors and reviewed by the PRC for legal compliance. By law, prices must cover costs attributable to each service and must contribute a reasonable share of the institutional costs of the Postal Service, currently 5.5%, as determined by the PRC. Prices for Competitive services increased an average of 3.5% in May 2015, 2.4% in January 2014 and 8.1% in January 2013.

On October 16, 2015 we filed a notice with the PRC of our intent to increase certain Competitive service prices by an average of 9.5%. All Competitive service price increase notices are scrutinized by the PRC and by us to be in accordance with PAEA, which prohibits the subsidization of Competitive services costs by Market-Dominant services revenue. Accordingly, we are diligent to ensure that each Competitive service covers its attributable costs and an appropriate share of our institutional costs.

Although we operate as a single segment, we monitor revenue by mail classes and shapes. Our management uses the following broad service categories to describe and report on our performance:

- *First-Class Mail* - Letters, postcards or any flat advertisement or merchandise destined for either domestic (up to 13 ounces) or international (up to 4 pounds) delivery. *First-Class Mail* letters include personal correspondence, bills or statements of account and payments.
- *Standard Mail* - Any item, including advertisements and marketing packages, weighing less than 16 ounces that is not required to be sent using *First-Class Mail*. *Standard Mail* is typically used for direct advertising to multiple delivery addresses. *Every Door Direct Mail* enables customers to prepare direct mailings without names and addresses for distribution to all business and residential customers on individual carrier routes.
- *Shipping and Packages* - This category includes: *First-Class Package Service*, a shipping option for high-volume shippers of packages that weigh less than one pound and *First-Class Mail* parcels for shipment of boxes, thick envelopes or tubes of 13 ounces or less; *Package Services* for merchandise or printed matter, such as library and media mail weighing up to 70 pounds; *Parcels* - *Parcel Select*, *Parcel Return Service* and *Standard Mail Parcel Services* which provide commercial customers with a means of package shipment; *Priority Mail*, which is offered as a service both within the U.S. and abroad with the domestic service offering a 1-3 day specified (non-guaranteed) delivery; and *Priority Mail Express*, which provides an overnight, money-back guaranteed service which includes tracking, proof of delivery and basic insurance up to \$100. *Priority Mail Express* delivery is offered to most U.S. destinations for delivery 365 days a year.
- *International* - Offered for mail service and the shipping market with individual customer contracts and agreements with other postal administrations. *Priority Mail Express International* and *Priority Mail International* services compete in the e-commerce cross-border business. They provide an affordable option for our retail and business customers for much of their shipping needs to over 180 countries. *Global Express Guaranteed* is the premier international shipping option that offers reliable, date-certain delivery in 1 to 3 business days to major markets, with a money-back guarantee.
- *Periodicals* - Offered for newspaper, magazine and newsletter distribution. This service requires prior authorization by the Postal Service.
- *Other services* - This broad category includes: *PO Box* services, which provide customers an additional method for mail delivery that is private and convenient. *Money Orders* offer customers a safe, convenient and economical method for the remittance of payments. *Money Orders* are available for amounts up to \$1,000, can be purchased and cashed at most post offices, or can be deposited or negotiated at financial institutions. USPS *Extra Services* offer a variety of service enhancements that provide security, proof of delivery or loss recovery. These services include: *Certified Mail*, *Registered Mail*, *Signature Confirmation*, *Adult Signature* and insurance up to \$5,000 and are available online, at post offices or at automated postal centers.

We offer contract prices, rebates, online price reductions and other incentives to encourage customers to increase their volume, which in turn increases our revenue. For a discussion of economic and other factors affecting the volume of these services and our actions taken to address these factors, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations, Operating Revenue and Volume*.

#### **RECLASSIFICATION OF CERTAIN SERVICES**

Periodic reclassifications of services from Market-Dominant to Competitive, which require approval from the PRC, are necessary to rationalize service offerings. The additional flexibility provided in Competitive services allows us to better offer services that meet customer needs, to increase our business and to allow us to price our products and services competitively within the markets in which we operate.

The PRC approved the transfer of *Standard Post* (formerly *Parcel Post*) and the transfer of *First-Class Package International Service* from Market-Dominant to Competitive, effective January 27, 2013. In August 2014, additional *PO Box* services were reclassified from Market-Dominant to Competitive. Information regarding PRC decisions and pending dockets can be obtained on the PRC website: [www.prc.gov](http://www.prc.gov).

## Research and Development

We operate a research and development facility in Virginia for design, development and testing of postal equipment and operating systems. We also contract with independent suppliers to conduct research activities. While research and development activities are important to our business, these expenditures are not material to our financial statements.

## Intellectual Property

We own intellectual property that includes trademarks, service marks, patents, copyrights, trade secrets and other proprietary information and routinely generate intellectual property in the course of developing and improving systems, services and operations. While legal protection for intellectual property and proprietary information is significant to our success, the knowledge, ability and experience of our employees and the timeliness and quality of service we provide are more significant.

## Marketing

Our marketing program seeks to capitalize on our industry standing, including our existing relationships and our reputation based on our service delivery performance every day. We have adjusted to changes in customer behaviors and demands to make accessing and using postal services more convenient. We have developed innovative mobile applications which enable customers to locate a post office, find a ZIP Code, track packages and shop online. Online service offerings available through [www.usps.com](http://www.usps.com) have also enhanced the customer experience.

We believe that as we work with businesses to equip them with tools to reach our mutual customers, our revenue will grow. Our marketing approach highlights our value, our enhanced digital technologies and the linkages between them. Additionally, we seek to maintain our name recognition through the use of media advertising, trade shows, technical seminars and direct mailings.

We have key strategic alliances with large transportation corporations to provide distribution and delivery services allowing us to serve our respective customers' needs. Maintaining these alliances is crucial to sales development and growth as they often provide us with introductions into new markets.

## Competition

A wide variety of communications media compete for the same types of transactions and communications that historically were conducted using our mailing services. These competitors include, but are not limited to, newspapers, telecommunications, television, email, social networking and electronic funds transfers. The package and express delivery businesses are highly competitive. The primary competitors of our Shipping and Packages services are FedEx Corporation and United Parcel Service, as well as other regional and local delivery companies. Our Shipping and Packages business competes on the basis of the breadth of our service network, convenience, reliability and economy of the service provided.

## Seasonality

Mail volume and revenue are historically greatest in the first quarter of our fiscal year, which includes the fall holiday mailing season, and lowest in the third and fourth quarters of our fiscal year during the spring and summer. In general election years, direct mail may be heavily used by political organizations to reach their targeted audiences, thereby generating temporary volume increases during the months preceding an election.

## Employees

At September 30, 2015, we employed approximately 492,000 career employees and approximately 130,000 non-career employees, substantially all of whom reside in the U.S. For a more detailed discussion of items that impact our employees, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations, Operating Expenses*.

## BARGAINING AGREEMENTS

Approximately 91% of career employees are covered by collective bargaining agreements. These agreements include provisions governing work rules, while providing for general wage increases plus cost of living adjustments ("COLAs"), which are linked to the Consumer Price Index – Urban Wage Earners and Clerical Workers ("CPI-W"), as well as provisions that limit our ability to reduce the size of the labor force and restrict the number of non-career employees. Our labor force is primarily represented by the American Postal Workers Union, AFL-CIO ("APWU"); the National Association of Letter Carriers, AFL-CIO ("NALC"); the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") and the National Rural Letter Carriers Association ("NRLCA").

By law, we must consult with management organizations representing most of our employees not covered by collective bargaining agreements. These consultations provide non-bargaining unit employees in the field with an opportunity to participate in the planning, development and implementation of certain programs and policies that affect them.

## **FEDERAL EMPLOYEE AND RETIREMENT BENEFIT PROGRAMS**

We participate in federal government pension and health and benefits programs for employees and retirees, including the Federal Employees Health Benefit (“FEHB”) program, the Civil Service Retirement System (“CSRS”) and the Federal Employees Retirement System (“FERS”). We have no control or influence over the benefits offered by these plans and we contribute to these plans as specified by law or contractual agreements with our employee unions (in the case of health benefits for most active employees).

We are legally-mandated to participate in the federal workers’ compensation program that is managed by the Department of Labor’s (“DOL”) Office of Workers’ Compensation Programs (“OWCP”) and governed by the Federal Employees’ Compensation Act (“FECA”).

## **RETIREE HEALTH BENEFITS**

The PAEA established the Postal Service Retiree Health Benefits Fund (“PSRHBF”) in 2006. In accordance with applicable law, we are required to fund retiree health benefits using an accelerated prefunding payment schedule. Such a requirement is not imposed on most other federal entities or private sector businesses that offer retiree health benefits.

Since its enactment, the PSRHBF prefunding requirement has contributed significantly to our losses. As of September 30, 2015, we have contributed \$20.9 billion to the PSRHBF and defaulted on additional prefunding amounts totaling \$28.1 billion for the years 2012 through 2015 because we did not have sufficient funds to make the funding payments without adversely impacting our ability to continue operations. As of the date of this report, we have not incurred any penalties or negative consequences as a result of not making the PSRHBF prefunding payments.

## **Oversight and Regulation**

As discussed throughout this report, we are subject to Congressional oversight and regulation by the PRC and other government agencies. In addition to U.S. Senate confirmation of our Governors, Congress significantly influences how we conduct our business and operations. For example, unless and until new laws become effective, we are legally bound by annual *Financial Services and General Government* appropriations legislation, which is part of the larger U.S. government’s budget and spending process each fiscal year for specific federal government departments, agencies and programs. Among other restrictions, such legislation requires us to maintain a six-day delivery schedule. We are also bound by postal-specific legislation, such as the PAEA, which impacts our financial performance and restricts our competitiveness in the marketplace by limiting our ability to grow our business, price our services and constrain our expenses. For a more detailed explanation, see *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Legislative Update*.

## **REGULATORY REPORTING**

We are not a reporting company under the *Securities Exchange Act of 1934*, as amended (“Exchange Act”), and are not subject to regulation by the Securities and Exchange Commission (“SEC”). However, the PAEA requires us to file with the PRC certain financial reports containing information prescribed by the SEC under Sections 13 and 15(d) of the Exchange Act. These reports include annual reports on Form 10-K (“Annual Report”), quarterly reports on Form 10-Q and current reports on Form 8-K.

We are also required by law and regulations to disclose operational and financial information beyond what the law requires of most U.S. government entities and private-sector companies. Pursuant to Title 39 of the United States Code and PRC regulations, additional disclosures on the organization and finances, including Cost and Revenue Analysis reports; Revenue, Pieces and Weight reports; financial and strategic plans and the *Comprehensive Statement on Postal Operations* are filed with the PRC.

All of these reports may be found online at [www.about.usps.com/who-we-are/financials/welcome.htm](http://www.about.usps.com/who-we-are/financials/welcome.htm), free of charge, as soon as reasonably practicable after we file them with the PRC. Information on our website is not incorporated by reference into this report. Requests for copies of our reports may also be sent to the following address: Corporate Communications, United States Postal Service, 475 L’Enfant Plaza, SW, Washington, DC 20260-3100.

## ENVIRONMENTAL MATTERS

Although we are required to comply with various federal, state or local environmental laws and regulations, none of these has had a material impact on our financial results or competitive position, or resulted in material capital expenditures. However, the effect of possible future environmental legislation or regulations on operations cannot be predicted. New laws or regulations that regulate greenhouse gas emissions into the environment may increase our operating costs, including the cost of diesel fuel, unleaded gasoline and other petroleum-related products, and retrofitting existing vehicles.

## ITEM 1A. RISK FACTORS

We are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows. In addition to the risks and uncertainties that are described below, others that we do not yet know of or that we currently believe are immaterial could arise or become material and may also impair our business.

### ***Continued U.S. Senate inaction on our Governor nominations may result in the number of Governors declining to only one in December 2015.***

In 2014, the U.S. Senate failed to act on five Governor nominees, and those nominations expired upon the adjournment of Congress in December of 2014, causing our Board to lose its quorum. Because certain powers are reserved to the Board, it adopted a resolution delegating those powers needed to provide for continuity of operations to the TEC composed of the remaining members of the Board (*i.e.*, the Governors then in office, the Postmaster General and the Deputy Postmaster General).

Additionally, certain powers are reserved to the Governors. If we have only one Governor beginning in December 2015, there is a significantly greater risk of having no Governors at some future date. Although the inability of the Board to constitute a quorum does not inhibit or affect the authority of the Governors in office from exercising those powers vested solely in the Governors, it is not apparent how those powers could be exercised if there were no Governors. The critical responsibilities reserved to the Governors are setting our prices, approving new products and appointing (and, if necessary, removing) our Postmaster General and Deputy Postmaster General. In the event that no Governors are in place, these critical duties may not be able to be executed, potentially leaving us without the ability to adjust our prices as needed, introduce new products or appoint or replace our two most senior executive officers.

In 2015, the President of the United States made five Governor nominations, each of which awaits U.S. Senate action. If the U.S. Senate does not confirm any of the Governor nominees prior to December 8, 2015, the date on which two of our three active Governors' terms expire, we will have only one Governor. Additionally, the TEC will have only three members.

### ***Adverse U.S. and global economic conditions may directly impact our business, negatively affecting results of operations.***

The demand for our services is heavily influenced by the economy. Adverse economic conditions could negatively affect our business and results of operations, primarily through disrupting our commercial customers' businesses. To the extent that the U.S. and other countries experience slow or negative economic growth, our business, financial position and results of operations will be adversely impacted.

### ***Current and future management actions to generate cash flows by increasing efficiency, reducing costs and generating additional revenue may not be sufficient to meet all of our financial obligations or to carry out our strategy.***

Our strategies to increase efficiency and reduce costs by adjusting our network, infrastructure and workforce and to retain and grow revenue are currently constrained by contractual, statutory, regulatory and political restrictions. Accordingly, our ability to react quickly to the changing economic climate and industry conditions is inhibited. We have also proposed legislative changes that are needed to provide us with the legal authority to implement additional measures to increase efficiency and cost savings and to grow revenue, but nothing we have proposed has become law.

### ***We are subject to Congressional oversight and regulation by the PRC and other government agencies. We have a wide variety of stakeholders whose interests and needs are sometimes in conflict.***

We operate as an independent establishment of the executive branch of the U.S. government and as a result are subject to a variety of regulations and other limitations applicable to federal agencies. If the U.S. government curtails its spending due to debt ceiling or other constraints, we may be adversely impacted. Additionally, as an outgrowth of our unique status as a provider of a fundamental service to the nation, we attempt to balance the interests of many parties. Efforts to be responsive to various stakeholders sometimes adversely impact the speed with which we are able to respond to changes in mail volume or other operational needs. Limitations on our ability to take management action could adversely affect operating and financial results.



***Adverse events may call into question our reputation for quality and reliability or our ability to deliver the mail and could diminish the value of our brand. This could adversely affect our revenue and results of operations.***

Our brand represents quality and reliable service, and therefore is a valuable asset. We use our brand extensively in sales and marketing initiatives and exercise care to defend and protect it. Any event, whether real or perceived, that calls into question our long-term existence, our ability to deliver mail, our quality or our reliability could diminish the value of our brand and reputation and could adversely affect our business operations and operating results.

***The expiration of the exigent pricing surcharge will have an adverse impact on our future operating revenue and liquidity.***

In December 2013, the PRC ruled that we could collect a 4.3% exigent surcharge on Market-Dominant services beginning in January 2014, until such time as the exigent surcharge produces \$3.2 billion in incremental revenue, or \$2.8 billion in contribution, a figure that the PRC determined was lost due to the Great Recession's suppression of mail volume.

We appealed the PRC's decision to the U.S. Court of Appeals for the District of Columbia Circuit (the "Court"), arguing that the PRC attributed to the Great Recession far too little lost mail volume and that the exigent surcharge should remain in effect indefinitely. In June 2015, the Court ruled on the appeal and remanded the case back to the PRC for further review, primarily related to the PRC's methodology for calculating mail volume lost due to the Great Recession. Although the Court largely upheld the PRC's analytical framework, it vacated one key aspect of the methodology for calculating mail volume lost due to the Great Recession and suggested the PRC reconsider another element of its methodology.

On July 29, 2015, the PRC announced that it has authorized us to collect an additional \$1.4 billion in revenue through the existing exigent surcharge, which now may remain in effect until it produces \$4.6 billion in incremental revenue. Because of this extension, the exigent surcharge is expected to remain in place until approximately April 2016. We have appealed one aspect of the PRC's July 2015 decision, but that will not impact our ability to collect the additional \$1.4 billion in revenue authorized by the PRC. Absent a successful appeal, when the exigent surcharge expires, the prices of most Market-Dominant services will decline, which will have an adverse impact on our future operating revenue and liquidity.

***Our need to restructure our operations in response to declining mail volume may result in significant costs. It is possible that the measures being considered would be insufficient to reduce our workforce and physical infrastructure to a level commensurate with declining mail volume.***

Our current network optimization plans include the consolidation of certain mail processing operations and reductions in lobby hours of many retail units, post offices and other facilities. Presently, our regular review of the carrying value of our assets has not resulted in significant impairment of our physical assets. However, future changes in business strategy, legislation, government regulations or economic or market conditions may result in material impairment write-downs of our assets.

In the future we may also consider offering financial incentives to encourage employees to voluntarily end their employment, as has been done in the past. Any impairment, incentives or other related costs we incur associated with such separations would adversely impact our financial results in the short-term, although we would expect such actions to result in long-term savings. In addition, we can provide no assurance that the mechanisms available under existing law and contractual arrangements will be sufficient to reduce the workforce or facilities to a level that would allow a return to financial stability.

***Our business and results of operations are significantly affected by competition from both competitors in the marketplace as well as substitute products and channels provided by electronic communication services. If we do not compete effectively and operate efficiently, grow marketing mail and package delivery services and increase revenue and contribution from other sources, this adverse impact will become more substantial over time.***

Our marketplace competitors primarily include providers of package delivery services. Our competitors have different cost structures and fewer regulatory restrictions than we do and are able to offer differing services and pricing, which may hinder our ability to remain competitive in these service areas. In addition, our competitors have access to public capital markets, which allows them greater freedom in their investments and expansion of their business.

Customer usage of postal services continues to shift to substitute products and channels provided by electronic communication services. Transactional mail, such as the presentment and payment of bills, has been eroded by competition from electronic media, driven by some of our major commercial mailers which actively promote the use of online services. The volume of our *Periodicals* service continues to decline as consumers increasingly use electronic media for news and information. Periodical advertising has also experienced a decline as a result of the move to electronic media.

***Existing laws and regulations limit our ability to introduce new products or services, enter new markets, generate new revenue streams or manage our cost structure. These laws and regulations may also prevent us from increasing prices sufficiently or generating sufficient efficiency improvements to offset increased costs. This would adversely affect our results of operations.***

In order to offset declining volume and revenue caused by the changing economy and diversion to electronic media, our ability to sell new products and services in new or existing markets will be a key factor in returning to profitability. However, various laws and regulations significantly limit our ability to enter new markets and/or to provide new services and products as defined by traditional industry definitions.

Without legal or regulatory changes that allow us to introduce new products or services to take advantage of our assets, including our strong network and last-mile capabilities, we may be unable to respond adequately to consumers' changing needs and expectations. These limitations have the potential to adversely impact our results of operations and long-term financial viability. PAEA generally limits price increases on our Market-Dominant services to the rate of inflation as measured by the CPI-U. However, our costs are not similarly limited. A large portion of our cost structure cannot be altered expeditiously. Accordingly, we may not be able to increase prices sufficiently to offset increased costs.

Because our services are provided primarily through our employees, our costs are heavily concentrated in wages and employee and retiree benefits. These costs are significantly impacted by wage inflation, health benefit premium increases, retirement and workers' compensation programs, COLAs and the continuous growth of our delivery points. Some of these costs have historically tended to increase at a higher rate than inflation as measured by the CPI-U. We believe that continuing productivity improvements alone will not be sufficient to address the challenges presented by declining volume and revenue and the regulatory price cap, nor will revenue enhancements keep pace with increased cost structures.

***Slow market acceptance of new programs or product initiatives could adversely affect our results of operations.***

We cannot be assured that recently launched programs or products, or any new programs or products that we may launch in the future, will be accepted by our customers. We also cannot be certain that we will recover the costs we incurred in developing any new programs or products or that our marketing efforts will be successful.

***A union contract arrived at either through negotiation or arbitration could have a significant adverse impact on our future results of operations by impacting our control over wages and benefits and/or by limiting our ability to manage our workforce effectively.***

Our collective bargaining agreements currently in force include provisions for mandatory COLAs, which are linked to the CPI-W. Although the increases in the CPI-W have been relatively low since 2008 when our employees received COLA-based pay increases of nearly \$1.1 billion, a resurgence of consumer inflation could have a significant adverse impact on our labor costs. The agreements also contain provisions that limit our ability to reduce the size of the labor force and employ non-career personnel. Reductions in the size and cost of our labor force are necessary to offset the effects of declining volume and revenue.

Our ability to negotiate contracts that control labor costs is essential to maintaining financial stability. We have no assurance that we will be able to negotiate contracts in the future with our unions that will result in a cost structure that is sustainable within current and projected future revenue levels. In addition, if our future negotiations should fail and involved parties proceed to arbitration, the risk of an adverse outcome rises, as there is no current statutory mandate requiring an interest arbitrator to consider our financial health in issuing an award. An unfavorable award in arbitration could have significant adverse consequences on our ability to meet future financial obligations.

***We rely on the terms and conditions of our contracts with vendors and customers to deliver our services. These contracts are renegotiated on a routine and periodic basis. Significant changes in the costs, pricing or terms associated with these contracts could adversely affect our business.***

Some of our suppliers and customers enter into long-term contracts with us to supply goods and services and to procure our services. These contracts are renegotiated from time to time and to the extent that contracts are not renewed, or are renewed with terms that may not sufficiently cover our costs or increase our costs, may have an adverse effect on our business. While no single customer or supplier is material to the Postal Service as a whole, certain vendors and customers are significant to the delivery of certain product lines. Our ability to maintain current or improved terms in our contracts with our customers and suppliers is critical to our initiatives to return to profitability.

***Fuel expenses are a material part of our operating costs. A significant increase in fuel prices could adversely affect costs and results of operations.***

We are exposed to changes in commodity prices, primarily for diesel fuel, unleaded gasoline and aircraft fuel for transportation of mail, and natural gas and heating oil for facilities. The price and availability of fuel can be unpredictable and is beyond our control. Unlike commercial entities, we are unable to institute fuel surcharges in our pricing model. Additionally, as we also use contracted carriers to transport the mail, we anticipate that increased operating costs for these independent carriers, including increased costs resulting from rising fuel prices, may ultimately be passed through to us.

***We rely on third-parties for air transportation to deliver our mail throughout the nation and abroad. A significant disruption in air transportation service could adversely affect our business and results of operations.***

We do not own or operate aircraft and we rely on third-parties for the air transportation service required to deliver our mail and packages to various destinations within the U.S. and abroad. We are therefore subject to the risk of our partners' business operations and also to the adoption of regulatory requirements and other events that affect specific airlines or the airline industry as a whole, which could affect air service or temporarily ground the fleets of our partners.

***A failure to protect the privacy of information we obtain from customers could damage our reputation and result in a loss of business.***

We have invested in and employ a variety of technology security initiatives aimed at protecting organizational information, as well as customer information. As one of the U.S. government entities most trusted by the nation, protecting the confidentiality of data that we obtain is paramount to us. However, should our information technology security initiatives not fully insulate us from a security breach or data loss, our reputation could be damaged, resulting in an adverse effect on our operations and financial results. Moreover, unlike other non-governmental entities in our industry, we must abide by the *Privacy Act of 1974*, which restricts how we can collect, use, maintain and disseminate personally-identifiable information and prescribes civil and criminal penalties for non-compliance.

***We rely extensively on computer systems and technology to manage the delivery of mail, process transactions, summarize results and manage our business. In addition, we were subject to a major data breach in 2014, and while we have taken steps to prevent similar events going forward, we may be the target of future attacks.***

Our operational and administrative information systems are among the largest and most complex systems maintained by any organization in the world. Any disruption to our infrastructure, including those impacting computer systems that facilitate mail handling and delivery and customer-utilized websites, could adversely impact customer service, mail volume and revenue and result in significant increased costs. Any significant systems failure could cause delays in the processing and delivering of mail or result in the inability to process operational and financial data. Such disruptions could impair our reputation for reliable service, which would also adversely affect results of operations.

In the fourth quarter of 2014, we discovered a data breach that involved the theft of certain personally-identifiable information through unauthorized access to our network, and we have incurred \$9 million in expenses related to remediation efforts for the event. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition, Cyber Intrusion Incident*.

Reports of cyber incidents affecting national security, intellectual property and individuals have been widespread, with reported incidents involving data loss or theft, economic loss, computer intrusions and privacy breaches. The ability to maintain confidentiality, integrity and availability of information is critical to fulfilling our mission. The source of such threats is wide-ranging and system failures resulting from these threats could damage our reputation, resulting in loss of business and increased costs.

***Due to our recent and projected cash constraints, our operational performance in the future could be at risk as a result of inadequate capital investment in facilities, transportation equipment, mail processing equipment or information technology infrastructure, all of which are essential for our operations.***

If our operations do not generate the liquidity we require, we may be forced to reduce, delay or cancel investments in technology, facilities and/or transportation equipment, as we have done in the recent past, while our competitors and other businesses are pursuing advanced, competing technologies and equipment.

Additionally, our aging facilities, equipment and transportation fleet could inhibit our ability to be competitive in the marketplace, deliver a high-quality service and meet the needs of the American public. The changes in the economic landscape in recent years have made it increasingly important for us to invest in our operations in order to remain competitive. Failure to anticipate or react to our competition, market demands and/or new technology due to inadequate cash reserves is a significant operational risk. An aging or potentially obsolete infrastructure could result in a loss of business and increased costs.

***We have a substantial amount of indebtedness.***

Since 2012, our debt obligations have remained at the statutory \$15 billion debt limit. Over the last four years, our cash and cash equivalents balance have ranged from \$506 million to \$7.1 billion. Our significant indebtedness to the Federal Financing Bank (“FFB”) has important consequences. It limits our flexibility in planning for, or reacting to, changes in the business environment or competition. It places us at a competitive disadvantage compared to commercial competitors that may have less debt and which have access to public capital markets. It also could require us to dedicate a substantial portion of our future cash flow from operations to payments on indebtedness, thus reducing the availability of cash flow to fund working capital, capital expenditures and other general organizational activities.

***Health and pension benefit costs represent a significant expense to us.***

With approximately 492,000 career employees and approximately 490,000 annuitants and survivors participating in FEHB as of September 30, 2015, our expenses relating to employee and retiree health and pension benefits are significant. We participate in U.S. government pension and health and benefits programs for employees and retirees, including FEHB, the CSRS and the FERS, as required by law. We have no control or influence over the benefits offered by these plans and make contributions to these plans as specified by law or contractual agreements with our unions (in the case of health benefits for most active employees). Several factors including participant mortality rates, return on investment and inflation could require us to make significantly higher future contributions to these plans, and many of these factors are beyond our control.

In recent years, we have experienced significant increases in retiree health benefits costs, primarily as a result of PAEA, which obligates us to fully fund, on an accelerated time frame, the health benefits of current retirees and current and future Postal Service employees who have not yet retired. Additionally, we are required to continue contributing to the FERS pension program at rates specified by the Office of Personnel Management (“OPM”) and will likely be required to resume contributions to the CSRS, beginning in 2017, if OPM determines that a supplemental unfunded liability payment is necessary.

***Workers’ compensation insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.***

Workers’ compensation expense accruals are established for estimates of cash outlays that we ultimately incur on reported claims, as well as estimates of the costs of claims that have been incurred but not yet reported. Trends in actual experience and management judgments about the present and expected levels of cost per claim are significant factors in the determination of such accruals. Several other factors which are beyond our control, such as discount and inflation rates, could cause us to incur higher workers’ compensation expenses.

We believe our estimated accruals for such claims are adequate, but if actual experience in the number of claims, and/or severity of claims for which we retain risk increases, required accruals could materially differ from our estimates and adversely affect our financial condition and results of operations. In addition, our workers’ compensation program is administered for us by the DOL, and as such, we do not have the same level of control over the execution of the program, including the costs we incur for certain medical and pharmacy costs, that a private company has with its workers’ compensation insurance provider.

***The potential liability associated with existing and future litigation against us could have a material adverse effect on our business, results of operations, financial condition and cash flows.***

In the normal course of operations, we are subject to threatened and actual legal proceedings from time to time. Any litigation, regardless of its merits, could result in substantial legal fees and costs incurred by us. Further, actions that have been or will be brought against us may not be resolved in our favor and, if significant monetary judgments are rendered, we may not have the ability to pay them. Such disruptions, legal fees and any losses resulting from these claims could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***International conflicts or terrorist activities and the effects of these events may have adverse impacts on business operations or our financial results. In addition, we have been the target of biological terrorism in the past, and we are continually subject to the risk of biohazards and other threats placed in the mail.***

We are exposed to the impacts of international conflicts and terrorist activities on the United States, global economies in general and the transportation industry in particular. Although we have implemented extensive emergency preparedness measures to keep the mail, employees and customers safe from harm due to biohazards or other threats that could be introduced into the mail, this risk cannot be completely mitigated. If new threats were to arise and measures were not sufficient to contain or mitigate the threat, services could be disrupted. This could adversely affect mail volume and revenue and require substantial expenditures to address new threats, thus adversely affecting our operations and financial results.

***Natural disasters and adverse weather conditions that can damage property and disrupt business operations could have an adverse impact on our business operations and our financial results.***

Natural disasters, such as hurricanes, earthquakes, tornadoes, floods and severe winter storms place our employees in harm's way and make it challenging to deliver mail under these unpredictable and dangerous conditions. Damage to our facilities could also have a negative impact on business operations. Significant additional operating costs may be incurred in order to maintain continuity in fulfilling our mission.

***Widespread outbreak of an illness or communicable disease, or any other public health crisis could reduce the demand for our products and services, which may adversely affect our revenue.***

The spread of contagious diseases among our customers and the global population could significantly impact the demand for our services. Additionally, such events could impact the availability of our workforce and our ability to continue normal operations.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We own nearly 8,500 and lease over 23,000 Postal Service facilities ranging in size from 60 square feet to 32 acres. Facilities support retail, delivery, mail processing, maintenance, administrative and support activities and are located in numerous communities throughout the U.S. and its territories. We believe our properties are generally in good physical condition and require only routine repairs and maintenance and periodic capital improvements. In addition, we monitor the productive capacity of our properties which has culminated in the consolidation of some of our facilities.

## **ITEM 3. LEGAL PROCEEDINGS**

As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's Office of Federal Operations certified the case *McConnell v. Brennan* (first instituted in 2006 as *McConnell v. Potter*) as a class action against the Postal Service, with the class consisting of all permanent-rehabilitation and limited-duty Postal Service employees who were assessed under the Postal Service's National Reassessment Process ("NRP") between the dates of May 5, 2006, and July 1, 2011. The NRP was a program that we utilized to ensure that our records regarding employees injured on the job were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities.

The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, an adverse ruling could have a material impact on us. We continue to dispute the claims asserted in the case and are vigorously contesting the matter.

We are subject to legal proceedings and claims that arise in the ordinary course of our business. For further discussion of the legal proceedings affecting us, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 8 - Commitments and Contingencies*.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable. As an “independent establishment of the Executive Branch of the Government of the United States,” we do not issue equity or other securities.

### ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for each year ended September 30 is derived from our audited financial statements. The selected financial data should be read in conjunction with *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations* and the related notes to the financial statements in *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements*.

(in millions)	2015	2014	2013	2012	2011
<b>Operating Results</b>					
Total revenue	\$ 68,928	\$ 67,830	\$ 67,318	\$ 65,223	\$ 65,711
Operating expenses					
Compensation and benefits	47,519	46,000	46,708	47,689	48,310
Retiree health benefits*	8,811	8,685	8,450	13,729	2,441
Workers’ compensation	1,760	2,554	1,061	3,729	3,672
All other operating expenses	15,736	15,939	15,909	15,817	16,211
<b>Loss from operations</b>	<b>\$ (4,898)</b>	<b>\$ (5,348)</b>	<b>\$ (4,810)</b>	<b>\$ (15,741)</b>	<b>\$ (4,923)</b>
<b>Net loss</b>	<b>\$ (5,060)</b>	<b>\$ (5,508)</b>	<b>\$ (4,977)</b>	<b>\$ (15,906)</b>	<b>\$ (5,067)</b>
<b>Financial Position</b>					
Cash and cash equivalents	\$ 6,634	\$ 4,906	\$ 2,326	\$ 2,087	\$ 1,321
Property and equipment, net	15,686	16,338	17,512	18,863	20,337
All other assets	1,694	1,718	1,803	1,661	1,755
<b>Total Assets</b>	<b>\$ 24,014</b>	<b>\$ 22,962</b>	<b>\$ 21,641</b>	<b>\$ 22,611</b>	<b>\$ 23,413</b>
Accrued retiree health benefits	\$ 28,100	\$ 22,417	\$ 16,766	\$ 11,205	\$ 7
Workers’ compensation liability	18,811	18,422	17,240	17,567	15,142
Debt	15,000	15,000	15,000	15,000	13,000
All other liabilities	12,494	12,454	12,458	13,685	14,204
<b>Total Liabilities</b>	<b>\$ 74,405</b>	<b>\$ 68,293</b>	<b>\$ 61,464</b>	<b>\$ 57,457</b>	<b>\$ 42,353</b>
<b>Total Net Deficiency</b>	<b>\$ (50,391)</b>	<b>\$ (45,331)</b>	<b>\$ (39,823)</b>	<b>\$ (34,846)</b>	<b>\$ (18,940)</b>
*With the passage of the PAEA, the \$5.5 billion scheduled PSRHBf prefunding payment originally due in 2011 was delayed until 2012. As a result, PSRHBf expenses were zero in 2011. PSRHBf expenses in 2012 totaled \$11.1 billion which included \$5.5 billion for the postponed 2011 amount and \$5.6 billion for the scheduled 2012 amount.					

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Cautionary Statements

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting our financial results, liquidity, capital resources and critical accounting estimates. Our results of operations may be impacted by risks and uncertainties, many of which we cannot control or influence, and may cause actual results to differ materially from those currently contemplated.

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as may, will, could, expect, believe, plan, estimate, project or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors that could cause actual results to differ materially from those anticipated in our forward-looking statements include, but are not limited to, those described under *Item 1A. Risk Factors*.

### Overview

With our mandate to provide universal postal services to the nation, we serve individual and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the U.S. as well as internationally. Our operations include an extensive and integrated retail, distribution, transportation and delivery network, and we operate as a single segment throughout the U.S., its possessions and territories.

We continue to implement certain strategies to achieve financial stability as well as a reduction in our debt. Strategically we focus on a four-pronged approach to attain profitability:

1. Taking aggressive actions within existing laws to maintain liquidity and reduce the costs of operations to reflect current and future mail volume,
2. Delivering high levels of performance and affordability of services,
3. Informing stakeholders during Congressional testimony and industry engagement activities about the changes necessary to our legal and regulatory framework to enable long-term financial sustainability, and
4. Identifying and building innovative products, promotions and capabilities that enable revenue growth.

We have successfully implemented initiatives that have reduced our costs by billions of dollars while increasing access to services. However, legal restrictions on pricing, service diversification and operations restrict our ability to fully implement our strategic objectives and cover our costs to provide secure, reliable and affordable postal services to the nation.

### Results of Operations

#### SUMMARY

The major factors that impact our operating results include overall customer demand, the mix of postal services and contribution associated with those services, volume of mail and packages processed through our network and our ability to manage our cost structure in line with declining levels of mail volume, growth in more labor-intensive Shipping and Packages volume and an increasing number of delivery points.

#### 2015 Compared with 2014

Our net loss was \$5.1 billion for the year ended September 30, 2015, compared to a net loss of \$5.5 billion for 2014, a decrease in net loss of \$448 million. While both operating revenue and total operating expenses increased in 2015, the reduction in net loss was largely driven by a decrease in workers' compensation expense of \$794 million resulting from changes in assumptions and actuarial valuation and revaluation of new and existing workers' compensation cases.

As more fully described below in *Operating Revenue and Volume*, operating revenue was \$68.8 billion in 2015, an increase of \$1.0 billion from last year. Revenue in 2015 benefited by an estimated \$2.1 billion from a full year of the exigent surcharge that went into effect in January 2014, and to a lesser extent, price increases implemented in May 2015. Also contributing to

the increase, Shipping and Packages revenue was \$15.1 billion, an increase of \$1.5 billion, or 11.4%, compared to 2014, driven by a 14.1% increase in volume.

As more fully described below in *Operating Expenses*, 2015 operating expenses increased \$648 million, or 0.9%, compared to last year. The net \$794 million reduction in our workers' compensation expense, mainly the result of changes in assumptions and actuarial valuation and revaluation of new and existing workers' compensation cases, was more than offset by an increase for the year in compensation and benefits expense of \$1.5 billion, attributable to contractually-obligated salary escalations, higher FERS contribution rates mandated by OPM and an increase in labor hours, primarily resulting from higher Shipping and Packages volume.

### **2014 Compared with 2013**

Our net loss was \$5.5 billion for the year ended September 30, 2014, compared to a net loss of \$5.0 billion for 2013, an increase in net loss of \$531 million. The most significant factor contributing to the increase in the 2014 net loss was the net increase in non-controllable workers' compensation expense of \$1.5 billion, a result of falling interest rates and actuarial valuation and revaluation of new and existing workers' compensation cases.

In 2013, we analyzed data that was not previously available regarding consumer behavior and usage patterns related to *Forever Stamp* postage, specifically products that were nearing the end of their life cycle. As a result of this analysis, our 2013 results of operations reflected a \$1.3 billion adjustment, recorded as an increase in operating revenue and a decrease in the deferred revenue-prepaid postage liability. This adjustment had no impact on our cash balance, nor did it lessen the severity of our liquidity concerns.

As more fully described below in *Operating Revenue and Volume*, 2014 operating revenue was \$67.8 billion, an increase of \$569 million, or 0.8%, compared to 2013. Excluding the 2013 deferred revenue adjustment, operating revenue growth would have been \$1.9 billion, or 2.9%. The growth was primarily due to the price increases implemented for Market-Dominant and Competitive services, including the exigent surcharge, and the growth in Shipping and Packages.

As more fully described below in *Operating Expenses*, 2014 operating expenses increased \$1.1 billion, or 1.5%, compared to 2013. The \$1.5 billion increase in workers' compensation expense was the result of changes in interest rates impacting the fair value adjustment of our workers' compensation liability. This increase was partially offset by a reduction in compensation and benefits expense of \$708 million for 2014, driven primarily by effective utilization of non-career employees and our effective management of work hours and staffing levels.

### **Non-GAAP Controllable Income/Loss**

In the day-to-day operation of our business, we focus on costs that are within our control, including work hours, transportation and other costs, to match declining volume levels. We exclude from our internal analysis the expenses that management cannot control, such as expenses related to the mandated prefunding of retirement health benefits, expenses related to the actuarial revaluation of retirement liabilities and non-cash workers' compensation expense items, such as fluctuations due to changes in interest rates and changes resulting from the actuarial revaluation of our related liability. The following table details our Non-GAAP controllable income (loss) for the years ended September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Net loss</b>	<b>\$ (5,060)</b>	<b>\$ (5,508)</b>	<b>\$ (4,977)</b>
Impact of:			
PSRHBf prefunding expense	5,700	5,700	5,600
Discount rate changes related to workers' compensation liability	809	485	(1,745)
Other non-cash workers' compensation expense <sup>1,3</sup>	(502)	673	1,455
Actuarial revaluation of retirement liability	241	7	—
Change in accounting estimate <sup>2</sup>	—	—	(1,316)
<b>Controllable income (loss)</b>	<b><u>\$ 1,188</u></b>	<b><u>\$ 1,357</u></b>	<b><u>\$ (983)</u></b>

<sup>1</sup> In 2015, we revised the calculation used in our workers' compensation valuation model to determine the actuarial revaluation of existing cases.

<sup>2</sup> The 2013 change in accounting estimate resulted from new data analytics which revised the estimated liability associated with deferred revenue-prepaid postage for Forever stamps.

<sup>3</sup> Includes changes in assumptions and valuation of new claims and revaluation of existing claims less current year claim payments.



## OPERATING REVENUE AND VOLUME

*First-Class Mail* and Standard Mail continued to provide the majority of our operating revenue despite customers' continuing migration to electronic communication and transactional alternatives. As a percentage of operating revenue, *First-Class Mail* and *Standard Mail* combined represented 66.8%, 67.6% and 68.3% (before the change in accounting estimate) for the years ended September 30, 2015, 2014 and 2013, respectively. *First-Class Mail* and *Standard Mail* combined volume represented 92.4%, 92.7% and 92.6% in 2015, 2014 and 2013, respectively. We anticipate that *First-Class Mail* volume will continue to decline in future years with the migration to electronic alternatives resulting from technological changes.

In 2013, we recognized an additional \$1.3 billion in revenue related to a change in accounting estimate for deferred revenue-prepaid postage. This did not affect our liquidity.

The following table details our operating revenue and volume for the years ended September 30, 2015, 2014 and 2013 by each service:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Operating Revenue:</b>			
First-Class Mail <sup>1</sup>	\$ 28,312	\$ 28,409	\$ 28,110
Standard Mail <sup>2</sup>	17,646	17,426	16,915
Shipping and Packages <sup>3</sup>	15,085	13,543	12,597
International	2,762	2,923	3,016
Periodicals	1,589	1,625	1,658
Other <sup>4</sup>	3,396	3,838	3,583
Total operating revenue before change in accounting estimate	\$ 68,790	\$ 67,764	\$ 65,879
Deferred operating revenue-change in accounting estimate <sup>5</sup>	—	—	1,316
<b>Total operating revenue</b>	<u><b>\$ 68,790</b></u>	<u><b>\$ 67,764</b></u>	<u><b>\$ 67,195</b></u>
<b>Volume:</b>			
First-Class Mail <sup>1</sup>	62,419	63,839	65,754
Standard Mail <sup>2</sup>	80,030	80,308	80,806
Shipping and Packages <sup>3</sup>	4,530	3,969	3,715
International	940	893	902
Periodicals	5,838	6,045	6,359
Other <sup>6</sup>	400	485	686
<b>Total volume</b>	<u><b>154,157</b></u>	<u><b>155,539</b></u>	<u><b>158,222</b></u>

Note: The totals for certain mail categories for prior years have been reclassified to conform with classifications used in the current year. Non-operating revenue is no longer included in this schedule.

<sup>1</sup>Excludes First-Class Mail Parcels.

<sup>2</sup>Excludes Standard Mail Parcels.

<sup>3</sup>Includes Priority Mail, Standard Post, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service and Priority Mail Express.

<sup>4</sup>Includes PO Box Services, Certified Mail, Return Receipts, Insurance, Other Ancillary Fees, Shipping and Mailing Supplies, Collect on Delivery, Registered Mail, Stamped Envelopes and Cards, Money Orders and Other services.

<sup>5</sup>The 2013 change in accounting estimate resulting from new data analytics which revised the estimated liability associated with deferred revenue-prepaid postage for Forever stamps.

<sup>6</sup>Includes the U.S. Postal Service's mail and free mail provided to certain groups.

Although revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail, we have proactively targeted opportunities to grow our business. We continue to concentrate on our customers' needs and have increased our marketing investment and focus on mail and package innovation. However, we recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and pricing we may offer to our customers and the speed with which we can bring them to market.

We have focused our efforts on providing new services to enhance the value of mail, capitalizing on the growth in e-commerce and implementing marketing campaigns to grow our Shipping and Packages business. An example of this strategy is the *Priority: You* campaign, which offers day-specific delivery, improved tracking and text message alerts and up to \$50 of free insurance on most *Priority Mail* packages. Additionally, we continue to enhance our mail and packages services and develop new platforms for our services, including entering into agreements with our competitors to carry more parcels. Efforts are also underway to increase Sunday and same-day delivery to selected geographical markets and cities in the U.S.

As referenced throughout this report, we implemented a 4.3% temporary exigent surcharge on Market-Dominant services in January 2014, which we expect to remain in effect until approximately April 2016, absent a successful appeal. For a more detailed explanation, see *Item 1. Business, Services Pricing and Classification*.

On May 7, 2015, the PRC approved price increases and classifications for *Standard Mail*, *Periodicals* and *Package Services*. Previously, the PRC had approved price adjustments for *First-Class Mail* and special services. The price adjustments applicable to these Market-Dominant services were slightly below the CPI-U price cap of 1.966%. These price increases all became effective May 31, 2015, and we expect them to generate approximately \$750 million in annualized revenue.

On October 16, 2015 we filed a notice with the PRC of our intent to increase certain Competitive service prices by an average of 9.5%. We estimate that this plan, if approved, would generate an additional \$500 million in revenue for 2016 and \$750 million per year thereafter.

#### **First-Class Mail**

The volume of *First-Class Mail*, our most profitable service category, continues to decline, although at a slower pace than previous years, with decreases of 2.2% in 2015 and 2.9% in 2014. The most significant factors contributing to this decline in volume are the continued migration toward electronic communication and electronic transaction alternatives, which was exacerbated by the Great Recession.

*First-Class Mail* revenue also declined for the year ended September 30, 2015, which is consistent with the decline in volume. Although volume declined for the year ended September 30, 2014, compared to 2013, revenue increased. The increase in our 2014 revenue compared to a reduction in volume over the past two years was primarily due to the temporary exigent surcharge that we implemented in January 2014. The incremental revenue for *First-Class Mail* generated from the exigent surcharge was an estimated \$1.2 billion and \$794 million for the years ended September 30, 2015, and 2014, respectively. We anticipate the exigent surcharge to remain in place until approximately April 2016, absent a successful appeal. Should the exigent surcharge expire, *First-Class Mail* revenue is expected to decline, which will adversely impact our future operating revenue.

#### **Standard Mail**

Changes in volume are reflective of the cyclical nature of *Standard Mail*, the extent to which customers utilize targeted sales advertising campaigns and the strength of the U.S. economy, each of which impact demand for *Standard Mail*. Similar to *First-Class Mail*, *Standard Mail* has experienced declines in volume due to the continued migration toward electronic communication, although this trend has been leveling off in recent years. While volume decreased slightly during 2015, the utilization of *Standard Mail* by our commercial customers has proven to be a resilient marketing channel, and its value to U.S. businesses is increasing due to better data and technology integration.

*Standard Mail* generated approximately 52% of the total volume, but represented approximately 26% of operating revenue for each of the three years ended September 30, 2015, 2014 and 2013. The increase in our *Standard Mail* revenue compared to a reduction in volume over the past two years was primarily due to the exigent surcharge implemented in January 2014. The incremental revenue for *Standard Mail* generated from the exigent price increase was an estimated \$728 million and \$482 million for the years ended September 30, 2015, and 2014, respectively. *Standard Mail* revenue increased in 2013 primarily due to an increase in political mail volume.

#### **Shipping and Packages**

Shipping and Packages are predominantly Competitive services, which can be priced to reflect current market conditions, and include *Priority Mail* and *Priority Mail Express* as well as business-oriented services such as *Parcel Select* and *Parcel Return*. *First-Class Parcels* and certain other package delivery services are part of Shipping and Packages but are considered Market-Dominant services and are therefore subject to price caps.

As a percentage of operating revenue, Shipping and Packages generated 21.9%, 20.0% and 18.7% for the years ended 2015, 2014 and 2013, respectively. As a percentage of total volume, Shipping and Packages represented 2.9%, 2.6% and 2.3% for the years ended 2015, 2014 and 2013, respectively. Prices for these Competitive services increased an average of 3.5% in May 2015, 2.4% in January 2014 and 8.1% in January 2013. Pending PRC approval, on October 16, 2015 we filed a notice of our intent to increase certain Competitive service prices by an average of 9.5%.

The following table details our operating revenue and volume for Shipping and Packages for the years ended September 30, 2015, 2014 and 2013 by each service:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Shipping and Packages Revenue:</b>			
Priority Mail <sup>1</sup>	\$ 7,751	\$ 7,233	\$ 7,020
Parcel Select, Parcel Return, Standard Parcels	3,516	2,736	2,202
Package Services	806	812	810
First-Class Packages <sup>2</sup>	2,233	2,002	1,771
Priority Mail Express	779	760	794
<b>Total Shipping and Packages revenue</b>	<b>\$ 15,085</b>	<b>\$ 13,543</b>	<b>\$ 12,597</b>
<b>Shipping and Packages Volume:</b>			
Priority Mail <sup>1</sup>	1,025	934	924
Parcel Select, Parcel Return, Standard Parcels	1,997	1,605	1,418
Package Services	564	547	542
First-Class Packages <sup>2</sup>	908	847	792
Priority Mail Express	36	36	39
<b>Total Shipping and Packages volume</b>	<b>4,530</b>	<b>3,969</b>	<b>3,715</b>
<small>*Note: The totals for certain mail categories for the prior year have been reclassified to conform with classifications used in the current year. These reclassifications did not impact total Shipping and Packages revenue for the prior years.</small>			
<small><sup>1</sup>Includes Standard Post which is a retail-only product classified as Market-Dominant. Standard Post is priced identically to Priority Mail for Zones 1-4 and is functionally equivalent to Priority for those Zones.</small>			
<small><sup>2</sup>Includes First-Class Mail Parcels and First-Class Package Services.</small>			

Shipping and Packages revenue continues to show strong year-over-year growth, as a result of our successful efforts to compete in ground shipping services and the “last mile” e-commerce fulfillment markets, which include Sunday deliveries. Volume has also experienced strong growth as we responded to customers’ increased use of online shopping, which provided a surge in package volume with a record number of packages delivered during the fiscal year 2015 holiday season.

Ground shipping services has also grown in response to e-commerce fulfillment, as companies strive to reduce costs. In addition, successful marketing campaigns have helped fuel this growth. To accommodate the surge in volume and to minimize service disruptions, we implemented Sunday package delivery during the first quarter of 2014 for certain large markets.

### **Priority Mail**

*Priority Mail*, including *Standard Post*, is our flagship Shipping and Packages service, accounting for 51.4%, 53.4% and 55.7% of Shipping and Packages revenue for the years ended 2015, 2014 and 2013, respectively. This service is a convenient and fast way for customers to send documents and packages requiring expedited transportation and handling. The increase in year-over-year growth of *Priority Mail* revenue and volume are the results of growth in e-commerce and the success of our sales and marketing initiatives, most notably the *Priority: You* campaign.

In September 2014, the Postal Service changed *Priority Mail* prices. This change included a reduction in the average prices for businesses and other customers who use *Commercial Plus* and *Commercial Base* online shipping services for heavier-weight packages. The price change included an average increase of 1.7% for *Priority Mail* services offered at post offices and other postal retail outlets. The changes were intended to offer more competitive pricing and build on *Priority Mail*’s popularity with customers.

### ***Parcel Services***

*Parcel Services*, which includes *Parcel Select*, *Parcel Return* and *Standard Parcels*, accounting for 23.3%, 20.2% and 17.5% of Shipping and Packages revenue for the years ended 2015, 2014 and 2013, respectively. The increase in year-over-year growth for *Parcel Services* revenue and volume were driven largely by the continuing growth of e-commerce and our competitive pricing on these services. However, *Parcel Services* represents one of our lowest-priced services and provides a relatively lower contribution margin compared to other services.

### ***First-Class Packages***

*First-Class Packages* includes the competitively priced *First-Class Packages Service*, an under one-pound commercial package service, and *First-Class Parcels*, a Market-Dominant, under 13-ounce retail package service. *First-Class Packages* offers commercial customers that ship primarily lightweight fulfillment parcels the lowest priced expedited end-to-end shipping option in the marketplace. *First-Class Packages* revenue and volume performance continues to experience strong increases for the past three years, primarily attributable to growth in e-commerce.

### **International**

*International* revenue, primarily generated on mail and packages that we send to other countries, or “outbound services,” was 4.0%, 4.3% and 4.5% of total operating revenue for 2015, 2014 and 2013 (before the change in accounting estimate), respectively. A weaker global economy and increasing competition are the primary factors contributing to the decline in *International* mail revenue.

### **Periodicals**

*Periodicals*, the service that provides our lowest percentage of total operating revenue, continued to decline over the past three years. Trends in hard-copy reading behavior and advertising shifts from print to other media have impacted our *Periodicals* service. Our *Periodicals* service is not expected to rebound as e-readers and electronic content continue to grow in popularity with the public.

### **Other**

Other revenue includes ancillary fees and services such as *Certified Mail*, *PO Box* services, *Return Receipts*, insurance, *Collect on Delivery* and stock of *Stamped Envelopes* excluding postage. In addition, revenue generated from items such as the sale of money orders and passport services are also included in this category.

## **OPERATING EXPENSES**

In an effort to align our resources with anticipated types of services and mail volume, we continue to aggressively manage operating expenditures under management’s control.

As described above in *Operating Revenue and Volume*, we anticipate that migration of hard copy mail will continue to reduce *First-Class Mail* volume and revenue for the foreseeable future. Although increased Shipping and Packages volume has offset some of these declines, we must earn approximately \$2.50 in Shipping and Packages revenue to replace the contribution lost from each \$1 of *First-Class Mail* revenue because the costs of transporting and delivering packages are significantly higher than letters. Our challenge to contain costs is compounded by the continuing increase in the number of delivery points, which, when combined with the impact of the reduction in hard copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.8 pieces in 2015, a reduction of approximately 31%.

Furthermore, our mail processing and distribution network was originally designed to provide overnight delivery service of *First-Class Mail* within specified delivery areas, and therefore the network’s legacy capabilities are excessive relative to today’s mail volume. Consequently, many of our processing and distribution facilities continue to operate at much less than full capacity.

Recognizing the issues impacting our business, we began a realignment of our operations in 2013 to reduce costs and strengthen our finances. These operational realignments included reductions in the number of mail processing operations, realignment of retail office hours to match demand, consolidations of delivery routes and reductions in the number of delivery facilities.

In January 2015, we revised our service standards for *First-Class Mail* and began a second phase of mail processing realignments, which resulted in consolidation activities affecting 36 mail processing facilities, of which 21 were partially

consolidated and 15 were completely consolidated during the year. In order to further assess operational considerations and to ensure that we continue to provide prompt, reliable and predictable service consistent with our published service standards, we have deferred further consolidations until 2016. We anticipate that the remainder of the consolidations associated with this phase of our realignment plan may impact the 21 partially-consolidated facilities plus an additional 44 processing facilities that have been unaffected so far. We will not fully realize the projected cost savings of this consolidation effort until we are able to fully implement it as planned.

We have utilized Voluntary Early Retirement (“VER”) and continue to leverage employee attrition and utilization of non-career employees to the maximum extent permitted by our labor contracts, as more fully described below in *Separation Incentives* under *Compensation Expense*.

### **Compensation and Benefits**

Our compensation and benefits expenses represented approximately 64%, 63% and 65% of our total operating expenses for the years ended September 30, 2015, 2014 and 2013 and consist of costs related to our active career and non-career employees. The following table provides the components of compensation and benefits expense for active employees as of September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Compensation	\$ 35,931	\$ 35,113	\$ 35,639
Retirement	6,480	5,758	5,738
Employee health benefits	4,774	4,804	4,951
Other	334	325	380
<b>Total compensation and benefits expense</b>	<b><u>\$ 47,519</u></b>	<b><u>\$ 46,000</u></b>	<b><u>\$ 46,708</u></b>

### **Compensation Expense**

2015 compensation expense increased \$818 million, or 2.3%, from 2014. The increase was attributable to contractually-obligated salary escalations and additional work hours associated in part with the growth in the more labor-intensive Shipping and Packages business. This increase in compensation was offset in part by new employees earning lower wages. Total work hours increased by approximately 21 million, or 1.9%, compared to the same period last year.

During 2015, we converted approximately 35,000 employees from non-career to career status, as dictated by our operational needs and contractual provisions. These conversions were necessary to offset attrition of career employees, primarily through retirement. Although recently converted career employees are more costly than non-career, they represent a significant savings relative to the career employees they replace.

2014 compensation expense decreased \$526 million, or 1.5%, from 2013. The decrease was attributable to effective utilization of non-career employees, which resulted from changes in our collective bargaining agreements and our effective management of work hours and staffing levels. Work hours decreased by approximately 3 million, or 0.3%.

### **Workforce Composition**

The composition of our workforce is a significant factor of our compensation expense. As of September 30, 2015, our workforce consisted of approximately 622,000 career and non-career employees, a relatively minor increase of 4,000, compared to last year. This increase is the result, in part, of an increase in career employees needed to support the continuing growth in our Shipping and Packages business and the continuing growth in the delivery network.

The number of total employees remained essentially unchanged from 2013 to 2014. Beginning in 2013 our labor contracts permitted greater numbers of non-career employees, which allowed us to reduce career employee work hours and substitute non-career work hours at reduced rates.

The following table provides the totals of career and non-career employees as of September 30, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Career employees	492,000	488,000	491,000
Non-career employees	130,000	130,000	127,000
<b>Total employees</b>	<b><u>622,000</u></b>	<b><u>618,000</u></b>	<b><u>618,000</u></b>

#### Work Hours

Work hours are also an important factor of compensation expense. Total work hours increased by approximately 21 million, or 1.9%, from 2014 to 2015. This increase was in part due to the increase in work hours for city delivery and customer service operations related to the growth of our more labor-intensive Shipping and Packages business. Also influencing work hours is the growth in the number of delivery points and the variations in products and services sold. The number of delivery points increased by approximately 1,060,000 in 2015 and 972,000 in 2014.

Although total work hours increased in 2015 to support our growing Shipping and Packages business and Sunday delivery services, we have maintained our efforts to become more efficient. Between 2002 and 2014 we eliminated approximately 420 million work hours, or 27.5%, yielding over \$17 billion in annual savings.

#### Collective Bargaining Agreements and Non-bargaining Salaries

As indicated previously in this report, as of September 30, 2015, approximately 91% of our career employees are covered by collective bargaining agreements. The contracts with the four labor unions representing the majority of our employees include provisions granting annual increases and COLAs, which are linked to the CPI-W.

Contract negotiations with the APWU and NRLCA reached impasse following the expiration of their respective collective bargaining agreements on May 20, 2015. Pursuant to law, these matters may proceed to mediation and/or arbitration if no agreements are reached. The APWU matter has advanced to mediation, and while talks have continued with the NRLCA, the parties have discussed plans for interest arbitration. Existing terms for each contract remain in force until successor agreements are in place. However, during the time period after contract expiration, employees represented by these unions do not receive wage increases and COLA adjustments.

In fiscal year 2015, all major bargaining units received general wage increases of either 1.0% or 1.5%. Employees represented by the APWU and NRLCA received a 1.0% general wage increase. Employees represented by the NALC and NPMHU received a 1.5% general wage increase. Employees represented by the APWU, NALC, NRLCA and NPMHU did not receive COLAs in fiscal year 2015.

In 2014, employees represented by the APWU and NRLCA received a 1.5% general wage increase and 2014 COLAs. Employees represented by the NALC and NPMHU received a 1.0% general wage increase, 2014 COLAs and COLAs deferred from 2013. Employees represented by the NALC and NPMHU received neither a COLA or general wage increase in 2013, although the 2013 COLA was earned and deferred until 2014.

On February 15, 2013, a final award was rendered in the arbitration case between the NPMHU and us, resulting in a new NPMHU contract. The contract became effective on November 21, 2011, and extends through May 20, 2016. The NPMHU contract had no retroactive payments, included general wage increases in 2014 through 2016, stipulated that the 2013 COLA be deferred until 2014 and reduced the employer contribution of the funding of health benefits.

On January 10, 2013, a final award was rendered in the arbitration case between the Postal Service and the NALC, resulting in a new NALC contract. The contract with the NALC became effective on November 21, 2011, and extends through May 20, 2016. The NALC contract had no retroactive payments, included general wage increases in 2014 through 2016, stipulated that the 2013 COLA be deferred until 2014 and reduced the employer contribution to the funding of health benefits.

On July 3, 2012, a final award was rendered in the arbitration case between the NRLCA and us, resulting in a new NRLCA contract that extended through May 20, 2015. The contract included a two-year wage freeze followed by modest increases and a lower wage scale for both new career and non-career employees. The contract also included a reduction in health benefits employer contribution rate.

The contract with the APWU became effective May 23, 2011 and extended through May 20, 2015. The contract included a wage freeze for the first two years, with general wage increases over the life of the contract, totaling 3.5%. The agreement also established a new career pay schedule that on average is 10.2% lower than the previous pay schedule.

Non-bargaining unit employee salary rates were frozen in 2013. Most non-bargaining employees received a 1.0% pay increase in calendar year 2014, but did not receive COLAs or locality pay.

#### Separation Incentives

We have periodically offered targeted separation incentives to employees who agreed to retire or resign within a specified time period. These separation incentives encourage attrition and help us to reduce our career complement to better match workload and reduce costs. These incentives have been targeted to postmasters, clerks, mail handlers and administrative employees, and are utilized only when work has been eliminated.

No separation incentives were offered during the year ended September 30, 2015. The table below details the impact of incentives which have been accepted by class of employees in the years ended September 30, 2014, and 2013:

<u>Year Initiated</u>	<u>Impacted Employee Class</u>	<u>Monetary Incentive</u>	<u>Employees Accepted</u>	<u>Charge Recorded</u>
2014	Postmasters	\$ 10,000 (a)	1,380	\$ 15 million
2013	APWU employees	\$ 15,000 (b)	22,842	\$ 351 million

(a) Payment was made December 5, 2014.  
(b) A payment of \$5,000 per employee was made on May 23, 2013 and \$10,000 per employee was paid on May 23, 2014.

#### ***Retirement Expense***

The majority of our employees participate in either CSRS or FERS based on the starting date of employment with us or other U.S. government employer. Employees may also participate in the Thrift Savings Plan ("TSP"), a defined contribution savings and investment plan administered by the Federal Retirement Thrift Investment Board. For additional information, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 9 - Retirement Plans*.

We record our contributions to the plans as an expense in the period during which the contribution is due. The expense is reported within *Compensation and benefits* under *Operating expenses* in the accompanying Statements of Operations. We recognize expense for the legally required contribution for each period and record a liability for any contributions due and unpaid at the end of each reporting period. The following table details the components of total retirement expense for the years ended September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
FERS	\$ 3,499	\$ 2,888	\$ 2,891
Social security	1,956	1,881	1,860
TSP	1,025	989	987
<b>Total retirement expense</b>	<b>\$ 6,480</b>	<b>\$ 5,758</b>	<b>\$ 5,738</b>

Retirement expense increased 12.5% in 2015 primarily due to the increase in our employer contribution rate from 11.9% to 13.2% of basic pay for most employees who participated in FERS during 2015. This rate increase became effective October 1, 2014, and increased our annual retirement expense by approximately \$500 million for the year ended September 30, 2015. The OPM announced that employer contributions for FERS as a percentage of employee basic pay will increase to 13.7% in 2016.

Also contributing to the increase in our FERS expense for 2015 was an increase in the supplemental expense related to the actuarial revaluation of our FERS liability. In September 30, 2015, OPM notified us that our FERS account for our retirees was underfunded by \$3.6 billion as of September 30, 2014. To fund this supplemental liability, OPM directed us to make additional payments to FERS of \$241 million per year for 30 years beginning in 2015. This revaluation caused our supplemental expense to increase by \$234 million in 2015 from 2014. Pending our review of OPM's underlying calculation, we have not made payment for either 2015 or 2014, and have accrued the combined unpaid obligation of \$248 million as a current liability.

Retirement expense increased in 2014 primarily due to contractual wage increases and COLAs received by our bargaining employees in accordance with their collective bargaining agreements. This increase was partially offset by lower career complement levels throughout much of the year.

The OPM calculates our FERS liability using government-wide salary growth and demographic data, rather than Postal Service-specific demographics and related expected pay increases. We believe that the OPM methodology unfairly increases our present and future costs as we have reduced our workforce and instituted cost reductions unlike other U.S. government employers. Experience over the past decade demonstrates that average salary increases of our employees are lower than the government-wide estimates that OPM currently uses. OPM's calculation to the FERS Plan is an unfunded balance of \$3.6 billion and approximately \$100 million as of September 30, 2014, and 2013, respectively.

We continue to request OPM to reconsider its use of such government-wide factors and apply Postal Service-specific assumptions, which we believe would have resulted in a surplus of approximately \$500 million and \$1.4 billion as of September 30, 2014, and 2013, respectively.

In addition to OPM's use of government-wide statistics to calculate our liability and contribution rates to the plans, we are subject to the following constraints and risks that would otherwise not apply with a Postal Service-specific retirement plan structure:

- Assets contributed to the plans by a single participating U.S. government employer may be used to provide benefits to employees of other participating employers.
- If a participating U.S. government employer ceases contributing to a plan, any unfunded obligations of the plan may be borne by the remaining participating employers.
- Federal law mandates our participation in the plans. If a change in the law permitted us to discontinue this participation, we may be required to contribute to the discontinued plan(s) an amount based on any underfunded status, referred to as a withdrawal liability, if such a liability exists at that time.

#### Funded Status

The Civil Service Retirement and Disability Fund ("CSRDF") provides defined benefits to retired and disabled U.S. government employees, including our employees, covered by CSRS and FERS. Although CSRDF is a single fund that does not maintain a separate account for each participating U.S. government employer, PAEA requires certain disclosures regarding obligations and changes in net assets as if the funds were separate. Because CSRS and FERS are not subject to the rules and regulations of the *Pension Protection Act of 2006*, typical plan measurements such as zone status and financial improvement plan status, or rehabilitation plan status are not available for these plans.

For the years 2015, 2014 or 2013, we provided more than 5% of the total plan contributions for FERS from all employers (as disclosed in OPM's *Civil Service Retirement and Disability Fund Annual Report*). According to OPM, our portion of the FERS liability had been overfunded from 1992 through the year ended September 30, 2012, when our estimated surplus was approximately \$900 million. Because of revisions to OPM's government-wide economic and demographic assumptions, this surplus reversed to a deficit of \$3.6 billion and approximately \$100 million for the year ended September 30, 2014, and 2013, respectively. As a result of the deficit, OPM has calculated an amortization schedule to pay down the deficit over 30 years, and, accordingly, billed us \$241 million for 2015, which is included within *Payables and accrued expenses* in the accompanying Balance Sheets. OPM currently estimates that the FERS deficit will increase to approximately \$3.7 billion by September 30, 2015.

Under current law, no mechanism exists for us to address a FERS surplus when it occurs, and while we may submit a "request for redetermination" of OPM's valuation of our FERS liability or the statistics used to determine our required contributions, no mechanism exists for us to formally appeal OPM's determination. However, in the event that OPM publishes new government-wide contribution rates, any participating U.S. government employer may request that OPM use such employer's



specific data if it estimates that its normal cost percentage is at least 10% lower than OPM's calculation. Legislation that would allow OPM to refund any estimated FERS surplus and requiring use of Postal Service-specific economic and demographic assumptions has in the past been considered in Congress, however nothing has reached the floor of either the House of Representatives or the U.S. Senate.

The following table provides the funded status of the CSRS and FERS programs for our employees as of 2015 (projected), 2014 and 2013 and represents the most recent data available:

<i>(in billions)</i>	<b>Projected*</b> <b><u>2015</u></b>	<b>Actual</b> <b><u>2014</u></b>	<b>Actual</b> <b><u>2013</u></b>
<b>CSRS</b>			
Actuarial Liability 9/30	\$ 199.6	\$ 201.5	\$ 204.4
Current Fund Balance	179.2	182.1	186.6
<b>Unfunded</b>	<b><u>\$ (20.4)</u></b>	<b><u>\$ (19.4)</u></b>	<b><u>\$ (17.8)</u></b>
<b>FERS</b>			
Actuarial Liability 9/30	\$ 111.3	\$ 104.5	\$ 96.6
Current Fund Balance	107.6	100.9	96.5
<b>Unfunded</b>	<b><u>\$ (3.7)</u></b>	<b><u>\$ (3.6)</u></b>	<b><u>\$ (0.1)</u></b>
<b>Total CSRS and FERS</b>			
Actuarial Liability 9/30	\$ 310.9	\$ 306.0	\$ 301.0
Current Fund Balance	286.8	283.0	283.1
<b>Unfunded</b>	<b><u>\$ (24.1)</u></b>	<b><u>\$ (23.0)</u></b>	<b><u>\$ (17.9)</u></b>
*9/30/2014 is the latest available data.			

We have reported this information based on the same valuations that are used by the Civil Service Retirement System Board of Actuaries ("Board of Actuaries") to establish the normal cost and funding requirements for the plans. OPM actuarial valuations utilize the long-term economic assumptions established by the Board of Actuaries. These assumptions are prepared for U.S. government employers as a whole and based upon assumptions from government-wide employee demographics, rather than those specific to our workforce. As of September 30, 2013, the most recent date of available data, the CSRS Plan for all U.S. government employers, excluding Postal Service funds, was less than 65% funded, although the FERS Plan, excluding Postal Service funds, was greater than 80% funded.

### Components of Net Change in Plan Assets

The following information, provided by OPM, details the components of the net change in plan assets for CSRS and FERS:

<i>(in billions)</i>	<b>Actual*</b> <b>2014</b>	<b>Actual</b> <b>2013</b>
<b>CSRS</b>		
Net assets as of October 1	\$ 186.6	\$ 190.7
+ Contributions	0.2	0.3
- Benefit disbursements	(12.1)	(11.8)
+ Investment income	7.4	7.4
<b>CSRS net assets as of September 30</b>	<b>\$ 182.1</b>	<b>\$ 186.6</b>
<b>FERS</b>		
Net assets as of October 1	\$ 96.5	\$ 91.7
+ Contributions	3.1	3.1
- Benefit disbursements	(2.1)	(1.8)
+ Investment income	3.4	3.5
<b>FERS net assets as of September 30</b>	<b>\$ 100.9</b>	<b>\$ 96.5</b>

\*9/30/2014 is the latest actual data available.

As described above, CSRDF is a single fund and does not maintain separate accounts for CSRS and FERS or for individual U.S. government employers. The investment holdings of the CSRDF consist entirely of long-term special-issue U.S. Treasury securities with maturities of up to 15 years. The long-term securities bear interest rates ranging from 1.38% to 5.63%.

The assumed rate of return on the CSRS fund balance was 5.25% for both 2015 and 2014, and the actual rates of return were 4.11% and 4.01%, respectively. For the FERS fund, the assumed rate of return was 5.25% for 2015 and 2014, while the actual rates of return were 3.47% and 3.82%, respectively. The projected long-term rate of return for both the CSRS and FERS fund balances for 2015 was 5.25%.

The following information, provided by OPM, details its estimates for CSRS and FERS contributions and benefit payments for the next five years:

<i>(in billions)</i>	<b>CSRS</b>		<b>FERS</b>	
	<b>Contributions</b>	<b>Total Benefit Payments</b>	<b>Contributions</b>	<b>Total Benefit Payments</b>
2016	\$0.1	\$12.5	\$3.5	\$2.5
2017	0.1	12.8	3.5	2.9
2018	0.1	13.1	3.4	3.2
2019	0.1	13.3	3.4	3.6
2020	0.1	13.4	3.3	4.1

## Net Periodic Costs

The following information, provided by OPM, details the net periodic costs for CSRS and FERS:

<i>(in billions)</i>	<b>Projected*</b> <b>2015</b>	<b>Actual</b> <b>2014</b>
<b>CSRS</b>		
Actuarial liability as of October 1	\$ 201.5	\$ 204.4
+ Contributions**	0.2	0.2
- Benefit disbursements	(12.3)	(12.1)
+ Interest expense	10.2	10.4
+ Total actuarial loss	—	(1.4)
<b>Actuarial liability as of September 30</b>	<b>\$ 199.6</b>	<b>\$ 201.5</b>
<b>FERS</b>		
Actuarial liability as of October 1	\$ 104.5	\$ 96.6
+ Normal cost	3.6	3.5
- Benefit disbursements	(2.3)	(2.1)
+ Interest expense	5.5	5.2
+ Total actuarial gain	—	1.3
<b>Actuarial liability as of September 30</b>	<b>\$ 111.3</b>	<b>\$ 104.5</b>
<b>Total actuarial liability as of September 30</b>	<b>\$ 310.9</b>	<b>\$ 306.0</b>
*9/30/2014 is the latest actual data available.		
**Contributions for CSRS consist of employee contributions only.		

## Cost Methods and Assumptions

The Board of Actuaries recommended revisions to certain demographic assumptions including additional future mortality improvement, effective for the September 30, 2013, valuation. The following table details the long-term economic assumptions recommended by the Board of Actuaries in July 2012 and revised in June 2013:

	<b>2015</b>		<b>2014</b>	
	<b>CSRS</b>	<b>FERS</b>	<b>CSRS</b>	<b>FERS</b>
Rate of Inflation	3.00%	3.00%	3.00%	3.00%
Long-term COLA	3.00%	2.40%	3.00%	2.40%
Actual COLA applied	1.70%	1.70%	1.50%	1.50%
Long-term salary increase	3.25%	3.25%	3.25%	3.25%
Actual salary increase	1.00%	1.00%	1.00%	1.00%
Long-term interest rate	5.25%	5.25%	5.25%	5.25%

## Employee Health Benefits Expense

Health benefits expense is most significantly impacted by the number of employees electing coverage and the premium costs of the selected plans. Our active employees may participate in FEHB, which is administered by OPM. We account for employee benefit costs as an expense in the period in which our contributions to the plans under the program are due.

Employee health benefits expense was \$4.8 billion for the year ended September 30, 2015, essentially unchanged from the 2014 expense. In 2014, employee health benefits expense declined \$147 million from 2013, the result of lower career complement levels throughout much of the year.

Our share of healthcare premiums represented approximately 75%, 76% and 78% of premiums for 2015, 2014 and 2013, respectively. Employee health benefits expense was 10.0%, 10.4% and 10.6% of total compensation and benefits expense for the years ended September 30, 2015, 2014 and 2013, respectively.

Our employer contribution rates for the majority of our employees are subject to collective bargaining agreements. In April 2015, OPM announced average premium increases of 3.8% for 2016. Previous increases were 3.2% in 2015, 3.7% in 2014 and 3.4% in 2013. In 2016, we expect to benefit from offering a “Self Plus One” option under FEHB, which will replace “Family Coverage” for many employees and yield significant savings.

#### **Retiree Health Benefits**

Our retired employees who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. Qualifying survivors of our retirees are also eligible to receive these benefits.

Our total cost for retiree health benefits consists of two components: 1) our portion of the current premium expense for beneficiaries, and 2) the PSRHBf prefunding payments which are set by law. These amounts are recognized as an expense when due. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 10 - Health Benefits Plans, Retiree Health Benefits* for additional information.

#### **Retiree Health Benefits Premiums**

Retiree health benefits premium expense, which does not include PSRHBf prefunding, increased 4.2%, 4.8% and 8.4% for the years ended September 30, 2015, 2014 and 2013, respectively. This expense continues to grow each year primarily due to premium increases. In addition, several other factors could significantly change the Postal Service’s future retiree health benefits expenses, including investment performance of the PSRHBf, changes in demographics, changes in actuarial assumptions and increased or decreased benefits to participants. The number of retiree health beneficiaries was approximately 490,000 for the years ended September 30, 2015, 2014 and 2013.

#### **PSRHBf Funded Status**

The following information, provided by OPM, details the PSRHBf funded status and components of net periodic costs:

<i>(in millions)</i>	<b><u>2015</u></b>	<b><u>2014</u></b>
Beginning actuarial liability at October 1	\$ 97,740	\$ 95,614
- Actuarial loss (gain)	3,525	(1,542)
+ Normal costs	2,852	2,605
+ Interest @ 4.1% and 4.3%, respectively	4,152	4,044
Subtotal net periodic costs	10,529	5,107
- Premium payments	(3,107)	(2,981)
Actuarial liability at September 30	105,162	97,740
- Fund balance at September 30	(50,345)	(48,850)
<b>Unfunded obligations at September 30</b>	<b>\$ 54,817</b>	<b>\$ 48,890</b>

OPM valuation of post-retirement health liabilities and normal costs was prepared in accordance with Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards (“SFFAS”) No. 5 and SFFAS No. 33, which require the use of the aggregate entry age normal actuarial cost method. Demographic assumptions are consistent with the pension valuation assumptions but decrements are based upon counts or number rather than dollars.

The determination of the liability assumes a single discount rate of 4.1% equivalent to the most recent ten year historical average yield curve. The normal cost, which is on a per-participant basis, is computed to increase annually by a variable medical inflation rate which is assumed to be 6.0% per annum as of the valuation date, grading down to an ultimate value of 3.9% in 2075. Past-year medical inflation was assumed to be 5.4%. Normal costs are derived from the current FEHB on-rolls population with an accrual period from entry into FEHB to assumed retirement. The amounts and variables used to determine the liability are the same the assumptions used under OPM’s methodology, except that the average government share of premium payments for annuitants is substituted for annuitant medical costs less annuitant premium payments.

For current Postal Service annuitants, the government share of premium payments is adjusted to reflect the pro rata share of civilian service to total service for which the Postal Service is responsible. The pro rata adjustment is made by applying calculated factors based upon actual payments that vary by the age and Medicare status of enrollees. For active Postal Service employees, the pro-rata share in retirement is assumed to be 93% of the total.

Assets of the PSRHBF are comprised entirely of long-term, special-issue U.S. Treasury securities with maturities of up to 15 years. The long-term securities bear interest rates ranging from 1.38% to 5.0%.

The following table details the fund balance of the PSRHBF as reported by OPM:

<i>(in millions)</i>	<u><b>2015</b></u>	<u><b>2014</b></u>
Beginning balance at October 1	\$ 48,850	\$ 47,312
Contributions and transfers	—	—
Earnings at 3.3% and 3.4%, respectively	1,495	1,538
Net increase	1,495	1,538
<b>Fund balance at September 30</b>	<u><b>\$ 50,345</b></u>	<u><b>\$ 48,850</b></u>

Because calculation of the PSRHBF liability involves several areas of judgment, estimates of the liability could vary significantly depending on the assumptions used. Utilizing the same underlying data that was used in preparing the estimate in the table above, the September 30, 2015, unfunded obligation could range from \$41 billion to \$72 billion, solely by varying the inflation rate by plus or minus 1% and the 2014 unfunded obligation would range from \$33 billion to \$68 billion. If the actuarial liability had been calculated using the Board of Actuaries long-term rate assumption of 5.25%, the liability would have been approximately \$89 million or 15% lower as of September 30, 2015.

Although PAEA dictates the annual prefunding requirements through 2016, these amounts and the timing of funding could change at any time with enactment of a new law or an amendment of existing law. The total amount of payments due to the PSRHBF for 2016 is \$33.9 billion, consisting of \$28.1 billion for the defaulted PSRHBF prefunding payments as of September 30, 2015, and the 2016 scheduled payment of \$5.8 billion. No additional payments have been included beyond 2016.

### **Workers' Compensation**

Our employees who are injured on the job are covered by FECA, administered by the DOL's OWCP. We are legally-mandated to participate in the federal workers' compensation program. We reimburse the DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee. For additional details, refer to *Item 8. Financial Statements and Supplementary Data, Note 11 - Workers' Compensation*.

Under FECA, workers' compensation claims cannot be settled through lump-sum payments, and in some instances with regard to those claims, compensation may be paid over many years. Federal law grants COLA adjustments to those claims, and this results in substantially higher costs to us than would likely result if we managed our own claims. Additionally, since we do not manage the FECA program, we have no ability to control the significant administrative costs associated with managing the claims and payments process.

Our workers' compensation expense reflects the impacts of changes in discount and inflation rates, as well as the actuarial valuation of new workers' compensation cases and revaluation of existing ones. We reimburse the DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee.

Workers' compensation expense was \$1.8 billion in 2015, a decrease of \$794 million, or 31.1%, from \$2.6 billion in 2014. The decrease was the result of several factors, most notably a reduction of \$1.1 billion in the expense related to the actuarial revaluation of existing cases and costs of new cases. This reduction was partially offset by an increase of \$324 million in the expense due to the impact of discount rate changes, which are the result of interest rate fluctuations outside of management's control. Payments made by the DOL on behalf of workers' compensation obligations increased by \$57 million between 2015 and 2014.

During 2015, we experienced a \$9 million, or 1.1%, decrease in compensation claim payments and an \$86 million, or 17.2%, increase in medical claims payments compared to the prior year. Medical claims payments are impacted by costs associated with pharmaceutical compounding, which is the creation of a pharmaceutical product through the combination of various ingredients directly by a pharmacist. In 2015, these compounding costs accounted for approximately \$69 million of the \$86 million increase over 2014 medical costs, and we withheld this \$69 million from our payment to the DOL pending further review.

The reduction in the 2015 expense from the actuarial revaluation of existing cases and costs of new cases included a one-time change in accounting estimate under U.S. GAAP that was recognized during the first quarter of 2015, reducing workers' compensation expense by \$353 million for the year ended September 30, 2015. We believe the change allows greater flexibility to select factors that reflect the best and most current injury trends and provides the best estimate when determining the actuarial revaluation of existing cases.

Workers' compensation expense was \$2.6 billion in 2014, an increase of \$1.5 billion, or 140.7%, from \$1.1 billion in 2013. The increase in expense was primarily the result of an increase of \$2.2 billion in the expense due to the impact of discount rate changes, which are the result of interest rate fluctuations outside of management's control, offset by a decrease of \$904 million in the expense related to the actuarial revaluation of existing cases. During 2014, we experienced a \$23 million, or 2.8% decrease in compensation claim payments and a \$26 million, or 5.5%, increase in medical claims payments compared to the prior year. Compounding costs accounted for approximately \$21 million of the \$26 million increase over 2013 medical costs. Payments made by the DOL on behalf of workers' compensation obligations increased by \$45 million between 2014 and 2013.

### **Transportation**

Transportation expense includes only the costs we incur to transport mail and other products between our facilities, but does not include delivery costs including transportation to delivery points, which are included in *Other operating expenses*. Transportation expenses are primarily comprised of contracted highway, air and international transportation costs. Variations in the volume and weight of mail being transported and the mode of transportation used have significant impact on transportation expenses.

The table below details the components of transportation expense for the years ended September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Highway	\$ 3,638	\$ 3,531	\$ 3,410
Air	2,151	2,092	2,378
International	773	934	906
Other	17	29	41
<b>Total transportation expense</b>	<b><u>\$ 6,579</u></b>	<b><u>\$ 6,586</u></b>	<b><u>\$ 6,735</u></b>

Total transportation expenses were essentially unchanged in 2015 from 2014. While our overall transportation expenses benefited from lower fuel costs, our transportation fleet was utilized for more trips between facilities during the year. Highway and air transportation costs increased due to the increase in volume of mail classes that utilize our highway and air networks. These increased costs were offset by approximately a 34% reduction in average diesel fuel prices, affecting our highway network, and approximately a 45% reduction in average jet fuel prices, affecting our air network. International transportation costs decreased primarily due to the decrease in international outbound mail volume.

The decline in air transportation expenses in 2014 was primarily attributable to a new air cargo contract with a major supplier at lower rates that became effective in October 2013 and the shift of some mail to less expensive ground transportation. This shift from air to ground transportation was the primary contributing factor to the increase in ground transportation expense in 2014. In 2014, the reduction in jet fuel prices accounted for approximately \$150 million of the air transportation expense decrease from 2013.

### **Other Operating Expenses**

The following table details other operating expenses for the periods ended September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Supplies and services	\$ 2,705	\$ 2,550	\$ 2,400
Depreciation and amortization	1,769	1,843	1,901
Rent and utilities	1,613	1,613	1,582
Vehicle maintenance service*	1,053	1,108	1,040
Information technology and communications	784	791	720
Rural carrier equipment maintenance	514	556	558
Miscellaneous other	719	892	973
<b>Total other operating expenses</b>	<b><u>\$ 9,157</u></b>	<b><u>\$ 9,353</u></b>	<b><u>\$ 9,174</u></b>
* Includes fuel costs for delivery routes.			

While most of the components within other operating expenses declined or remained the same in 2015, supplies and services increased and had the most significant change, due most notably to debit and credit card merchant fees and our implementation of certain new technology for our retail operations. While vehicle maintenance service expenses benefited from lower fuel costs, this was somewhat offset by higher maintenance costs on our aging vehicle fleet.

The modest growth of nearly 2% of other operating expenses from 2013 to 2014 was most significantly impacted by the growth in volume of our package business which had a corresponding growth in supplies and services costs. In addition, increases in mobile communications, IT services and higher costs of maintenance of our aging vehicle fleet contributed to the increase. These increases were partially offset by a decrease in depreciation expense as management continued to limit non-essential capital spending.

### **NON-OPERATING REVENUES AND EXPENSES**

#### **Interest and Investment Income**

The majority of our interest income is derived from the imputed interest we recognize on the future installment payments that are owed to us under the *Revenue Forgone Reform Act of 1993* (the “RFA”). Under the RFA, Congress agreed to reimburse us \$1.2 billion in 42 annual installments of \$29 million each through 2035 for services we performed in prior years. Imputed interest for revenue forgone was \$22 million for the years ended September 30, 2015, and 2014 and \$23 million in 2013. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 12 - Revenue Forgone* for additional information.

Investment income was immaterial for the years ended September 30, 2015, 2014 and 2013.

#### **Interest Expense**

Interest expense was \$185 million, \$184 million and \$191 million, for the years ended September 30, 2015, 2014 and 2013, respectively. Although long-term debt generally carries higher interest rates than prevailing rates for short-term debt, financing a portion of our debt at longer-term fixed rates decreases our interest rate risk and interest expense volatility in subsequent years.

### **Liquidity and Capital Resources**

We held cash and cash equivalents of \$6.6 billion and \$4.9 billion as of September 30, 2015, and September 30, 2014, respectively. Our average daily cash balance during the year ended September 30, 2015, was \$6.6 billion, which represents approximately 24 days of operating cash. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 2 - Liquidity* for additional information.

### **CASH FLOW ANALYSIS**

Although our cash balances have increased, they remain insufficient to support an organization with approximately \$74 billion in annual operating expenses. Our business continues to face challenges due to the ongoing migration of mail to electronic alternatives, and we are legally limited in how we can price our products and streamline our legacy business model.

Our operations will require significant capital investment over the next few years to modernize and improve our processing and delivery infrastructure and update our delivery fleet in order continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation. Furthermore, given our inability to raise cash through the issuance of additional debt, our current level of available liquidity may be insufficient to support our operations in the event of another significant downturn in the U.S. economy.

### **Operating Activities**

Cash flows provided by operating activities decreased by \$435 million, or 13.1%, for the year ended September 30, 2015, compared to the same period last year. As more fully described in *Results of Operations*, our operating revenue increased during the year ended September 30, 2015, as we benefited from a full year of the exigent surcharge and also from a price increase on certain mail classes that went into effect in May 2015. This increase was offset, however, by an increase in cash used for operating expenses. Given the volume of our cash activity from operations during the year, the change in cash provided by operating activities was immaterial.

Cash flows provided by operating activities increased \$2.4 billion in 2014 primarily due to implementing price increases on our Market-Dominant and Competitive services, including the exigent surcharge for Market-Dominant services, which became effective in January 2014.

Our cash balance was not sufficient to pay the legally mandated PSRHBf annual payments of approximately \$5.7 billion and \$5.6 billion that were due by September 30, 2014, and 2013, respectively. As of September 30, 2015, although our cash balance was sufficient to make the annual PSRHBf payment, doing so would have placed an undue burden on our cash position in order to maintain a prudent level of liquidity and to adequately fund our normal operations. As of September 30, 2015, the total PSRHBf obligation of \$28.1 billion remains outstanding, however we have incurred no penalties or negative consequences resulting from our inability to make these payments.

### ***Exigent Surcharge***

As described in *Operating Revenue and Volume*, we have been collecting an exigent surcharge recorded as operating revenue on Market-Dominant services since January 2014, and will continue to do so until such time as we recover \$4.6 billion of incremental revenue from the exigent surcharge. When the exigent surcharge expires, which we believe will take place during approximately April of 2016, absent a successful appeal, the prices of most Market-Dominant services will decline, which will have an adverse impact on our future operating revenue and liquidity.

### ***Price Increases***

On May 7, 2015, the PRC approved price increases and classifications for *Standard Mail*, *Periodicals* and *Package Services*. Previously, the PRC had approved price adjustments for *First-Class Mail* and special services. The average price increases on these Market-Dominant services were slightly below the CPI-U price cap of 1.966%. These price increases, for which a notice was filed with the PRC in January 2015, became effective May 31, 2015. We expect these price increases to generate approximately \$900 million in annualized contribution.

On October 16, 2015, we filed a notice with the PRC of our intent to increase certain Competitive service prices by an average of 9.5%. If approved, we anticipate this price increase to go into effect in January 2016, and would generate an additional \$530 million in revenue for the remainder of 2016 or \$750 million annually.

### ***Legacy Business Model***

As discussed in *Operating Expenses*, our legacy network capabilities are excessive relative to our current mail volume, and we anticipate that migration of hard copy mail will continue to reduce *First-Class Mail* volume and revenue for the foreseeable future. In 2013, we began a realignment of our operations to reduce costs, strengthen our finances and improve liquidity. Additionally, in January 2015, we revised our service standards for *First-Class Mail* and began to implement a second phase of mail processing realignments, some of which were later deferred. We also continue to leverage employee attrition and utilization of non-career employees to the maximum extent permitted by our labor contracts.



### **Investing Activities**

In order to conserve cash, we have reduced our capital expenditures by approximately 43% from an annual average of approximately \$1.5 billion in years 2009 through 2011 to an annual average of approximately \$850 million in years 2012 through 2015. Priority has been given to projects:

1. Needed for safety and/or health or legal requirements;
2. Required to provide service to our customers; and
3. Initiatives with a high return on investment and a short payback period.

The source of funds needed to fulfill these commitments was generated from our operating activities. However, we will need to increase our capital expenditures in order to address our aging facilities and delivery fleet and to upgrade our equipment to remain competitive in the marketplace and to ensure that we will be able to continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation.

Our delivery fleet includes approximately 140,000 vehicles that are at least 20 years old which are at or near the end of their useful lives. Repair and maintenance costs for these vehicles have risen significantly in recent years. Additionally, we must also invest in letter sorting equipment that is at or near the end of its useful life, and also invest in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery market. To save cash, we have also deferred facilities maintenance, which has no impact on health and safety issues.

In 2015 we invested \$1.2 billion in the purchase of property and equipment, an increase of \$441 million over 2014, as we used additional cash on hand to fund some of our much-needed investments in building improvements, vehicles, equipment and other capital projects. In 2014 we invested \$781 million in the purchase of property and equipment, an increase of \$114 million over 2013. We continued to employ a discretionary capital expenditure plan for priority projects that are essential to conserve cash.

We currently estimate that our cash outlays for capital assets in 2016 will amount to \$1.8 billion. For the periods of 2017 through 2020, we estimate \$6.9 billion in additional cash outlays for capital assets. Although our future projections include these capital cash outlays, future cash flow from operations alone may not generate the cash needed for such necessary capital expenditures.

### **Financing Activities**

As an “independent establishment of the Executive Branch of the Government of the United States,” we receive no tax dollars for ongoing operations and have not received an appropriation for operational costs since 1982. We fund our operations chiefly through cash generated from operations and by borrowing from the FFB, a government-owned corporation under the general supervision of the Secretary of the Treasury. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 7 - Debt* for additional information.

We have not increased our debt since September 2012 when we reached the maximum borrowing amount allowed under our statutory debt ceiling. Our debt consists of fixed-rate notes and two revolving credit facilities with various maturities with an aggregate principal balance of \$15.0 billion as of September 30, 2015, and September 30, 2014.

The two revolving credit facilities have interest rates determined by the U.S. Department of Treasury each business day and enable us to draw up to \$4.0 billion in total. As of September 30, 2015, and September 30, 2014, these facilities were fully drawn, have maturity dates of April 19, 2016, and are included in the current portion of debt in the accompanying Balance Sheets.

Net cash used in financing activities, for the periods ended September 30, 2015, 2014 and 2013 were \$62 million, \$148 million and \$107 million, respectively, consisting primarily of cash payments on capital lease obligations.

### **LIQUIDITY OUTLOOK**

We incurred a net loss of approximately \$5.1 billion for the year ended September 30, 2015. The loss included \$5.7 billion of expense accrued for the PAEA-mandated prefunding payment for retiree health benefits. This requirement to prefund retiree health benefit obligations, which is not imposed on most other federal agencies or private sector businesses, and the ongoing decline in *First-Class Mail* volume caused by changes in consumers’ and businesses’ uses of mail, resulting from the continuing migration toward electronic communication and transactional alternatives, have been major factors contributing to our losses.

Without structural change to our business model, we will continue to be negatively impacted by these factors and, absent legislative change, anticipate continuing losses for the foreseeable future.

We continue to pay our share of health insurance premiums for retirees, but defaulted on the requirement to prefund \$5.7 billion of retiree health benefits for 2015. The 2016 scheduled amount to prefund retiree health benefits is \$5.8 billion. In the past nine fiscal years, since the PAEA mandated the prefunding, we have incurred \$56.8 billion of net losses, including \$49.0 billion of expenses for prefunding retiree health benefits. Through 2015, we paid \$20.9 billion of cash into the PSRHBf for prefunding, plus an additional \$17.1 billion that was transferred in 2007 from the then-overfunded CSRS fund.

Our liquidity will also be challenged with the anticipated expiration of the temporary exigent surcharge, currently estimated to remain in effect until approximately April 2016, absent a successful appeal. Diversion of hard copy mail continues to reduce revenue and the effects of contractually-granted inflation-based COLAs, general wage increases and the inflationary effects on non-personnel items will exert constant pressure on expenses.

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue legislation to reform our business model and streamline our burdensome regulatory structure. Reform is needed to establish a set of healthcare plans within the FEHB that would fully integrate with Medicare for current and future retirees. Such reform would eliminate any necessity for the PSRHBf prefunding requirement by virtually eliminating the unfunded liability previously noted. Although we continue to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, there can be no assurances that our requests will result in meaningful reform in the foreseeable future.

The following table provides details of future cash requirements as of September 30, 2015:

<i>(in millions)</i>	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>After 5 Years</u>
Debt <sup>1</sup>	\$ 15,000	\$ 10,100	\$ —	\$ 2,700	\$ 2,200
Interest on debt <sup>1</sup>	1,568	185	458	133	792
Federal Employees' Retirement System supplemental liability	7,227	488	482	482	5,775
PSHRBF <sup>2</sup>	33,900	33,900	—	—	—
Workers' compensation <sup>3</sup>	25,641	1,454	2,573	2,140	19,474
Capital lease obligations	414	91	149	91	83
Operating leases	7,139	749	1,379	1,165	3,846
Capital commitments <sup>4</sup>	1,288	272	966	25	25
Purchase obligations <sup>4</sup>	3,973	1,470	1,541	207	755
Employees' leave <sup>5</sup>	2,075	123	307	290	1,355
<b>Total commitments</b>	<b>\$ 98,225</b>	<b>\$ 48,832</b>	<b>\$ 7,855</b>	<b>\$ 7,233</b>	<b>\$ 34,305</b>

<sup>1</sup> For overnight and short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.

<sup>2</sup> The 2015 commitment includes default amounts of \$11.1 billion from 2012, \$5.6 billion from 2013, \$5.7 billion from 2014 and \$5.7 billion for 2015. Effective in 2017, the unfunded liability will be calculated by OPM. We are obligated to fund the actuarially determined normal cost and the amortized portion of the unfunded liability.

<sup>3</sup> Assumes no new cases in future years. This amount represents the undiscounted expected future workers' compensation payments plus \$72 million in administrative fees due October 15, 2015. The obligation to pay administrative fees in future years as determined by DOL is currently not estimated and \$72 million is only included in the first year.

<sup>4</sup> Capital commitments pertain to purchases of equipment, building improvements, and vehicles for legally binding obligations. Purchase obligations generally pertain to items that are expensed when received or amortized over a short period of time. Capital commitments and purchase obligations are not reflected on the *Balance Sheets*.

<sup>5</sup> Employees' leave includes both annual and holiday leave.

Our status as an independent establishment of the executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of approximately \$69 billion, generated almost entirely through the sale of postal products and services, a financially-sound Postal Service continues to be vital to U.S. commerce. The U.S. economy benefits

greatly from the Postal Service and the many businesses that provide the printing and mailing services that support us, and disruption of the mail would cause undue hardship to businesses and consumers.

In the event that circumstances leave us with insufficient cash, we would be required to implement contingency plans to ensure that mail deliveries continue. These measures may require us to prioritize payments to our employees and suppliers ahead of some payments to U.S. government entities, as has been done in the past. Without structural change to our business model and legislative change, the factors discussed above will continue to negatively impact us resulting in continuing losses and liquidity challenges for the foreseeable future.

## **Legislative Update**

Our *Legislative Update* section provides ongoing insights into the legislative and policy processes that may affect us and our operations.

## **APPROPRIATIONS**

On September 30, 2015, the U.S. Senate and House of Representatives passed H.R. 719, the *TSA Office of Inspection Accountability Act of 2015*, the legislative vehicle for the continuing resolution to keep the government operating through December 11, 2015. The 10-week stopgap measure continues government funding at 2015 levels, continues the six-day mail delivery mandate and prevented a government shutdown that would have otherwise occurred when fiscal year 2016 began on October 1, 2015. The continuing resolution (P.L. No. 114-53) was signed into law by the President of the United States on the same day.

## **LEGISLATION**

Several bills have been introduced that, if enacted into law, may have an impact on our financial condition. These include two U.S. Senate bills, namely the *Rural Postal Act of 2015* (S. 1742) and the *Improving Postal Operations, Service and Transparency Act of 2015* (iPOST) (S. 2051). At this time, however, those bills are pending in committee and none has advanced for consideration by the full U.S. Senate or House of Representatives.

## **BOARD OF GOVERNORS NOMINATIONS**

During 2015, the U.S. Senate Committee on Homeland Security and Governmental Affairs voted to advance five nominees to serve on our Board. The nominees - Mickey Barnett, D. Michael Bennett, Stephen Crawford, James Miller III and David S. Shapira - are awaiting confirmation by the full U.S. Senate.

## **Legal Matters and Contingent Liabilities**

We are subject to various legal proceedings and claims in the normal course of conducting our operations. Contingent liabilities are difficult to measure, as their measurements are subject to a multitude of factors that are not easily predicted or projected about the future. An estimated loss contingency is accrued in our financial statements when we deem the outcome is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly review loss contingencies to determine the adequacy of our accruals and related disclosures. The amount of the actual losses may differ significantly from our estimates. For additional information on our contingent liabilities, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 8 - Commitments and Contingencies*.

## **Cyber Intrusion Incident**

As previously disclosed, during the fourth quarter of 2014 we learned of a cyber intrusion into some of our information systems. The intrusion compromised files containing data submitted by customers who contacted our customer care center with inquiries via telephone or email between January 1, 2014 and August 16, 2014. The compromised files also contained personally identifiable information of employees and former employees including names, dates of birth, social security numbers, addresses and other information. Following the incident, we worked with both public and private-sector forensic specialists to investigate the matter and to strengthen the security of our systems against future cyber intrusions.

The potentially impacted individuals include individuals we employed from May 2012 through the fourth quarter of 2014 when we learned of the breach. We are unaware of any evidence that the compromised employee information was used to engage in malicious activity. Nonetheless, as part of our remediation efforts, we offered a credit monitoring product to all potentially impacted current and former employees.

Our transactional revenue systems in post offices, as well as on [www.usps.com](http://www.usps.com) where customers pay for services with credit and debit cards, were not affected by this incident. We believe that no customer credit or debit card information from retail or online purchases was compromised.

During 2015 we incurred a total of approximately \$9 million in expenses related to remediation efforts. We do not believe that the cyber intrusion or the costs of responding to it have a material impact on our financial statements, our system of internal control over financial reporting, results of operations or financial condition. Separate from the remediation expense, we have invested \$9 million to enhance our systems, recorded within *Property and equipment, net* in the accompanying Balance Sheets.

### **Fair Value Measurements**

We did not have any recognized gains as a result of fair valuation measurements in the years 2015, 2014 and 2013. All recognized losses have been incorporated into our financial statements and the unrecognized gains and losses are not considered to have a significant impact upon our operations. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 13 - Fair Value Measurement* for additional information.

### **Related Party Transactions**

As disclosed throughout this report, we have significant transactions with other U.S. government entities, which are considered related parties for reporting purposes. For a more detailed description, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 3 - Related Parties*

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements. Management discusses the development and selection of these accounting policies and estimates with the Audit and Finance Committee of the Board. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The three accounting policies that are considered either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to the financial statements, are those related to the recording of workers' compensation costs, deferred revenue-prepaid postage and contingent liabilities.

*Workers' compensation costs* are highly sensitive to discount and inflation rates and the length of time recipients are expected to stay on the compensation rolls. However, the total annual cash payment for claims is relatively stable and predictable. The workers' compensation costs reflected in our accompanying Statements of Operations are subject to actuarial estimates of future claim payments based upon past claim payment experience. Changes in the actuarial and inflation rate estimates and discount rates can significantly impact reported results from period to period. Inflation and discount rates are updated on a quarterly basis.

The discount rate reflects the current rate at which the workers' compensation liabilities could be effectively settled at the measurement date (e.g., the end of the accounting period). In setting the discount rates, we use the current yield, as of the measurement date, on U.S. Treasury securities that are matched to the expected duration of both the medical and compensation payments. Expected inflation in compensation claim obligations are estimated using the CPI-U as forecast by Philadelphia Fed Consensus Inflation Forecast. For medical claims, we use the average rate of medical cost increases experienced by our workers' compensation claimants over the past five years as an estimate for future medical inflation. Workers' compensation liabilities are recorded in the Balance Sheets as *Workers' compensation costs* with both current and noncurrent components.

*Deferred revenue-prepaid postage* is an estimate of postage that has been sold, but not yet used by customers. Revenue is recognized only when services are rendered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected in the Balance Sheets as *Deferred revenue-prepaid postage*. The deferred revenue estimate is developed and validated through complex mathematical and statistical methods, including regression analysis of stamp usage trends. Small differences in inputs can lead to significant differences in the estimate of the liability. Two categories of postage sales account for the majority of deferred revenue-prepaid postage: stamp sales and metered postage.

The recording of *Contingent liabilities* requires significant judgment in estimating potential losses for legal and other claims. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. Liabilities are recorded in the Balance Sheets in *Trade payables and accrued expenses* and *Other noncurrent liabilities* when amounts are deemed both probable and estimable. In addition, any prior claims and litigation are reviewed and, when necessary, the liability balances are adjusted for resolutions or revisions to prior estimates. Estimates of loss can therefore change as individual claims develop and additional information becomes available. We disclose the range of amounts for pending claims and litigations that are deemed to be reasonably possible of an unfavorable outcome. No provisions for these reasonably possible losses are accrued for or included in the financial statements.

For further information, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 1 - Organization and Summary of Significant Accounting Policies, Note 11 - Workers' Compensation and Note 8 - Commitments and Contingencies*.

### **Recent Accounting Standards**

See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 1 - Organization and Summary of Significant Accounting Policies, Summary of Significant Accounting Policies, Recent Accounting Standards* for a description of recently adopted accounting standards.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The market rate risks we encounter are primarily related to foreign currency exchange rate fluctuations, interest rates and commodity prices. Historically, we have not entered into derivatives contracts or commodity instruments for trading or speculative purposes or to manage market risks.

### **Foreign Exchange Risk**

While we operate outside of the U.S., and foreign currency fluctuations may favorably or unfavorably impact our reported earnings, we believe that foreign exchange risk is not a material amount since the vast majority of our business transactions are denominated in U.S. dollars. Because of this, we estimate that a 1% increase or decrease in foreign exchange rates would not have a material impact on our financial statements.

### **Interest Rate Risk**

We are impacted by changes in interest rates in the normal course of our business operations as a result of our ongoing investing and financing activities which include our revolving credit line facilities and floating note purchase agreements as well as our cash and cash equivalents. We assess our interest rate risks on a regular basis and currently estimate that a 1% increase in interest rates would have resulted in approximately a \$41 million increase in interest expense.

We currently have no significant exposure to changing interest rates on our noncurrent debt as interest rates are fixed on such debt. As disclosed in the accompanying notes to the financial statements, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 13 - Fair Value Measurement*, the fair value of our noncurrent debt, exclusive of capital leases, was \$5.4 billion and \$5.6 billion for the years ended September 30, 2015, and 2014, respectively. The underlying fair value of our noncurrent debt was estimated using prices provided by the FFB.

We also have interest rate risk associated with our workers' compensation liability, which is highly sensitive to changes in discount rates. An increase of 1% in the interest rates would decrease the September 30, 2015, liability and 2015 expense by approximately \$2.0 billion. A decrease of 1% would increase the September 30, 2015, liability and 2015 expense by approximately \$2.4 billion. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 11 - Workers' Compensation* for further explanation.

### **Commodity Prices Risk**

We currently have market risk for changes in fuel and natural gas costs. As of September 30, 2015, we estimated that a 1% increase in fuel and natural gas would have resulted in a \$23 million increase in expense.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **Report of Independent Registered Public Accounting Firm**

The Board of Governors of the United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2015 and 2014, and the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2015. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2015, and 2014, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed more fully in Note 2 to the financial statements, the United States Postal Service, an independent establishment of the executive branch of the Government of the United States, is dependent upon future actions of the Government to continue its operations in the ordinary course as a result of continuing operating losses and statutory funding requirements for employee benefit obligations. The Postal Service has incurred recurring losses from its operations primarily due to sustained declines in mail volume and statutory and regulatory restrictions have constrained the ability of the Postal Service to implement strategies to improve efficiency, reduce costs and increase revenues. Due to these conditions, during fiscal year 2015, the Postal Service defaulted on a \$5.7 billion prefunding payment required to be paid to the Postal Service Retiree Health Benefits Fund by Public Law (P.L.) 109-435, the Postal Accountability and Enhancement Act, by September 30, 2015, and has not satisfied \$22.4 billion of required prefunding payments due in previous years. The Postal Service does not expect to have sufficient cash to satisfy these obligations or to satisfy the related additional prefunding payment due by September 30, 2016 for \$5.8 billion. The statutory requirement establishing the payments required by P.L. 109-435 contains no provisions addressing a payment default. The Postal Service does not, at this time, anticipate any legal consequences, under current law, from its inability to make the required payments. Management expects, but no assurances can be given, that additional legislation will be enacted to address the short-term funding requirements of the United States Postal Service and to address regulatory restrictions that have not allowed the Postal Service to adjust its operations to levels commensurate with its current revenue base.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the United States Postal Service's internal control over financial reporting as of September 30, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 13, 2015 expressed an unqualified opinion thereon.

In accordance with *Government Auditing Standards*, we also have issued our report dated November 13, 2015 on our consideration of the United States Postal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/ Ernst & Young LLP

McLean, Virginia  
November 13, 2015

# United States Postal Service

## Statements of Operations

(in millions)

	Year Ended September 30,		
	2015	2014	2013
<b>Revenue</b>			
Operating revenue	\$ 68,790	\$ 67,764	\$ 67,195
Other revenue	138	66	123
<b>Total revenue</b>	<b>68,928</b>	<b>67,830</b>	<b>67,318</b>
<b>Operating expenses</b>			
Compensation and benefits	47,519	46,000	46,708
Retiree health benefits	8,811	8,685	8,450
Workers' compensation	1,760	2,554	1,061
Transportation	6,579	6,586	6,735
Other operating expenses	9,157	9,353	9,174
<b>Total operating expenses</b>	<b>73,826</b>	<b>73,178</b>	<b>72,128</b>
<b>Loss from operations</b>	<b>(4,898)</b>	<b>(5,348)</b>	<b>(4,810)</b>
Interest and investment income	23	24	24
Interest expense	(185)	(184)	(191)
<b>Net loss</b>	<b>\$ (5,060)</b>	<b>\$ (5,508)</b>	<b>\$ (4,977)</b>

See accompanying notes to the financial statements.

# United States Postal Service

## Balance Sheets

(in millions)

	September 30, 2015	September 30, 2014
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,634	\$ 4,906
Restricted cash	233	246
Receivables, net	930	930
Supplies, advances and prepayments	118	122
<b>Total current assets</b>	<b>7,915</b>	<b>6,204</b>
Property and equipment, net	15,686	16,338
Other assets	413	420
<b>Total assets</b>	<b>\$ 24,014</b>	<b>\$ 22,962</b>
<b>Liabilities and Net Deficiency</b>		
<b>Current Liabilities:</b>		
Compensation and benefits	\$ 1,899	\$ 1,506
Retiree health benefits	28,100	22,417
Workers' compensation costs	1,401	1,320
Payables and accrued expenses	1,853	2,023
Deferred revenue-prepaid postage	3,304	3,064
Customer deposit accounts	1,201	1,191
Other current liabilities	1,053	1,221
Current portion of debt	10,100	9,800
<b>Total current liabilities</b>	<b>48,911</b>	<b>42,542</b>
Workers' compensation costs, noncurrent	17,410	17,102
Employees' accumulated leave, noncurrent	1,951	1,982
Other noncurrent liabilities	1,233	1,467
Noncurrent portion of debt	4,900	5,200
<b>Total liabilities</b>	<b>74,405</b>	<b>68,293</b>
<b>Net Deficiency:</b>		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	(53,523)	(48,463)
<b>Total net deficiency</b>	<b>(50,391)</b>	<b>(45,331)</b>
<b>Total liabilities and net deficiency</b>	<b>\$ 24,014</b>	<b>\$ 22,962</b>

See accompanying notes to the financial statements.



**United States Postal Service**  
**Statements of Changes in Net Deficiency**

<i>(in millions)</i>	<b>Capital Contributions of U.S. Government</b>	<b>Accumulated Deficit Since Reorganization</b>	<b>Total Net Deficiency</b>
<b>Balance, September 30, 2012</b>	\$ 3,132	\$ (37,978)	\$ (34,846)
Net loss	—	(4,977)	(4,977)
<b>Balance, September 30, 2013</b>	\$ 3,132	\$ (42,955)	\$ (39,823)
Net loss	—	(5,508)	(5,508)
<b>Balance, September 30, 2014</b>	\$ 3,132	\$ (48,463)	\$ (45,331)
Net loss	—	(5,060)	(5,060)
<b>Balance, September 30, 2015</b>	<u>\$ 3,132</u>	<u>\$ (53,523)</u>	<u>\$ (50,391)</u>

*See accompanying notes to the financial statements.*

# United States Postal Service

## Statements of Cash Flows

	Years Ended September 30,		
	2015	2014	2013
<i>(in millions)</i>			
<b>Cash flows from operating activities:</b>			
Net loss	\$ (5,060)	\$ (5,508)	\$ (4,977)
Adjustments to reconcile net loss to cash provided by operations:			
Depreciation and amortization	1,769	1,843	1,901
(Gain) loss on disposals of property and equipment, net	(59)	43	(53)
Decrease (increase) in other assets	7	(35)	—
Increase (decrease) in noncurrent workers' compensation	308	1,184	(312)
(Decrease) increase in noncurrent deferred appropriations and other revenue	(8)	(5)	13
(Decrease) increase in other noncurrent liabilities	(215)	(53)	141
Changes in current assets and liabilities:			
Receivables, net	—	54	(66)
Other assets	4	—	4
Retiree health benefits	5,683	5,651	5,561
Payables, accrued expenses and other	306	1	(252)
Deferred revenue-prepaid postage, prepaid box rents and other	144	139	(1,026)
<b>Net cash provided by operating activities</b>	<b>2,879</b>	<b>3,314</b>	<b>934</b>
<b>Cash flows from investing activities:</b>			
Change in restricted cash	13	66	(79)
Purchases of property and equipment	(1,222)	(781)	(667)
Proceeds from sales of property and equipment	120	129	158
<b>Net cash used in investing activities</b>	<b>(1,089)</b>	<b>(586)</b>	<b>(588)</b>
<b>Cash flows from financing activities:</b>			
Issuance of notes payable	5,800	5,800	5,500
Payments on notes payable	(5,800)	(5,800)	(5,500)
Changes in capital lease obligations and other	(62)	(148)	(107)
<b>Net cash used in financing activities</b>	<b>(62)</b>	<b>(148)</b>	<b>(107)</b>
Net increase in cash and cash equivalents	1,728	2,580	239
Cash and cash equivalents at beginning of year	4,906	2,326	2,087
<b>Cash and cash equivalents at end of period</b>	<b>\$ 6,634</b>	<b>\$ 4,906</b>	<b>\$ 2,326</b>
<b>Supplemental cash flow disclosures:</b>			
Cash paid for interest	\$ 179	\$ 184	\$ 190

*See accompanying notes to the financial statements.*

## Notes to Financial Statements

### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Organization**

The United States Postal Service (the “Postal Service”) provides postage, mail delivery and shipping services to individuals and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the nation and internationally. As a result, the Postal Service maintains a very diverse customer base and is not dependent upon a single customer or small group of customers. No single customer represented more than 3% of operating revenue for the years ended September 30, 2015, 2014 and 2013. The Postal Service is subject to congressional oversight and regulation by the Postal Regulatory Commission (“PRC”), but does not receive tax dollars for operating expenses, relying solely on the sale of postage, products and services to fund its operations.

Postal Service products are classified as either Market-Dominant or Competitive, however, the term “services” is used in this report for consistency with other descriptions of services the Postal Service offers. Services are sold by approximately 32,000 post offices, stations and branches, plus a large network of Contract Postal Units, Community Post Offices, Village Post Offices, commercial outlets which sell stamps and services on the Postal Service’s behalf and through its website [www.usps.com](http://www.usps.com). The Postal Service delivers to approximately 155 million city, rural, *PO Box* and highway delivery points. Operations are conducted primarily in the domestic market, with international revenue representing 4.0%, 4.3% and 4.5% of operating revenue for the years ended September 30, 2015, 2014 and 2013, respectively.

Approximately 91% of career employees are covered by collective bargaining agreements and are primarily represented by the American Postal Workers Union, AFL-CIO (“APWU”); the National Association of Letter Carriers, AFL-CIO (“NALC”); the National Postal Mail Handlers Union, AFL-CIO (“NPMHU”) and the National Rural Letter Carriers Association (“NRLCA”). By law, the Postal Service must consult with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide non-bargaining unit employees in the field with an opportunity to participate in the planning, development and implementation of certain programs and policies that affect them. The contracts with the four labor unions representing the majority of our employees include provisions granting annual increases and COLAs, which are linked to the CPI-W.

Contract negotiations with the APWU and NRLCA reached impasse following the expiration of their respective collective bargaining agreements on May 20, 2015. Pursuant to law, these matters may proceed to mediation and/or arbitration if no agreements are reached. The APWU matter has advanced to mediation, and while talks have continued with the NRLCA, the parties have discussed plans for interest arbitration. Existing terms for each contract remain in force until successor agreements are in place. However, during the time period after contract expiration, employees represented by these unions do not receive wage increases and COLA adjustments. Collective bargaining agreements with the NALC and the NPMHU are also set to expire on May 20, 2016.

#### **Summary of Significant Accounting Policies**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates which are based on historical experience and various other assumptions that management believes are reasonable under the circumstances, the results of which form a basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates; however, management believes that its estimates are reasonable and that the actual results will not vary significantly from the estimated amounts.

All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and short-term, highly liquid investments with maturities of 90 days or less.

***Restricted Cash***

Restricted cash originates from forfeitures or seizures related to consumer fraud or other criminal activity related to the mail. Restricted cash includes Postal Service cash that not available for general use, or cash that is otherwise awaiting disposition.

***Receivables, net***

Receivables are recorded at the amount invoiced, net of allowances. Allowances for potential credit losses are recognized at each balance sheet date. These estimates are determined based on historical collection experience, trends in customer payment frequency and judgments about the probable effects on observable data, including present economic conditions and the financial health of specific customers and market sectors.

***Property and Equipment, net***

Property and equipment is recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions, less accumulated depreciation. Depreciation expense is recorded using the straight-line method over the estimated useful lives, which range from 3 to 40 years. Depreciation expense is included within *Other operating expenses* in the accompanying Statements of Operations. The costs and accumulated depreciation of assets sold or retired are removed from balance sheet accounts in the period in which the transaction occurred. General maintenance and repair costs are charged to expense as incurred. See *Note 5 - Property and Equipment, net* for additional information.

***Software Capitalization***

Software costs, including internal website development costs, are capitalized when they meet certain criteria including, most significantly, when the software is for internal use, whether acquired or internally developed or modified to meet the Postal Service's internal needs. Costs to be capitalized include both contracted resources and postal employee labor costs involved in the development. Interest costs incurred while developing internal-use software are also capitalized. Costs are accumulated until the software is put into production, at which time amortization of the internal-use software begins for a period not to exceed 3 years. See *Note 5 - Property and Equipment, net* for additional information.

***Leases***

The Postal Service leases over 23,000 real properties. As the lessee, the Postal Service classifies a lease which has substantially all the risks and rewards of ownership as a capital lease. These leases are capitalized on the commencement date of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The discount rate used to determine the present value is based on the average U.S. Treasury security rates. The property acquired under a financing lease is depreciated over the lease term. Capital leases are included within *Property and equipment, net* in the accompanying Balance Sheets. Other lease arrangements in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. Rent expense for operating leases is included in *Other operating expenses* in the accompanying Statements of Operations on a straight-line basis over the term of the lease.

***Impaired Assets***

Impairment losses on long-lived assets are recorded when events or circumstances indicate that an asset's fair value is less than its carrying value. When such a determination is made, the carrying values of the assets are written down to fair value. Fair value is determined by independent appraisals for real property. Due to the absence of a market for most types of mailing equipment, impaired equipment assets are typically assigned a fair value of zero. See *Note 5 - Property and Equipment, net* for additional information.

***Employees' Accumulated Leave, net of advances***

Employees' accumulated leave, net represents leave earned as of the balance sheet date and is recorded net of advances. Employees earn annual leave based on the number of creditable years of service with the Postal Service. The Postal Service advances annual leave to employees at the beginning of each calendar year for the value of leave they will earn for the current year. Leave taken by employees before it is earned is considered an advance. Advances were \$156 million and \$155 million at September 30, 2015, and 2014, respectively. Employees' accumulated leave is included under *Current Liabilities* within *Compensation and benefits* and *Employees' accumulated leave, noncurrent* in the accompanying Balance Sheets.

***Retiree Benefits***

Employees are eligible to participate in the federal government pension and retiree health benefits programs. The Postal Service is required to provide funding for these plans as determined by the Office of Personnel Management ("OPM"), the administrator of the plans. The Postal Service cannot direct the costs, benefits or funding requirements of the plans. Accordingly,

the plans are accounted for using multiemployer plan accounting rules, and expense is recorded in the period in which the contribution is due and payable. These amounts can fluctuate significantly from year to year if funding requirements change. See *Note 9 - Retirement Plans* and *Note 10 - Health Benefits Plans* for additional information.

#### ***Workers' Compensation***

Postal Service employees are covered by the Federal Employees' Compensation Act ("FECA"), administered by the Department of Labor ("DOL") Office of Workers' Compensation Programs ("OWCP"). The Postal Service uses an estimation model to forecast and record workers' compensation expense for the present value of estimated future payments. See *Note 11 - Workers' Compensation* for additional information.

#### ***Deferred Revenue—Prepaid Postage***

Deferred revenue—prepaid postage is an estimate of postage that the Postal Service has sold but customers have not yet used. Revenue is recognized when mail is delivered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected as *Deferred revenue—prepaid postage* in the accompanying Balance Sheets. Stamp sales and metered postage account for the majority of deferred revenue—prepaid postage. Included in the estimate of deferred revenue—prepaid postage is an estimate for mail that is in-transit within the Postal Service network. See *Note 6 - Payables, Accrued Expenses and Deferred Revenue* for additional information.

#### ***Contingent Liabilities***

The Postal Service is a party to various legal proceedings and claims in the normal conduct of its operations. Contingent liabilities require significant judgment in estimating potential losses for legal and other claims. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. Any prior claims and litigation are also reviewed, and when necessary, the liability balance is adjusted for resolutions or revisions to prior estimates. Estimates of loss can therefore change as additional information becomes available. See *Note 8 - Commitments and Contingencies* for additional information.

#### ***Revenue Forgone***

Under the *Revenue Forgone Reform Act of 1993*, Congress agreed to reimburse the Postal Service \$1.2 billion in 42 annual "installments" of \$29 million through 2035 for certain services the Postal Service performed during years 1991 through 1998. Additionally, each year the Postal Service estimates the costs it incurs to provide "free and reduced mail" services to groups of mailers that Congress has determined should be subsidized, and the Postal Service submits these estimates annually to Congress. Congress then considers this for funding, which may be modified and approved or denied, under an appropriation for both of these components of revenue forgone. See *Note 12 - Revenue Forgone* for additional information.

#### ***Emergency Preparedness Plan***

As a result of an act of biological terrorism, Congress appropriated funds to the Postal Service in 2001 and 2002 to support the costs of maintaining the safety of Postal Service employees and customers as well as mail and packages in transit. These appropriated funds were accounted for as deferred revenue upon receipt and were generally used to procure capital equipment.

When the Postal Service records depreciation expense for equipment purchased with funds from the Emergency Preparedness Fund appropriation, it recognizes revenue for emergency preparedness appropriations concurrently. The emergency preparedness appropriations revenue recognized was \$86 million, \$90 million and \$48 million for the years ended September 30, 2015, 2014 and 2013, respectively, and is included within *Operating revenue* in the accompanying Statements of Operations. Deferred revenue related to emergency preparedness appropriations was \$7 million and \$93 million as of September 30, 2015, and 2014, respectively, and is included within *Other current liabilities* and *Other noncurrent liabilities* in the accompanying Balance Sheets.

#### ***Advertising***

Advertising costs, which the Postal Service expenses as they are incurred, were \$160 million, \$175 million and \$140 million for the years ended September 30, 2015, 2014 and 2013, respectively, and are included within *Other operating expenses* in the accompanying Statements of Operations.

#### ***Foreign Currency Translation***

Foreign currency translation risk can arise from international mail transactions related to settlements of receivables and payables with foreign postal administrations. The majority of international accounts are denominated in special drawing rights, based on a group of currencies comprised of the Euro, Japanese yen, British pound sterling and the U.S. dollar, which fluctuate daily.

Changes in the relative value of these currencies increase or decrease the value of the settlement accounts and result in a gain or loss that is included in operating results. The impact of foreign currency translation on operating results was not material for the years ended September 30, 2015, 2014 and 2013.

### ***Segment Information***

The Postal Service operates as one segment throughout the U.S., its possessions and territories.

### ***Related Parties***

As disclosed throughout this report, the Postal Service conducts significant transactions with other U.S. government entities. See *Note 3 - Related Parties* for additional information.

### ***Recent Accounting Standards***

#### ASU 2014-09

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09 Revenue from Contracts with Customers (“ASU 2014-09”). The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. As originally issued, ASU 2014-09 was effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption not permitted.

In July 2015, the FASB voted for a one-year deferral of the effective date of the standard to annual reporting periods beginning after December 15, 2017, with an option that would permit reporting entities to adopt the standard as early as the original effective date. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings or net deficiency at the effective date for existing contracts with remaining performance obligations. The Postal Service is currently evaluating the impact of adopting this standard retrospectively on its financial statements, which is not known or reasonably estimable at this time.

#### ASU 2014-15

In August 2014, the FASB issued Accounting Standards Update 2014-15 Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). The new standard requires an entity to perform interim and annual assessments of its ability to continue to meet obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Postal Service does not believe the adoption of the new standard will have a significant impact on its reported disclosures.

## **NOTE 2 - LIQUIDITY**

The Postal Service generates its cash almost entirely through the sale of postal services. It holds its cash with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly-liquid, short-term investments issued by the U.S. Department of Treasury. The Postal Service held unrestricted cash and cash equivalents of \$6.6 billion and \$4.9 billion as of September 30, 2015, and 2014, respectively. The Postal Service had no remaining borrowing capacity under its statutory debt ceiling. See *Note 7 - Debt* for additional information.

### **Liquidity Concerns**

The Postal Service is constrained by laws and regulations which restrict its revenue sources, and, as noted above, it has reached the maximum borrowing capacity under its statutory debt ceiling. Although cash balances have increased from 2014 amounts, they remain insufficient to support an organization with approximately \$74 billion in annual operating expenses.

The Postal Service incurred a net loss of \$5.1 billion for the year ended September 30, 2015, and has incurred cumulative net losses of \$56.8 billion since 2007. As a result of these losses and its liquidity concerns, the Postal Service does not have sufficient cash balances to meet all of its existing legal obligations, pay down its debt and make all of the critical investments in its infrastructure that were deferred in recent years.

In the event that circumstances leave the Postal Service with insufficient cash, it would be required to implement contingency plans to ensure that mail deliveries continue. These measures may require the Postal Service to prioritize payments to its employees and suppliers ahead of some payments to other U.S. government entities, as has been done in the past.

### ***Mail Migration to Alternatives***

A significant factor contributing to Postal Service losses is the ongoing decline in the volume of *First-Class Mail*, which generates a higher percentage contribution than other classes of mail. This decline is largely the result of changes in consumers' and businesses' use of mail resulting from the continuing migration to electronic communication and transactional alternatives, which was exacerbated by the Great Recession. This is compounded by the increase in the number of delivery points, which, when combined with the impact of the reduction in hard-copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.8 pieces in 2015, a reduction of approximately 31%.

### ***Expiration of Exigent Surcharge***

In December 2013, the PRC ruled that the Postal Service could collect a 4.3% exigent surcharge on Market-Dominant services beginning in January 2014, until such time as the exigent surcharge produces \$3.2 billion in incremental revenue, or \$2.8 billion in contribution, a figure that the PRC determined was lost due to the Great Recession's suppression of mail volume. As of September 30, 2015, the Postal Service had collected an estimated \$3.5 billion in incremental revenue from the surcharge.

The Postal Service appealed the PRC's decision to the U.S. Court of Appeals for the District of Columbia Circuit (the "Court"), arguing that the PRC attributed to the Great Recession far too little lost mail volume and that the exigent surcharge should remain in effect indefinitely. In June 2015, the Court ruled on the appeal and remanded the case back to the PRC for further review, primarily related to the PRC's methodology for calculating mail volume lost due to the Great Recession. Although the Court largely upheld the PRC's analytical framework, it vacated one key aspect of the methodology for calculating mail volume lost due to the Great Recession and suggested the PRC reconsider another element of its methodology.

On July 29, 2015, the PRC announced that it has authorized the Postal Service to collect an additional \$1.4 billion in revenue through the existing exigent surcharge, which now may remain in effect until it produces \$4.6 billion in incremental revenue. Because of this extension, the exigent surcharge is expected to remain in place until approximately April 2016. The Postal Service has appealed one aspect of the PRC's July 2015 decision, but that will not impact the Postal Service's ability to collect the additional \$1.4 billion in revenue authorized by the PRC. Absent a successful appeal, when the exigent surcharge expires, the prices of most Market-Dominant services will decline, which will have an adverse impact on the Postal Service's future operating revenue and liquidity.

### ***Business Model Challenges/Constraints***

The Postal Service continues to incur significant losses, largely due to the *Postal Accountability and Enhancement Act of 2006, Public Law 109-435* ("PAEA")-mandated Postal Service Retiree Health Benefits Fund ("PSRHBF") prefunding requirement. Such a requirement to prefund retiree healthcare obligations is not imposed on most other federal entities or private-sector businesses that offer retiree health benefits. As of September 30, 2015, the Postal Service has accrued \$28.1 billion of prefunding payments that were due but not paid since 2012 due to insufficient liquidity. As of the date of this report, the Postal Service has not incurred any penalties or negative consequences as a result of not making the PSRHBF prefunding payments. In addition to the prefunding requirement, the Postal Service continues to pay and expense the employer share of health insurance premiums for its retirees, which was \$3.1 billion, \$3.0 billion and \$2.8 billion for the years ended September 30, 2015, 2014 and 2013, respectively.

With the exception of the exigent surcharge discussed above, Market-Dominant services, which account for approximately 76% of the Postal Service's annual operating revenues, are subject to a price cap based on the CPI-U. While the vast majority of revenues are constrained by the price cap, costs are not statutorily constrained. Contractual obligations granting cost-of-living adjustments ("COLA") and general wage increases, and increases in costs for mandatory federal benefits programs, such as retiree health and retirement benefits, have continued to escalate, thereby increasing expenses. Increases in retirement costs and retiree health benefits, excluding FERS supplemental liability payment, added approximately \$600 million to 2015 annual expenses. Although 2016 is the final year of statutorily-fixed amounts of prefunding payments, the statute requires that OPM perform an actuarial valuation no later than 2017 to determine if additional payments into the PSRHBF are required, and if so, OPM must design an amortization schedule under which the Postal Service must fully fund any remaining liability by 2056.

### **Postal Service Actions Taken to Improve Liquidity**

The Postal Service implemented a realignment of its operations to further reduce costs and strengthen its finances. These operational realignments included reductions in the number of mail processing operations, realignment of retail office hours

to match demand, reductions in the number of delivery routes and consolidations of delivery offices. Additionally, the Postal Service leveraged employee attrition, Voluntary Early Retirement and utilization of non-career employees to the maximum extent permitted by its labor contracts.

The Postal Service continues to pursue strategies within its control to increase operational efficiency and to improve liquidity. For example, the Postal Service revised certain service standards for *Standard Mail* as part of an efficiency improvement effort known as “load leveling.” With this change, delivery volume became more evenly balanced across the delivery days, which improved efficiency.

The Postal Service has conserved capital in recent years by spending only what it believed essential to maintain its existing facilities and service levels. However, an increase of capital investment is necessary to upgrade its facilities, existing fleet of vehicles and processing equipment in order to remain operationally competitive.

The Postal Service continues to pursue legislation that will enable it to increase its revenue and reduce its costs. Initiatives include transition to a new delivery schedule, reforms that would establish a set of health care plans that would fully integrate with Medicare for current and future Postal Service retirees, largely eliminating the current unfunded liability and the necessity for the prefunding requirement.

### **Mitigating Circumstances**

The Postal Service’s status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of approximately \$69 billion, a financially-sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that it supports. Disruption of the mail would cause undue hardship to businesses and consumers, and in the event of a cash shortfall, the U.S. government would likely prevent the Postal Service from significantly curtailing or ceasing operations. The Postal Service continues to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges it faces and the legislative changes that are required to restore its financial stability.

### **NOTE 3 - RELATED PARTIES**

As disclosed throughout this report, the Postal Service conducts significant transactions with other U.S. government entities, which are considered related parties.

Related-party receivables and advances were \$100 million and \$90 million as of September 30, 2015, and 2014, respectively, and are included in *Receivables, net* in the accompanying Balance Sheets. As discussed in greater detail in *Note 12 - Revenue Forgone*, the carrying amount of the revenue forgone receivable was \$413 million and \$420 million as of September 30, 2015, and 2014, respectively, and is included within *Other assets* in the accompanying Balance Sheets.

As discussed in greater detail in *Note 7 - Debt*, the Postal Service’s debt, borrowed from the Federal Financing Bank (“FFB”), was \$15.0 billion as of September 30, 2015, and 2014. Excluding the \$10.1 billion and \$9.8 billion current portions of debt, related-party current liabilities, which include the PSRHBF obligations discussed in *Note 10 - Health Benefits Plans*, were \$29.9 billion and \$23.9 billion as of September 30, 2015, and 2014, respectively. Excluding the \$4.9 billion and \$5.2 billion noncurrent portions of debt, related-party noncurrent liabilities were \$17.5 billion and \$17.2 billion as of September 30, 2015, and 2014, respectively.

Related-party operating revenue from other U.S. government entities was \$999 million, \$918 million and \$822 million for the years ended September 30, 2015, 2014 and 2013, respectively. Related-party operating expenses, consisting primarily of benefits, retiree health benefits and workers’ compensation, were \$18.1 billion, \$17.3 billion and \$17.0 billion for the years ended September 30, 2015, 2014 and 2013, respectively. These items are included within *Operating expenses* in the accompanying Statements of Operations.

Related-party interest income, either imputed on revenue forgone or generated on cash and equivalents held with the Federal Reserve Bank of New York or short-term investments in U.S. Treasury instruments, was \$23 million for each of the years ended September 30, 2015, 2014 and 2013. These items are included within *Interest and investment income* in the



accompanying Statements of Operations. Related-party interest expense, payable on debt issued to the FFB, was \$182 million for each of the years ended September 30, 2015, 2014 and 2013.

#### NOTE 4 - RECEIVABLES AND MAJOR CUSTOMERS

The Postal Service's sales to its three largest commercial customers, excluding mail service providers, for the year ended September 30, 2015, 2014 and 2013 represented approximately 5.1%, 4.1% and 4.2% of operating revenue, respectively.

The following table details *Receivables, net* from the accompanying Balance Sheets as of September 30, 2015, and 2014:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>
Foreign countries	\$ 585	\$ 595
U.S. government	100	90
Other	302	302
Receivables before allowances	987	987
Less: Allowances	57	57
<b>Receivables, net</b>	<b>\$ 930</b>	<b>\$ 930</b>

Receivables from foreign countries were 59.3% and 60.3% of the total receivables before allowances as of September 30, 2015, and 2014, respectively. The largest receivable was from China, which represented 34.0% and 28.0% of the total foreign balance outstanding in 2015 and 2014, respectively. U.S. government receivables consist primarily of appropriations receivables of \$57 million and \$50 million and military and official mail receivables of \$41 million and \$37 million as of September 30, 2015, and 2014, respectively.

Total provisions for allowances charged to expense for the years ended September 30, 2015, 2014 and 2013 were \$10 million, \$11 million and \$21 million, respectively, and are included within *Other operating expenses* in the accompanying Statements of Operations.

#### NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, are recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during the years ended September 30, 2015, and 2014, was not significant. Property and equipment, net, are depreciated over estimated useful lives that range from 2 to 40 years using the straight-line method.

The following table provides details for *Property and equipment, net* from the accompanying Balance Sheets as of September 30, 2015, and 2014:

<i>(in millions, except years)</i>	<u>Estimated Life in Years</u>	<u>2015</u>	<u>2014</u>
Buildings	3 - 40	\$ 24,622	\$ 24,593
Equipment	3 - 20	15,990	15,761
Vehicles	5 - 24	3,702	3,614
Land	-	2,850	2,886
Leasehold improvements	3- 20	1,404	1,357
<b>Property and equipment, at cost</b>		<b>48,568</b>	<b>48,211</b>
Less: Accumulated depreciation and amortization		33,403	32,288
Construction in progress		521	415
<b>Property and equipment, net</b>		<b>\$ 15,686</b>	<b>\$ 16,338</b>

Depreciation and amortization expenses were approximately \$1.8 billion, \$1.8 billion and \$1.9 billion for the years ended September 30, 2015, 2014 and 2013 respectively, and are included within *Other operating expenses* in the accompanying Statements of Operations.

Capitalized software totaled \$43 million as of September 30, 2015. No software costs were capitalized in 2014. Because the software has not yet been put into production, no costs associated with capitalized software were amortized for 2015, 2014 or 2013.

Assets classified as held for sale were approximately \$65 million and \$97 million as of September 30, 2015, and 2014, respectively, and are included within both *Land* and *Buildings* in the table above. Gains are deferred when the Postal Service enters into any lease-back arrangements or other contractual obligations requiring continuing Postal Service involvement with the property. Total deferred gains on the sale of property were \$301 million and \$370 million as of September 30, 2015, and 2014, respectively. The current portions of deferred gains were \$2 million and \$69 million as of September 30, 2015, and 2014, respectively, and are included within *Other current liabilities* in the accompanying Balance Sheets. The noncurrent portions of deferred gains were \$299 million and \$301 million as of September 30, 2015, and 2014, respectively, and are included within *Other noncurrent liabilities* in the accompanying Balance Sheets.

Gains recognized on assets sold are reported in *Other revenue* within the accompanying Statements of Operations. Total gains, including the amortization of deferred gains noted below, were approximately \$124 million, \$53 million and \$107 million for the years ended September 30, 2015, 2014 and 2013, respectively.

Deferred gains are amortized over the periods during which the Postal Service has continuing involvement with the applicable properties. The amounts amortized, included within *Other revenue* in the accompanying Statements of Operations, were \$49 million, \$8 million and \$14 million for the years ended September 30, 2015, 2014 and 2013, respectively. Impairment charges were \$19 million, \$62 million and \$26 million for the years ended September 30, 2015, 2014 and 2013, respectively, and are included in *Other operating expenses* in the accompanying Statements of Operations.

## NOTE 6 - PAYABLES, ACCRUED EXPENSES AND DEFERRED REVENUE

### Payables and Accrued Expenses

The following table provides details for *Payables and accrued expenses* from the accompanying Balance Sheets as of September 30, 2015, and 2014:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>
Trade payables	\$ 663	\$ 1,042
Foreign countries	498	553
U.S. government	95	89
Other accrued expenses	597	339
<b>Total payables and accrued expenses</b>	<b>\$ 1,853</b>	<b>\$ 2,023</b>

### Deferred Revenue—Prepaid Postage

Deferred revenue for postage sales is developed and validated through complex mathematical and statistical sampling methods for estimating usage, including regression analysis of stamp usage trends. Small differences in inputs can lead to significant differences in the estimate of the liability. The estimated stamp usage is subtracted from stamp sales with the difference representing the Postal Service's obligation to perform future services. That obligation is reduced by recognizing a provision for postage sold that may never be used, either through loss, damage or stamp-collecting activity.

Metered postage is primarily used by businesses. Deferred revenue related to meters is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings is used to derive a deferral percentage, which is applied to all postage meter receipts for the month.

Included in the estimate of deferred revenue–prepaid postage is an estimate for mail that is in-transit within the Postal Service processing and delivery network. The following table provides details for *Deferred revenue–prepaid postage* from the accompanying Balance Sheets as of September 30, 2015, and 2014:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>
Forever stamps	\$ 2,304	\$ 2,272
Mail in-transit	520	279
Meters	349	392
Other	131	121
<b>Total deferred revenue-prepaid postage</b>	<u><u>\$ 3,304</u></u>	<u><u>\$ 3,064</u></u>

#### **NOTE 7 - DEBT**

Under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435, the Postal Service can issue debt obligations. The Postal Service is limited by statute to net annual debt increases of \$3.0 billion. Total debt cannot exceed \$15.0 billion. Postal Service debt is issued to the FFB, a government-owned corporation under the general supervision of the Secretary of the Treasury.

The Postal Service has two revolving credit line facilities, renewable annually with the FFB, both of which have been extended until April 2016. One facility, a short-term credit line, enables the Postal Service to draw up to \$3.4 billion with two days prior notice. Borrowings under this credit line are typically on an overnight basis, but can have a maximum term of up to one year. The second credit line, which only allows for borrowings on an overnight basis, enables borrowings of up to \$600 million on the same business day that funds are requested. The interest rates for borrowings under these credit facilities are determined by the U.S. Treasury each business day. As of September 30, 2015, these two revolving credit facilities were fully drawn.

Additionally, under the provisions of a note purchase agreement with the FFB, the Postal Service can issue a series of notes with varying provisions with two days prior notice. The note purchase agreement, renewable annually, was extended to September 30, 2016.

These credit line facilities and note arrangements provide the flexibility to borrow short or long-term, using floating or fixed-rate instruments. Fixed-rate notes can be either callable or non-callable at the option of the Postal Service. All of the Postal Service's debt is unsecured, not subject to sinking fund requirements and can be repaid at any time at a price determined by the Secretary of the Treasury based on prevailing interest rates in the U.S. Treasury security market at the time of repayment. As of September 30, 2015, the premium associated with a prepayment of all debt was \$504 million based on prevailing interest rates. The weighted average interest rate for all outstanding debt was 1.272% as of September 30, 2015.

The following table provides details for the *Current portion and Noncurrent portion of debt* from the accompanying Balance Sheets as of September 30, 2015, and 2014:

<i>(in millions, except percentages)</i>				
Maturity	<u>2015</u>		<u>2014</u>	
	Balance	Rate %	Balance	Rate %
<b>Floating rate notes - current</b>				
October 23, 2014	\$ —		\$ 700	0.155
December 17, 2014	—		700	0.145
June 18, 2015	—		500	0.145
September 23, 2015	—		600	0.135
<b>Fixed rate notes - current</b>				
November 13, 2014	—		1,300	0.247
January 8, 2015	—		300	0.219
April 30, 2015	—		1,200	0.206
September 17, 2015	—		500	0.221
October 15, 2015	700	0.219	—	
November 12, 2015	1,300	0.248	—	
December 10, 2015	700	0.359	—	
January 7, 2016	300	0.278	—	
March 24, 2016	500	0.221	—	
April 28, 2016	1,200	0.379	—	
May 2, 2016	300	2.844	—	
June 23, 2016	500	0.413	—	
June 23, 2016	600	0.413	—	
<b>Current revolving credit line</b>				
October 1, 2015	3,400	0.125	3,400	0.135
<b>Overnight revolving credit line</b>				
October 1, 2015	600	0.125	600	0.145
<b>Total current portion of debt</b>	<b><u>10,100</u></b>		<b><u>9,800</u></b>	
<b>Fixed rate notes - noncurrent</b>				
May 2, 2016	—		300	2.844
November 15, 2018	500	3.048	500	3.048
February 15, 2019	700	3.296	700	3.296
May 15, 2019	1,000	3.704	1,000	3.704
May 15, 2019	500	3.513	500	3.513
August 16, 2021	1,000	2.066	1,000	2.066
May 17, 2038	200	3.770	200	3.770
February 15, 2039	1,000	3.790	1,000	3.790
<b>Total noncurrent portion of debt</b>	<b><u>4,900</u></b>		<b><u>5,200</u></b>	
<b>Total debt</b>	<b><u>\$ 15,000</u></b>		<b><u>\$ 15,000</u></b>	

At September 30, 2015, scheduled repayments of debt principal are listed below:

<i>(in millions)</i>	
2016	\$ 10,100
2017	—
2018	—
2019	2,700
2020	—
Thereafter	2,200
<b>Total debt maturities</b>	<b>\$ 15,000</b>

## NOTE 8 - COMMITMENTS AND CONTINGENCIES

### Leases

The Postal Service leases premises and equipment under operating and capital leases having terms substantially from 3 to 20 years with options to renew. Certain non-cancellable real estate leases have purchase options at prices specified in the leases. Future minimum lease payments for all non-cancellable leases with original lease terms greater than one year are set forth in the following table:

<i>(in millions)</i>	<u>Operating</u>	<u>Capital</u>
2016	\$ 749	\$ 91
2017	714	82
2018	665	67
2019	607	53
2020	558	38
Thereafter	3,846	83
<b>Total lease obligations</b>	<b>\$ 7,139</b>	<b>\$ 414</b>
Less: Interest		95
<b>Total capital lease obligations</b>		<b>\$ 319</b>
Less: Current portion of capital lease obligations		65
<b>Noncurrent portion of capital lease obligations</b>		<b>\$ 254</b>

Capital leases, recorded at historical cost, were \$812 million and \$812 million as of September 30, 2015, and 2014, respectively, are included within *Property and equipment, net* in the accompanying balance sheets. Total accumulated amortization related to capital leases was \$593 million and \$577 million at September 30, 2015, and 2014, respectively. Amortization expense for assets recorded as capital leases was approximately \$44 million, \$44 million and \$47 million for the years ended September 30, 2015, 2014 and 2013, respectively and is included within *Other operating expense* in the accompanying Statements of Operations.

The following table provides details for total rental expense for the years ended September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Non-cancellable real estate leases <sup>1</sup>	\$ 915	\$ 918	\$ 915
GSA facilities leases <sup>2</sup>	33	35	37
Equipment and other short-term rentals	155	139	153
<b>Total rental expense</b>	<b><u>\$ 1,103</u></b>	<b><u>\$ 1,092</u></b>	<b><u>\$ 1,105</u></b>
<sup>1</sup> Sublease income was not material to the financial statements for the years ended September 30, 2015, 2014 and 2013.			
<sup>2</sup> General Services Administration leases subject to 120-day cancellation notice.			

### **Capital Commitments**

Capital commitments consist primarily of commitments to invest in equipment and building construction and improvements. The following table provides details for approved capital projects in progress at September 30, 2015, and 2014:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>
Mail processing equipment	\$ 333	\$ 278
Building improvements, construction and building purchase	309	265
Postal support equipment	85	123
Vehicles and other	561	104
<b>Total capital commitments</b>	<b><u>\$ 1,288</u></b>	<b><u>\$ 770</u></b>

### **Contingent Liabilities**

Contingent liabilities of the Postal Service consist primarily of claims and lawsuits resulting from labor, employment and environmental matters, property damage claims and injuries on Postal Service properties and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Any pre-existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates. Because most contingencies are resolved over long period of time, liabilities may change in the future due to new developments (including litigation developments, discovery of new facts, changes in legislation and outcomes of similar cases), changes in assumptions or changes in the Postal Service's settlement strategy.

### **Provision for Losses**

Based on available information, the Postal Service has made adequate provision for probable losses arising from all claims and lawsuits and records this provision as contingent liabilities. As of September 30, 2015, contingent liabilities consisted of \$637 million associated with labor and employment matters, \$47 million with asset retirement obligations, \$38 million with tort matters and \$4 million with contractual matters, for a total of \$726 million. As of September 30, 2014, contingent liabilities consisted of \$839 million associated with labor and employment matters, \$48 million with asset retirement obligations, \$45 million with tort matters and \$2 million with contractual matters, for a total of \$934 million.

The current portions of contingent liabilities were \$132 million and \$158 million at September 30, 2015, and 2014, respectively, and are included within *Payables and accrued expenses* in the accompanying Balance Sheets. The noncurrent portions of contingent liabilities were \$594 million and \$776 million at September 30, 2015, and 2014, respectively, and are included within *Other noncurrent liabilities* in the accompanying Balance Sheets.

In addition to the amounts accrued in the financial statements, the Postal Service is subject to other claims and lawsuits which it deems reasonably possible of an unfavorable outcome, which ranged from \$185 million to \$686 million and \$325 million to \$925 million at September 30, 2015, and 2014, respectively. The Postal Service has not recorded accruals for these reasonably

possible losses in its financial statements. The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its business, financial condition or operations.

### ***Class Action Litigation***

As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's Office of Federal Operations certified the case *McConnell v. Brennan* (first instituted in 2006 as *McConnell v. Potter*) as a class action against the Postal Service, with the class consisting of all permanent-rehabilitation and limited-duty Postal Service employees who were assessed under the Postal Service's National Reassessment Process ("NRP") between the dates of May 5, 2006, and July 1, 2011. The NRP was a program the Postal Service utilized to ensure that its records regarding employees injured on the job were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities.

The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, an adverse ruling could have a material impact on the Postal Service. The Postal Service continues to dispute the claims asserted in the case and is vigorously contesting the matter.

### **NOTE 9 - RETIREMENT PLANS**

The majority of Postal Service employees participate in one of two U.S. government pension programs, the Civil Service Retirement System ("CSRS") or the Federal Employees Retirement System ("FERS"), based on the starting date of employment with the Postal Service or other U.S. government entities. While CSRS is solely a defined benefit pension plan, "Dual" CSRS and FERS include Social Security and also have a defined benefit component. These plans are administered by OPM and generally provide for retirement, death and termination benefits for eligible employees based on specific eligibility and participation requirements, vesting periods and benefit formulas. Employees may also participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. As indicated in *Note 1 - Organization and Summary of Significant Accounting Policies*, approximately 91% of Postal Service career employees are covered by collective bargaining agreements.

As government-sponsored benefit plans, CSRS and FERS are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. The Postal Service participates in these plans with other U.S. government entities and cannot direct the plans' costs, benefits or funding requirements. The Postal Service therefore accounts for program expenses for the plans under multiemployer plan accounting rules. Annual funding requirements can fluctuate significantly from year to year due to changes in federal law or determination by OPM.

CSRS provides a basic annuity plan benefit to employees hired before January 1, 1984. Dual CSRS provides Social Security benefits in addition to its basic annuity plan for employees hired between January 1, 1984 and January 1, 1987. CSRS and Dual CSRS employees may participate in the TSP, but do not receive matching contributions from the Postal Service.

PAEA suspended the Postal Service's employer contributions to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code until 2017, although CSRS employees continue to contribute to the plan. In 2017, OPM will determine whether additional funding is required by the Postal Service for the benefit of its CSRS participants. As a result of the contribution suspension, there was no Postal Service's employer contribution for each of the years ended September 30, 2015, 2014 and 2013.

Effective January 1, 1987, FERS covers employees hired since December 31, 1983, and includes Social Security and TSP benefits in addition to its basic annuity plan. For most current FERS employees, the Postal Service's contribution rates of participating employees' base salaries were 13.2% for the year ended September 30, 2015, and 11.9% for years 2014 and 2013. The Postal Service is also required to contribute to the TSP for FERS employees by contributing an automatic 1% of basic pay and matching a percentage of voluntary employee contributions for up to an additional 4% of basic pay.

During 2015 and 2014, the Postal Service received separate notices from OPM requiring the Postal Service to make additional payments to the FERS benefit plan for the benefit of active employees, as well as retirees. In accordance with Section 8423 (b) of Title 5, U.S.C., the additional payment obligations are based on actuarial valuations and assumptions to supplement the FERS plan which are to be made in equal installments over the next 30 years. The annual increase in payment obligation was \$234 million and \$7 million for the years ended September 30, 2015, and 2014 respectively. The Postal Service recorded an

expense for each year, however the payments were not made and a corresponding liability was accrued each year. The \$248 million total outstanding amount is included within *Compensation and benefits* in the accompanying Balance Sheets.

The following table provides details for the number of employees enrolled in CSRS and FERS for the years September 30, 2015, 2014 and 2013:

<i>(actual numbers)</i>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
CSRS and Dual CSRS	39,791	46,764	54,164
FERS	452,051	441,546	436,891
<b>Total enrollment</b>	<b><u>491,842</u></b>	<b><u>488,310</u></b>	<b><u>491,055</u></b>

Employee contributions for the past three years, as a percentage of employee basic pay, were 7.0% for CSRS and 0.8% for FERS. New hires participate in FERS with higher contribution rates than employees with greater tenure due to changes made effective for employees hired on or after January 1, 2013.

The Postal Service's employer cash contributions to the CSRS and FERS retirement plans were \$4.3 billion, \$3.9 billion and \$3.9 billion in 2015, 2014 and 2013, respectively. These cash contributions exclude both employee social security contributions and year-end unpaid employer amounts due. For each of 2015, 2014 and 2013, the Postal Service provided more than 5% of the total plan contributions for FERS from all employers (as disclosed in OPM's *Civil Service Retirement and Disability Fund Annual Report*).

The latest available actual data for both the CSRS and FERS plans is September 30, 2014. As of that date, the CSRS plan for the Federal Government, taken as a whole, was less than 65% funded. Total plan assets and accumulated benefit obligations for the CSRS plan were \$182.1 billion and \$201.5 billion, respectively. The FERS plan for the Federal Government, taken as a whole, was greater than 80% funded. Total plan assets and accumulated benefit obligations for the FERS plan were \$100.9 billion and \$104.5 billion, respectively.

#### **NOTE 10 - HEALTH BENEFITS PLANS**

The Federal Employees Health Benefit ("FEHB") program covers nearly all active and retired Postal Service employees and provides benefits to those who meet certain eligibility requirements. OPM administers the program and allocates its funding costs to participating U.S. government employers. The Postal Service cannot direct the costs, benefits or funding requirements of the plans, and therefore accounts for program expenses using multiemployer plan accounting rules. Contributions to the plans are recorded as an expense in the period in which the contribution is due and payable.

##### **Active Employees**

The Postal Service paid approximately 75%, 76% and 78% of FEHB premium costs for active employees during the years ended September 30, 2015, 2014 and 2013, respectively. The Postal Service's employer share of employee healthcare expenses were \$4.8 billion for the years ended September 30, 2015, and 2014, respectively, and \$5.0 billion for 2013 and are included within *Compensation and benefits* under *Operating Expenses* in the accompanying Statements of Operations. Although OPM determines the actual costs for health benefits, the Postal Service's employer contribution rate for the majority of its employees is subject to collective bargaining agreements.

##### **Retiree Health Benefits**

Postal Service retirees who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. The Postal Service pays its employer portion of FEHB insurance premiums for participating retirees and their qualifying survivors, based on each retiree's length of federal civilian service occurring on or after July 1, 1971. These premium expenses are included within *Retiree Health Benefits* under *Operating Expenses* in the accompanying Statements of Operations. PAEA requires that beginning in 2017, the Postal Service's employer portion of these premiums is to be paid from PSRHBf rather than directly by the Postal Service.

The Postal Service's portion of premium for retiree health benefits is set by law and is not subject to collective bargaining agreements, and may therefore fluctuate significantly due to the passage of new federal law, or in some circumstances, as determined by OPM in its capacity as administrator.



### ***PSRHBF Prefunding***

Since 2007, the PAEA has mandated the Postal Service prefund retiree health benefits by making fixed annual prefunding payments into the PSRHBF through 2016, with payment amounts ranging from \$1.4 billion to \$5.8 billion per year totaling \$54.8 billion. The Postal Service defaulted on prefunding payments every year since its 2012 payment, because it did not have the cash to make the payments and concurrently fulfill its other statutory obligations. The final scheduled prefunding payment of \$5.8 billion is due by September 30, 2016, however, given its liquidity concerns, the Postal Service will likely default on this payment as well.

Prior to each default, the Postal Service has notified key stakeholders, including the Administration and Congress, of the imminent default. These same stakeholders have been advised of the Postal Service's likely inability to satisfy the 2016 payment obligation. PAEA contains no provisions addressing a payment default, and as of the date of this report, the Postal Service has not been assessed any penalties. The amounts and the timing of PSRHBF funding payments could change at any time with the enactment of a new law or the amendment of existing law.

For its prefunding payments due, the Postal Service recorded expenses of \$5.7 billion for the years ended September 30, 2015, and 2014, respectively, and \$5.6 billion for 2013 and these are included within *Retiree health benefits* under *Operating Expenses* in the accompanying Statements of Operations. The total amounts of defaulted PSRHBF prefunding payments were \$28.1 billion and \$22.4 billion as of September 30, 2015, and 2014, respectively, and are recorded as *Retiree health benefits* under *Current Liabilities* in the accompanying Balance Sheets. As of September 30, 2015, the PSRHBF fund balance was \$50.3 billion, which represents approximately 48% of the total accumulated health benefit retirement obligation of \$105.2 billion, as calculated in accordance with U.S. GAAP, as of the same date.

Although 2016 is the final year of statutorily-fixed amounts of prefunding payments, PAEA requires that OPM perform an actuarial valuation no later than 2017 to determine if additional payments into the PSRHBF are required. If this is the case, OPM must design an amortization schedule under which the Postal Service will be required to fund the actuarially-determined normal cost plus any required amortization of the unfunded liability. The amount of the unfunded liability cannot be estimated at this time. The total amount of payments to the PSRHBF for 2016 is \$33.9 billion, consisting of \$28.1 billion for the defaulted PSRHBF prefunding payments as of September 30, 2015, and the 2016 scheduled payment of \$5.8 billion. No additional payments have been included beyond 2016.

### ***Retiree Health Benefits Expense Summary***

Because the amounts to be paid into the PSRHBF are set by PAEA, retiree health benefits expense may represent more or less than the full cost of the benefits earned by Postal Service employees during any specific period. The following table details the components of retiree health benefits expense for the years ended September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Retiree health benefits premiums	\$ 3,111	\$ 2,985	\$ 2,850
PAEA payment to PSRHBF	5,700	5,700	5,600
<b>Total retiree health benefits</b>	<b><u>\$ 8,811</u></b>	<b><u>\$ 8,685</u></b>	<b><u>\$ 8,450</u></b>

### **NOTE 11 - WORKERS' COMPENSATION**

Postal Service employees injured on the job are covered by FECA, and the Postal Service reimburses DOL for workers' compensation benefits paid to or on behalf of Postal Service employees, plus an administrative fee.

#### **Workers' Compensation Liability**

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured on the job and are eligible for benefits, or their qualified survivors. To determine the actuarial valuation of new and existing cases, the Postal Service uses an estimation model that combines four generally-accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked. The inflation and discount rates, used to calculate the future cost of claims and present value of the future obligation, are updated as of the Balance Sheet date and factored into the model in accordance with U.S. GAAP. Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial estimation, new compensation and medical cases, the progression of existing cases and changes in discount (interest) and inflation rates.

An independent actuary assists in determining the liability for claims arising more than 15 years ago for years 1972 through 2000. The percentage increase in payments between 15 year old claims and closure of all claims is applied to the latest 15 years' estimates directly calculated within the estimation model for both compensation and medical losses.

The liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the September 30, 2015, liability and related expense by approximately \$2.0 billion. Similarly, a 1% decrease in the discount rate would increase the September 30, 2015, liability and related expense by approximately \$2.4 billion.

The following table details inflation and discount rates used to estimate the liability as of September 30, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Compensation claims liability:</b>			
Discount rate	2.4%	2.8%	3.0%
Wage inflation	2.7%	2.9%	2.9%
<b>Medical claims liability:</b>			
Discount rate	2.4%	2.7%	3.0%
Medical inflation	5.7%	9.0%	9.1%

The Postal Service's total liability for workers' compensation was \$18.8 billion and \$18.4 billion as of September 30, 2015, and 2014, respectively. The current portion of the liability was \$1.4 billion and \$1.3 billion as of September 30, 2015, and 2014, respectively.

### **Workers' Compensation Expense**

The impacts of changes in discount rates and inflation rates, as well as the actuarial valuation of new cases and revaluation of existing cases, are components of total workers' compensation expense as recorded in the accompanying Statements of Operations. As described above, the Postal Service pays an administrative fee to the DOL, which is also a component of workers' compensation expense.

Included in the 2015 workers' compensation expense are prescription drug charges of which \$99 million is for pharmacy-compounding costs, an increase of \$69 million over the 2014 expense. The Postal Service disputes these compounding cost charges and withheld \$69 million from its October 2015 payment to the DOL. The unpaid amount as of September 30, 2015, is included as part of the current liability within *Workers' compensation costs* in the accompanying Balance Sheets.

The following table details the components of workers' compensation expense for the years ended September 30, 2015, 2014 and 2013:

<i>(in millions)</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Impact of discount rate changes	\$ 809	\$ 485	\$ (1,745)
Actuarial revaluation of existing cases	(886)	45	949
Costs of new cases	1,767	1,956	1,789
Administrative fee	70	68	68
<b>Total workers' compensation expense</b>	<b>\$ 1,760</b>	<b>\$ 2,554</b>	<b>\$ 1,061</b>

### **Change in Estimate**

The Postal Service revised the calculation used in its valuation model to determine the actuarial revaluation of existing cases beginning in the first quarter of 2015. The impact of the change in estimate decreased the workers' compensation liability and corresponding expense by \$353 million in the first quarter of 2015 and for the year ended September 30, 2015. This was considered a change in accounting estimate under U.S. GAAP. Management believes this change better reflects current injury trends and provides the best estimate of workers' compensation liability.

## **NOTE 12 - REVENUE FORGONE**

The Postal Service has historically offered below-cost postage prices to certain categories of mailers, including, but not limited to, non-profit organizations, blind individuals, local newspapers, publishers of educational material and overseas mailers of absentee voting ballots. Between 1971, when the Postal Service became independent, and 1991, Congress reimbursed the Postal Service for the revenue it had given up, or "forgone," by offering below-cost postage prices to these mailers.

The *Revenue Forgone Reform Act of 1993* (the "RFA") phased in higher postage prices for certain of these mailers, retaining "free and reduced mail" only for the blind and for overseas absentee ballots. The RFA also authorized \$1.2 billion to be paid to the Postal Service in 42 annual "installment" payments of \$29 million each from 1994 through 2035 as reimbursement for revenue forgone during the RFA's 1991-to-1998 phase-in period.

The Postal Service recognized the present value of these installments as revenue and recorded a corresponding receivable, which is reduced each year that the installment payment is received. Although the RFA authorized the reimbursement, the Postal Service must submit an appropriation request to Congress each year in order to receive the annual revenue forgone payment.

### **Installment Payments**

In 2015, the U.S. Congress appropriated and paid \$29 million for the 2015 installment. However for the years 2011 through 2014, some or all of these installment amounts were not appropriated and therefore not received by the Postal Service. The total unfunded amount was \$104 million as of September 30, 2015, and is included within *Receivables, net* in the accompanying Balance Sheets. The Postal Service includes the total past-due installments in each annual appropriations request.

Outstanding receivables associated with the installment payments were \$413 million and \$420 million as of September 30, 2015, and 2014, respectively. These are not expected to be paid within one year due to the prolonged appropriation process, and are therefore classified as noncurrent within *Other assets* in the accompanying Balance Sheets.

The Postal Service recognized interest income of \$22 million for the years ended 2015 and 2014, respectively, and \$23 million for the year ended 2013, for interest imputed on the outstanding receivable for the installment payments, and this imputed interest is included within *Interest and investment income* in the accompanying Statements of Operations.

### **Free and Reduced Mail**

Congress has historically appropriated funds each year for free and reduced mail, however the annual appropriation may be higher or lower than the amount requested by the Postal Service. At the end of each fiscal year, any difference between the actual amount Congress appropriated and actual amounts the Postal Service incurred to provide the subsidy during prior periods is reflected through an adjustment of the following year's funding request. Likewise, the Postal Service recognizes revenue based upon the actual amounts the Postal Service incurred to provide the subsidy during the year.

For free and reduced mail, the Postal Service recognized revenue of \$63 million, \$52 million and \$41 million for the years ended September 30, 2015, 2014 and 2013, respectively, and this is included within *Operating Revenue* in the accompanying Statements of Operations. Outstanding receivables associated with free and reduced mail were \$57 million and \$50 million as of September 30, 2015, and 2014, respectively. These are expected to be paid within one year, and are therefore classified as current within *Receivables, net* in the accompanying Balance Sheets.

## **NOTE 13 - FAIR VALUE MEASUREMENT**

The Postal Service defines fair value based on the price that would be received upon sale of an asset or the price that would be paid to transfer a liability between unrelated parties. The carrying amounts of certain current assets and liabilities, including cash, accounts receivable, accounts payable, accrued expenses and short-term debt, approximate fair value due to their short-term maturities. Noncurrent receivables and noncurrent debt are measured using inputs of the fair value hierarchy model described below. Property and equipment are stated at cost, less accumulated depreciation and amortization, and measured at fair value on a nonrecurring basis if impaired.

Measurement of assets and liabilities at fair value is performed using inputs from a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy listed below consists of three broad levels, as defined in the authoritative literature:

- *Level 1* inputs include unadjusted quoted prices in active markets for identical assets or liabilities as of the balance sheet date.
- *Level 2* inputs include observable data, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, observable data, other than quoted market prices for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived from, or corroborated by, observable market data.
- *Level 3* inputs include unobservable data that reflect current assumptions about the judgments and estimates that market participants would use when pricing the asset or liability. These inputs are based on the best information available, including internal data.

Considerable judgment is involved in developing these estimates and, accordingly, they may not necessarily be indicative of amounts that would be realized upon disposition of a specific asset or liability.

The fair values of the revenue forgone installment receivable and debt, each of which qualifies as a financial instrument in accordance with authoritative literature, are calculated using Level 2 and Level 3 inputs, respectively. Because no active market exists for the Postal Service's debt with the FFB, the fair value of the noncurrent portion of this liability has been estimated using expected future payments at risk-adjusted discount rates provided by the FFB, a Level 3 input.

For its revenue forgone installment receivable, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of the receivable using the interest method, which converts future cash flows to a single discounted amount using an interest rate for similar assets, a Level 2 input. To determine the fair value of this noncurrent asset, the Postal Service calculates a net present value of anticipated annual installment payments to be received, discounted by the 20-year U.S. Treasury Constant Maturity Rate, which was 2.60% and 2.98% as of September 30, 2015, and 2014, respectively.

For the years ended September 30, 2015, and 2014, no transfers between Level 1 and Level 2 assets or liabilities took place. The carrying amounts and fair values of the revenue forgone installment receivable, which is included within *Other assets* in the accompanying Balance Sheets, and the *Noncurrent portion of debt*, also in the accompanying Balance Sheets, are presented for disclosure purposes in the following table:

<i>(in millions)</i>	<u><b>2015</b></u>		<u><b>2014</b></u>	
	<u><b>Carrying Amount</b></u>	<u><b>Fair Value</b></u>	<u><b>Carrying Amount</b></u>	<u><b>Fair Value</b></u>
Revenue forgone	\$ 413	\$ 511	\$ 420	\$ 505
Noncurrent portion of debt	\$ 4,900	\$ 5,394	\$ 5,200	\$ 5,565

The carrying amount of the current portion of debt approximates the fair value for both 2015 and 2014.

**NOTE 14 - QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table sets forth the Postal Service's unaudited *Statements of Operations* for the quarterly periods ending September 30, 2015, and 2014:

<b><u>2015</u></b>				
<i>(in millions)</i>	<b><u>Quarter 1</u></b>	<b><u>Quarter 2</u></b>	<b><u>Quarter 3</u></b>	<b><u>Quarter 4</u></b>
Total revenue	\$ 18,761	\$ 16,970	\$ 16,555	\$ 16,642
Total operating expenses	19,475	18,399	17,101	18,851
Loss from operations	(714)	(1,429)	(546)	(2,209)
Interest income (expense), net	(40)	(40)	(40)	(42)
<b>Net loss</b>	<b><u>\$ (754)</u></b>	<b><u>\$ (1,469)</u></b>	<b><u>\$ (586)</u></b>	<b><u>\$ (2,251)</u></b>
<b><u>2014</u></b>				
	<b><u>Quarter 1</u></b>	<b><u>Quarter 2</u></b>	<b><u>Quarter 3</u></b>	<b><u>Quarter 4</u></b>
Total revenue	\$ 17,994	\$ 16,727	\$ 16,504	\$ 16,605
Total operating expenses	18,306	18,559	18,421	17,892
Loss from operations	(312)	(1,832)	(1,917)	(1,287)
Interest income (expense), net	(42)	(40)	(38)	(40)
<b>Net loss</b>	<b><u>\$ (354)</u></b>	<b><u>\$ (1,872)</u></b>	<b><u>\$ (1,955)</u></b>	<b><u>\$ (1,327)</u></b>

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized and reported within the time frames specified by PAEA and that this information is accumulated and communicated to management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of September 30, 2015. Based upon and as of the date of the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Postal Service's internal controls over financial reporting during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

#### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate controls over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions, providing reasonable assurance that transactions are recorded as necessary for the preparation of our financial statements, providing reasonable assurance that receipts and expenditures of assets are made in accordance with management authorization and providing reasonable assurance that unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2015.

#### **Report of Independent Registered Public Accounting Firm**

Our independent registered public accounting firm has issued a report on the effectiveness of our internal control over financial reporting, which is below.

## **Report of Independent Registered Public Accounting Firm**

The Board of Governors of the United States Postal Service

We have audited the United States Postal Service's internal control over financial reporting as of September 30, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The United States Postal Service's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the United States Postal Service's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the United States Postal Service maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the United States Postal Service as of September 30, 2015, and 2014, and the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2015, of the United States Postal Service and our report dated November 13, 2015 expressed an unqualified opinion thereon that included an explanatory paragraph regarding the United States Postal Service's ability to generate sufficient cash flow to meet all of its financial obligations throughout their fiscal year ending September 30, 2016.

/s/ Ernst & Young LLP

McLean, Virginia  
November 13, 2015

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

### Board of Governors

We are governed by an eleven member Board composed of nine Governors appointed by the President of the United States with the advice and consent of the United States Senate, the Postmaster General and the Deputy Postmaster General. The three currently appointed Governors are noted in the table below:

Name, Age and Term of Office	Positions and Experience
James H. Bilbray, Acting Chairman of the Board of Governors, Age 77  Governor since August 2006. Term expiring December 2015.	Acting Chairman of the Board of Governors since December, 2014. Vice Chairman of the Board of Governors, 2012-2015. Member of the Compensation and Management Resources Committee. Attorney at the law firm of Kaempfer Crowell Renshaw Gronauer & Fiorentino in Las Vegas, Nevada. Former member, U.S. House of Representatives from Nevada (1987-95). Former member, Nevada State Senate (1981-87). Former Deputy District Attorney in Clark County, Nevada (1965-67). Member of 2005 Defense Base Closure and Realignment Commission.
Louis J. Giuliano, Chairman of the Temporary Emergency Committee Age 69  Governor since November 2004. Holdover Term expiring December 2015.	Past Chairman of the Board of Governors, 2010 and 2011. Vice Chairman of the Board of Governors, 2009. Chairman, Temporary Emergency Committee since December 2014. Chairman, Audit and Finance Committee and Operations Subcommittee, and member, Compensation and Management Resources Committee. Former Chairman of Board of Directors, President and Chief Executive Officer of ITT Corp. (2001-04). Senior Advisor at the Carlyle Group, on the board of Accudyne Industries, and active member of the CEO Forum and the Advisory Board for the Princeton University Faith and Work Initiative. Non-Executive Chairman, Vectrus Corp.
Ellen C. Williams, Governor, Age 58  Governor since August 2006. Holdover Term expiring December 2015.	Chairman of the Compensation and Management Resources Committee and a member of the Audit and Finance Committee. Partner in MML&K, a government relations firm with offices in Frankfort, KY and Washington, DC. Former owner and CEO of Capital Network (2006-12). Former Vice Chairman of the Kentucky Public Service Commission (2004-05). Former Commissioner of the Governor's Office for Local Development in Kentucky (2005-06). Former Chairman of the Republican Party of Kentucky (1999-2004). Former executive assistant to Senator Bob Kasten.

### TEMPORARY EMERGENCY COMMITTEE

As referenced throughout this report, the Board is currently without a statutory quorum due to the failure of the U.S. Senate to act on the pending nominations for the Board. Given the loss of a statutory quorum, we filed a Federal Register notice that was published on December 16, 2014, which advised the public of actions taken during the November 2014 Board meeting to ensure that we continue to operate, notwithstanding the loss of a statutory Board quorum. During the November 2014 meeting, the Board adopted a resolution establishing the Temporary Emergency Committee ("TEC"), composed of the remaining members of the Board, to exercise those powers reserved to the Board that are necessary for continuity of operations.

The Governors also issued a resolution regarding the exercise of the powers vested solely in the Governors, as distinguished from the Board. The resolution clarifies that the inability of the Board to constitute a quorum does not inhibit or affect the authority of the Governors then in office to exercise those powers vested solely in the Governors, upon the concurrence of an absolute majority of the Governors then in office. For ease of use, references to the "Board" or the "Board of Governors" encompass the TEC as appropriate.



## AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee (“Audit Committee”) is composed of two Governors - Governor Giuliano, Chairman, and Governor Williams. The Board has determined that Governor Giuliano qualifies as an audit committee financial expert as defined by the rules of the SEC. All Audit Committee members are independent as defined by the rules of the SEC. Absent U.S. Senate confirmation of the pending nominations for the Board, of which at least one nominee qualifies as an audit committee financial expert, the Board will be left without an audit committee financial expert after December 8, 2015, when Governor Giuliano’s term expires.

## COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE

The Compensation and Management Resources Committee (“Compensation Committee”), composed of Governor Williams, Chairman, Governor Giuliano and Governor Bilbray during 2015, was responsible for making recommendations to the Board with respect to compensation decisions.

## Executive Officers

The Postal Service had eight executive officers as of September 30, 2015, as per the schedule below:

Name and Age	Positions and Experience
Megan J. Brennan Age 53	74th Postmaster General and Chief Executive Officer since February 2015 and a member of the Board since February 2015. Chief Operating Officer and Executive Vice President from December 2010 to February 2015. Previously, Vice President, Eastern Area Operations from December, 2006 to December, 2010, and Vice President, Northeast Area Operations from April, 2005 to December, 2006.
Ronald A. Stroman Age 63	20th Deputy Postmaster General and Government Relations Officer and member of the Board since April 2011. Served as Staff Director, Committee on Oversight and Government Relations at the U.S. House of Representatives, from 2009 to April, 2011. Prior to this, served as Managing Director, Office of Opportunity and Inclusiveness, U.S. General Accounting Office, from 2001 to 2009.
David E. Williams Age 50	Chief Operating Officer and Executive Vice President since February 2015. Previously, Vice President, Network Operations from December, 2006 to December, 2010, and Vice President, Engineering from April, 2005 to December, 2006.
Randy S. Miskanic Age 50	Acting Chief Information Officer and Executive Vice President since April 2015. Previously, Chief Information Security Officer and Vice President Digital Solutions from February 2013, to April 2015. Prior to that, served as Deputy Chief Postal Inspector of the United States Postal Inspection Service from June 2009 to February 2013.
Joseph Corbett Age 56	Chief Financial Officer and Executive Vice President since 2009 (except for a brief period from June 20 through September 30, 2012 when he served as Acting Chief Information Officer and Executive Vice President). Founder and Managing Director of FinSol, LLC, a finance and accounting CFO services firm from 2005 to 2009. Consultant, Chief Financial Officer and Executive Vice President of BearingPoint, Inc., a U.S. government contracting, consulting, and systems integration company, from 2004 to 2005. Executive Vice President and Chief Financial Officer of Intelsat, Ltd., from 1998 to 2004 and Intelsat Controller from 1995 to 1998.
James P. Cochrane Age 60	Acting Chief Marketing and Sales Officer and Executive Vice President since April 2015. Chief Information Officer and Executive Vice President from October 2013 to April 2015. Prior to that, served as Vice President, Product Information from May 2010 to October 2013; and Vice President, Ground Shipping from September 2008 to May 2010.
Thomas J. Marshall Age 53	General Counsel and Executive Vice President since May 2013. Previously, Deputy General Counsel from March 2009 to May 2013. Prior to that, Managing Counsel, Civil Practice, from February 2004 to March 2009.
Jeffrey Williamson Age 40	Chief Human Resources Officer and Executive Vice President since March 2013. Vice President, Pricing from June 2012 to March 2013. Postal Service MIT Sloan Fellow Representative from May 2011 to June 2012. Manager, Performance and Field Operations from September 2009 to May 2011. Prior to that, Manager, Network Development and Support from October 2006 to September 2009.

## Code of Ethics

All of our employees are required to comply with the Standards of Ethical Conduct for Employees of the Executive Branch (“Standards”). The Standards are published in the Code of Federal Regulations (“CFR”) at 5 CFR Part 2635 and cover prohibitions and restrictions on the acceptance of gifts, conflicting financial interests, the obligation of all employees to perform their duties impartially, restrictions on the misuse of government positions, restrictions on certain outside activities and other related ethical obligations.

Our employees are also covered by a set of additional restrictions that apply only to the employees of the Postal Service. These “Supplemental Standards” can be found at 5 CFR Part 7001 and focus on limitations on outside employment and outside business activities that could give rise to a conflict with their official duties.

The Standards and the Supplemental Standards contain many examples to help employees identify and resolve ethical issues. New employees receive ethics training at their orientation and ethics officials provide ethics training throughout the year as required by law and as otherwise deemed appropriate. To ensure that all of our employees can receive timely and accurate ethics advice, we have established a dedicated ethics telephone helpline and an email address that is managed by ethics specialists.

Certain high level employees are also subject to the Senior Financial Managers’ Code of Ethics. This Code of Ethics can be found on the Postal Service’s website at: [www.about.usps.com/who-we-are/financials/senior-financial-managers-code-of-ethics-2010.pdf](http://www.about.usps.com/who-we-are/financials/senior-financial-managers-code-of-ethics-2010.pdf).

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The Board establishes executive officer compensation and benefits, subject to the requirements and limitations of federal law. The Board has delegated to its Compensation Committee authority for initial review of management proposals related to compensation and benefits for executive officers. The Compensation Committee, which meets several times throughout the year, is composed solely of presidentially-appointed, U.S. Senate-confirmed Governors who are independent of our management. The Compensation Committee makes recommendations to the full Board for their review and approval.

Set forth in Title 39 of the U.S. Code, federal law governing us provides that compensation and benefits for all of our officers shall be comparable to the compensation and benefits paid for comparable levels of work in the private sector of the economy. We are the second largest civilian employer in the nation, with approximately 622,000 career and non-career employees as of the end of 2015. We operate approximately 215,000 motor vehicles and approximately 32,000 retail units. In 2015, we delivered 154.2 billion pieces of mail, almost half of the world’s mail, and generated approximately \$68.8 billion in revenue. In 2015, we ranked 137th in *Fortune* magazine’s listing of *Fortune Global 500* companies. By way of comparison, two of our largest competitors ranked 168th and 238th on this list. If we were listed on the *Fortune 500* annual ranking of America’s largest corporations, we would be ranked 44th. The same two of our largest competitors are ranked 47th and 65th on that list.

Even as the economy continues to be challenged, comparably sized companies typically provide their top executives with annual salaries well in excess of \$1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consist of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites.

Although our governing law provides that executives and others should be compensated at a level comparable to the private sector, the law does not afford the Governors the tools to achieve a standard of compensation comparable to the private sector. Compensation for our executive officers remains significantly below that of similarly-ranked senior executives in the private sector.

The law imposes three different caps on compensation for our employees. The first cap provides that no officer or employee may be paid compensation “at a rate in excess of the rate for level I of the Executive Schedule under section 5312 of title 5” of the U.S. Code. 39 U.S.C. §1003(a). In calendar year 2015, the upper limit on federal salaries rose 1% to \$203,700.

With the approval of the Board, we may develop a program to award a bonus or other reward in excess of the compensation cap discussed above, as long as the total compensation paid to the officer in a year does not “exceed the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. §104] as of the end of the calendar year in which the bonus or award is paid.” 39 U.S.C. §3686(a)-(b). In calendar year 2015, this cap rose 1% to \$235,300. The Board may approve a program allowing for bonuses or other rewards if it determines, for the annual appraisal period involved, that the performance appraisal system for impacted employees makes meaningful distinctions based on relative performance.

In addition, the Board may allow up to 12 of our officers or employees in critical senior executive or equivalent positions to be paid total annual compensation up to “120 percent of the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. §104] as of the end of the calendar year in which such payment is received.” 39 U.S.C. § 3686 (c). Based on the Vice President’s salary for calendar year 2015, the compensation cap for calendar year 2015 was \$282,360.

By law, our employees, including executive officers, are entitled to participate in either the CSRS or FERS, depending on when their federal employment began. As applicable to our officers, these retirement systems are described later in this *Compensation Discussion and Analysis*. In addition, in order to remain competitive with comparable employment in private industry and other parts of the federal government, our policy also authorizes certain additional benefits for all of our officers, including executive officers. These include participation in FEHB, paid life insurance, a periodic physical examination and parking. Other than changes required by law, the Board must authorize any increases to benefits for officers.

## **COMPENSATION PHILOSOPHY AND OBJECTIVES**

The Board recognizes that a significant disconnect exists between the comparability requirement and the compensation caps in our governing law and that the various compensation caps do not enable the Board to provide compensation and benefits for executive officers that are fully comparable to those in the private sector. This is especially true given our current financial challenges. The Board also recognizes that many of the compensation and benefit tools available in the private sector, such as equity ownership, are not available to our employees given our status as part of the federal government. These limitations make it more difficult for us to competitively recruit in the marketplace for executive officers and to retain current executive officers.

To attempt to achieve some level of comparability within the confines of the law, the Board designed a compensation system intended to balance an executive’s annual salary with the ability to earn additional compensation by meeting performance goals and objectives, and because of the compensation caps, a portion of this compensation might need to be deferred. The compensation system has not functioned as originally intended in that significant performance-based incentives have not generally been available to our officers since 2008.

For the past eight years, our officer compensation system has not worked as designed because we have faced significant financial challenges caused in part by the problems with our business model. We have taken significant steps, described elsewhere in this report, to reduce costs and generate revenue. However, we have sought and continue to need comprehensive legislative change to have much greater flexibility to reduce costs, generate new revenue and return to financial stability.

At the start of calendar year 2015, the compensation system operated pursuant to its terms, and eligible officers received an increase in their basic compensation and a performance lump sum payment. The increases in basic compensation in fiscal year 2015 were dependent upon performance, and averaged 3%. The amount of the performance lump sum payments issued in fiscal year 2015 was again based upon performance, and averaged 4%. Further, some non-executive officers received additional financial awards in fiscal year 2015 for outstanding performance on particular strategic projects in fiscal year 2014. However, our financial performance, and therefore our performance-based incentive payment system, continues to be negatively impacted by our flawed business model which can only be corrected through comprehensive postal reform legislation. Uncertainty about future payments and the viability of the compensation system continues to negatively impact retention and recruitment.

The increase in basic compensation in calendar year 2015 was preceded by a 1% increase in calendar year 2014 and six consecutive years before 2014 in which officer compensation was impacted by a freeze in salary and/or a non-payment of performance lump sums. By comparison, employees of other U.S. government entities only experienced a pay freeze for three years from 2011 through 2013. Employees of other U.S. government employers received a 1% increase in their basic compensation in calendar year 2014 and a 1% increase in their basic compensation in calendar year 2015, in addition to step increases and available awards. Furthermore the U.S. government pay freeze applied only to COLAs and not to longevity (step-increase) raises or performance awards.

Within the confines of its legislative authority and the financial constraints confronting us, the Board's compensation philosophy is that:

- There should be a strong connection between individual executive compensation and our performance on a number of dimensions, including service, net income and productivity;
- Compensation and benefits should be designed to attract and retain high performing executives to ensure that we have the caliber of executives who will enable us to operate at the highest levels of performance and productivity;
- Lump sum incentives should be set to motivate executives to improve performance continuously on a long-term basis and to perform above the annually-established goals and objectives. If individual performance exceeds the goals and objectives set for the year, the employee should receive additional compensation. Likewise, if overall performance falls below the annual goals and objectives, the individual should be paid less;
- A significant amount of the executive's compensation should be "at risk" and the "at-risk" amount should increase as the executive's level of responsibility increases;
- Innovation, effectiveness as an agent for change, the ability to balance day-to-day priorities and long-term strategies, and organizational value as defined by the achievement of key corporate goals and objectives should be rewarded;
- Executive compensation should be fair and equitable internally, recognizing the width and breadth of the responsibilities of our executives; and
- Executive success is defined by a number of factors, including financial returns, the quality of service we provide, the results achieved by the executive's actions to enhance the organization's efficiency and overcome challenges and whether an executive met established individual goals.

### **THE COMPENSATION PROGRAM**

In 2007, with the assistance of an independent consulting firm specializing in executive compensation, the Compensation Committee recommended and the Board approved a salary band for the Postmaster General to be set at the legislative salary cap. In doing so, the Board's objectives were to design a compensation program that optimized the legislative flexibility granted by the PAEA, reduce internal pay compression, improve external marketplace competitiveness and honor legislative constraints and existing pay ranges. For the other executive officers, the Board set pay bands based on salary relationships of comparable executive officers in the external market. In general, the Board has maintained these types of pay band relationships since 2007.

When the Governors appointed Patrick R. Donahoe as the 73th Postmaster General, they set his salary at the legislative salary cap. Given our significant financial challenges that existed when he assumed office, Postmaster General Donahoe asked the Governors not to award him any additional compensation, beyond salary and the general types of benefits provided to our executives, and the Governors agreed. The current Postmaster General, Megan J. Brennan, likewise did not ask for any additional compensation beyond salary and the general types of benefits provided to our executives. When the Governors appointed Megan J. Brennan as the 74th Postmaster General, her salary was likewise set at the legislative salary cap.

Over the years, the Governors have authorized the Postmaster General to establish salaries for the other executive officers within the confines of the salary ranges established by the Governors. As noted above, for calendar year 2015, after reviewing recommendations from the Postmaster General and the Compensation Committee, the Governors approved the application of the Pay-for-Performance ("PFP") system according to its terms, which resulted in a raise of the salary ranges for some officers and an officer base salary increase by an average of 3%. Pursuant to the terms of the compensation system, performance lump sum payments were also issued in calendar year 2015 for 2014 performance that averaged 4%.

In fiscal year 2015, the Postal Service continued to employ a national performance assessment program ("NPA") to set annual performance goals and metrics that vary among executive officers and are weighted to reflect appropriately the degree to which an executive is able to influence our overall performance. Annual NPA metrics and targets generally take into consideration our performance during the prior year and particular challenges we expect to face during the upcoming year. The NPA places emphasis on objective, measurable performance indicators. The Governors also set individual metrics and targets for the Postmaster General and Deputy Postmaster General and authorize the Postmaster General to establish individual metrics and targets for other officers.

The officer compensation system is intended to operate as follows: The Board establishes annual PFP incentives to provide opportunities for the Postmaster General and the Deputy Postmaster General to earn enhanced compensation, directly tied to the level of their performance. The Postmaster General establishes annual PFP incentives for other officers, to provide them opportunities to earn increased compensation based upon their performance. Incentive payouts are not to be made for a particular goal if we or the individual fails to meet minimum acceptable performance standards. The payment of PFP incentives may sometimes be deferred for future payment where required due to the compensation caps discussed above.

Our economic challenges have prevented the officer compensation system from functioning properly for an extended period, and uncertainty persists on a yearly basis concerning whether salary increases or performance bonuses will be awarded. This uncertainty is largely driven by our flawed business model which limits our ability to be financially successful, and which can only be corrected by comprehensive postal legislation.

The Governors believe that this situation must be remedied in the near future, and are concerned that if this situation continues much longer, it will further erode our ability to retain highly-qualified individuals as officers and to recruit the best qualified individuals from the marketplace, if external hiring is deemed to be the best solution to fill critical officer vacancies. Additionally, our financial constraints, which largely are the products of structural defects that only Congress can remedy, have prevented us from fully complying with the statutory mandate that our officers be paid in a manner comparable with their private sector counterparts.

We continued to use the NPA process to measure performance during fiscal year 2015. NPA performance goals and rewards fall into several categories. These include areas that an officer may directly influence, such as service, efficiency, employee satisfaction and productivity, as well as those that are more susceptible to being impacted by general economic conditions, such as revenue generation.

For each goal, the Postmaster General establishes indicators identifying the type of performance that will enable us to achieve or surpass the goal. These performance indicators are aligned at the corporate, functional, and individual levels and are weighted. The higher an individual's position is in the organization, the more his or her PFP goals will be tied to overall corporate performance. The executive officers' goals are aligned with national performance goals and linked to our overall success.

Once the goals and indicators are established, executive officers are advised as to what is expected of them in terms of performance during the year, how their performance will impact us, and, in years when performance incentives are authorized, the potential level of performance-based incentives they can expect depending on their individual performance and the performance of us as a whole. Under this program, an individual executive officer can receive a numerical rating within a range of 1 to 15 depending on how we perform on the national indicators and the individual's performance, as determined by the Postmaster General.

An individual executive officer's performance rating would make the officer eligible for an increase to base salary, as well as for a performance-based lump sum payment. Due to statutory cap limitations, increases to the maximum of the salary range for executive officers would generally follow the percentage increase in the applicable statutory cap for any given year. Any salary increases for executive officers are limited by these maximums and are solely performance based, as determined by the Postmaster General.

Lump sum incentive payments would be aligned to the Postmaster General's rating of the executive officer's performance, based on the degree to which the individual achieved previously set individual goals and metrics. The Postmaster General's discretion on PFP incentives for executive officers in a given year is limited by our overall performance on NPA goals and metrics. Generally, officer performance scores must average to the Postal Service's overall NPA performance score for the fiscal year.

Salary increases, if any, are determined after the end of the fiscal year, and any new salaries become effective for the following calendar year. In making compensation decisions relating to fiscal year 2015 performance, the Governors noted that management achieved very significant accomplishments in addressing the many challenges we faced in the fiscal year. Despite a significant continuing decline in *First-Class Mail* volume over the past several years, management continued to take aggressive actions within its control to reduce costs, provide excellent service and secure revenue.

Despite the many significant accomplishments of our management team during fiscal year 2015, the Governors recognized the fact that we continued to face significant financial challenges. While these financial challenges result in part from the flawed business model and lack of reform, the Governors noted that comprehensive legislative change is needed to enable us to return to financial stability. The absence of legislative change has had, and will continue to have, a significant negative impact on our finances.

## **COMPONENTS OF OFFICER COMPENSATION AND BENEFITS**

### **Base Salary**

Base salaries provide a level of financial security that is appropriate for the executive's position. Within applicable law and our difficult financial condition, base salaries are to be scaled within pay ranges designed to be competitive with the market median. As discussed above, maximum payouts in a given year are set by federal law. Executive officer salaries are reviewed at least annually and adjusted, as appropriate and when permitted by financial constraints, to reflect individual performance, range of responsibilities, value and contribution to the organization, and experience. However, as discussed above, officer salaries have been frozen for five out of the last eight years.

### **Annual Incentive**

Annual incentives serve as a mechanism for adjusting total compensation levels commensurate with the attainment of planned results, thereby ensuring affordability and appropriate performance that benefits us. As discussed above, we use the NPA to set annual corporate performance goals and metrics. The Governors set the goals and indicators for the Postmaster General and the Deputy Postmaster General, and the Postmaster General establishes goals and indicators for the other executive officers. The Postmaster General's and the Deputy Postmaster General's performance is determined based on the degree to which they have achieved previously set goals and metrics. Likewise, executive officers' individual performance ratings are determined by the Postmaster General based on the degree to which the individual has achieved the previously set goals and metrics.

### **Other Compensation Incentives**

Executive officers are also eligible for performance awards for specific activities that reflect a high degree of leadership. The Governors authorized the Postmaster General to specify a limited budget for awards to non-executive officers in 2015, for exceptional accomplishments during fiscal year 2014. In addition, executive officers are eligible for recruitment, relocation and retention incentives designed to attract and retain highly talented and marketable individuals in key executive positions. The payment of some of these incentives may be deferred, in whole or in part, due to the compensation limits imposed on our employees as more fully discussed above.

### **Retirement Annuities**

Officers are covered either by the CSRS or the FERS. Both systems have a defined benefit component and a defined contribution component. CSRS and FERS service is creditable for Medicare coverage. FERS service is creditable for Social Security.

#### ***CSRS Defined Benefit***

The CSRS Basic Benefit annuity is based on a percentage of the high-3 salary multiplied by years of service. The percentage is 1.5% for the first 5 years of service, plus 1.75% from 5 years to 10 years of service and 2% for all years of service thereafter. Optional retirement thresholds are age 55 with 30 years of service, age 60 with 20 years of service, and age 62 with 5 years of service, with a requirement of completing at least 5 years of creditable civilian service. The annuity is fully indexed to the Consumer Price Index ("CPI"). Disability, early retirement, deferred and survivor benefits are available.

#### ***FERS Defined Benefit***

The FERS Basic Benefit annuity is based on 1.0% of high-3 salary per year of service, or 1.1% for retirement at age 62 with at least 20 years of service. Optional retirement thresholds are the Minimum Retirement Age ("MRA") of 55 to 57 (depending on year of birth) with 30 years of service, age 60 with 20 years of service, age 62 with 5 years of service, or MRA with 10 years of service (at a reduced benefit), with a requirement of completing at least 5 years of creditable civilian service. Employees who retire at MRA with 30 years of service, or at age 60 with 20 years of service, receive a retirement supplement approximating the value of Social Security benefits attributable to federal service; this benefit is paid until age 62. Beginning at age 62, the annuity is indexed to CPI, fully when the CPI increase is 2% or less, at 2% when the CPI increase is between 2% and 3%, and at CPI - 1% when the CPI is at least 3%. Disability, early retirement, deferred and survivor benefits are available.

#### ***Defined Contribution***

The TSP has a component that mirrors traditional 401(k) plans and an option similar to Roth plans. CSRS and FERS employees may contribute up to the indexed IRS maximum (\$18,000 in 2015). We do not make TSP contributions for CSRS employees. For FERS employees, we make an automatic contribution of 1% of basic pay and match a percentage of voluntary employee contributions for up to an additional 4% of basic pay. Employees who will be at least age 50 in the year of contribution may make a separate catch-up contribution up to the indexed IRS maximum (\$6,000 in 2015). TSP investment options are a government securities fund; index funds that track the Barclays Capital Aggregate Bond Index, the S&P 500, the Dow Jones

U.S. Completion TSM Index, and the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) stock index; and lifecycle funds.

### **Supplemental Non-Qualified Deferred Compensation**

Where appropriate and on a highly selective basis, we have offered supplemental non-qualified deferred compensation as a recruitment or retention tool.

### **Life Insurance**

Officers are entitled to basic group life insurance coverage under the Federal Employees Group Life Insurance (“FEGLI”) program in the amount of their annual basic salary, rounded up to the next \$1,000, plus \$2,000. If basic coverage is held, an officer will also receive an additional \$10,000 coverage (“Option A”) and Option B coverage up to three times their salary. We pay all premiums for Option A, Option B and basic coverage.

At their own expense, officers may elect additional Option B coverage in an amount equal to two times their salary. Also at their own expense, officers may elect Option C, family optional insurance coverage, of up to 5 multiples of \$5,000 for their spouse and \$2,500 for each eligible dependent child. Officers continuously covered under FEGLI for the 5 years of service immediately preceding retirement, or since the first opportunity to enroll, may continue coverage during retirement (if entitled to an immediate annuity). We pay retired officers an actuarially determined lump sum to cover the cost of Option A premiums during retirement.

### **Health Benefits**

We participate in the FEHB, which allows all career employees to enroll in one of a number of self only, self-plus-one or self and family health benefit plans offered. We pay a portion of the cost of the premium for our officers and executives.

Beginning in January 2012 and continuing over a three-year period, we increased the percentage that our officers and executives’ pay for these benefits until the percentage matched the percentage paid by employees of other U.S. government entities. In 2012, our share of the premium was reduced from 100% to 91%. In 2013, our share of the premium was reduced to 82% of the federal weighted average premium, limited to not more than 85.5% of the total premium for any given plan, and enrolled officers and executives paid the balance of the premium for the plan they selected.

In 2014, the Postal Service’s share of the premium was further reduced to 72% of the federal weighted average premium, limited to not more than 75% of the total premium for any given plan, and enrolled officers and executives pay the balance of the premium for the selected plan. This is the same benefit provided to employees of other U.S government entities. In 2015, the portion we paid remained at 72% of the federal weighted average premium, limited to not more than 75% of the total premium for any given plan, and enrolled officers and executives paid the balance of the premium for the selected plan. Employees who retire with immediate entitlement to an annuity are eligible to continue FEHB coverage into retirement as long as they have participated in FEHB for the five years preceding their retirement or since their first opportunity to enroll.

### **Other Benefits**

To remain competitive in the marketplace, we offer the following additional benefits to our executive officers: periodic physical examinations, parking, financial counseling services and membership in up to two airline clubs per year. In November 2015, the Governors, in connection with their annual review of the compensation and benefits for the Postmaster General and Deputy Postmaster General, clarified and updated their policies to provide that the Postmaster General and Deputy Postmaster General are entitled to a separation payment in an amount of one year’s salary if either is asked to separate from the Postal Service for any reason other than cause and they are otherwise not eligible for immediate retirement (not including early retirement, discontinued service retirement, or retirement at the minimum retirement age with less than 30 years of service). Severance may be paid in a single lump sum payment or in bi-weekly payments following the date of separation from the Postal Service.

## **COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE REPORT**

The Compensation Committee members have reviewed and discussed this *Compensation Discussion and Analysis* with management and, based on such review and discussions, the Compensation Committee members recommended to the Governors that this *Compensation Discussion and Analysis* be included in this report.

/s/ Governor Ellen C. Williams, Chairman

/s/ Governor Louis J. Giuliano

/s/ Governor James H. Bilbray



## Summary Compensation Table

The following table presents information regarding the compensation of our six most highly compensated executive officers (the “named executive officers”):

Name and principal position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Non-equity incentive plan compensation (\$) (e)	Change in pension value and non-qualified deferred compensation earnings (\$) (f)	All other compensation (\$) (g)	Total (\$) (h)
<sup>1</sup> Megan J. Brennan, <i>Postmaster General &amp; CEO</i>	FY15	266,981	-	9,500	110,429	28,381	415,291
	FY14	236,536	20,000	-	77,271	17,848	351,655
	FY13	235,000	-	-	87,447	18,475	340,922
<sup>1</sup> Patrick R. Donahoe, <i>Former Postmaster General &amp; CEO</i>	FY15	102,321	-	-	(62,846)	8,699	48,174
	FY14	278,538	-	-	53,064	16,941	348,543
	FY13	276,840	-	-	145,321	14,379	436,540
Joseph Corbett, <i>Chief Financial Officer &amp; Executive VP</i>	FY15	246,404	-	44,700	40,634	21,932	353,670
	FY14	240,563	-	35,000	36,379	19,432	331,374
	FY13	239,000	-	35,000	29,504	18,981	322,485
<sup>2</sup> James P. Cochrane, <i>Chief Information Officer &amp; Executive VP</i>	FY15	239,702	-	9,400	279,722	10,563	539,387
	FY14	230,135	-	-	226,128	9,349	465,612
	FY13	-	-	-	-	-	-
Thomas J. Marshall, <i>General Counsel &amp; Executive VP</i>	FY15	238,926	15,000	9,300	99,035	18,821	381,082
	FY14	231,504	-	-	69,064	18,568	319,136
	FY13	199,820	-	-	42,211	12,848	254,879
<sup>3</sup> David E. Williams Jr., <i>Chief Operating Officer &amp; Executive VP</i>	FY15	223,458	-	7,600	88,153	17,542	336,753
	FY14	-	-	-	-	-	-
	FY13	-	-	-	-	-	-
<p>Notes:</p> <p><sup>1</sup>Mr. Donahoe was Postmaster General through February 1, 2015. Ms. Brennan was appointed Postmaster General and CEO as of February 2, 2015; therefore, the salaries shown above reflect compensation as Chief Operating Officer for FY15 (prior to February 2), FY14, and FY13.</p> <p><sup>2</sup>Mr. Cochrane was not a named executive officer in FY13 and, as such, information for fiscal year 2013 is not reported</p> <p><sup>3</sup>Mr. Williams was not a named executive officer in FY14 or FY13 and, as such, information for fiscal years 2014 and 2013 are not reported</p> <p>Column (d) Ms. Brennan received an award in FY14 for efficiency / cost savings initiatives while in the position of Chief Operating Officer. Mr. Marshall received a Board of Governor’s award in FY15.</p> <p>Column (e) The amounts in this column reflect the performance-based incentive compensation awarded to executive officers for performance in prior fiscal years; as noted above, this incentive compensation was not awarded for FY13. Any amounts that could not be paid to an executive officer, due to the compensation cap or their contract, were deferred for future payment and are also reflected in the non-qualified deferred compensation table below.</p> <p>Column (f) Mr. Donahoe and Mr. Cochrane participate in the Civil Service Retirement System (“CSRS”), which is a defined benefit plan. Ms. Brennan, Mr. Corbett, Mr. Marshall and Mr. Williams participate in the Federal Employees Retirement System (“FERS”), a portion of which is a defined benefit plan. The calculation of retirement annuities under CSRS and FERS is explained in the Pension Benefits table, the associated note and in the Retirement Annuities section of the Compensation Discussion and Analysis. The amounts shown in column (f) for each of these individuals are the amounts by which the value of their annuities has changed since the end of the prior fiscal year. “Non-qualified deferred compensation earnings” is defined as above-market earnings on deferred income. There were no reportable amounts of non-qualified deferred compensation earnings for the named executive officers in FY15, FY14, or FY13, with the exception of Mr. Corbett, whose above-market earnings on deferred income were \$1,320 in FY15, \$1,008 in FY14, and \$721 in FY13.</p>							

## Grants of Plan-Based Awards

The following table presents information regarding potential non-equity incentive awards to the named executive officers for 2015. Whether a named executive officer receives an award and, if so the amount of an award for 2015 will depend on the Postal Service's and the individual's performance.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
		Threshold (\$)	Target (\$)	Maximum (\$)
(a)	(b)	(c)	(d)	(e)
Megan J. Brennan	October 2014	15,022	33,883	105,885
Patrick R. Donahoe	October 2013	0	0	0
Joseph Corbett	October 2014	13,227	29,836	93,237
James P. Cochrane	October 2014	12,867	29,024	90,701
Thomas J. Marshall	October 2014	12,867	29,024	90,701
David E. Williams Jr.	February 2015	12,867	29,024	90,701

*Note: Columns (c)-(e). The USPS PFP program relies on a 15-point scale with clearly defined and transparent corporate goals. The PFP plan target in any given year is set at a rating of 6. The maximum threshold for payment is set at a rating of 15. Individual ratings vary but the corporate score is used as the regulator. Given the Postal Service's financial condition, any individual award is unlikely to exceed the target amount listed in the table so that the maximum amount listed in the table is entirely unrealistic.*

## Pension Benefits

The following table shows the present value of accumulated pension benefits payable to the named executive officers as of September 30, 2015:

Name	Plan name	Number of years credited service (#)	Present value of accumulated benefit (\$)
(a)	(b)	(c)	(d)
Megan J. Brennan	FERS Annuity	29 Years	877,617
Patrick R. Donahoe	CSRS Annuity	40 Years	3,894,591
Joseph Corbett	FERS Annuity	7 Years	195,345
James P. Cochrane	CSRS Annuity	41 Years	3,163,420
Thomas J. Marshall	FERS Annuity	20 Years	563,170
David E. Williams Jr.	FERS Annuity	28 Years	622,853

*Note: All named executive officers are eligible for CSRS or FERS retirement benefits available to career employees of the Federal Government. These benefits are described in the Retirement Annuities section of the Compensation Discussion and Analysis. The present value of the accumulated CSRS or FERS benefit represents the value of the pension over the individual's actuarial lifetime, as of September 30, 2015. Mr. Cochrane participates in CSRS, and Ms. Brennan, Mr. Corbett, Mr. Marshall and Mr. Williams participate in FERS. Mr. Cochrane is eligible for retirement, the calculation of which is described in the Retirement Annuities section of the Compensation Discussion and Analysis. The valuation for Ms. Brennan, Mr. Corbett, Mr. Marshall and Mr. Williams assumes that they have satisfied vesting requirements for retirement; however, because of their current tenure with the Postal Service, their retirement annuities have not fully vested. As noted above, Mr. Donahoe retired February 1, 2015.*

## Non-qualified Deferred Compensation

The following table presents contributions to, and earnings on, the named executive officers' deferred compensation during 2015:

Name	Executive contributions in last FY (\$)	Aggregate earnings in last FY (\$)	Aggregate withdrawals/distributions (\$)	Aggregate balance at September 30, 2015 (\$)
(a)	(b)	(c)	(d)	(e)
Megan J. Brennan	10,156	370		10,526
Patrick R. Donahoe	0	248	9,029	0
Joseph Corbett	35,000	8,995		230,532

*Notes: Column (b) The amounts in this column represent amounts deferred due to the compensation cap or contract agreements. The amount shown for Mr. Corbett reflects the lump-sum performance retention payment required by his employment agreement which has been deferred.*

*Column (c) The Postal Service calculates interest on deferred compensation semi-annually at 5.0% per year for Mr. Corbett per contract, others are calculated at the Federal Long Term Rate; 4.43% in FY15. Interest is prorated from the relevant pay period of the deferral. Interest was added to Mr. Donahoe's account for the portion of the calendar year earned, and the balance of his deferred account was closed in May 2015 according to USPS policy.*

## **Potential Payments Upon Termination**

As described in the Compensation Discussion and Analysis, in 2009 the Postal Service entered into an employment agreement with Joseph Corbett, the Chief Financial Officer, for recruitment and retention purposes. Mr. Corbett's agreement provides for deferred compensation payable in installments commencing on the date of his separation from the Postal Service or October 22, 2019, whichever is later.

The Postmaster General and all of the other named executives are subject to the standard policies governing the CSRS or FERS, as described in the Compensation Discussion and Analysis. The present value of these CSRS and FERS benefits are found in the Pension Benefits table in the Executive Officer Compensation section of this report. The information below describes and quantifies certain compensation, in addition to that due pursuant to CSRS or FERS, that would become payable under existing plans and arrangements if the named executive officer's employment had terminated on September 30, 2015. Additionally, pursuant to statutes and regulations generally applicable to federal employees, the named executives would be entitled to receive the federal employer's standard contribution toward retiree health benefits, in the event they have qualifying service and participated in the Federal Employees Health Benefits Plan for the requisite period of time prior to retiring.

### **Deferred Compensation**

All federal employees, including Postal Service employees, are subject to annual compensation limits established pursuant to federal statutes and regulations. When amounts earned by federal employees cannot be paid because of these compensation limits, these payments are deferred until a year in which their payment would not cause total annual compensation paid to the employee to exceed the compensation limit, or the year in which an employee leaves federal service, whichever occurs first.

Named executive officers appearing in the non-qualified deferred compensation table in the Executive Officer Compensation section of this report have deferred compensation in the amounts indicated therein. These amounts would have been paid to them in a lump-sum or pursuant to their contract with the Postal Service following their departure, had they ended their Postal Service employment on September 30, 2015. Mr. Corbett's employment agreement provides for deferred incentives linked in part to his performance. Mr. Corbett began accruing deferred performance-based compensation at the end of Fiscal Year 2010. When Mr. Corbett concludes his Postal Service employment, or on October 22, 2019, if that date is later than Mr. Corbett's departure from the Postal Service, his deferred compensation will be paid to him in three approximately equal annual installments.

### **Supplemental Pension Benefit**

The Governors have not authorized a supplemental pension benefit for any executive officer at this time.

### **Severance Payment**

Mr. Corbett is entitled to a severance payment of \$230,000, in the event the Postal Service terminates his employment for any reason other than for cause or breach of contract.

### **Insurance Benefits**

The Governors have not authorized supplemental insurance benefits for any executive officer at this time. The insurance benefits to which all postal executives are entitled are described above.

### **Outplacement Assistance**

The Governors have not authorized any outplacement assistance for any executive officer at this time.

### **Accrued Annual Leave**

All Postal Service employees are entitled to receive and accrue paid days off, known as annual leave. Upon their separation from the Postal Service, all employees, including the named executive officers, are entitled to be paid, in a lump-sum, the value of all accrued annual leave. The table below shows the accrued value of the annual leave of the named executive officers, as of September 30, 2015:

<b>Name</b>	<b>Value of accrued annual leave (\$)</b>
Megan J. Brennan	120,953
Patrick R. Donahoe	0
Joseph Corbett	78,415
James P. Cochrane	31,280
Thomas J. Marshall	42,792
David E. Williams	0

## Board of Governors Compensation

The following table presents information regarding the compensation of the members of the Board of Governors during fiscal year 2015:

Name	Fees earned or paid in cash (\$)	All other compensation (\$)	Total (\$)
Mickey D. Barnett	7,767	-	7,767
James H. Bilbray	36,900	-	36,900
Louis J. Giuliano	38,100	-	38,100
Ellen C. Williams	35,700	-	35,700

*Note: Each Governor receives a basic stipend of \$30,000 per year plus \$300 per day for not more than 42 days of meetings each year.*

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Not applicable. As an “independent establishment of the executive branch of the Government of the United States,” we do not issue equity securities.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

### Certain Transactions

We enter into significant transactions with other government agencies, as disclosed throughout this report and the financial statements.

### Director Independence

All of the Governors of the Postal Service Board of Governors who are currently serving and have been appointed by the President of the United States, with the advice and consent of the U.S. Senate, are independent based on the New York Stock Exchange definition of independence.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Annually, the Audit Committee reviews and pre-approves the audit services to be provided by our independent auditors. The Audit Committee must approve other specific services before the independent auditors may perform such services. The Audit Committee also has delegated to the Committee Chairman pre-approval authority with respect to permitted services, provided that the member must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Audit fees totaled approximately \$10 million and \$11 million for the years ended September 30, 2015, and 2014, respectively. Audit fees include fees for professional services associated with the annual audit, the reviews of the Postal Service’s quarterly reports on Form 10-Q and testing of the company’s internal control over financial reporting. The Postal Service did not incur any other fees from its independent auditors.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### (a) The following documents are filed as part of this Annual Report:

##### 1. Financial Statements

The following consolidated financial statements of the United States Postal Service for each of the years ended and as of the periods noted are submitted in *Part II, Item 8. Financial Statements and Supplementary Data* of this report.

Description	Page
Statements of Operations for the Years Ended September 30, 2015, 2014 and 2013	37
Balance Sheets as of September 30, 2015 and 2014	38
Statements of Changes in Net Deficiency for the Years Ended September 30, 2015, 2014 and 2013	39
Statements of Cash Flows for the Years Ended September 30, 2015, 2014 and 2013	40
Notes to Financial Statements	41

##### 2. Financial Statement Schedules

None.

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Postal Service's financial statements or the notes thereto.

##### 3. Exhibits

10.1	Employment/Compensation Contract with Joseph Corbett, Chief Financial Officer (filed with the PRC on January 29, 2009, as Exhibit No. 10.1 to the Current Report on Form 8-K).
31.1	Certificate of USPS Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certificate of USPS Principal Financial Officer Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certificate of USPS Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certificate of USPS Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## SIGNATURES

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

Date: November 13, 2015

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

Date: November 13, 2015

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, this Report has been signed below by the following persons on behalf of the Postal Service and in the capacities indicated as of November 13, 2015.

**Signature**

**Title**

/s/ James H. Bilbray

James H. Bilbray

Acting Chairman, Board of Governors

/s/ Louis J. Giuliano

Louis J. Giuliano

Governor

/s/ Ellen C. Williams

Ellen C. Williams

Governor

/s/ Megan J. Brennan

Megan J. Brennan

Board Member, Postmaster General and Chief Executive Officer

/s/ Ronald A. Stroman

Ronald A. Stroman

Board Member and Deputy Postmaster General

/s/ Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President, (Principal Financial Officer)

/s/ Maura A. McNerney

Maura A. McNerney

Acting Vice President, Finance and Planning (Principal Accounting Officer)

CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Megan J. Brennan, certify that:

1. I have reviewed this annual report on Form 10-K of the United States Postal Service (“Postal Service”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Postal Service’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Postal Service’s internal control over financial reporting that occurred during the Postal Service’s most recent fiscal quarter (the Postal Service’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service’s internal control over financial reporting; and
5. The Postal Service’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Postal Service’s auditors and the audit committee of the Postal Service’s Board of Governors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service’s internal control over financial reporting.

Date: November 13, 2015

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer



CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph Corbett, certify that:

1. I have reviewed this annual report on Form 10-K of the United States Postal Service (“Postal Service”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Postal Service’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Postal Service’s internal control over financial reporting that occurred during the Postal Service’s most recent fiscal quarter (the Postal Service’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service’s internal control over financial reporting; and
5. The Postal Service’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Postal Service’s auditors and the audit committee of the Postal Service’s Board of Governors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service’s internal control over financial reporting.

Date: November 13, 2015

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 2015, (the “Report”), I, Megan J. Brennan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: November 13, 2015

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 2015, (the “Report”), I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: November 13, 2015

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President