

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

FORM 10-K

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

For the fiscal year ended SEPTEMBER 30, 2021

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
Not applicable

Trading Symbol(s)
Not applicable

Name of each exchange on which registered
Not applicable

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 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 every Interactive Data File required to be submitted 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 such files). Yes No Not Applicable

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

Large accelerated filer

Smaller reporting company

Accelerated filer

Emerging growth company

Non-accelerated filer

Not Applicable

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of shares of common stock held by non-affiliates as of March 31, 2021: N/A

The number of shares of common stock outstanding as of November 10, 2021: N/A

Documents incorporated by reference: None

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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 enacted our status 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 generally do not receive tax dollars for operating expenses and rely solely on the sale of our products and services to fund our operations.

As used herein, 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.

We operate and manage an extensive and integrated retail, processing, distribution, transportation, and delivery network throughout the United States ("U.S."), including its possessions and territories. We retain the largest physical and logistical infrastructure of any non-military government institution, providing an indispensable foundation supporting an ever-changing and evolving nationwide communication network. As such, we continue to support and expand the nation's physical infrastructure and are vital to our nation's growth and prosperity.

We continue to play a vital role as a driver of commerce and as a provider of delivery services that connect Americans to one another reliably, affordably, and securely, and to every residential and business address.

We serve the American people in all areas of our nation, and through the universal service mission, bind our nation together by maintaining and operating our unique, vital and resilient infrastructure. We serve both consumer and commercial customers, in the communications, distribution and delivery, advertising, and retail markets throughout the nation and the world. 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 10% of operating revenue for the years ended September 30, 2021, 2020, and 2019.

As an independent establishment of the executive branch, we align specific objectives with those of the U.S. government. We are subject to numerous federal regulatory and reporting laws, and some state laws, including certain environmental laws and regulations pursuant to federal law. Our governing statute is codified in Title 39 of the U.S. 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 responsibilities.

Although PAEA divides our services into Market-Dominant and Competitive products, we monitor and report revenue by mail classes and report our performance as a single business. We do not operate in segments.

STRATEGY

To provide reliable, efficient, trusted, and affordable universal delivery service, we have established the following four strategic areas of focus:

- Deliver a World-Class Customer Experience;
- Equip, Empower, Connect, and Engage Employees;
- Innovate Faster to Deliver Value; and
- Invest in our Future Platforms.

In March 2021, we published our vision and ten-year plan to achieve service excellence and financial stability entitled *Delivering for America* (https://about.usps.com/what/strategic-plans/deliveringfor-america/assets/USPS_Delivering-For-America.pdf).

Our comprehensive plan delivers:

- A modernized Postal Service capable of providing world class service reliability at affordable prices;
- Maintenance of universal six-day mail delivery and expanded seven-day package delivery;
- Workforce stability and investment strategies that empower, equip, and engage each employee and put them in the best possible position to succeed;
- Innovation that grows revenue and meets changing marketplace needs; and
- Financial sustainability to fund our universal service mission.

We can accomplish these goals with legislative and regulatory changes, effective use of newly acquired and existing pricing authorities, operating more precisely and efficiently across our enterprise, and by driving revenue growth through innovative customer solutions.

Our plan's strategies for revenue growth, cost savings, and investment, combined with legislative and administrative actions, will enable us to operate in a financially self-sustaining manner while fulfilling our universal service mission. We have made progress on several key initiatives in our plan, but the plan must be implemented timely and in full to meet our financial targets.

Our leadership has established the following objectives as they define a positive future for the Postal Service:

- Universal access to the digital economy with enhanced destination and store front services across the nation;
- The most professional, efficient, trusted, and visible delivery services in the marketplace - driven by significantly greater operational precision;
- A winning culture - that champions employee advancement, engagement, and collaboration; and celebrates diversity and inclusion;
- Innovative, cost-effective platforms to power business customer growth; and
- Greater revenue diversity, revenue growth, and financial sustainability.

To address our urgent financial challenges, to change and improve the organization, and to bring greater value to the public and the nation, we have been, and continue to be, committed to working collaboratively with stakeholders, including the U.S. Congress ("Congress"), the Administration, our regulators, customers, unions, and the public, who depend every day on our essential and indispensable role.

COVID-19

Given our mandate to provide universal postal services to the nation, we provide an essential service as part of the nation's critical infrastructure and have continued to process and deliver mail and packages during the global pandemic ("COVID-19"). We serve an imperative role in the U.S. economy as at least six days per week, and in some instances seven, our employees accept, process, transport, and deliver vital mail and packages like medicine, fundamental consumer staples, benefits checks, and important information.

All of our employees are considered essential, and their safety is our highest priority. Following strategies recommended by the Centers for Disease Control and Prevention, we have continued to implement enhanced safety measures to protect the health of our employees. These measures include the implementation of remote work arrangements for certain of our office-based employees, and liberal leave policies for employees who may be affected by illness, quarantines, or childcare obligations. We have also invested in various safety measures in response to the pandemic. These policies have not materially affected the operation of financial reporting systems, internal control over financial reporting, or disclosure controls and procedures.

Aside from employee availability, the pandemic continued to affect some of our customers and prevented normal retail operations. A number of our retail offices and alternate access offices experienced decreased walk-in traffic. The location and operating hours of impacted offices fluctuated based on local conditions and circumstances.

Despite the continued distribution and administration of vaccinations, the duration of the COVID-19 disruption remains uncertain, particularly with the emergence of COVID-19 variants. We expect that our liquidity may

decline if the nation experiences a prolonged period of disruption or the surge in e-commerce diminishes further. However, in 2021, these concerns were partially mitigated by receipt of \$10.0 billion from the U.S. Department of the Treasury ("U.S. Treasury") to fund operating expenses, as discussed below, and by \$233 million in reimbursements for certain pandemic-related leave expenses under the *American Rescue Plan Act of 2021*, enacted as Public Law 117-2, as discussed in *Part II., Item 8. Financial Statements, Notes to Financial Statements, Note 5 - Related Parties*.

In March 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act*, enacted as Public Law 116-136 (the "CARES Act") in response to the pandemic. In December 2020, the President of the United States ("President") signed Public Law 116-260, the *Consolidated Appropriations Act, 2021*, amending the CARES Act. The CARES Act, as amended, allowed the Postal Service to receive up to \$10.0 billion from the U.S. Treasury to fund operating expenses. As of July 29, 2021, all \$10.0 billion authorized by the CARES Act, as amended, had been received.

For additional information, see *Item 1A. Risk Factors* and *Part II., Item 7. Management's Discussion of Financial Condition and Results of Operations, Results of Operations*.

GOVERNANCE

The law stipulates an eleven-member Board of Governors ("Board"), which consists of our Postmaster General, Deputy Postmaster General, and nine independent governors ("Governors"). The Postmaster General is appointed by the Governors, and the Deputy Postmaster General is appointed by the Governors and the Postmaster General. The Governors are appointed by the President with the advice and consent of the U.S. Senate ("Senate"). As of the date of this report, we have a full Board.

The Audit and Finance Committee provides oversight of our financial statement preparation, system of internal controls, cybersecurity, financial reporting process, compliance with applicable laws and regulations, and audit process. The Audit and Finance Committee makes recommendations to the Board for its review and approval.

The Compensation and Governance Committee is responsible for the initial review of management proposals related to compensation and benefits for officers. The Compensation and Governance Committee makes recommendations to the Board for its review and approval.

The Operations Committee provides guidance to the Board on management's plans to improve the efficiency of retail, delivery, and processing operations, as well as on-time service performance. The Operations Committee makes recommendations to the Board for its review and approval.

The Strategy and Innovation Committee provides guidance on our strategic direction, regulatory requirements and filings, and on the identification of innovative practices and technologies to help us better carry out our mission. The Strategy and Innovation Committee makes recommendations to the Board for its review and approval.

The Election Mail Committee uses its oversight role to reinforce our strong commitment to our important role in the democratic process when election officials or voters determine to utilize us as a part of their electoral system. The Committee regularly monitors execution of our work on Election Mail to ensure that our part of the election process is implemented in the most effective way possible. The Election Mail Committee makes recommendations to the Board for its review and approval.

SERVICES

We fulfill our legal mandate to provide universal services at fair and reasonable prices by offering a variety of postal services to our many customers. Our Governors approve our prices and fees, subject to a review process by the PRC.

We provide our services through approximately 31,000 Post Offices, stations, and branches that are managed by the Postal Service, approximately 3,000 additional Contract Postal Units, Community Post Offices, Village

Post Offices, a large network of commercial outlets, which sell stamps and services on our behalf, and through our website www.usps.com. Mail deliveries are made to 163 million city, rural, *PO Box*, and highway delivery points. Our operations are conducted in the domestic market, although we engage with foreign postal administrations to enable customers to both send and receive mail and packages internationally. Our international revenue represents approximately 3% of our operating revenue for the year ended September 30, 2021.

We measure our performance by establishing and benchmarking against service standards. A service standard is the stated delivery goal for a mail class or product. We set service standards so that customers and mailers can expect consistent and predictable delivery. To improve reliability and enhance efficiency, we may periodically update service standards through our formal regulatory process and with the advice of the PRC.

CLASSIFICATION AND PRICING

We offer two categories of services, which are classified by the PAEA as Market-Dominant and Competitive "products." However, throughout this report, we use the term "services" for consistency with other descriptions of services we offer.

Periodic reclassification of services from Market-Dominant to Competitive, which requires PRC approval, is necessary to rationalize service offerings. The additional flexibility provided in Competitive services allows us to better offer services to meet customer needs, increase our business, and price our services competitively within the markets in which we operate. Information regarding PRC decisions and pending dockets may be obtained on the PRC website: www.prc.gov.

Market-Dominant Services

Market-Dominant services account for approximately 55% of our annual operating revenues. Market-Dominant services include, but are not limited to, *First-Class Mail*, *Marketing Mail*, *Periodicals*, some types of International Mail, and certain parcel services.

Price increases for these services are generally subject to a price cap, as determined by the PRC. This price cap system is partially based on the Consumer Price Index for All Urban Consumers ("CPI-U"), but also allows for some additional pricing flexibility and authority. Specifically, the PRC established three new rate authorities: density-based rate authority, retirement-based rate authority, and authority for non-compensatory classes. The density-based rate authority allows for an incremental price increase to help mitigate the increased costs associated with the growing number of delivery points and declining volumes. The retirement-based rate authority allows for an incremental price increase proportional to the increase in our annual retiree health benefits and retirement benefits amortization payments. Funds received under this retirement-based rate authority are required to be remitted to the U.S. Office of Personnel Management ("OPM") for our unfunded liabilities. The authority for non-compensatory classes allows for an incremental price increase on any non-compensatory class (i.e., any class where attributable costs exceeded revenue). Our Governors establish the prices for Market-Dominant services within this price cap system, and our prices are subject to a review process by the PRC for legal and regulatory compliance.

Under these new authorities, we implemented price increases on certain Market-Dominant services by an average of 6.8% on August 29, 2021. We also implemented price increases on certain Market-Dominant services that averaged 1.7% in January 2021, 1.9% in January 2020, and 2.5% in January 2019.

In September 2021, we announced a new Market-Dominant pricing adjustment schedule that may include biannual price increases, each January and July, with the first increase to occur in July 2022.

Competitive Services

Competitive services, such as *Priority Mail*, *Priority Mail Express*, *First-Class Package Service*, *Parcel Select*, *Parcel Return Service*, and some types of International Mail, have greater pricing flexibility and are not limited by a price cap. Prices for Competitive services are set by our Governors and reviewed by the PRC for legal compliance. By law, prices for each Competitive service must cover attributable costs (meaning the direct and indirect costs attributable to such product), and Competitive services collectively must contribute an appropriate share to the institutional costs of the Postal Service as determined by the PRC. In general, we attempt to set our prices for Competitive services at rates that maximize revenue and contribution.

The PAEA prohibits the subsidization of Competitive services costs by Market-Dominant services revenue. The PRC reviews our price increase notices and we are diligent to ensure each Competitive service covers its attributable costs, Competitive services collectively contribute an appropriate share of institutional costs and, Competitive services are not subsidized by our Market-Dominant revenues.

We implemented a time-limited price increase on certain Shipping and Packages subcategories from October 3, 2021 through December 26, 2021, after which prices will revert to the original 2021 pricing schedule. We implemented price increases on certain Competitive services in January 2021, January 2020, and January 2019, and the average price increases varied by Competitive services product. We implemented a time-limited price increase on certain Shipping and Packages subcategories from October 18, 2020 through December 27, 2020, after which prices reverted to the original 2020 pricing schedule. On July 1, 2020, we implemented our self-declared rates remuneration system, which effectively increased prices on our International Mail category. In June 2019, we implemented dimensional/weight provisions that amounted to price increases for certain Shipping and Packages subcategories.

SERVICE CATEGORIES

Although we do not operate in segments and report our performance as a single business, we monitor and report revenue by mail classes, products, and shapes. Management uses the following broad service categories to describe and report on our performance:

- **First-Class Mail** - This category encompasses letters, cards, or large envelopes destined for either domestic (up to 13 ounces) or international (up to 4 pounds) delivery. *First-Class Mail* letters include postcards, correspondence, bills or statements of account, and payments.
- **Marketing Mail** - This category includes advertisements and marketing packages, weighing less than 16 ounces and meeting the criteria of not being required to be mailed using *First-Class Mail* services because of the content. *Marketing 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 - Commercial*, a shipping option for high-volume shippers of packages that weigh less than one pound and *First-Class Package Service - Retail*, for shipment of boxes, thick envelopes, or tubes, weighing 13 ounces or less; *Package Services* for merchandise or printed matter, such as library and media mail, weighing up to 70 pounds; *Parcel Services - Parcel Select and Parcel Return* services, including "last-mile" services, and *USPS Marketing Mail Parcels* 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, day-specified (non-guaranteed) delivery; and *Priority Mail Express*, which provides an overnight to 2-day delivery with money-back guaranteed service including 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 Mail** - This category offers international mail and shipping services with individual customer contracts and agreements with foreign postal administrations. *Priority Mail Express International* and *Priority Mail International* services compete in the e-commerce cross-border business. These services provide an option for our consumer and business customers for much of their shipping needs to more than 190 countries. *Global Express Guaranteed* is the premier international shipping option that offers delivery to major markets.

- **Periodicals** - This category encompasses the *Periodicals* class of mail offered for newspaper, magazine, and newsletter distribution. Customers must receive prior authorization from us to use this service.
- **Other** - This broad category includes *PO Box* services, money orders, and USPS extra services. *PO Box* services 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.

For a discussion of economic and other factors affecting the volume of these services and our actions taken to address these factors, see *Part II., Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations, Operating Revenue and Volume.*

RESEARCH AND DEVELOPMENT

We operate a research and development facility in Virginia for the 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 immaterial to our results of operations or financial position.

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.

MARKETING

Our marketing program seeks to drive Market-Dominant and Competitive service revenue and support the Postal Service's universal service mission by capitalizing on innovation, technology, customer and consumer insights, and data management. We continue to adjust to changes in customer behaviors and demands to make accessing and using our services more convenient.

Online service offerings available through www.usps.com have also enhanced the customer experience by providing customer-focused applications and services, including the ability to locate a Post Office, find a ZIP Code, track packages, and shop online. Also included in online services is *Informed Delivery*, which enables customers to digitally preview mail and manage package delivery. We continue to enhance *Informed Delivery* and reinforce the value of mail by adding digital marketing capabilities to the printed mailpiece.

Our marketing approach highlights the value that we offer to customers, including our enhanced digital technologies and the linkages between digital and physical communications. Additionally, we seek to leverage our brand through the use of media advertising, licensing partnerships, trade shows, technical seminars, and direct mailings.

COMPETITION

We compete for our business in many different markets. A wide variety of communications media compete for the same types of transactions and communications that are conducted using our services. These channels 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 with both national and local competitors.

The most significant competitive factor for *First-Class Mail* is digital communication, including electronic mail, as well as other digital technologies such as online bill payment and presentment. For *Marketing Mail*, digital forms of advertising including digital mobile advertising and social media are the most significant forms of competition.

The primary competitors of our Shipping and Packages services are FedEx Corporation, United Parcel Service, Inc., and Amazon.com Inc., as well as other national, regional and local delivery companies, and crowdsourced carriers who are testing and implementing "last mile" delivery services. 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

Total revenue and volume for all service categories are historically greatest in the first quarter, which includes the holiday mailing and shipping season, and lowest in the third and fourth quarters during the spring and summer. *Marketing Mail* benefits from strong political and election mail volumes in election years, especially during presidential and congressional election cycles.

EMPLOYEES

As one of the largest employers in the U.S., our employees are critical to our success and the fulfillment of our mission. Our employees are hard-working public servants dedicated to moving the mail and making a difference in every community across the country. We are committed to improving the employee experience and we continue to invest in initiatives that will equip, empower, connect, and engage our employees.

At September 30, 2021, our workforce consisted of approximately 653,000 employees, substantially all of whom reside in the U.S. We categorize our employees into two primary groups: career and pre-career. Career employees are considered permanent and are entitled to a full range of benefits (e.g., health and retirement) and privileges, while pre-career employees do not yet have permanent status and do not receive full employee benefits and privileges. At September 30, 2021, we had approximately 516,500 career employees and approximately 136,500 pre-career employees.

As outlined in our *Delivering for America* plan, we are strategically working to create a stable and empowered workforce with the opportunity for career development and growth for all employees. To help achieve this initiative, we converted approximately 68,000 employees from pre-career status to career status during 2021.

Approximately 93% of our employees are covered by collective bargaining agreements. These agreements include provisions governing work rules and provide for general wage increases, step increases and cost of living adjustments ("COLA"), 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 pre-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. *Part II., Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 11 - Commitments and Contingencies.*

COMPENSATION AND BENEFITS

We endeavor to enhance our role as a preferred U.S. employer, offering stable jobs with flexible compensation and benefits packages to attract and retain highly qualified employees. We regularly review our compensation and benefits offerings to ensure we are meeting the needs of our current and future employees.

Along with basic competitive rates, certain employees are also eligible for overtime pay, night shift differential, and Sunday premium pay. Benefit programs include health, dental, and vision benefits, flexible spending accounts, paid time off, defined contribution retirement plans, defined benefit retirement plans, and employee assistance programs, depending on eligibility.

Overall, the total compensation of our median employee was \$90,113 during the year ended September 30, 2021. Total compensation for this purpose includes base pay plus other forms of cash compensation, such as overtime and bonuses, plus any change in pension value.

DIVERSITY AND INCLUSION

We believe diversity means building an inclusive environment that respects the uniqueness of every individual and encourages the contributions of people from different backgrounds, experiences, and perspectives. We believe our investment in a strong diversity program creates a positive work environment that recognizes the contributions of all our employees and provides us with a strategic advantage. As a further commitment to this investment, in 2021, we established an Executive Diversity Council to advise on diversity, equity, and inclusion matters, and champion key initiatives to build leadership and organizational capabilities.

We focus on diversity and inclusion in the recruitment, development, and retention of employees. We continue to be one of the leading employers of minorities, women, and veterans, at all levels of our organization. As of September 30, 2021, minorities, women, and veterans represented approximately 52%, 47%, and 10% of our total workforce, respectively, and 37%, 38%, and 11% of our senior management, respectively.

EMPLOYEE ENGAGEMENT

We aim to provide employees with an engaged workplace, one in which teams and individuals thrive and perform at high levels. We use a variety of methods to promote engagement including employee feedback mechanisms, such as open communication through Next Level Connection conversations, engagement ambassadors, an annual engagement survey, engagement communications through multiple platforms (social media, videos, newsletters, publications, etc.), engagement action planning, and engagement recognition programs. We believe that cultivating an engaged workplace will help us improve both the employee and customer experience while delivering exceptional business results.

EMPLOYEE DEVELOPMENT

We believe that investing in our employees is a key strategy for individual and organizational success. We provide a variety of professional development programs, mentoring programs, career development and succession plans, career conferences, and both in-house and external learning opportunities to meet the training and development needs of our employees, to fulfill organizational skill requirements, and to provide individuals with career growth opportunities.

EMPLOYEE SAFETY

Employee safety is a top priority for us, and we strive to provide a workplace that is safe for all employees, supports disability rights and access, and health management. Prevention is the guiding principle for both occupational safety and health-related legislation. To avoid accidents and occupational diseases, we have adopted standard requirements for safety and health protection at the workplace and established compliance protocols to ensure effective implementation. We promote safety performance using safety programs and safety leadership recognition, and monitor our performance using key metrics, including a total accident rate.

OVERSIGHT AND REGULATION

As discussed throughout this report, we are subject to oversight by Congress and regulation by the PRC and certain other government agencies. In addition to Senate confirmation of our Governors, Congress can influence how we conduct our business and operations through passage of laws. 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 U.S. government departments, agencies, and programs. Among other restrictions, such legislation requires us to maintain a six-day delivery schedule and precludes us from closing any small Post Office solely based on its financial performance, so that postal services may be offered to residents of both urban and rural communities. We are also bound by Postal Service-specific legislation, such as the PAEA, which impacts our financial performance and restricts our competitiveness by limiting our ability to grow our business, price our services, and constrain our expenses. For a more detailed explanation, see *Part II., Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Legislative Update*.

REGULATORY MATTERS

Although we are required to comply with various federal, state, and local laws and regulations concerning numerous matters, including environmental matters, none of these have had a material impact on our financial results or competitive position, or resulted in material capital expenditures. However, the effect of possible future legislation or regulations on operations cannot be predicted. New laws or regulations, such as the regulation of greenhouse gas emissions into the environment, may increase our operating costs, including the cost of fuel, and the potential costs of compliance with any such new laws or regulations.

Our *2021 Annual Sustainability Report* is available at about.usps.com/what/corporate-social-responsibility/sustainability/report/2021/usps-annual-sustainability-report.pdf. This report discusses our sustainability management approach, including key goals, programs, and metrics used to monitor our compliance and commitment to sustainability.

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 or 15(d) of the *Exchange Act*. These reports include annual reports on Form 10-K ("*Annual Report*"), quarterly reports on Form 10-Q ("*Quarterly Report*"), 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 U.S. Code and PRC regulations, we must also file additional information with the PRC, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, financial and strategic plans, and the *Annual Report to Congress*.

All of these reports can be found online at about.usps.com/what/financials. 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.

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 material 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.

OPERATIONAL AND MARKET RISK FACTORS

The impact of the COVID-19 pandemic on our business operations, financial condition, and results of operations remains unpredictable. Given the uncertainty of the COVID-19 pandemic, adverse U.S. and global economic conditions may continue to directly impact our business and negatively affect results of operations. We will continue to be at risk of another global pandemic or other adverse public health developments in the future.

The pandemic continues to have a severe impact on the global economy, supply chains, and consumer and commercial behavior. Quarantines, shelter-in-place orders, and travel and logistics restrictions in connection with the outbreak have affected our consumer and commercial customers, as well as suppliers and mail service providers. Many of our customers rely heavily on in-person retail sales and have experienced weaker demand. This has exposed us to certain financial risks as many of these customers have had to curtail or suspend their business with us, and some of this revenue may never return.

The pandemic severely affected the commercial airline industry, which we depend on to fulfill our transportation needs for certain of our services. With inconsistent commercial flight availability, we have been forced to use alternative modes of transportation, including charter flights and highway contract routes, which has and may continue to significantly affect our transportation costs or disrupt our processing and delivery schedules. Although the commercial airline industry has begun to recover since the onset of the pandemic, we continue to be at risk of either incurring much higher costs necessary to transport our mailpieces and/or not meeting our service standards for on-time delivery.

The pandemic has also affected our employees. The nature of our business in many cases requires the exposure of our employees to other people and limits opportunity for social distancing. We have implemented measures to protect the health and safety of our employees, including the implementation of remote work arrangements for certain of our office-based employees, and liberal leave policies for employees who may be affected by illness, quarantines or childcare obligations.

On November 5, 2021, the Occupational Safety and Health Administration ("OSHA"), an organization within the U.S. Department of Labor ("DOL"), issued a new Emergency Temporary Standard ("ETS") that requires all companies with more than 100 employees to establish certain protocols, recordkeeping, and record production processes and procedures related to the vaccination status of their employees by December 5, 2021. The ETS also mandates that such companies must require workers to either be fully vaccinated against COVID-19 by January 4, 2022, or test negative for COVID-19 at least once a week after that date. Due to the size of our workforce, this rule is applicable to the Postal Service. Complying with this ETS will be extremely challenging to implement and administer during the height of our peak season, particularly given its expedited schedule. Compliance also could result in labor challenges and high levels of absenteeism, as it may be difficult to obtain weekly testing and some employees may choose to leave employment over a vaccine or testing requirement. Changes in our workforce and employee availability could cause significant business disruptions, and could adversely impact service performance and result in lower mail volume and revenue.

A significant number of states and private companies have filed lawsuits challenging the legality of the OSHA ETS. In addition, on November 6, 2021, the United States Court of Appeals for the 5th Circuit issued a stay of the OSHA ETS pending expedited judicial review. As a result, whether the ETS, as issued, will remain intact, is uncertain. The uncertainty of whether the standard will be upheld further complicates the Postal Service's planning, implementation, administration, and compliance with the requirements.

While the pandemic continues to have a material and unpredictable effect on certain of our financial results, it may also heighten many of the other risks described in this section, any of which could have an adverse impact on our results of operations and financial position.

Changes in general economic conditions in the U.S. may adversely affect us.

With our mandate to provide universal postal services to the nation, we serve consumer and commercial customers in the U.S., as well as internationally. Our operations are subject to cyclicity affecting the national economy in general, as well as the local economic environments in which we operate, which makes us particularly vulnerable to macroeconomic risks. The factors that result in general macroeconomic changes are

beyond our control, and it may be difficult for us to adjust our business model to mitigate the impact of these factors.

Changes in the basic tenets of macroeconomics – output, unemployment, and inflation – could result in increased costs due to supply chain disruptions, wage increases, and higher fuel and energy prices. These changes could also impact the demand for consumer goods and cause a contraction in the retail market, lowering our volumes, particularly in the Shipping and Packages and *Marketing Mail* categories.

As outlined in our *Delivering for America* plan, we are realigning aspects of our organization, including changes to our workforce and transportation strategy, to best serve the American public and create a high performing, financially sustainable Postal Service. Changes to macroeconomic conditions could impact our ability to fully implement our plan in a timely manner and affect our ability to meet the financial targets of revenue growth, cost savings, and investment associated with the plan.

We expect continued uncertainty in the economy during 2022 and expect the challenges and conditions present in 2021 to also be present in 2022. Changes in general economic conditions, including further impacts of the ongoing COVID-19 pandemic, could have an adverse impact on our results of operations and financial position.

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

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

Customer usage of postal services continues to shift to substitute products and digital communication, a trend that has been further exacerbated by the pandemic as more businesses have had to operate remotely due to quarantines, shelter-in-place orders and travel restrictions. However, given the uncertainty of the pandemic, the long-term impact on these shifts is uncertain. *First-Class 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. *Marketing Mail* has experienced declines due to mailers' growing use of digital advertising, including digital mobile advertising, though this service category has proven to be a resilient marketing channel. 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.

Although the Postal Service's Competitive service volumes have increased, this increase is largely due to significant volume growth from certain major customers, all of which continue to build the delivery capability that would enable them to divert volume away from the Postal Service.

The growth in our Competitive service volumes is largely attributable to certain of our largest customers, a trend that has been further accelerated by the pandemic as the nation has increasingly relied on the safety and convenience of e-commerce. However, several of these customers continue to build delivery capability enabling them to divert volume away from the Postal Service over time. As these customers divert significant volume away from the Postal Service, the annual growth rate in our Competitive service volumes may not continue.

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 business operations and operating revenue.

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 and packages, our quality, or our reliability could diminish the value of our brand and reputation and could adversely affect our business operations and operating revenue.

Our need to streamline our operations in response to declining mail volume may result in significant costs. The measures we are considering may be insufficient to reduce our workforce and physical infrastructure to a level commensurate with declining mail volume.

Our ongoing reviews of cost-savings opportunities may identify opportunities that impact mail processing operations or affect lobby hours of retail units, Post Offices, or other facilities. Presently, our regular review of the carrying value of our assets has not resulted in significant write-downs of our physical assets. However, future changes in business strategy, operations, legislation, government regulations, or economic or market conditions may result in material impairment write-downs of our assets.

Our success depends on our ability to remain an employer of choice. Failure to attract and retain qualified employees could adversely affect our business operations.

As one of the largest employers in the U.S., our people are our greatest asset and our success depends on investing in their future. Difficulty recruiting, developing, engaging, and retaining our employees, including successors to members of our senior management, could have an adverse impact on our business. Furthermore, our pre-career employee positions have historically experienced high turnover rates, which can lead to increased labor costs for recruiting and hiring. If we fail to strengthen our employee experience, it could diminish our status as an employer of choice, and have an adverse impact on our business.

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. The actual COLA increases in 2021 and the projected COLA for 2022 have been larger than the historical increases for the past decade. Accordingly, we made COLA-based pay adjustments, which have significantly increased our expenses starting in September 2021. The estimated increase in our 2022 expenses is approximately \$1.1 billion. Continued impacts to consumer inflation could have a further 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 pre-career personnel. Reductions in the size and cost of our labor force may be necessary to offset the effects of declining volume and revenue.

Our ability to negotiate contracts that control labor costs is essential to achieving 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 exists, 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.

Furthermore, an increase in the CPI-W may not correspond to an equivalent increase in the CPI-U, which affects the prices of our Market-Dominant services under current law, as the two indexes are calculated differently. Therefore, we may not be able to increase the prices of our services to keep up with increases in our wages.

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 these providers' 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 one or more of our providers. Commercial air carrier availability declined as a result of travel restrictions associated with the pandemic, and the shift from commercial to chartered air carriers increased our air transportation expenses in both 2021 and 2020.

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. For the year ended September 30, 2021, our expenses for fuel represented 3.2% of operating expenses. The price and availability of fuel can be unpredictable and is beyond our control. Additionally, as we 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, will ultimately be passed through to us, which would result in increased costs.

A failure to protect the privacy of customer or employee information could damage our reputation and result in a loss of business.

We have invested in technology 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 remedies 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. We also face cybersecurity threats which may result in breaches of systems containing confidential or sensitive information, and/or our inability to operate systems necessary for conducting certain operations.

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, or to the infrastructure of our service providers, 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 delivery 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.

We also depend on and interact with the third-party technology and systems. These may include service organizations that we use for our metered postage revenue and other services, and we often are reliant on certain information from these third parties to record such revenue. Like us, these third parties are subject to risks imposed by data breaches, cyberattacks, and other events or actions that could damage or disrupt their networks or systems, or otherwise affect our financial reporting.

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 source of such threats is wide-ranging, and because the techniques used by those who perpetrate cyber incidents are increasingly sophisticated, change frequently, are complex, and are often not recognized until launched, we may not be able to fully anticipate threats to our systems and assets, or to implement effective preventive measures against all cyber threats, despite our best efforts. The ability to maintain confidentiality, integrity, and availability of information is critical to fulfilling our mission, and system failures resulting from these threats could damage our reputation, resulting in loss of business and increased costs.

FINANCIAL RISK FACTORS

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, to reduce costs by adjusting our network, infrastructure, and workforce, and to retain and grow revenue are currently constrained by contractual, statutory, regulatory, and legislative

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 have a substantial amount of indebtedness.

As of September 30, 2021, we reported outstanding debt obligations to the Federal Financing Bank ("FFB") of \$11.0 billion.

As of September 30, 2021, we have an estimated underfunded Postal Service Retiree Health Benefits Fund ("PSRHBF") liability of \$81.3 billion, as reported by OPM, which we will be required to fund in future periods. Of this amount, we are currently liable for \$57.0 billion, which we have reported as a current liability within *Retiree Health Benefits* in the accompanying *Balance Sheets* for the amount due and payable to the PSRHBF for invoiced but unpaid contributions.

As of September 30, 2021, we have estimated underfunded Civil Service Retirement System ("CSRS") and Federal Employees Retirement System ("FERS") liabilities of \$35.6 billion and \$28.7 billion, respectively, as reported by OPM, which we will be required to fund in future periods. Of these amounts, we are currently liable for \$8.4 billion and \$6.2 billion for CSRS and FERS, respectively, which we have reported as current liabilities within *Retirement Benefits* in the accompanying *Balance Sheets* for the amounts due and payable for invoiced but unpaid CSRS and FERS contributions.

Our significant indebtedness and unpaid retirement and retiree health obligations have important consequences. They limit our flexibility in planning for, or reacting to, changes in the business environment or competition. They place us at a competitive disadvantage compared to commercial competitors that may have less debt and which have broader access to public capital markets. They also could require us to dedicate a substantial portion of our future cash flow from operations to payments on debt and retirement and retiree health-care obligations, thus reducing the availability of cash flow to fund working capital, capital expenditures and other general organizational activities.

Health and pension benefit expenses are significant to us.

With approximately 516,500 career employees, approximately 499,000 retirees and survivors who receive retirement health benefits, and approximately 699,000 retirees and survivors who receive pension benefits, 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 the Federal Employees Health Benefit ("FEHB") program, the CSRS, and the FERS, as required by law or contractual agreement with our unions. We have no control or influence over the benefits offered by these plans and are required to make contributions to these plans as specified by law or, in the case of health benefits for the majority of our current employees, by contractual agreements with our unions. Several factors including participant mortality rates, returns on investment, and inflation could require us to make significantly higher future contributions to these plans, and all of these factors are beyond our control.

Over the last decade, we have experienced significant increases in retiree health benefits expenses, primarily as a result of PAEA, which obligates us to fully prefund the health benefits of current employees and retirees. Additionally, we are required to continue contributing to the FERS pension program at rates specified by OPM, and to make amortization payments for the unfunded liability. We are also required to make amortization payments to pay down the unfunded liability of the CSRS when the OPM determines that such payments are necessary.

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, delivery vehicles, 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 increased the importance 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.

REGULATORY RISK FACTORS

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, we 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 fundamental service provider to the nation, we attempt to balance the interests of many parties. Limitations on our ability to take action could adversely affect operating and financial results.

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 of mail caused by the changing economy, diversion to electronic media, and statutorily imposed costs, our ability to sell new products and services in new or existing markets will be a key factor in improving our financial condition. However, various laws and regulations significantly limit our ability to enter new markets and/or to provide new services and products, as we are often constrained 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.

The PAEA generally limits price increases on our Market-Dominant services. While this price cap system was amended to provide additional pricing flexibility and authority in November 2020, this additional rate authority is only expected to partially offset the effect of declining mail volume and growing delivery points, and may not be able to offset our increasing costs.

A large portion of our cost structure cannot be altered expeditiously, and the number of our delivery points continues to grow. 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.

We believe that continuing productivity improvements and effective use of our pricing authority will not be sufficient to address the challenges presented by declining volume and revenue, by the current regulatory price cap, and by statutorily imposed costs, nor will our efforts to grow operating revenue keep pace with our increased cost. Further legislative and administrative action will be necessary to restore the Postal Service to financial sustainability.

GENERAL RISK FACTORS

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

Workers' compensation liabilities are established for estimates of cash outlays that we are expected to 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 liability for such claims is adequate, but if actual experience results in an increase in the number of claims, and/or severity of claims for which we retain risk, this could cause a material difference from our estimates and adversely affect our financial condition and results of operations. In addition, our workers' compensation program is administered for us by 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-sector company has with its workers' compensation insurance provider.

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. Certain vendors and customers, including a large courier service for air transportation, are significant to the delivery of certain services. Our ability to maintain current or improved contract terms with customers and suppliers is critical to our initiatives to return to financial sustainability.

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.

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, wildfires, and severe winter storms place our employees in harm's way and make it challenging to deliver mail under these unpredictable and dangerous conditions. Additionally, shifts in weather patterns caused by climate change could increase the frequency and intensity of such weather-related natural disaster events. These events may also result in damage to our facilities, which could have a negative impact on business operations. Furthermore, these events could result in adverse economic impacts, including supply chain risks and fuel disruptions. Such disruptions could create significant additional operating costs in order to maintain continuity in fulfilling our mission.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own more than 8,400 and lease over 23,000 real properties ranging in size from 273 square feet to 32 acres. Our 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 and our operational needs, which may, from time to time, result in a change in the number of facilities.

ITEM 3. LEGAL PROCEEDINGS

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 *Part II., Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 11 - Commitments and Contingencies.*

CLASS ACTION LITIGATION

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

The *McConnell* 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 NRP's creation 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.

In 2015, the Administrative Judge assigned to handle the *McConnell* case granted in-part both the Class Agent's and our motions for summary judgment. In her decision, the Administrative Judge found that the NRP violated the Rehabilitation Act. We appealed this decision to the OFO, and the OFO denied this appeal in 2018. We implemented the OFO's order and notified all class members of their right to file an individual claim for relief. The claims submission deadline has passed and the dispute process for individual claims is currently underway before the assigned EEOC Administrative Judge.

The class members have the right to pursue individual claims. Should they be successful in establishing liability and damages that they assert, the ultimate outcome in this case could have a material impact on our financial results.

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

As an "independent establishment of the executive branch of the Government of the United States" (39 U.S.C. §201), we do not issue equity or other securities.

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.

Our operating results are presented in accordance with accounting principles generally accepted in the United States ("GAAP"). 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 quarters within fiscal years 2021 and 2020.

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. These risks include, but are not limited to, the effects of the coronavirus ("COVID-19") pandemic on our business, financial condition, and results of operations.

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 *Part I., Item 1A. Risk Factors*.

OVERVIEW

With our mandate to provide universal postal services to the nation, we serve consumer and commercial customers in the U.S., as well as internationally. Our operations include an extensive and integrated retail, processing, distribution, transportation, and delivery network, and we operate throughout the U.S., including its possessions and territories. We operate as a single segment and report our performance as a single business.

We have successfully implemented initiatives that have reduced the growth in certain costs by billions of dollars while offering new features for customers. However, legal restrictions on pricing, service diversification, and operations restrict our ability to cover our costs to provide prompt, reliable, and efficient postal services to the nation.

As an independent establishment of the U.S. government, we have a unique mission to:

- Serve the American people and, through the universal service mission, bind our nation together by maintaining and operating our unique, vital, and resilient infrastructure;
- Provide trusted, safe, and secure communications and services between the U.S. government and the American people, businesses, and their customers, and the American people with each other; and
- Serve all areas of our nation, making full use of evolving technologies.

We will carry out this mission by remaining an integral part of the U.S. government and providing all Americans with universal and open access to our unrivaled delivery and retail network; using technology, innovation and, where appropriate, private-sector partnerships to meet our customers' changing needs; operating in a modern, precise, efficient, and effective manner; and remaining an employer of choice, including attracting and retaining high-quality employees.

DELIVERING FOR AMERICA

In March 2021, we published our vision and ten-year plan to achieve service excellence and financial stability entitled *Delivering for America* (https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf).

Our comprehensive plan delivers:

- A modernized Postal Service capable of providing world class service reliability at affordable prices;
- Maintenance of universal six-day mail delivery and expanded seven-day package delivery;
- Workforce stability and investment strategies that empower, equip, and engage each employee and put them in the best possible position to succeed;

- Innovation that grows revenue and meets changing marketplace needs; and
- Financial sustainability to fund our universal service mission.

We can accomplish these goals with legislative and regulatory changes, effective use of newly acquired and existing pricing authorities, operating more precisely and efficiently across our enterprise, and by driving revenue growth through innovative customer solutions.

Our plan's strategies for revenue growth, cost savings, and investment, combined with legislative and administrative actions, will enable us to operate in a financially self-sustaining manner while fulfilling our universal service mission. We have made progress on several key initiatives in our plan, but the plan must be implemented timely and in full to meet our financial targets.

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 secularly declining levels of mail volume, increased competition in the more labor-intensive Shipping and Packages business, and an increasing number of delivery points.

Effects of COVID-19

Given our mandate to provide universal postal services to the nation, we provide an essential service as part of the nation's critical infrastructure and have continued to process and deliver mail and packages during the pandemic. We serve a crucial role in the U.S. economy as at least six days per week, and in some instances seven, our employees accept, process, transport, and deliver vital mail and packages like medicine, fundamental consumer staples, benefits checks, and important information.

The pandemic continues to have a material and unpredictable effect on certain of our results of operations. At the onset of the pandemic, we experienced a significant decline in mail services volume and substantial growth in volume from Shipping and Packages, our most labor-intensive revenue stream.

As the U.S. economy recovers, the impact of COVID-19 on our volume trends has begun to abate. Mail services, particularly *Marketing Mail*, has experienced growth during the second half of the year, compared to the same period last year, while Shipping and Packages volume declined. Despite these reversals in volume trends during the second half of the year, the pandemic has significantly transformed the mix of mail and packages processed through our network, with a substantially higher percentage of Shipping and Packages volume, compared to pre-pandemic levels. While this shift contributes to net positive cash flow, Shipping and Packages produces a lower contribution margin per revenue dollar due to higher associated labor and transportation expenses.

Our operating expenses have also been significantly impacted by the pandemic, beyond the impact of higher package volume, as we have incurred expenses for personal protective equipment ("PPE"), increased sick leave, increased costs for hiring and training new employees, increased overtime costs, and certain general pandemic-related inefficiencies in the workplace including increased hours managing PPE, sanitizing work areas, social distancing in postal facilities, and the acclimation of new hires. Our transportation costs also continued to be impacted as the inconsistent availability in commercial flights required the use of alternative modes of transportation, particularly in the first half of the year. While these costs are still higher than pre-pandemic levels, they have decreased from those incurred at the onset of the pandemic.

Despite the continued distribution and administration of vaccinations, the duration of the COVID-19 disruption remains uncertain, particularly with the emergence of COVID-19 variants. We expect that our liquidity may decline if the nation experiences a prolonged period of disruption or the surge in e-commerce diminishes further. In 2021, these concerns were partially mitigated by receipt of \$10.0 billion, under the *Coronavirus Aid, Relief, and Economic Security Act*, enacted as Public Law 116-136 (the "CARES Act"), as amended, from the U.S. Department of the Treasury ("U.S. Treasury") to fund operating expenses, and by \$233 million in

reimbursements for certain pandemic-related leave expenses under the *American Rescue Plan Act of 2021*, enacted as Public Law 117-2, as discussed in *Note 5 - Related Parties*.

2021 Compared with 2020

As more fully described below in *Operating Revenue and Volume*, our operating revenue was \$77.0 billion for the year ended September 30, 2021, an increase of approximately \$3.9 billion, or 5.3%, from the prior year, due to the following:

- Shipping and Packages revenue increase of approximately \$3.5 billion, or 12.2%, compared to the prior year, due to price increases and volume growth of 253 million pieces, or 3.5%, compared to the prior year. The volume growth was largely driven by the surge in e-commerce resulting from the pandemic and record holiday volume. However, this surge has begun to abate as the economy continues to recover and market competition intensifies; and
- *Marketing Mail* revenue increase of \$681 million, or 4.9%, compared to the prior year, with a volume growth of approximately 2.2 billion pieces, or 3.4%, compared to the prior year. *Marketing Mail* benefited from higher revenue and volume for political and election mail associated with the calendar year 2020 general election. *Marketing Mail* experienced steep volume declines at the onset of the pandemic last year, but has been rebounding as the economy continues to recover. *Marketing Mail* has generally proven to be a resilient marketing channel, and as the economy is recovering, its value to U.S. businesses remains strong due to healthy customer returns on investment, and better data and technology integration.

The above increases in operating revenue were partially offset by a decrease in *First-Class Mail* revenue of \$500 million, or 2.1%, compared to the prior year, with a volume decline of approximately 1.9 billion pieces, or 3.7%, compared to the prior year, reflecting the continuing migration from mail to electronic communication and transaction alternatives, which has been exacerbated by the pandemic. However, as the economy continues to recover, the impact of COVID-19 on *First-Class Mail* volume has begun to subside.

As more fully described below in *Operating Expenses*, we reported increases across most of our operating expenses categories in 2021, compared to the prior year:

- Compensation and benefits expense increase of approximately \$1.4 billion, or 2.8%, from the prior year, primarily due to additional employees and work hours associated with the higher Shipping and Packages volume and contractual wage increases;
- Transportation expense increase of \$838 million, or 9.5%, from the prior year, primarily due to higher highway transportation costs as a result of an increase in miles driven and higher average diesel fuel rates;
- Retiree health benefits expense increase of \$450 million, or 9.7%, from the prior year, due to the impact of changes in discount rates, which are outside of management's control; and
- Retirement benefits expense increase of \$412 million, or 5.9%, from the prior year, primarily due to contribution rate increases established by OPM. This increase is also driven by changes in discount rates, which are outside of management's control.

Despite these increases, a workers' compensation expense decrease of approximately \$3.5 billion, or 120.0%, compared to the prior year, due to changes in discount rates, which are outside of management's control, resulted in lower total operating expenses for 2021, compared to the prior year, of \$343 million, or 0.4%.

Overall, we reported a net loss of approximately \$4.9 billion for 2021, a decrease in net loss of approximately \$4.2 billion, compared to a net loss of approximately \$9.2 billion for 2020. However, excluding the impacts of discount rate changes on our workers' compensation expense, which are outside of management's control, we reported an adjusted loss of \$6.9 billion for 2021, compared to an adjusted loss of \$7.6 billion for 2020.

2020 Compared with 2019

For a comparison of our results of operations for the year ended September 30, 2020 to the year ended September 30, 2019, see *Part II., Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Form 10-K for the fiscal year ended September 30, 2020, filed with the PRC on November 13, 2020.

Non-GAAP Controllable Loss

In the day-to-day operation of our business, we focus on costs that can be managed in the normal business operations, such as salaries and transportation. We use various non-GAAP measures to help us better manage our business. However, these non-GAAP measures should not be considered as a substitute for net loss and other GAAP reporting measures.

We calculate loss excluding workers' compensation adjustments, a non-GAAP measure, by excluding non-cash workers' compensation expenses driven by actuarial revaluation and discount rate changes, which can fluctuate significantly and over which we have no control.

We calculate controllable loss, a non-GAAP measure, by excluding the non-cash workers' compensation adjustments, as well as PSRHBF actuarial revaluation and amortization expenses and the amortization of unfunded pension liabilities. The variance in these expenses depends primarily on factors over which we have no control, such as changes in projected discount rates and inflation.

The following table reconciles our GAAP net loss to controllable loss for the years ended September 30, 2021 and 2020:

<i>(in millions)</i>	2021	2020
Net loss	\$ (4,930)	\$ (9,176)
Change in workers' compensation liability resulting from fluctuations in discount rates	(1,649)	1,909
Other change in workers' compensation liability ¹	(276)	(304)
Loss excluding workers' compensation adjustments	(6,855)	(7,571)
PSRHBF unfunded liability amortization expense ²	907	810
CSRS unfunded liability amortization expense ³	1,858	1,817
FERS unfunded liability amortization expense ⁴	1,401	1,343
Change in normal cost ⁵ of retiree health benefits due to revised actuarial assumptions ⁵	303	(151)
Controllable loss	\$ (2,386)	\$ (3,752)

¹ Net amounts include changes in assumptions, valuation of new claims, and revaluation of existing claims, less current year claim payments.

² Expense for the annual payment due by September 30 of the respective year, on the unfunded liability as calculated by OPM.

³ Expense for the annual payments due September 30 of the respective year, calculated by OPM to amortize the unfunded CSRS retirement obligation. Payments are to be made in equal installments through 2043.

⁴ Expense for the annual payment due September 30 of the respective year, calculated by OPM to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on OPM invoices.

⁵ Represents the annual portion of the normal cost payment due September 30, 2021 and 2020, attributable to revised actuarial assumptions and discount rate changes. The total normal cost payment amount, calculated by OPM, is \$4.2 billion and \$3.9 billion, respectively.

For the year ended September 30, 2021, controllable loss decreased by approximately \$1.4 billion. This decrease was driven by the approximately \$3.9 billion increase in operating revenue, partially offset by the increases in compensation and benefits expense of approximately \$1.4 billion, transportation expense of \$838 million, and other operating expense of \$85 million. These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses*.

OPERATING REVENUE AND VOLUME

We generate the vast majority of our revenue through products and services associated with the processing and delivery of various types of mail and packages, both domestically and internationally. Revenue for each mail class is highly correlated with its volume processed and delivered, although revenue per product varies by service category.

The pandemic has significantly transformed the mix of mail and packages processed through the Postal Service's network and the Postal Service anticipates that its volumes and mix will not return to pre-pandemic levels. Despite these declines in mail, the most profitable revenue stream, and growth in Shipping and Packages, the most labor-intensive revenue stream, the Postal Service continues to grow its revenue through optimization of its pricing strategies and effective use of its pricing authority, as outlined in the *Delivering for America* plan.

The combined categories of *First-Class Mail* and *Marketing Mail* have historically provided the majority of our operating revenue, despite long-term trends away from traditional paper communication and correspondence to electronic media that have been further exacerbated by the COVID-19 pandemic. For the years ended September 30, 2021 and 2020, *First-Class Mail* and *Marketing Mail* combined represented 49.2% and 51.5% of our operating revenue, respectively, and 90.7% and 90.3% of our total volume, respectively.

First-Class Mail has historically been the service category producing the highest revenue. As a result of the surge in e-commerce associated with the COVID-19 pandemic, Shipping and Packages revenue surpassed that of *First-Class Mail*, representing 41.6% of our revenue for the year ended September 30, 2021, compared to only 30.2% for *First-Class Mail*. Shipping and Packages generated only 5.9% and 5.7% of our volume for each of the years ended September 30, 2021 and 2020, respectively, and the costs to process and deliver these services are higher than the costs associated with *First-Class Mail* on a per-piece basis.

The following table details our operating revenue and volume for the years ended September 30, 2021 and 2020 by service category:

<i>(in millions)</i>	2021	2020
Operating revenue:		
First-Class Mail ¹	\$ 23,281	\$ 23,781
Marketing Mail ²	14,590	13,909
Shipping and Packages ³	32,013	28,529
International	2,223	2,408
Periodicals	942	1,024
Other ⁴	3,960	3,472
Total operating revenue	\$ 77,009	\$ 73,123
Volume:		
First-Class Mail ¹	50,695	52,628
Marketing Mail ²	66,200	64,004
Shipping and Packages ³	7,578	7,325
International	409	742
Periodicals	3,679	4,006
Other ⁵	300	466
Total volume	128,861	129,171
<p>Note: The totals for certain mail categories for the prior year have been reclassified to conform to classifications used in the current year. Non-operating revenue is no longer included in this schedule.</p> <p>¹ Excludes <i>First-Class Package Service - Retail</i> and <i>First-Class Package Service - Commercial</i>.</p> <p>² Excludes <i>Marketing Mail Parcels</i>.</p> <p>³ Includes <i>Priority Mail</i>, <i>USPS Retail Ground</i>, <i>Parcel Select Mail</i>, <i>Parcel Return Service Mail</i>, <i>Marketing Mail Parcels</i>, <i>Package Service Mail</i>, <i>First-Class Package Service - Retail</i>, <i>First-Class Package Service - Commercial</i> and <i>Priority Mail Express</i>.</p> <p>⁴ Revenue includes <i>PO Box</i> services, <i>Certified Mail</i>, <i>Return Receipts</i>, <i>Insurance</i>, <i>Other Ancillary Services</i>, <i>Shipping and Mailing Supplies</i>, <i>Collect on Delivery</i>, <i>Registered Mail</i>, <i>Stamped Envelopes and Cards</i>, <i>money orders</i> and <i>Other services</i>.</p> <p>⁵ Volume includes <i>Postal Service internal mail</i> and <i>free mail provided to certain congressionally mandated groups</i>.</p>		

Although volume is generally linked to the strength of the U.S. economy, and revenue is linked to changes in how our customers use mail and packages, we have proactively targeted opportunities to grow our business. We continue to focus on our customers' needs and have increased our marketing investment in mail and package innovation. However, we also 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 new services to market.

We anticipate that *First-Class Mail* will continue to lose volume in future years with the migration to electronic communication and transactional alternatives resulting from technological changes. To address the long-term trend that such changes have had on our *First-Class Mail* revenue and volume, we have been working with the mailing industry to slow the decline through mailing promotions and leveraging the high open-and-read rates of, for example, bills and statements for additional customer engagement and education.

We have also focused on providing new services and innovating with *Marketing Mail*. We have expanded service offerings such as *Informed Delivery*, which enables customers to preview mail and manage packages scheduled to arrive as a means of merging digital and physical mail, as well as allowing mailers to launch interactive digital campaigns. Additionally, we are focusing on opportunities to pilot new services and innovate with customers and the mail industry to enhance the value of hard-copy communication. We believe these service offerings will further improve the value of both *First-Class Mail* and *Marketing Mail*.

Our Shipping and Packages category has historically experienced revenue and volume growth as a result of our successful efforts to compete in shipping services, including last-mile e-commerce fulfillment markets and

Sunday delivery, as well as end-to-end markets. We continue to focus on responding to customers' needs by implementing marketing campaigns and maintaining strategic business partnerships that help us capitalize on the growing e-commerce business.

However, our Shipping and Packages category is subject to intense competition which significantly impacts both revenue and volume. While the surge in e-commerce growth driven by the pandemic, resulted in certain major customers temporarily increasing their volume to our network due to their delivery capacity constraints, these customers have returned to diverting volume from our network by in-sourcing the last-mile delivery and aggressively pricing their products and services in order to fill their networks and grow package density.

First-Class Mail

First-Class Mail, presented in this report as a mail class and a Market-Dominant service category, includes cards, letters and flats. Prices for *First-Class Mail*, our most profitable service category, are the same regardless of the distance the mail travels. Because *First-Class Mail* is classified by law as Market-Dominant, price increases are generally subject to a price cap, as determined by the PRC. This price cap system is partially based on the Consumer Price Index for All Urban Consumers ("CPI-U") but also allows for some additional pricing flexibility and authority.

First-Class Mail generated approximately 39.3% and 40.7% of the total volume, but represented approximately 30.2% and 32.5% of operating revenue for the years ended September 30, 2021 and 2020, respectively.

For the year ended September 30, 2021, *First-Class Mail* revenue fell by \$500 million, or 2.1%, on a volume decline of 3.7%, compared to the prior year. The most significant factor contributing to the declining trend in *First-Class Mail* volume over the year was the continuing migration from mail to electronic communication and transaction alternatives, which has been accelerated by the pandemic. However, as the economy continues to recover, the impact of the pandemic on *First-Class Mail* volume has begun to subside. Revenue declined at a slower rate than volume due to the January 2021, and to a lesser extent, the August 2021, price increases applicable to certain Market-Dominant services.

Marketing Mail

USPS Marketing Mail (more commonly, *Marketing Mail*), presented as a mail class and a Market-Dominant service category, generally consists of advertising, newsletters, catalogs, small marketing parcels and other printed matter not required to be processed and delivered as *First-Class Mail* or *Periodicals*. Because *Marketing Mail* is classified by law as Market-Dominant, price increases are generally subject to a price cap, as determined by the PRC. This price cap system is partially based on the CPI-U but also allows for some additional pricing flexibility and authority.

Marketing Mail generated approximately 51.4% and 49.5% of our total volume, but represented approximately 18.9% and 19.0% of operating revenue for the years ended September 30, 2021 and 2020, respectively.

Marketing Mail experienced steep volume declines at the onset of the pandemic last year, but has been rebounding as the economy continues to recover. *Marketing Mail* has generally proven to be a resilient marketing channel, and its value to U.S. businesses remains strong due to healthy customer returns on investment and better data and technology integration. However, this category has been challenged by commercial mailers' use of digital and mobile advertising, which had been accelerated by the pandemic, and *Marketing Mail* volume remains lower than pre-pandemic levels.

For the year ended September 30, 2021, *Marketing Mail* revenue increased approximately \$681 million, or 4.9%, on volume growth of 3.4%, compared to the prior year. *Marketing Mail* revenue and volume benefited from higher revenue and volume for political and election mail associated with the calendar year 2020 general election. Revenue grew at a greater rate than volume due to the January 2021, and to a lesser extent, the August 2021, price increases applicable to certain Market-Dominant services.

Shipping and Packages

Our Shipping and Packages business consists largely of Competitive services that can be priced to reflect current market conditions, subject to certain price floors, and such prices are subject to review by the PRC for legal compliance. These include *Priority Mail*, *Priority Mail Express*, *Parcel Select*, *Parcel Return*, *First-Class Package Services - Retail* and *First-Class Package Services - Commercial*. Shipping and Packages also includes *Bound Printed Matter* and Media and Library Mail; however, these are considered Market-Dominant services and are therefore subject to price caps.

As a percentage of operating revenue, Shipping and Packages generated approximately 41.6% and 39.0% of our total revenue for the years ended September 30, 2021 and 2020, respectively. As a percentage of total volume, Shipping and Packages represented 5.9% and 5.7% of our total volume for the years ended September 30, 2021 and 2020, respectively.

Our Shipping and Packages business has continued to experience revenue growth as a result of our successful efforts to compete in shipping services, including "last-mile" e-commerce fulfillment markets and Sunday delivery, as well as end-to-end markets, driven by consumers' continued use of online shopping. Throughout 2021, we increased Sunday delivery service for some of our customers in limited U.S. markets and added pre-career employees in accordance with our labor agreements, to accommodate the temporary surges in volume, both as a result of the pandemic and in association with the calendar year 2020 holiday season. In anticipation of our calendar year 2021 holiday season, we are continuing preparations for meeting the higher delivery demands by increasing our facility space, installing new processing equipment to accommodate the higher package volumes, and implementing our plan to recruit an additional 40,000 employees.

We believe consumer behavior has evolved during the pandemic and our Shipping and Packages volume is not expected to return to pre-pandemic levels, as the nation has increasingly relied on the safety and convenience of e-commerce. However, the surge in e-commerce has begun to abate as the economy continues to recover. Furthermore, competition in the overall market has increased as certain major customers have returned to diverting their volume from our network and aggressively pricing their products and services to fill their networks and grow package density.

For the year ended September 30, 2021, Shipping and Packages revenue grew by 12.2% on volume growth of 3.5%, compared to the prior year. Revenue growth was driven by the surge in e-commerce resulting from the COVID-19 pandemic, as well as our previously described successful efforts to compete in shipping services. Revenue increased at a greater rate than volume due to the January 2021 price increases applicable to certain Competitive services and the time-limited price increase effective during the first quarter of 2021.

The following table details our operating revenue and volume for Shipping and Packages for the years ended September 30, 2021 and 2020 by each service:

<i>(in millions)</i>	2021	2020
Shipping and Packages revenue:		
Priority Mail Services ¹	\$ 14,334	\$ 12,528
Parcel Services ²	9,458	8,942
First-Class Package Services ³	7,386	6,227
Package Services	835	832
Total Shipping and Packages revenue	\$ 32,013	\$ 28,529
Shipping and Packages volume:		
Priority Mail Services ¹	1,434	1,298
Parcel Services ²	3,571	3,608
First-Class Package Services ³	2,056	1,848
Package Services	517	571
Total Shipping and Packages volume	7,578	7,325
¹ Includes <i>Priority Mail</i> , a 1-3 business day delivery service; <i>Priority Mail Express</i> , an overnight delivery service available 365 days per year; and <i>USPS Retail Ground</i> , a retail-only Competitive service priced identically and functionally equivalent to <i>Priority Mail</i> for Zones 1-4. ² Includes <i>Parcel Select</i> , <i>Parcel Return</i> and <i>Marketing Mail Parcels</i> . ³ Includes <i>First-Class Package Services - Retail</i> and <i>First-Class Package Services - Commercial</i> .		

Priority Mail Services

Priority Mail Services is our Shipping and Packages subcategory that includes *Priority Mail*, *Priority Mail Express*, and *USPS Retail Ground*. *Priority Mail* and *Priority Mail Express* services allow customers the ability to send documents and packages requiring expedited transportation and handling. While Priority Mail Services revenue has grown year-over-year, its service offerings are somewhat price sensitive and its growth rate has been lower than other Shipping and Packages subcategories due to intense competition.

Priority Mail Services accounted for 44.8% and 43.9% of Shipping and Packages revenue for the years ended September 30, 2021 and 2020, respectively. However, Priority Mail Services only accounted for approximately 18.9% and 17.7% of Shipping and Packages volume for the years ended September 30, 2021 and 2020, respectively.

For the year ended September 30, 2021, Priority Mail Services revenue grew by 14.4% on volume growth of 10.5%, compared to the prior year. Revenue and volume increased largely due to the surge in e-commerce from the COVID-19 pandemic and record holiday volume. Revenue grew at a greater rate than volume due to the January 2021 price increases associated with certain Competitive services. Revenue was also impacted by the time-limited price increase effective during the first quarter of 2021.

Parcel Services

Our Parcel Services subcategory includes Competitive services *Parcel Select* and *Parcel Return*, as well as Market-Dominant service *USPS Marketing Mail Parcels* (more commonly, *Marketing Mail Parcels*). *Parcel Select* and *Parcel Return Services* largely consist of "last-mile" deliveries, offered to large bulk shippers that perform their own sorting before conveying parcels to us for processing and/or delivery deeper into our network. Parcel Services represented 29.5% and 31.3% of Shipping and Packages revenue for the years ended September 30, 2021 and 2020, respectively. This subcategory is primarily a last-mile service that bypasses much of our infrastructure and therefore is one of our lowest-priced package services, and as a result, produces a lower-contribution per piece when compared to many of our other services.

Revenue from Parcel Services increased 5.8%, despite a volume decline of 1.0%, for the year ended September 30, 2021, compared to the prior year. Volume declined for the year as certain major customers had

increased their volume to our network at the onset of the pandemic last year due to their delivery capacity constraints, but have returned to diverting their volume and in-sourcing their last-mile delivery in 2021. Revenue grew despite the volume decline due to the January 2021 price increases associated with certain Competitive services. Revenue was also impacted by the time-limited price increase effective during the first quarter of 2021.

First-Class Package Services

Our First-Class Package Services subcategory includes the competitively priced *First-Class Package Service - Retail*, a Competitive service targeted to retail customers for packages weighing up-to-13 ounces, and *First-Class Package Service - Commercial*, a Competitive service targeted to commercial customers for packages weighing up-to-16 ounces. This subcategory offers commercial customers that ship primarily lightweight fulfillment parcels the lowest-priced unrestricted end-to-end shipping option in the marketplace. First-Class Package Services revenue and volume performance has experienced strong increases for the past several years, particularly from our commercial customers. These increases are primarily attributable to growth in e-commerce.

For the year ended September 30, 2021, First-Class Package Services revenue increased 18.6% on volume growth of 11.3%, compared to the prior year. Revenue and volume increased in 2020 due to the surge in e-commerce from the COVID-19 pandemic and record holiday volume. Revenue grew at a greater rate than volume due to the January 2021 price increases associated with certain Competitive services. Revenue was also impacted by the time-limited price increase effective during the first quarter of 2021.

Package Services

Our Package Services subcategory is a Market-Dominant service that includes both Bound Printed Matter for materials up-to-15 pounds and Library and Media Mail for materials up-to-70 pounds. For the year ended September 30, 2021, Package Services revenue increased 0.4%, despite a volume decline of 9.5%, compared to the prior year. Revenue grew despite the volume decline due to shifts in the mix of services provided and the January 2021, and to a lesser extent, the August 2021, price increase applicable to certain Market-Dominant services. price increases applicable to Market-Dominant services.

International Mail

Our International Mail category includes several services that enable customers, both domestic and abroad, to send or receive international mail, including postcards, envelopes, flats, and packages, with either standard or express delivery options. For the years ended September 30, 2021 and 2020, International Mail revenue represented 2.9% and 3.3% of total operating revenue, respectively.

"Outbound" services, which allow customers in the U.S. to send mail and packages to other countries, generate approximately one-half of International Mail revenue but only one-third of its volume, whereas "inbound" services are the opposite, generating two-thirds of International Mail volume but only one-half of its revenue.

The U.S. is a member of the Universal Postal Union ("UPU"), a specialized agency of the United Nations that facilitates the exchange of international mail. We are the designated postal operator for the U.S. under the UPU, and payments to the designated postal operator for the delivery of foreign origin letter-post mails are known as "terminal dues."

In September 2019, the UPU members had a special meeting, known as the "Extraordinary Congress," to discuss the terminal dues system. During that meeting, UPU members agreed to establish a new remuneration system that allowed us to self-declare rates beginning in July 2020. Other foreign postal operators may also reciprocally apply rates at full-self-declared rates at that time.

In February 2020, we officially invoked the provision of the new remuneration system to self-declare rates, and our self-declared rates went into effect in July 2020.

For the year ended September 30, 2021, International Mail revenue decreased by 7.7% and volume declined 44.9%, compared to the prior year. The decrease in revenue is directly correlated to the declines in both inbound and outbound volume due to various pricing and economic factors, including the impact of the

COVID-19 pandemic on transportation logistics and the global economy in general, as well as the impact of the higher self-declared rates. However, revenue would have declined further were it not for the rate increases from the self-declared rates.

Periodicals

Periodicals, also presented as a mail class and a Market-Dominant service category, includes services designed for newspapers, magazines, and other periodical publications whose primary purpose is providing publications to subscribers or other users. For the year ended September 30, 2021, *Periodicals* revenue decreased by 8.0% and volume decreased by 8.2%, compared to the prior year.

Periodicals revenues and volumes have been in decline for more than a decade as trends in hard-copy reading behavior and shifts of advertising away from print have decreased this business. We expect the *Periodicals* category to continue to decline as electronic content has gained a significant portion of this market share.

Other

Other services revenue includes ancillary services such as *Certified Mail*, *PO Box* services, and *Return Receipt* services. Also included in this category are the fluctuations in our deferred revenue estimates, money order services, passport services, signature-on-delivery services, insurance, and our own internal mail, which generates no revenue but has volume that can vary significantly from year to year.

For the year ended September 30, 2021, Other services revenue increased by 14.1%, compared to the prior year, driven by changes in fluctuations of our deferred stamp revenue estimates. We defer recognition of revenue from stamp sales until postage is used. Revenue is recognized over time as mail is processed through our network and is fully recognized once the mail reaches its final delivery point. During 2021, recognition of deferred stamp revenue was higher, compared to the previous year, due to variations in consumer trends. The increase was also due to higher passport revenue, reflective of reduced travel restrictions associated with the pandemic, and higher revenue from certain services, including signature confirmation services and insurance.

OPERATING EXPENSES

In an effort to align our resources with anticipated future mail and package volume, we continue to aggressively manage operating expenses under management's control.

As described above in *Operating Revenue and Volume*, we anticipate that the continued migration of communications and commerce to electronic media, which has been accelerated by the COVID-19 pandemic, will adversely affect *First-Class Mail* volume and revenue for the foreseeable future. We originally designed our mail processing and distribution network to provide delivery service of *First-Class Mail* within specified delivery areas for a much higher volume of mail than we are required to process and deliver today, and the network's legacy capabilities are not completely aligned to today's mail mix and volumes. Consequently, certain of our processing and distribution facilities continue to operate at less than full capacity. In addition, the costs of transporting and delivering packages on a per-piece basis are higher than the costs for *First-Class Mail*.

Our challenge to contain costs is compounded by the continuing increase in the number of delivery points, which, when combined with lower 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 3.0 pieces in 2021, a reduction of approximately 46%.

Compensation and Benefits

Compensation and benefits, our largest operating expense category, consists of costs related to our active career and pre-career employees other than retirement costs associated with U.S. government defined benefit pension programs and retiree health costs, which are further discussed in *Retirement Benefits* and *Retiree Health Benefits*, respectively. Compensation and benefits represented approximately 61% and 59% of our total operating expenses for the years ended September 30, 2021 and 2020, respectively.

For the year ended September 30, 2021, compensation and benefits increased by 2.8%, compared to the prior year. The following table provides the components of compensation and benefits for active employees as of September 30, 2021 and 2020:

<i>(in millions)</i>	2021	2020
Compensation	\$ 40,837	\$ 39,754
Employee health benefits	5,248	5,188
Social Security	2,372	2,256
TSP	1,250	1,194
Other	378	338
Total compensation and benefits	\$ 50,085	\$ 48,730

Compensation

During the year ended September 30, 2021, compensation expense increased approximately \$1.1 billion, or 2.7%, compared to 2020. This increase was primarily due to increased work hours, contractual wage increases, and costs associated with general inefficiencies in the workplace as a result of the pandemic, including increased hours managing PPE, sanitizing work areas, social distancing in postal facilities, and training and developing new hires. These increases were partially offset by lower paid leave as we had been required to provide and fund new pandemic-related paid sick leave for employees in 2020 under the *Families First Coronavirus Response Act*, enacted as Public Law 116-127, but were reimbursed for new pandemic-related paid sick leave for employees in 2021 under the *American Rescue Plan Act of 2021* as described below. Leave was also generally used at a lower rate this year than at the onset of the pandemic last year.

In March 2021, the President signed the *American Rescue Plan Act of 2021*, enacted as Public Law 117-2, which included \$570 million in funding for COVID-19 related leave taken through September 30, 2021 for all federal employees, including our employees. Pursuant to this law, we were eligible for reimbursement of certain COVID-19 related leave expenses. However, receipt of funds under this law is not guaranteed as it is subject to OPM's approval and the available remaining balance. During the year ended September 30, 2021, we received \$233 million in reimbursements under this law, and this amount was recorded as a contra expense.

Workforce Composition

The composition of our workforce is a significant factor of our compensation expense. The following table provides the approximate totals of career and pre-career employees as of September 30, 2021 and 2020:

	2021	2020
Career employees	516,500	496,000
Pre-career employees	136,500	148,000
Total employees	653,000	644,000

Our overall workforce increased approximately 9,000, or 1.4%, between 2021 and 2020. This was driven by an increase in career employees of approximately 20,500 or 4.1%, reflecting additions to the workforce to address the surge in Shipping and Packages volumes associated with the COVID-19 pandemic, as well as the number of employee conversions from pre-career to career status, as discussed below. This increase in career employees is partially offset by a decrease in pre-career employees of approximately 11,500 or 7.8%, reflecting normal attrition as we continue to align our workforce with declining mail volume, and the employee conversion process.

As outlined in our *Delivering for America* plan, we are strategically working to create a stable and empowered workforce with the opportunity for career development and growth for all employees. To help achieve this initiative, we converted approximately 68,000 employees, during 2021, from pre-career to career status, as dictated by our operational needs and contractual provisions.

Work Hours

Work hours are a significant component of compensation expense. We are committed to minimizing costs by using the appropriate mix of work hours based on the complement and the assessment of relative cost for each work hour type. In some instances, the use of overtime hours may be necessary to meet service standard commitments and obligations for mail delivery or to serve as a more cost effective option. In most instances, the cost of an overtime hour is less than the cost of a straight-time hour as adding employees results in additional costs for hiring, training, and benefits. Furthermore, certain benefit costs are only calculated as a percentage of basic pay and do not increase with higher overtime pay.

During the year ended September 30, 2021, total work hours increased by approximately 16 million, or 1.4%, compared to 2020, influenced by an increase of approximately 1.8 million delivery points during 2021 and the increased work hours needed for the higher Shipping and Packages volumes during the year. The total increase for the year ended September 30, 2021, included an increase in overtime work hours of approximately 23 million, offset by a decrease of straight-time hours of approximately 7 million, compared to 2020.

Collective Bargaining Agreements

As of September 30, 2021, approximately 93% of our employees were covered by collective bargaining agreements. The contracts with the four labor unions representing the majority of our employees include provisions granting annual increases and cost of living adjustments ("COLA"), which are linked to the Consumer Price Index - Urban Wage Earners and Clerical Workers. For further discussion of collective bargaining agreements, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 11 - Commitments and Contingencies*.

Non-bargaining Salaries

Annual salary increases for non-bargaining unit employees only occur through a Pay-For-Performance ("PFP") system. With only minor exceptions, no COLA or locality pay programs apply to non-bargaining unit employees. PFP salary increases averaged 2.75% for 2020 (implemented in January 2021) and 1.4% for 2019 (implemented in January 2020).

Employee Health Benefits

Our expense for employee health benefits (which includes the employer portion of Medicare taxes) 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. Average FEHB premium increases were 3.6% in 2021 and 4.0% in 2020. Separate from FEHB, we offer our own self-insured health-care plan to certain pre-career employees who are ineligible for FEHB. 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 \$5.2 billion for the year ended September 30, 2021, a 1.2% increase, compared to the prior year. Our employer contribution rates for the majority of our employees are subject to collective bargaining agreements. Our share of health-care premiums for employees represented 72% of premiums for 2021 and 2020, respectively. Employee health benefits expense was 10.5% and 10.6% of compensation and benefits expense for the years ended September 30, 2021 and 2020, respectively.

Social Security

We record our contributions to Social Security as an expense in the period during which the contribution is incurred. We recognize the expense for each period's legally required contribution and record a liability for any contribution due and unpaid at the end of each reporting period.

Social Security benefits are contributed at 6.2% of compensation as required by statute. However, these rates apply to earnings, up to a maximum amount, as established by statute, with maximum benefit bases of \$142,800 and \$137,700 for the years ended September 30, 2021 and 2020, respectively.

For the year ended September 30, 2021, our Social Security expenses increased 5.1%, compared to the prior year. This increase was generally consistent with the increase in compensation for the year, as described above in *Compensation*, in addition to the changing workforce composition of CSRS and FERS employees.

The CARES Act offers certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020, through December 31, 2020. In accordance with this provision, we began deferring these payments in April 2020 and as of September 30, 2021, we had deferred payments totaling approximately \$1.8 billion. One half of these deferred payments are due by December 31, 2021, and is recorded within *Compensation and benefits* in the accompanying *Balance Sheets*, and the other half by December 31, 2022, and is recorded within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

Thrift Savings Plan

Career employees may participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. Our TSP expenses are related only to our contributions for FERS employees who participate in the TSP. For FERS employees who participate in the TSP, our TSP contributions include an automatic 1% contribution of basic pay, a 100% match of the first 3% of basic pay, and a 50% match of the next 2% of basic pay.

We record our contributions to the TSP as an expense in the period during which the obligation is incurred. We recognize the expense for each period's legally required contribution and record a liability for any contribution due and unpaid at the end of each reporting period.

For the year ended September 30, 2021, our TSP matching contributions increased 4.7%, compared to the prior year. This increase was generally consistent with the increase in compensation for the year, as described above in *Compensation*, in addition to the changing workforce composition of CSRS and FERS employees.

Retirement Benefits

The majority of our career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, based on the starting date of their employment with us or another U.S. government employer. We incur normal costs (the amount established by OPM as the employer portion of retirement benefits for participating employees and their qualifying survivors, upon retirement, for each employee's current year of service) for FERS employees; however, by law we do not incur normal costs for CSRS retirement benefits. FERS employees are further categorized as either FERS, FERS - Revised Annuity Employees ("FERS - RAE"), or FERS - Further Revised Annuity Employees ("FERS - FRAE") depending on whether their date of hire was before, during, or after calendar year 2013, respectively.

Our retirement benefits expenses consist of three components:

1. FERS normal costs, representing the amount established by OPM as the employer portion of retirement benefits attributable to active employees' current year of service.
2. An amortization payment of our unfunded liability, representing an amount calculated by OPM to ensure that our CSRS retirement obligations are fully funded by 2043, on which we have defaulted annually beginning in 2017. OPM's calculation reduces the unfunded liability by any obligations due, prior to creating the payment schedule.
3. An amortization payment of our unfunded liability, representing an amount calculated by OPM to ensure that our FERS retirement obligations are fully funded within the next 30 years (on a rolling period basis), on which we have defaulted annually beginning in 2014. OPM's calculation reduces the unfunded liability by any obligations due, prior to creating the payment schedule.

The following table presents the retirement benefits expenses for the years ended September 30, 2021 and 2020:

<i>(in millions)</i>	2021	2020
FERS normal costs	\$ 4,117	\$ 3,804
CSRS unfunded retirement benefits amortization ¹	1,858	1,817
FERS unfunded retirement benefits amortization ²	1,401	1,343
Total retirement benefits	\$ 7,376	\$ 6,964

¹ Expense for the annual payments due September 30 of the respective year, calculated by OPM to amortize the unfunded CSRS retirement obligation. Payments are to be made in equal installments through 2043.

² Expense for the annual payment due September 30 of the respective year, calculated by OPM to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on OPM invoices.

Our retirement benefits expenses increased 5.9% for the year ended September 30, 2021, compared to the prior year. The increase was due to rising employer contributions rates for FERS normal cost, as well as increases in the CSRS and FERS unfunded retirement benefits amortization, as discussed below. For additional information, see *Note 12 - Retirement Plans*.

FERS Normal Costs

We record our contributions to FERS normal costs as an expense in the period during which the contribution is due. We recognize the expense for each period's legally required contribution and record a liability for any contribution due and unpaid at the end of each reporting period. The employer contributions and employee withholdings not yet remitted to OPM were \$268 million and \$195 million at September 30, 2021 and 2020, respectively, and were recorded as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

OPM establishes our FERS normal cost contribution rates as a percentage of basic pay. The following table presents our contribution rates for the years ended September 30, 2021 and 2020:

	2021	2020
FERS	15.7 %	14.7 %
FERS-RAE	13.8 %	12.8 %
FERS-FRAE	12.7 %	11.7 %

For the year ended September 30, 2021, FERS normal costs increased 8.2%, compared to the prior year. As most of our employees participate in FERS and FERS-FRAE, this increase was consistent with the general increases in compensation and employer normal cost contribution percentages for the year, as described above in *Compensation*.

CSRS and FERS Unfunded Retirement Benefits

OPM periodically notifies us regarding its revaluation of unfunded CSRS and FERS retirement benefits. OPM calculates these obligations using Postal Service-specific demographics data and government-wide economic assumptions, including salary growth assumptions. The amounts we record as expenses for our unfunded CSRS and FERS liabilities may be significantly impacted by changes in actuarial assumptions used by OPM to revalue the unfunded liabilities. We record the expenses for our unfunded CSRS and FERS liabilities within *Retirement benefits* in the accompanying *Statement of Operations*.

OPM invoiced us \$1.9 billion and \$1.8 billion for our CSRS unfunded benefits payments due September 30, 2021 and 2020, respectively. OPM also invoiced us \$1.4 billion and \$1.3 billion for our FERS unfunded benefits payments, due September 30, 2021 and 2020, respectively. We did not make these payments in order to preserve liquidity and to ensure that our ability to fulfill our primary universal service mission was not placed at

undue risk. As of the date of this report, we have not incurred any penalties or negative financial consequences as a result of not making our CSRS and FERS unfunded benefit payments to OPM.

As described elsewhere in this report, OPM calculated that our portion of the CSRS and FERS plans were underfunded by \$34.3 billion and \$27.4 billion, respectively, as of September 30, 2020.

Our CSRS and FERS plans are subject to the following constraints and risks:

- 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.
- Assets are invested in special purpose Treasury securities, rather than allocated among a variety of investment assets.

Funded Status

OPM administers the CSRS and FERS plans via the Civil Service Retirement and Disability Fund ("CSRDF"). 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. Such disclosures, which are presented below, are based solely on information OPM has provided to us. 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, financial improvement plan status, or rehabilitation plan status are not available for these plans.

Each October, OPM provides us with an actuarial report prepared for the purpose of providing financial reporting information with respect to our CSRS and FERS pension obligations, in accordance with PAEA requirements. The actuarial report contains CSRS and FERS information specific to our pension obligations regarding:

1. The funded status of pension obligations;
2. Components and analysis of net change in actuarial liabilities and fund balances;
3. Cost methods and assumption underlying actuarial valuations; and
4. Actual and estimated contributions to and outlays.

In its October 2021 report to the Postal Service, OPM provided estimated 2021 information for the CSRS and FERS actuarial liabilities and fund balances. The final actuarial liability and fund balances as of September 30, 2021, may differ from these estimates, as data will be updated, and actuarial assumptions may be revised during the course of the year.

The following table provides OPM's calculations of the funded status of CSRS and FERS for our employees as of September 30, 2021 (estimated) and 2020 and represents the most recent data available. The actuarial liability presented below represents our share of the CSRS and FERS actuarial liabilities, as estimated by OPM. The fund balance presented below represents contributions made by us to CSRS and FERS, plus a return on such contributions as estimated by OPM.

<i>(in billions)</i>	Estimated¹	Actual
	2021	2020
CSRS		
Actuarial liability as of September 30	\$ 170.7	\$ 176.0
Fund balance per OPM ²	137.0	141.7
(Less) amount past due ³	(1.9)	—
Unfunded	\$ (35.6)	\$ (34.3)
FERS		
Actuarial liability as of September 30	\$ 157.5	\$ 151.4
Fund balance per OPM ⁴	130.2	124.0
(Less) amount past due ⁵	(1.4)	—
Unfunded	\$ (28.7)	\$ (27.4)
Total CSRS and FERS		
Actuarial liability as of September 30	\$ 328.2	\$ 327.4
Fund balance per OPM	267.2	265.7
(Less) amount past due	(3.3)	—
Unfunded	\$ (64.3)	\$ (61.7)

¹ The most current actual data from OPM is as of September 30, 2020. The estimated information for 2021 was provided by OPM, but is subject to change when final 2021 information is provided in 2022.

² The CSRS estimated fund balance for 2021 provided by OPM assumes we made the amortization payments due on September 30, 2021. However, no such payment was made.

³ Amount past due represents the CSRS amortization payment due on September 30, 2021. However, no such payment was made.

⁴ The FERS estimated fund balance for 2021 provided by OPM assumes we made the amortization payment due on September 30, 2021. However, no such payment was made.

⁵ Amount past due represents the FERS amortization payment due on September 30, 2021. However, no such payment was made.

We have reported this information based on the same valuation techniques and economic assumptions that are used by the Board of Actuaries of the Civil Service Retirement System ("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 economic assumptions are prepared using Postal Service-specific demographic data and government-wide economic data.

As disclosed in OPM's *Civil Service Retirement and Disability Fund Annual Report* dated February 2021, which reported data for government-wide employers for 2019, the most current period available, the Postal Service's assets accounted for approximately 17% of the FERS' total.

The following table provides U.S. government-wide information for plan assets, accumulated benefit obligations, the unfunded actuarial liability amounts and percentage funded for both the CSRS and FERS retirement plans, as published in OPM's *Civil Service Retirement and Disability Fund Annual Report* (dated February 2021), for the year ended September 30, 2019, the date of the most recent available information, as well as comparative amounts for the Postal Service for the same period:

(\$ in billions)	U.S. Government (including Postal Service)	Postal Service	Postal Service as a % of the U.S. Government
CSRS:			
Plan assets	\$ 216.3	\$ 150.1	69.4 %
Accumulated benefit obligations	1,039.8	182.7	17.6 %
Unfunded actuarial liability	\$ (823.5)	\$ (32.6)	
% Funded	20.8 %	82.2 %	
FERS:			
Plan assets	\$ 731.9	\$ 120.8	16.5 %
Accumulated benefit obligations	933.4	146.3	15.7 %
Unfunded actuarial liability	\$ (201.5)	\$ (25.5)	
% Funded	78.4 %	82.6 %	

When CSRS and FERS data for the Postal Service were excluded from the 2019 U.S. government-wide data, the CSRS plan was less than 10% funded, while the FERS plan was less than 80% funded. This is because the Postal Service funding of CSRS and FERS was 80% or more for each.

Cost Methods and Assumptions

The following table details the long-term economic assumptions recommended by the Board of Actuaries and included in OPM's valuation reports for the years ended September 30, 2021 and 2020:

	2021		2020	
	CSRS	FERS	CSRS	FERS
Rate of inflation	2.40 %	2.40 %	2.40 %	2.40 %
Long-term COLA	2.40 %	1.92 %	2.40 %	1.92 %
Actual COLA applied	1.30 %	1.30 %	1.60 %	1.60 %
Long-term salary increases	2.65 %	2.65 %	2.65 %	2.65 %
Actual salary increases	2.65 %	2.65 %	2.75 %	2.75 %
Long-term interest rate	4.00 %	4.00 %	4.00 %	4.00 %

Net Periodic Costs

The following, provided by OPM, details the changes in our estimated actuarial liability for CSRS and FERS as of September 30, 2021 (estimated) and 2020, and represents the most recent data available:

<i>(in billions)</i>	Estimated¹		Actual	
	2021		2020	
CSRS				
Actuarial liability as of October 1	\$	176.0	\$	182.7
+ Contributions ²		0.1		0.1
- Benefit disbursements		(12.2)		(12.2)
+ Interest expense		6.8		7.1
- Actuarial gain		—		(1.7)
Actuarial liability as of September 30	\$	170.7	\$	176.0
FERS				
Actuarial liability as of October 1	\$	151.4	\$	146.3
+ Normal costs		4.7		4.7
- Benefit disbursements		(4.7)		(4.3)
+ Interest expense		6.1		5.8
- Actuarial gain		—		(1.1)
Actuarial liability as of September 30	\$	157.5	\$	151.4
Total actuarial liability as of September 30	\$	328.2	\$	327.4

¹ The most current actual data from OPM is as of September 30, 2020. The estimated information for 2021 was provided by OPM, but is subject to change when final 2021 information is provided in 2022.

² Contributions for CSRS consist of employee contributions only.

Components of Net Change in Plan Assets

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 of short-term securities, with initial maturity dates less than one year from acquisition, and long-term special-issue bonds, which generally have initial maturity dates greater than one year from acquisition. The short-term securities mature in June 2022 and bear interest rates of 1.5%. The special-issue bonds have varying maturities from June 2022 to June 2034 and bear interest rates from 0.75% to 5.00%.

For 2020, the assumed rate of return was 4.00% for both the CSRS and FERS fund balances. The actual rate of return for 2020 was 2.56% and 2.69% for the CSRS and FERS fund balances, respectively. The projected long-term rate of return for both the CSRS and FERS fund balances for 2021 was 4.00%.

The following table details OPM's five-year estimates for our required CSRS and FERS contributions (both employee and employer) based on the population of employees as September 30, 2020, unfunded liability amortization payments and benefit payments:

<i>(in billions)</i>		CSRS			
Year	Employee contributions	Postal Service contributions	Amortization payments	Total scheduled contributions and payments	
2022	\$ —	\$ —	\$ 1.9	\$ 1.9	
2023*	—	—	1.9	1.9	
2024*	—	—	1.9	1.9	
2025*	—	—	1.9	1.9	
2026*	—	—	1.9	1.9	
<i>(in billions)</i>		FERS			
Year	Employee contributions	Postal Service contributions	Amortization payments	Total scheduled contributions and payments	
2022	\$ 0.6	\$ 4.0	\$ 1.4	\$ 6.0	
2023	0.6	3.8	1.4	5.8	
2024	0.6	3.7	1.4	5.7	
2025	0.6	3.5	1.4	5.5	
2026	0.6	3.4	1.4	5.4	

* Employee contributions in 2022, 2023, 2024, 2025, and 2026 are projected to continue, but at less than \$0.1 billion per year.

The following information, provided by OPM, details the components of the net change in our estimated portion of plan assets for CSRS and FERS for the years ended September 30, 2020 and 2019, and represents the most recent data available:

<i>(in billions)</i>	Actual 2020	Actual 2019
CSRS		
Net assets as of October 1	\$ 150.1	\$ 157.9
+ Contributions	0.1	0.1
- Benefit disbursements	(12.2)	(12.2)
+ Investment income	3.7	4.3
CSRS net assets as of September 30	\$ 141.7	\$ 150.1
FERS		
Net assets as of October 1	\$ 120.8	\$ 117.5
+ Contributions	4.3	4.0
- Benefit disbursements	(4.3)	(3.9)
+ Investment income	3.2	3.2
FERS net assets as of September 30	\$ 124.0	\$ 120.8

Retiree Health Benefits

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

Since 2017, our share of health-care premiums for retired employees has been paid by the Postal Service Retiree Health Benefits Fund ("PSRHBF"). Instead of payments for the premiums, we are required to make, but have not made, two annual contributions to the PSRHBF:

1. The "normal cost" of retiree health benefits, representing the present value of the estimated retiree health benefits attributable to active employees' current year of service into the PSRHBF; and
2. An amortization payment of our unfunded liability, representing an amount calculated by OPM to ensure that our retiree health benefits obligations are fully funded by 2056. OPM's calculation reduces the unfunded liability by any obligations due, prior to creating the payment schedule.

Given that we cannot direct the costs, benefits or funding requirements of these plans, it accounts for program expenses under multiemployer plan accounting rules, and recognize an expense when the payment is due.

In addition to changes in premium amounts each year, several other factors could significantly affect our 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. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 13 - Health Benefits Plans, Retiree Health Benefits* for additional information.

Normal Costs and Retiree Health Benefits Premiums

In accordance with PAEA, beginning in 2017, the PSRHBF began funding our share of retiree health benefit premiums, and we were obligated to begin paying into the PSRHBF the normal costs of retiree health benefits attributable to the current year of service of our employees. We received invoices from OPM in the amounts of \$4.2 billion and \$3.9 billion for normal costs that we were obligated to pay by September 30, 2021 and 2020, respectively. We did not make these payments in order to preserve liquidity and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk. As of the date of this report, we have not incurred any penalties or negative financial consequences as a result of not making our retiree health benefits normal cost payments to OPM.

According to OPM, the number of annuitants receiving retiree health benefits was approximately 499,000 and 498,500 for the years ended September 30, 2021 and 2020, respectively.

PSRHBF Funded Status

OPM valuations of post-retirement health liabilities and normal costs were 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 numbers rather than dollars.

The following information, provided by OPM, details the PSRHBF funded status. The amounts invoiced but not paid to the PSRHBF are reported in *Retiree health benefits* in the accompanying *Balance Sheets*.

<i>(in billions)</i>	2021	2020
Beginning actuarial liability at October 1	\$ 116.6	\$ 114.4
+ Actuarial gain	(0.2)	(2.0)
+ Normal costs	4.0	4.1
+ Interest at 4.4% and 4.4%, respectively	4.0	4.0
Subtotal net periodic costs	\$ 7.8	\$ 6.1
- Premium payments	(4.0)	(3.9)
Actuarial liability at September 30	\$ 120.4	\$ 116.6
- Fund balance at September 30	(96.1)	(94.0)
+ Amounts past due	\$ 57.0	51.9
Unfunded obligations at September 30	\$ 81.3	\$ 74.5

The determination of the liability assumes a single equivalent discount rate of 3.2% based on 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 4.0% per annum as of the valuation date, grading down to an ultimate value of 3.2% in 2075. This results in a single equivalent trend rate of 4.4%. 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 as 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.

Because the calculation of the PSRHBF liability involves several areas of judgment, estimates of the liability could vary significantly depending on the assumptions used by OPM. For example, by changing only the interest rate, a 1% increase or decrease in the interest rate would result in an unfunded obligation ranging from \$65 billion to \$102 billion, respectively, as of September 30, 2021. Similarly, a 1% increase or decrease in the rate would result in an unfunded obligation ranging from \$59 billion to \$93 billion, respectively, as of September 30, 2020. Alternatively, if the actuarial liability had been calculated using the Board of Actuaries long-term rate assumption of 4.0%, the liability would have been approximately \$107 billion, or 11% lower, as of September 30, 2021, and approximately \$108 billion, or 8% lower, as of September 30, 2020.

For our current annuitants, the share of premium payments for other federal employers is adjusted to reflect the pro rata share of civilian service to total service for which we are 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 our active employees, the pro-rata share in retirement is assumed to be 95% of the total.

PSRHBF assets are comprised entirely of special-issue bonds, with initial maturity dates generally greater than one year from acquisition. These special-bonds have varying maturities from June 2022 to June 2033 and bear interest rates ranging from 1.38% to 5.00%.

The following table details the PSRHBF fund balance, including both contributions and interest receivables, as reported by OPM:

<i>(in billions)</i>	2021	2020
Beginning balance (including both contribution and interest receivables) at October 1	\$ 94.0	\$ 92.2
Amounts past due ¹	5.1	4.6
Earnings at 2.5% and 2.6%, respectively	1.0	1.1
Payments for annuitant premiums ²	(4.0)	(3.9)
Net increase	\$ 2.1	\$ 1.8
Fund balance (including both contribution and interest receivables) at September 30	\$ 96.1	\$ 94.0

¹ Amounts past due represent the combined amount of normal costs of retiree health benefits and unfunded liability amortization due on September 30 of the respective years. However, no such payments were made.

² Includes premium payments for certain annuitant/employees under workers' compensation coverage.

Although PAEA dictates the PSRHBF prefunding requirements, the amounts and the timing of required 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 through September 30, 2021 and 2020, was \$57.0 billion and \$51.9 billion, respectively. In order to preserve liquidity to ensure that we would be able to continue to fulfill our primary universal service mission, we did not make the annual payments due on September 30, 2021 and 2020, for the PSRHBF unfunded liability amortization of \$907 million and \$810 million, respectively.

The following information, provided under the PAEA mandate, details OPM's preliminary five-year estimates for required payments into the PSRHBF for normal costs and unfunded liability expenses, and payments from the PSRHBF for annuitant premiums:

<i>(in billions)</i>	Estimated payments into the PSRHBF				Estimated payments out of the PSRHBF
	Year	Normal costs	Amortization of unfunded liability	Payable to PSRHBF	Total
2022	\$ 4.3	\$ 1.0	\$ 57.0	\$ 62.3	\$ 4.3
2023	4.5	1.0	—	5.5	4.5
2024	4.7	1.0	—	5.7	4.8
2025	4.9	1.0	—	5.9	5.0
2026	5.1	1.0	—	6.1	5.2

Workers' Compensation

Our employees who are injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by the Department of Labor's ("DOL") Office of Workers' Compensation Programs ("OWCP"), which makes all decisions regarding injured workers' eligibility for benefits. We are legally mandated to participate in the federal workers' compensation program. Our workers' compensation expense reflects the impacts of changes in discount rates, as well as the actuarial valuation of new workers' compensation cases and revaluation of existing ones. Additionally, we reimburse DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee.

Under FECA, workers' compensation claims for many types of injuries cannot be settled through lump-sum payments, and in some instances regarding those claims, compensation may be paid over many years. Federal law grants COLA rates to those claims, and these factors result 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.

On a daily basis we focus on costs that can be managed in the course of normal business operations. Certain aspects of workers' compensation can be managed through human resource initiatives, safety measures and training. Other workers' compensation costs cannot be managed in the course of normal business operations and are less predictable, including expenses caused by actuarial revaluation and discount rate changes. We subtract the cash payments made by DOL on behalf of workers' compensation obligations, which are relatively predictable, from total workers' compensation expense in order to determine the non-cash component of workers' compensation expense, a non-GAAP financial measure.

For additional information, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 14 - Workers' Compensation*.

Annually, we reimburse DOL for all workers' compensation benefits paid to or on behalf of our employees. The following table presents the components of workers' compensation (benefit) expense, including the cash payments made by DOL on behalf of workers' compensation obligations, for the years ended September 30, 2021 and 2020:

<i>(in millions)</i>	2021	2020
Impact of discount rate changes	\$ (1,649)	\$ 1,909
Actuarial revaluation of existing cases	(229)	(390)
Costs of new cases	1,208	1,302
Administrative fee	90	82
Total workers' compensation (benefit) expense	\$ (580)	\$ 2,903
(Less) cash payments made by DOL on behalf of workers' compensation obligations	(1,345)	(1,298)
Total non-cash component of workers' compensation (benefit) expense (non-GAAP)	\$ (1,925)	\$ 1,605

For the year ended September 30, 2021, workers' compensation (benefit) expense decreased approximately \$3.5 billion, compared to 2020, due primarily to changes in discount rates.

Impact of Discount Rate Changes

For the year ended September 30, 2021, the portion of workers' compensation (benefit) expense attributable to the impact of discount rate changes resulted in a decrease in expense of approximately \$3.6 billion, compared to 2020. This decrease in expense was driven by a significant increase in discount rates in 2021, compared to 2020, an event outside of management's control.

Actuarial Revaluation of Existing Cases and Costs of New Cases

Changes in actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial estimation, the progression of existing cases and updated COLA assumptions, which are largely outside of management's control.

For the year ended September 30, 2021, the cost of new workers' compensation cases decreased \$94 million, compared to 2020, while the actuarial revaluation of existing cases increased by \$161 million for the year ended September 30, 2021, compared to 2020.

Transportation

Transportation expenses include the costs we incur to transport mail, packages, and equipment between facilities, comprising highway, air, rail, boat, and international transportation contracts, plus contract delivery services. We rely on third-parties under highway contract routes for the significant majority of long-haul transportation services between facilities. Furthermore, 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.

With the exception of contract delivery services, our costs to deliver mail and other services to delivery points are not included within *Transportation* but in *Compensation and benefits* for employee costs and in *Other operating expenses* for fuel, vehicle maintenance and repair, and other costs in the accompanying *Statements of Operations*. Furthermore, transportation expenses do not include the compensation and related costs of employees responsible for transporting mail and packages between facilities.

Variations in the volume, weight, and cubic dimensions of mail and packages transported, the mode of transportation used, and fuel prices have significant impact on transportation expenses.

The table below details the components of transportation expense for the years ended September 30, 2021 and 2020:

<i>(in millions)</i>	<u>2021</u>	<u>2020</u>
Highway	\$ 5,427	\$ 4,753
Air	3,613	3,461
International	563	555
Other	49	45
Total transportation expense	\$ 9,652	\$ 8,814

For the year ended September 30, 2021, total transportation expense increased \$838 million, or 9.5%, compared to the prior year.

Highway transportation expenses increased \$674 million, or 14.2%, compared to the prior year, primarily due to an increase in the number of miles driven as modes of transportation shifted as travel restrictions associated with the COVID-19 pandemic limited commercial air carrier availability in the earlier part of the year. Expenses also grew as we shifted package volume from air to highway transportation when more economical but allowing for improved reliability and service performance. Expenses were also impacted by higher average diesel fuel rates for the 2021, compared to the same period last year. While average diesel fuel rates were lower in the first half of the year, they increased in the second half of the year, leading to overall higher average diesel fuel rates for the year.

Air transportation expenses increased \$152 million, or 4.4%, compared to the prior year, driven by higher package volume and the reduced usage of commercial airlines, due to the limited availability of commercial flights, and the alternative use of more expensive chartered flights, during the first half of 2021. Expenses were also impacted by higher average jet fuel rates for the 2021, compared to the same period last year. While average jet fuel rates were lower in the first half of the year, they increased in the second half of the year, leading to overall higher average jet fuel rates for the year.

Other Operating Expenses

The following table details other operating expenses for the periods ended September 30, 2021 and 2020:

<i>(in millions)</i>	2021	2020
Supplies and services	\$ 2,945	\$ 3,088
Depreciation and amortization	1,668	1,706
Rent and utilities	1,790	1,757
Vehicle maintenance service	633	618
Delivery vehicle fuel	526	432
Information technology and communications	987	946
Rural carrier equipment maintenance	563	586
Miscellaneous other	1,089	983
Total other operating expenses	\$ 10,201	\$ 10,116

For the year ended September 30, 2021, Other operating expenses increased 0.8% compared to the prior year. There was a slight decline associated with supplies and services, as our costs for PPE and other pandemic-related supplies and services were lower this year than at the onset of the pandemic last year. This decrease was partially offset by an increase in fuel for delivery vehicles due to higher average fuel prices. Aside from these items, the period-over-period changes in the various components of other operating expenses were relatively immaterial.

NON-OPERATING REVENUES AND EXPENSES

Interest and Investment Income

We generate income from investments in securities issued by the U.S. Treasury. Investment income was \$9 million and \$72 million for the years ended September 30, 2021 and 2020, respectively. Although our average investment amounts were higher in 2021, as compared to 2020, interest income decreased during 2021 due to lower average interest rates.

In addition to the income we generate from investments, we record imputed interest 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 the future revenue forgone installments was \$18 million and \$19 million for the years ended September 30, 2021 and 2020, respectively. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 16 - Revenue Forgone* for additional information.

Interest Expense

Interest expense was \$155 million and \$214 million, for the years ended September 30, 2021 and 2020, respectively. Interest expense decreased in 2021, as compared to 2020, due to our lower average debt outstanding and lower average interest rates.

As of September 30, 2021, we had \$1.0 billion in short-term debt, having an expected maturity of less than one year, and \$10.0 billion in long-term debt with an expected maturity of longer than one year. Although long-term debt generally carries higher interest rates than short-term debt, financing a portion of our debt at longer-term fixed rates decreases our interest rate risk and interest expense volatility in future years, while rates on our floating-rate notes reset every three months, and are impacted by interest expense volatility.

LIQUIDITY AND CAPITAL RESOURCES

As an "independent establishment of the executive branch of the Government of the United States," we generally 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.

Our liquidity consists of unrestricted cash and cash equivalents plus our authorized borrowing capacity under the PRA. As of September 30, 2021, and September 30, 2020, we held unrestricted cash and cash equivalents of \$23.9 billion and \$14.4 billion, respectively. During the year ended September 30, 2021, our average daily liquidity balance was \$20.7 billion. This amount represented approximately 103 days of liquidity available, which we define as average liquidity divided by our 2021 cash expenses (total expenses excluding depreciation expense, expenses accrued but unpaid for PSRHBF, CSRS and FERS and the deferred employer contributions for Social Security) and capital expenditures per calendar day (365 days in 2021). See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 3 - Liquidity* for additional information.

In March 2020, the President signed the *CARES Act* in response to the coronavirus pandemic. In December, 2020, the President signed Public Law 116-260, the *Consolidated Appropriations Act, 2021*, amending the *CARES Act*. The *CARES Act*, as amended, allowed us to receive up to \$10.0 billion from the U.S. Treasury to fund operating expenses.

As of September 30, 2021, all \$10.0 billion in funding was received pursuant to the *CARES Act*, as amended, and recorded as a capital contribution in the accompanying *Balance Sheets*.

Our liquidity has increased during the year ended September 30, 2021, due to the following:

1. Our receipt of *CARES Act* funding of \$10.0 billion;
2. The non-payments for statutorily specified PSRHBF, CSRS, and FERS obligations, discussed in greater detail below;
3. The increased revenue from the surge in our Shipping and Packages business as a result of the COVID-19 pandemic, and our successful efforts to compete in shipping services;
4. The deferral of approximately \$529 million in payments for the employer contribution of Social Security benefits under provisions of the *CARES Act* in the first quarter; and
5. Leave reimbursements under the *American Rescue Plan Act* of \$233 million.

Although our liquidity has improved over this past year, it remains insufficient to support an organization with approximately \$82 billion in annual operating expenses, to make capital investments necessary for continuity of operations and to prepare for unexpected contingencies and unfavorable economic events.

In 2021, our cash balances were insufficient to pay the normal cost of retirement health benefits of \$4.2 billion, and the PSRHBF, CSRS and FERS unfunded liability amortization expenses of \$907 million, \$1.9 billion and \$1.4 billion, respectively, while also maintaining adequate liquidity to ensure fulfillment of our primary mission. As of September 30, 2021, past due amounts payable to the PSRHBF, and to OPM for CSRS and FERS totaled \$57.0 billion, \$8.4 billion and \$6.2 billion, respectively. We did not make any of these payments to preserve liquidity to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk, and we have incurred no penalties or negative financial consequences resulting from our inability to make these payments.

Furthermore, we continue to face certain incremental risks caused by the COVID-19 pandemic, including the disruptions to our revenue mix and business operations, which have had a material effect on our expenses and operations. Quarantines, shelter-in-place orders, and travel and logistics restrictions in connection with the outbreak have affected our consumer and commercial customers, as well as suppliers and mail service providers. The depth and duration of these disruptions remain uncertain. A protracted loss in customer demand for our services is likely to have a material adverse effect on our financial condition, results of operations and

liquidity. The sudden drop in mail volumes, our most profitable revenue stream, was steep and may never fully recover to levels prior to the pandemic.

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 to continue to meet our statutory obligation to provide prompt, reliable and efficient postal services to the nation. Furthermore, given our inability to raise cash through the issuance of additional debt beyond \$3.0 billion annually and also the \$15.0 billion debt ceiling, we do not have sufficient cash balances to meet all of our existing legal obligations and make all of the critical investments in our infrastructure that are necessary for operational continuity and that have been deferred in recent years. As a result, we have prioritized our primary mission.

CASH FLOW ANALYSIS

Operating Activities

Cash provided by operating activities increased by \$115 million, or 2.6%, for the year ended September 30, 2021, compared to the previous year.

Investing Activities

In 2021, we invested \$1.9 billion in the purchase of property and equipment, which represents an increase of \$62 million over 2020.

We assign priority to proposed capital investments based on the following factors:

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.

Our delivery fleet includes approximately 137,000 vehicles that are at least 20 years old and need significant maintenance to continue in service. As a result, repair and maintenance costs, including applicable labor costs, have risen significantly in recent years. We purchased approximately 15,000 new vehicles to add to our fleet during 2021, at a cost of approximately \$494 million. Additionally, we continue to invest in upgrades of letter sorting equipment that is at or near the end of its useful life, while also investing in equipment to fully capitalize on business opportunities in the growing package delivery market. To conserve cash, we have deferred facilities maintenance in instances where this could be done without adversely impacting employee and customer health or safety.

Financing Activities

Net cash provided by financing activities for the year ended September 30, 2021, was approximately \$7.0 billion. This net cash increase was driven by the \$10.0 billion received pursuant to the *CARES Act*, offset by the \$3.0 billion in debt repayment during the year.

DEBT

The PRA authorizes us to raise cash through the issuance of debt obligations. The PRA requires us to notify the Secretary of the Treasury of our intent to issue debt, allowing the U.S. Treasury the first option to purchase such obligations. However, if the Secretary of the Treasury elects not to purchase such obligations, the PRA authorizes us to issue and sell such obligations to a party or parties other than the U.S. Treasury, which may include a transaction in the public or private debt markets.

As of September 30, 2021, the aggregate principal balance of our outstanding debt was \$11.0 billion. Of this amount, \$1.0 billion, was recorded as *Short-term debt*, and \$10.0 billion, consisting of fixed-rate and floating-rate notes with various maturities, was recorded as *Long-term debt* in the accompanying *Balance Sheet*.

As of September 30, 2021, we had \$4.0 billion in incremental borrowing capacity under the PRA, but are limited to \$3.0 billion in incremental borrowing due to our limitation on annual net increases in debt.

See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 10 - Debt* for additional information.

LIQUIDITY OUTLOOK

We continue to face challenges from the ongoing migration of mail to electronic alternatives, and we are legally limited under current law in how we can price our services and streamline our legacy business model. We do not have sufficient liquidity to meet all payment requirements due for legacy retirement and PSRHBF obligations that, barring legislative reform, will increase indefinitely.

Furthermore, 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.

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue long-term financial sustainability. Our *Delivering for America* plan delivers:

- A modernized Postal Service capable of providing world class service reliability at affordable prices;
- Maintenance of universal six-day mail delivery and expanded seven-day package delivery;
- Workforce stability and investment strategies that empower, equip, and engage each employee and put them in the best possible position to succeed;
- Innovation that grows revenue and meets changing marketplace needs; and
- Financial sustainability to fund our universal service mission.

We can accomplish these goals with legislative and regulatory changes, effective use of newly acquired and existing pricing authorities, operating more precisely and efficiently across our enterprise, and by driving revenue growth through innovative customer solutions.

2022 and Beyond

The following table provides details of estimated future cash obligations as of September 30, 2021:

<i>(in millions)</i>	Total	Past due and payable	1 year or less	2-3 years	4-5 years	After 5 years
Debt ¹	\$ 11,000	\$ —	\$ 1,000	\$ 1,000	\$ 700	\$ 8,300
Interest on debt ¹	1,473	—	145	240	192	896
CSRS unfunded liability (off balance sheet) ²	34,200	—	1,858	3,716	3,716	24,910
CSRS unfunded liability - past due ³	8,473	8,473	—	—	—	—
FERS unfunded liability (off balance sheet) ⁴	27,500	—	1,401	2,802	2,802	20,495
FERS unfunded liability - past due ⁵	6,174	6,174	—	—	—	—
PSRHBF unfunded liability (off balance sheet) ⁶	19,500	—	907	1,814	1,814	14,965
PSRHBF unfunded liability - past due ⁷	4,276	4,276	—	—	—	—
PSRHBF fixed payment and normal cost defaults - past due ⁸	52,699	52,699	—	—	—	—
Workers' compensation ⁹	23,026	—	1,325	2,593	2,636	16,472
Operating lease obligations ¹⁰	5,388	—	1,382	2,108	1,192	706
Capital commitments ¹¹	2,233	—	1,145	1,088	—	—
Purchase obligations ¹¹	6,173	—	1,293	2,508	1,845	527
Employees' leave ¹²	2,479	—	319	305	265	1,590
Social Security contributions ¹³	1,774	—	887	887	—	—
Total commitments	\$206,368	\$ 71,622	\$ 11,662	\$ 19,061	\$ 15,162	\$ 88,861

¹ For short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.

² Represents OPM's preliminary calculation of annual payments for amortization of the CSRS unfunded liability that we are obligated to pay through 2043.

³ Represents cumulative amortization payments of the CSRS unfunded liability invoiced by OPM annually between 2017 and 2021, which the Postal Service defaulted on. OPM considers the defaulted amounts to be past due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

⁴ Represents OPM's preliminary calculation of annual payments for amortization of the FERS unfunded liability that we are obligated to pay on a rolling 30-year period.

⁵ Represents cumulative amortization payments of the FERS unfunded liability invoiced by OPM annually between 2014 and 2021, which the Postal Service defaulted on. OPM considers the defaulted amounts to be past due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

⁶ Represents OPM's preliminary calculation of annual payments for amortization of the PSRHBF unfunded liability that we are obligated to pay through 2056.

⁷ Represents cumulative amortization payments of the PSRHBF unfunded liability invoiced by OPM annually between 2017 and 2021, which the Postal Service defaulted on. OPM considers the defaulted amounts to be past due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retiree health benefits* in the accompanying *Balance Sheets*.

⁸ Represents the cumulative annual prefunding payments to the PSRHBF between 2012 and 2016, and the normal cost payments invoiced annually between 2017 and 2021, all of which the Postal Service defaulted on. OPM considers the defaulted amounts to be due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retiree health benefits* in the accompanying *Balance Sheets*.

⁹ Represents the undiscounted expected future workers' compensation payments plus \$111 million in administrative fees, of which \$88 million was due and paid October 15, 2021, and assumes no new cases in future years. The obligation to pay administrative fees in future years as determined by DOL is currently not estimated.

¹⁰ Represents the undiscounted expected payments for lease obligations

¹¹ Capital commitments pertain to purchases of equipment, building improvements and vehicles for legally binding obligations. Purchase obligations pertain to items (including highway and air transportation obligations) that are expensed when received or amortized over a short period of time. These are not reflected on the accompanying *Balance Sheets*.

¹² Employees' leave includes both annual and holiday leave.

¹³ Under the *CARES Act*, payments for the employer contribution of Social Security benefits through December 31, 2020 are deferred until December 31, 2021 and December 31, 2022, with half of the deferred amount due and payable on each of the respective dates.

Capital Investments

We currently estimate that our required cash outlays for capital investments necessary to ensure that we can continue to perform our universal service mission will amount to approximately \$2.5 billion in 2022, and an additional \$17.9 billion for years 2023 through 2026, depending on the timing of investments to replace our delivery fleet and other appropriate capital assets, as outlined in our *Delivering for America* plan. Under the Next Generation Delivery Vehicle contract, we intend to purchase between 50,000 and 165,000 vehicles over the contract term to replace our delivery fleet with a new generation of U.S.-built, right-hand-drive vehicles for mail and package delivery. Although our future projections include these capital cash outlays, the severity and duration of the pandemic may impact these outlays, and the future cash flow from operations alone may not generate the cash needed to enable us to fully fund such necessary capital investments.

Mitigating Circumstances

We continue to pursue strategies within our control to increase operational efficiency and improve liquidity. We have managed capital in recent years by spending only what we believed was essential for health and safety to maintain our existing facilities and service levels and to increase efficiencies. However, continued increases in capital investment are necessary to upgrade our facilities, fleet of vehicles, and processing equipment in order to remain operationally viable. Aggressive management of the business operations, as well as legislative and regulatory reforms that will enable us to increase revenue and reduce costs, will all be necessary to restore our financial health.

Our status as an independent establishment of the executive branch that does not generally 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 total revenue in 2021 of approximately \$77 billion, a financially sound Postal Service continues to be vital to the 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 we support. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail, and in the event of a cash shortfall, the U.S. government would likely prevent us from significantly curtailing or ceasing operations. We continue to inform the executive branch, Congress, the PRC, and other stakeholders of the immediate and long-term financial challenges we face and the legislative and regulatory changes that are required to restore our financial stability.

LEGISLATIVE UPDATE

As a self-funded independent establishment of the executive branch, our business model, and operations are significantly influenced by congressional oversight and legislation. Additionally, Congress intended for us to be governed by an eleven-member Board of Governors which consists of our Postmaster General, a Deputy Postmaster General, and nine independent Governors. The President appoints the Governors with the advice and consent of the Senate. As of the date of this report, we have a full complement of nine Presidentially-appointed, Senate-confirmed Governors in office.

APPROPRIATIONS

The House passed the seven-bill appropriations package (H.R. 4502) that includes the *Financial Services and General Government Appropriations Act, 2022* (H.R. 4345) on July 29, 2021. The bill includes \$58.6 million in funding for free mail for the blind and overseas voting. As in past versions, the bill requires continuation of six-day delivery and prohibits any of the appropriated funds from being used to consolidate or close small rural or other small Post Offices. The bill also provides \$300 million for the procurement of zero emission and electric passenger motor vehicles and the associated charging infrastructure for the federal vehicle fleet. These funds are appropriated to the General Services Administration in addition to any other amounts available for such purposes and can be transferred to and merged with appropriations at other federal agencies, including potentially for the procurement of charging infrastructure for the Postal Service.

On September 30, 2021, the President signed into law the *Extending Government Funding and Delivering Emergency Assistance Act* (H.R. 5305 / P.L. 117-43), a bill to provide continuing appropriations to federal agencies through December 3, 2021.

LEGISLATION

The *Build Back Better Act* (H.R. 5376), the combined budget reconciliation act, was introduced in the House on September 27, 2021 and modified on October 28, 2021. The modified bill would allocate \$6.0 billion to the Postal Service Fund to acquire electric vehicles for our fleet. It designates that \$2.6 billion be used for the purchase of electric delivery vehicles and \$3.4 billion for related infrastructure to support such vehicles. The bill would also allocate \$15 million to our Office of Inspector General to oversee our acquisition and deployment of electric vehicles and related infrastructure.

As previously reported, the *Postal Service Electric Fleet Authorization Act of 2021* (H.R. 3521), a bill to modernize our fleet of delivery vehicles with electric or zero-emission vehicles, was introduced in the House on May 25, 2021. The bill would authorize \$8.0 billion in funding for the acquisition of vehicles and the infrastructure required to operate a fleet of electric vehicles. There has been no further action on this bill since its introduction.

POSTAL SERVICE REFORM

As previously reported, on May 13, 2021, the House Committee on Oversight and Reform voted to approve the *Postal Service Reform Act of 2021* (H.R. 3076) and the *Postal Service Improvement Act* (H.R. 3077). Among other provisions, H.R. 3076 would require Medicare integration of Postal Service employees and repeal the requirement to pre-fund retiree health benefits; require the development and maintenance of an online, publicly available dashboard to track service performance for Market-Dominant services; require delivery six days per week using an integrated mail and package delivery network; and allow us to enter into certain agreements with state, local, and tribal governments and to provide certain non-postal services.

As introduced, H.R. 3077 would require all mail-in ballots to include a Postal Service trackable barcode and provide postal employees with 12 weeks of paid parental leave. It was amended during the committee markup to authorize \$8.0 billion to fund electric vehicles and electric vehicle charging infrastructure and to require the maintenance of the *First-Class Mail* service standard that was in effect on January 1, 2021.

Both proposed bills were reported to the full House where they await additional consideration.

The *Postal Service Reform Act of 2021* (S. 1720), a nearly identical companion to H.R. 3076, was introduced in the Senate on May 19, 2021, and referred to the Senate Homeland Security and Governmental Affairs Committee.

REGULATORY MATTERS

In December 2016, the PRC initiated its ten-year review of the system for regulating rates and classes for Market-Dominant services as required by the PAEA. The purpose of the ten-year review was to determine if the system for regulating such rates and classes has achieved the objectives Congress established in the PAEA. As part of this review, the PRC evaluated the CPI-U price cap for our Market-Dominant services.

In its initial decision in December 2017, the PRC had concluded that the rates system has not achieved its necessary objectives and needed to be changed, because it does not enable us to achieve our mission of providing prompt, reliable, and efficient universal postal services to the American people in a financially sustainable manner.

On November 30, 2020, the PRC announced its final decision in connection with its ten-year review of the system for regulating rates and classes for Market-Dominant services as required by the PAEA. The PRC's final changes to the system do not include the elimination of the CPI-U price cap; however, it does provide for some additional pricing flexibility and authority within a price cap system. Specifically, the PRC established three new rate authorities: density-based rate authority, retirement-based rate authority, and authority for non-compensatory classes. The density-based rate authority allows for an incremental price increase to help mitigate the increased costs associated with the growing number of delivery points and declining volumes. The retirement-based rate authority allows for an incremental price increase proportional to the increase in our annual retiree health benefits and retirement benefits amortization payments. Funds received under this retirement-based rate authority are required to be remitted to the OPM for our unfunded liabilities. The authority

for non-compensatory classes allows for an incremental price increase on any non-compensatory class (i.e., any class where attributable costs exceeded revenue). Our Governors establish the prices for Market-Dominant services within this price cap system, and our prices are subject to a review process by the PRC for legal and regulatory compliance.

Included in the additional pricing authority is a retirement-benefit based pricing authority, which allows for a marginal price increase on Market-Dominant services. However, any revenue raised under this additional rate authority must be remitted to OPM for the annual amortization payments. The price increase that went into effect on August 29, 2021 used this additional rate authority, and from August 29, 2021 to September 30, 2021, an incremental \$39 million was received under this authority. This amount has been included within *Restricted Cash* 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 ended September 30, 2021 and 2020. 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 17 - Fair Value Measurement* for additional information.

RELATED PARTY TRANSACTIONS

We have significant transactions with other U.S. government entities, which are considered related parties in accordance with GAAP. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 5 - Related Parties*.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, alternative policies or estimation techniques may 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. 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 14 - Workers' Compensation and Note 11 - Commitments and Contingencies*.

WORKERS' COMPENSATION

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. Workers' compensation costs are highly sensitive to discount and inflation rates, which we update on a quarterly basis, and the length of time recipients are expected to stay on the compensation rolls. However, the annual cash payment for claims is relatively stable and predictable.

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 consensus inflation forecast from the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters. 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 accompanying *Balance Sheets* as *Workers' compensation costs* with both current and noncurrent components.

DEFERRED REVENUE-PREPAID POSTAGE

Deferred revenue-prepaid postage is an estimate of postage that has been sold, but not yet used by customers. Under Accounting Standards Codification 606, *Revenue from Contracts with Customers*, revenue is recognized over time as mail is delivered, not when postage is purchased, and revenue is deferred and reflected in the accompanying *Balance Sheets* as *Deferred revenue-prepaid postage*. The deferred revenue estimate is developed and validated through mathematical and statistical methods of stamp usage trends. Three categories of postage sales account for the majority of *Deferred revenue-prepaid postage*: *Forever stamp* sales, metered postage and mail-in-transit, which is mail that has not reached its final destination.

CONTINGENT LIABILITIES

The recording of contingent liabilities requires significant judgment in estimating potential losses for legal and other claims. Each quarter, we evaluate significant new claims and litigation for the probability of an adverse outcome. We record liabilities deemed both probable and estimable in the accompanying *Balance Sheets* within *Payables and accrued expenses* and *Other noncurrent liabilities*.

In addition, we review any prior claims and litigation and, when necessary, we adjust the liability balances 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, but do not accrue for or include such provisions in our financial statements.

RECENT ACCOUNTING STANDARDS

New accounting guidance that we have recently adopted, as well as accounting guidance that has been recently issued but that we have not yet adopted, are included in *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 2 - Recent Accounting Pronouncements*.

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 either favorably or unfavorably impact our reported earnings, we believe that foreign exchange risk is immaterial since the vast majority of our business transactions are denominated in U.S. dollars. 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 as a result of our ongoing investing and financing activities, which include our floating-rate notes outstanding 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 \$47 million increase in our 2021 interest expense relating to our floating-rate notes outstanding. As interest rates were below 1% during 2021, any reductions in interest rates would have decreased the \$9 million of investment income earned in 2021 relating to our cash and cash equivalents.

We have interest rate risk associated with the floating-rate portion of our long-term debt; however, we have no significant exposure to changing interest rates on the fixed-rate portion of such debt. As disclosed in *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 17 - Fair Value Measurement*, the fair value of our long-term debt was \$10.4 billion and \$11.9 billion for the years ended September 30, 2021 and 2020, respectively. We estimated the underlying fair value of our long-term debt using prices and discount rates 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 liability at September 30, 2021, and related 2021 expense by approximately \$2.0 billion. A decrease of 1% would have increased the liability at September 30, 2021, and related 2021 expense by approximately \$2.5 billion. See *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 14 - 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, 2021, we estimated that a 1% increase in fuel and natural gas would have resulted in a \$27 million increase in our 2021 expense.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Governors of the United States Postal Service

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the United States Postal Service (the Postal Service) as of September 30, 2021 and 2020, the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Postal Service at September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the Postal Service’s internal control over financial reporting as of September 30, 2021, 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 10, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Postal Service’s management. Our responsibility is to express an opinion on the Postal Service’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Postal Service in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Workers' Compensation

Description of the Matter

At September 30, 2021, the Postal Service's total workers' compensation liability reflected in the balance sheet was \$18.2 billion. As explained in Note 14 to the financial statements, the Postal Service estimates its workers' compensation liability using actuarial methods to project the future claims payments based upon past claim-payment experience. The Postal Service calculates the amount that would need to be invested at current interest rates (discount rate) to fully fund the future total cost of claims and this calculated present value is the recorded value of the workers' compensation liability.

Auditing the workers' compensation liability is complex due to the judgmental nature of estimating the future total cost of workers' compensation claims and the use of various actuarial methods. There are a number of factors and assumptions used in the measurement process including severity, duration and frequency of claims, and the discount rate which could have a significant effect on the total workers' compensation liability.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over management's process of estimating the workers' compensation liability. For example, we tested controls over management's review of the significant assumptions, data inputs used, and results of calculations as well as management's evaluation of service organization controls.

To evaluate the workers' compensation liability, our audit procedures included, among others, testing the completeness and accuracy of the underlying claims data used by the Postal Service. We involved our actuarial specialists to assist in our evaluation of the actuarial methods applied and significant assumptions noted above used by management in determining the liability. We compared the Postal Service's workers' compensation liability amount to a range which our actuarial specialists developed based on independently selected assumptions.

Emphasis of a Matter

As discussed more fully in Note 3 to the financial statements, the Postal Service, an independent establishment of the executive branch of the U.S. Government, is dependent upon future actions of the U.S. Government to continue its operations in the ordinary course. The Postal Service has incurred recurring losses from its operations primarily due to constraints by laws and regulations and sustained declines in mail volume. The duration of the COVID-19 disruption remains uncertain, and the Postal Service's liquidity may continue to worsen as its losses from operations are projected to continue. Statutory and regulatory restrictions have constrained the ability of the Postal Service to implement strategies to improve efficiency, reduce costs and increase revenues. The Postal Service remains in default on past-due obligations of \$71.6 billion related to retirement and retiree health benefits and does not expect to have sufficient cash to satisfy these obligations. The Postal Service does not, at this time, anticipate any legal consequences, under current law, from its inability to make these required payments. Additionally, the Postal Service has no assurance that it would be able to raise additional cash through additional financings or that such financings would be provided on terms comparable to prior debt issuances. Management believes, but no assurances can be given, that 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.

/s/ Ernst & Young LLP

We have served as the United States Postal Service's auditor since 1972.

Tysons, Virginia
November 10, 2021

**UNITED STATES POSTAL SERVICE
STATEMENTS OF OPERATIONS**

<i>(in millions)</i>	Year Ended September 30,		
	2021	2020	2019
Revenue			
Operating revenue	\$ 77,009	\$ 73,123	\$ 71,136
Other revenue	32	10	18
Total revenue	77,041	73,133	71,154
Operating expenses			
Compensation and benefits	50,085	48,730	47,519
Retirement benefits	7,376	6,964	6,197
Retiree health benefits	5,110	4,660	4,564
Workers' compensation	(580)	2,903	3,504
Transportation	9,652	8,814	8,184
Other operating expenses	10,201	10,116	9,911
Total operating expenses	81,844	82,187	79,879
Loss from operations	(4,803)	(9,054)	(8,725)
Interest and investment income	28	92	152
Interest expense	(155)	(214)	(240)
Net loss	\$ (4,930)	\$ (9,176)	\$ (8,813)

See accompanying notes to the financial statements.

**UNITED STATES POSTAL SERVICE
BALANCE SHEETS**

<i>(in millions)</i>	September 30, 2021	September 30, 2020
Current Assets:		
Cash and cash equivalents	\$ 23,858	\$ 14,358
Restricted cash	449	354
Receivables, net (less allowances of \$134 and \$87)	1,412	1,359
Supplies, advances and prepayments	189	224
Total current assets	25,908	16,295
Property and equipment, net	14,778	14,567
Operating lease right-of-use assets	5,070	4,488
Other assets	649	554
Total assets	\$ 46,405	\$ 35,904
Current Liabilities:		
Compensation and benefits	\$ 3,810	\$ 2,788
Retirement benefits	14,915	11,583
Retiree health benefits	56,975	51,865
Workers' compensation	1,325	1,320
Payables and accrued expenses	2,523	2,328
Deferred revenue-prepaid postage	2,623	2,489
Operating lease liabilities	1,336	1,206
Customer deposit accounts	1,194	1,260
Other current liabilities	1,628	1,336
Short-term debt	1,000	3,000
Total current liabilities	87,329	79,175
Workers' compensation, noncurrent	16,849	18,754
Operating lease liabilities, noncurrent	3,847	3,425
Employees' accumulated leave, noncurrent	2,334	2,201
Other noncurrent liabilities	1,726	2,057
Long-term debt	10,000	11,000
Total liabilities	122,085	116,612
Net Deficiency:		
Capital contributions of the U.S. government	13,132	3,132
Deficit since 1971 reorganization	(88,812)	(83,840)
Total net deficiency	(75,680)	(80,708)
Total liabilities and net deficiency	\$ 46,405	\$ 35,904

See accompanying notes to the financial statements.

**UNITED STATES POSTAL SERVICE
STATEMENTS OF CHANGES IN NET DEFICIENCY**

<i>(in millions)</i>	Capital Contributions of U.S. Government	Accumulated Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2018	\$ 3,132	\$ (65,769)	\$ (62,637)
Cumulative effect adjustments for adoption of new accounting pronouncements	—	(82)	(82)
Net loss	—	(8,813)	\$ (8,813)
Balance, September 30, 2019	\$ 3,132	\$ (74,664)	\$ (71,532)
Net loss	—	(9,176)	(9,176)
Balance, September 30, 2020	\$ 3,132	\$ (83,840)	\$ (80,708)
Cumulative effect adjustments for adoption of new accounting pronouncement	—	(42)	(42)
Capital contributions of the U.S. government	10,000	—	10,000
Net loss	—	(4,930)	(4,930)
Balance, September 30, 2021	\$ 13,132	\$ (88,812)	\$ (75,680)

See accompanying notes to the financial statements.

**UNITED STATES POSTAL SERVICE
STATEMENTS OF CASH FLOWS**

	Years Ended September 30,		
	2021	2020	2019
<i>(in millions)</i>			
Cash flows from operating activities:			
Net loss	\$ (4,930)	\$ (9,176)	\$ (8,813)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	1,668	1,706	1,697
Loss (gain) on disposals of property and equipment, net	12	5	(9)
Increase in operating lease right-of-use assets	(582)	(124)	—
(Increase) decrease in other assets	(95)	(73)	8
(Decrease) increase in noncurrent workers' compensation	(1,905)	1,584	2,144
Increase (decrease) in noncurrent deferred appropriations and other revenue	77	(5)	(9)
Increase in operating lease liabilities	552	247	—
(Decrease) increase in other noncurrent liabilities	(229)	1,463	108
Changes in current assets and liabilities:			
Receivables, net	(95)	102	(367)
Supplies, advances, and prepayments	35	(46)	(25)
Retirement benefits	3,332	3,198	2,678
Retiree health benefits	5,110	4,660	4,564
Payables, accrued expenses and other	1,063	566	401
Deferred revenue-prepaid postage, prepaid box rents and other	471	262	88
Net cash provided by operating activities	4,484	4,369	2,465
Cash flows from investing activities:			
Purchases of property and equipment	(1,872)	(1,810)	(1,419)
Proceeds from sales of property and equipment	14	32	27
Net cash used in investing activities	(1,858)	(1,778)	(1,392)
Cash flows from financing activities:			
Proceeds from borrowings	—	3,400	31,800
Repayments of borrowings	(3,000)	(400)	(30,000)
Net change in revolving credit line	—	—	(4,000)
Repayments of finance lease obligations	(31)	(40)	(48)
Contributions of the U.S. government	10,000	—	—
Net cash provided by (used in) financing activities	6,969	2,960	(2,248)
Net increase (decrease) in cash, cash equivalents and restricted cash	9,595	5,551	(1,175)
Cash, cash equivalents & restricted cash - beginning of year	14,712	9,161	10,336
Cash, cash equivalents & restricted cash - end of year	\$ 24,307	\$ 14,712	\$ 9,161
Supplemental cash flow disclosures:			
Cash paid for interest	\$ 155	\$ 208	\$ 217

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 consumer and commercial customers in the communications, distribution and delivery, advertising, and retail markets throughout the United States ("U.S.") 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 10% of operating revenue for the years ended September 30, 2021, 2020, and 2019. The Postal Service is subject to congressional oversight and regulation by the Postal Regulatory Commission ("PRC"), but does not generally receive tax dollars for operating expenses, relying primarily on the sale of postage, products and services to fund its operations.

The *Postal Accountability and Enhancement Act of 2006*, Public Law 109-435 ("PAEA") classifies the services offered by the Postal Service as either Market-Dominant or Competitive products; however, the term "services" is used in this report for consistency with other descriptions of services the Postal Service offers. The Postal Service provides services through approximately 31,000 Post Offices, stations, and branches managed by the Postal Service, plus approximately 3,000 additional Contract Postal Units, Community Post Offices, Village Post Offices, and a large network of commercial outlets which sell postage stamps and services on the Postal Service's behalf, and through its website www.usps.com. The Postal Service delivers to more than 163 million city, rural, *PO Box*, and highway delivery points. Operations are conducted primarily in the domestic market, with international revenue representing approximately 3% of operating revenue for the year ended September 30, 2021.

As of September 30, 2021, approximately 93% of employees were 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"). For further information on collective bargaining agreements, see *Note 11 - Commitments and Contingencies*.

By law, the Postal Service must consult with management organizations representing most of its 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.

Summary of Significant Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and also related disclosures 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 these evaluations form the 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 the 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 consists of unrestricted cash and short-term, highly liquid investments with maturities of 90 days or less. See *Note 6 - Cash, Cash Equivalents, and Restricted Cash* for additional information.

Restricted Cash

Restricted cash represents cash that is not available for general use. This includes cash from forfeitures or seizures related to consumer fraud or other criminal activity related to the mail that is either being held for third-party beneficiaries or awaiting disposition. It also includes cash received for revenue under the Postal Service's retirement-based pricing authority, a price increase authorized by the PRC, under which any incremental funds received must be remitted to OPM for amortization payments. *Restricted cash* also includes funds designated for specific use due to congressional appropriation for Postal Service obligations to the PRC and the United States Postal Service Office of Inspector General, or other restriction. See *Note 6 - Cash, Cash Equivalents, and Restricted Cash* for additional information.

Receivables, net

Receivables, net represents receivables recorded at the amount invoiced, net of allowances. Allowances for potential 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 of observable data, including present and forecasted future economic conditions and the financial health of specific customers and market sectors. *Receivables, net* also included advances for employees' leave as described below in *Employees' Accumulated Leave*. See *Note 7 - Receivables, net* for additional information.

Property and Equipment, net

Property and equipment, net represents property and equipment recorded at cost less accumulated depreciation. It includes the interest on borrowings used to pay for the construction of major capital additions. Depreciation expense is recorded using the straight-line method over estimated useful life, which ranges from three to forty years. Depreciation expense is included within *Other operating expenses* in the accompanying *Statements of Operations*. Gains and losses recognized on assets sold are reported in *Other revenue* and *Other operating expense*, respectively, within the accompanying *Statements of Operations*. General maintenance and repair costs are charged to expense as incurred. See *Note 8 - Property and Equipment, net* for additional information.

Software Capitalization

Software costs, including internal development costs, are capitalized when they meet certain criteria. Costs to be capitalized include both contracted resources and employee labor costs incurred in the development of internal-use software. 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 three years.

Leases

The Postal Service leases over 23,000 real properties and has over 200 contracts for transportation equipment services that qualify as embedded leases. As the lessee, the Postal Service classifies a lease, which has substantially all the risks and rewards of ownership, as a finance lease. These leases are capitalized on the lease commencement date at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The discount rate used to determine the present value is based on average U.S. Department of Treasury ("U.S. Treasury") rates. Property acquired under a finance lease is amortized over the lease term. Finance 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. Operating leases are included within *Operating lease right-of-use assets* in the accompanying *Balance Sheets*. Expenses associated with operating leases are recognized on a straight-line basis over the term of the lease as either rent expense or transportation expense based on the leased asset type and are included within *Other operating expenses* or *Transportation*, respectively, in the *Statement of Operations*. See *Note 15 - Leases* for additional information.

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 typically 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.

Employees' Accumulated Leave

Employees' accumulated leave represents leave earned but unused as of the balance sheet date and is recorded as a liability. Career employees earn annual leave based on the number of creditable years of service with the federal government. The Postal Service notifies employees at the beginning of each calendar year of the amount of leave they will earn for that year. Leave taken by employees before it is earned is considered an advance. Advances are recorded within *Receivables, net* as presented in the accompanying *Balance Sheets*. The current portion of employees' accumulated leave, which consists of holiday leave, is included under *Current liabilities* within *Compensation and benefits* in the accompanying *Balance Sheets*. The noncurrent portion is included under *Noncurrent liabilities* within *Employees' accumulated leave, noncurrent* in the accompanying *Balance Sheets*.

Retiree Benefits

Career employees are eligible to participate in the U.S. 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 expenses are recorded in the period, in which the contributions are due and payable. See *Note 12 - Retirement Plans* and *Note 13 - Health Benefits Plans* for additional information.

Workers' Compensation

The Postal Service's 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 the workers' compensation liability for the present value of estimated future payments. See *Note 14 - 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. Because payments for postage are collected in advance of the satisfaction of related performance obligations, the Postal Service defers and reflects this revenue as *Deferred revenue—prepaid postage* in the accompanying *Balance Sheets*. Stamp sales and metered postage account for the majority of *Deferred revenue—prepaid postage*. Also included in the estimate of the liability is an estimate for mail that is in-transit within the Postal Service network. See *Note 4 - Revenue Recognition 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. Each quarter, the Postal Service evaluates significant new claims and litigation for the probability of an adverse outcome. The Postal Service also reviews prior claims and litigation, and when necessary, adjusts the liability balance for resolutions or revisions to prior estimates. Estimates of loss can therefore change as additional information becomes available. See *Note 11 - 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 the year 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. The Postal Service then submits these estimates annually to Congress. After consideration, Congress may deny, modify, and/or approve the submission under an appropriation for one or both revenue forgone components. See *Note 16 - Revenue Forgone* for additional information.

Advertising

Advertising costs, which the Postal Service expenses as they are incurred, were \$188 million, \$155 million and \$185 million for the years ended September 30, 2021, 2020, and 2019, respectively, and are included within *Other operating expenses* in the accompanying *Statements of Operations*.

Research and Development

Research and development costs, which the Postal Service expenses as they are incurred, were \$15 million, \$15 million and \$27 million for the years ended September 30, 2021, 2020, and 2019, respectively, and are included within *Other operating expenses* in the accompanying *Statements of Operations*.

Foreign Currency Risk

Foreign currency 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, Chinese yuan, 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. Operating results were not materially impacted by foreign exchange rate movements for the years ended September 30, 2021, 2020, and 2019.

Segment Information

The Postal Service does not operate in segments and reports its performance as a single business.

Related Parties

As disclosed throughout this report, the Postal Service conducts significant transactions with other U.S. government entities, which are considered related parties in accordance with GAAP. See *Note 5 - Related Parties* for additional information.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS**Accounting Standards Update 2016-13 Financial Instruments - Credit Losses**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-13 *Financial Instruments - Credit Losses*, which has since been codified in Accounting Standards Codification ("ASC") 326, *Financial Instruments - Credit Losses*. The new standard requires entities to measure expected credit losses on financial instruments and other commitments by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The Postal Service adopted this standard on a modified retrospective basis on October 1, 2020. Upon adoption, the Postal Service adjusted its allowance for credit losses by \$42 million, resulting in an opening *Balance Sheet* adjustment as of October 1, 2020, reducing *Receivables, net* and increasing the *Deficit since 1971 reorganization* by this amount. The adoption of this standard did not have an impact on the accompanying *Statement of Operations* or *Statement of Cash Flows*.

Accounting Standards Update 2018-15 Intangibles - Goodwill and Other - Internal-Use Software

In August 2018, the FASB issued Accounting Standards Update 2018-15 *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*, which has since been codified in ASC Subtopic 350-40, *Intangibles - Goodwill and Other - Internal-Use Software*. This is an update to a standard the FASB issued in April 2015 for entities evaluating the accounting for fees paid by a customer in a cloud computing (hosting) arrangement. The update reduces the complexity of accounting for costs of implementing a cloud computing service arrangement by aligning the guidance for capitalizing these implementation costs, regardless of whether such arrangements include a software license.

The Postal Service adopted this standard prospectively on October 1, 2020. There was no material impact for the year ended September 30, 2021.

Accounting Standards Update 2018-13 Fair Value Measurement

In August 2018, the FASB issued Accounting Standards Update 2018-13 *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which has since been codified in ASC 820, *Fair Value Measurement*. The new standard modifies the disclosure requirements for fair value measurements by adding, modifying or removing certain disclosures.

The Postal Service adopted this standard prospectively on October 1, 2020. The adoption of ASC 820 had no impact on its financial statements but amended the information disclosed in *Note 17 - Fair Value Measurement*.

NOTE 3 - LIQUIDITY

The Postal Service's liquidity consists of unrestricted cash and cash equivalents plus authorized borrowing capacity under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435 (the "PRA").

Cash

The Postal Service generates its cash almost entirely through the sale of postage and other 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. Treasury.

As of September 30, 2021 and 2020, the Postal Service held unrestricted cash and cash equivalents of \$23.9 billion and \$14.4 billion, respectively. As of September 30, 2021 and 2020, the Postal Service held restricted cash of approximately \$449 million and \$354 million, respectively. See *Note 6 - Cash, Cash Equivalents, and Restricted Cash* for additional information.

In March 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act*, enacted as Public Law 116-136 (the "CARES Act") in response to the coronavirus ("COVID-19") pandemic. In December 2020, the President signed Public Law 116-260, the *Consolidated Appropriations Act, 2021*, amending the *CARES Act*. The *CARES Act*, as amended, allowed the Postal Service to receive up to \$10.0 billion from the U.S. Treasury to fund operating expenses.

As of September 30, 2021, total funding received pursuant to the *CARES Act*, as amended, was \$10.0 billion, all of which was recorded as a capital contribution in the accompanying *Balance Sheets*.

The *CARES Act* also offered certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages from March 27, 2020 through December 31, 2020. In accordance with this provision, the Postal Service had deferred approximately \$1.8 billion as of September 30, 2021. One half of these deferred payments is due by December 31, 2021, and is recorded within *Compensation and benefits* in the accompanying *Balance Sheets*. The other half is due by December 31, 2022, and is recorded within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

Debt

The PRA authorizes the Postal Service to raise cash through the issuance of debt obligations. The PRA requires the Postal Service to notify the Secretary of the Treasury of its intent to issue debt and to allow the U.S. Treasury the first option to purchase such obligations. However, if the Secretary of the Treasury elects not to purchase such obligations, the PRA authorizes the Postal Service to issue and sell such obligations to a party or parties other than the U.S. Treasury, which may include a transaction in the public or private debt markets. Under the PRA, the Postal Service is limited by statute to annual net increases in debt of \$3.0 billion calculated as of the end of each fiscal year, and total debt of \$15.0 billion.

As of September 30, 2021 and 2020, the aggregate principal of all debt outstanding was \$11.0 billion and \$14.0 billion, respectively, all of which was issued to the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury.

As of September 30, 2021, the Postal Service had \$4.0 billion in remaining borrowing capacity under the PRA, but it is limited to \$3.0 billion in net incremental borrowing calculated as of the end of each fiscal year, due to the limitation on annual net increases in debt.

For additional information regarding the Postal Service's debt, see *Note 10 - Debt*.

Liquidity Concerns

For the year ended September 30, 2021, the Postal Service reported operating expenses of \$82 billion and a net loss of \$4.9 billion. From 2007 through 2021, the Postal Service has incurred cumulative net losses of \$92 billion. As a result of these losses and its liquidity concerns, the Postal Service may not have sufficient liquidity to meet all of its existing legal obligations when due while also reducing its debt and making the critical infrastructure investments that have been deferred in recent years.

The Postal Service continues to face systemic imbalances that make its current operating model unsustainable. As communicated in the *Delivering for America* plan that was published in March 2021, the Postal Service is implementing strategic operational reforms to meet the changing needs of its business and residential customers. However, success of the plan requires rational legislative and administrative changes to retire benefit funding rules and pricing authority aligned with the organization and marketplace needs. Absent legislative action, regulatory change, and timely implementation of operational reforms, the Postal Service projects continuing annual net losses in the future.

Furthermore, while the Postal Service has the statutory authority to issue debt obligations within the statutory borrowing authority, it has no assurance that it would be able to raise additional cash through new debt financing with the FFB, or that such financing would be provided on terms comparable to those applicable to its prior debt issuances. Alternatively, if the Postal Service were to use its authority under the PRA to issue and sell obligations to a party or parties other than the FFB, it has no assurance it would be successful in raising additional cash or that such financing would be provided on terms comparable to those applicable to its prior debt issuances.

COVID-19 Considerations

Given its mandate to provide universal postal services to the nation, the Postal Service provides an essential service as part of the nation's critical infrastructure and has continued to process and deliver mail and packages during the pandemic. The Postal Service serves a critical role in the U.S. economy as its employees accept, process, transport, and deliver vital mail and packages like medicine, essential consumer goods, benefits checks, and important information.

The pandemic continues to have a material and unpredictable effect on certain of the Postal Service's results of operations. At the onset of the pandemic, the Postal Service experienced a significant decline in mail services and substantial growth in sales from Shipping and Packages, its most labor-intensive revenue stream.

As the U.S. economy recovers, the impact of COVID-19 on the Postal Service's volume trends has partially abated. However, the pandemic has significantly transformed the mix of mail and packages processed through the Postal Service's network with a substantially higher percentage of Shipping and Packages volume, compared to pre-pandemic levels. While this shift contributes to net positive cash flow, Shipping and Packages produces a lower contribution margin per revenue dollar due to higher associated labor and transportation expenses.

The Postal Service's operating expenses have also been significantly impacted by the pandemic beyond the impact of higher package volume as it has incurred expenses for personal protective equipment ("PPE"), increased sick leave, increased costs for hiring and training new employees, increased overtime costs, higher air transportation costs due to lower availability of commercial air flights, and certain general pandemic-related inefficiencies in the workplace including increased hours managing PPE, sanitizing work areas, social distancing in postal facilities, and the acclimation of new hires. While these costs are still higher than the pre-pandemic levels, they have decreased from those incurred at the onset of the pandemic.

Despite the continued distribution and administration of vaccinations, the duration of the COVID-19 disruption remains uncertain, particularly with the emergence of COVID-19 variants. The Postal Service expects that its liquidity may decline if the nation experiences a prolonged period of disruption or the surge in e-commerce diminishes further. In 2021, these concerns were partially mitigated by receipt of \$10.0 billion, under the *CARES Act*, as amended, from the U.S. Treasury to fund operating expenses, and by \$233 million in reimbursements for certain pandemic-related leave expenses under the *American Rescue Plan Act of 2021*, enacted as Public Law 117-2, as discussed in *Note 5 - Related Parties*.

Business Model Challenges/Constraints

The Postal Service is constrained by laws and regulations, including the PAEA, enacted as Public Law 109-435, which restricts revenue sources and mandates certain expenses. Many employee and retiree benefit costs are mandated by law and cannot be altered without legislative change, and some of these costs have historically increased at a higher rate than inflation. Such expenses include prefunding requirements for retiree health benefits and amortization payments to provide full funding of retirement and retiree health benefits that are unlike those imposed on most other federal entities or private-sector businesses that offer such benefits.

Market-Dominant services, which include, but are not limited to, *First-Class Mail*, *Marketing Mail*, *Periodicals* and certain parcel services, accounted for approximately 55% of the Postal Service's operating revenues in 2021. The prices in effect for Market-Dominant services for most of 2021 were established under a price cap system measured by the Consumer Price Index for All Urban Consumers ("CPI-U"). On November 30, 2020, the PRC announced its final decision in connection with its ten-year review of the system for regulating rates and classes for Market-Dominant services that modifies the price cap system by providing some additional pricing flexibility and authority. The PRC's decision is subject to an ongoing appeal in the U.S. Court of Appeals for the District of Columbia Circuit. Under this authority, the Postal Service raised prices on Market-Dominant services by 6.8% on August 29, 2021.

Unlike the prices for Postal Service's Market-Dominant services, the Postal Service's costs are not similarly constrained or capped. Under the price cap system in effect prior to the PRC's final ruling, the Postal Service has generally been unable to increase prices sufficiently to offset increased costs. As discussed above, the PRC's final decision will provide the Postal Service with some additional pricing flexibility and authority when determining future price increases. However, the Postal Service is constrained by law, or by contract, from reducing many of its costs or from pursuing many alternate sources of revenue. A large portion of its cost structure cannot be altered expeditiously due to the Postal Service's universal service mission and many employee and retiree benefit costs are mandated by law and cannot be altered without legislative change.

Furthermore, the number of delivery points continues to grow with an increase of 1.8 million in 2021, which, when combined with lower 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 3.0 pieces in 2021, a decline of approximately 46%.

Because the Postal Service provides its services primarily through its employees, its costs are heavily concentrated in wages and benefits for both current employees and retirees. These costs are significantly impacted by contractual wage increases, employee health benefit premium increases, and statutorily mandated retirement, and workers' compensation programs.

Statutorily mandated expenses include amortization payments to provide full funding of retirement benefits under the Civil Service Retirement System ("CSRS") and the Federal Employee Retirement System ("FERS"), described in greater detail below and in *Note 12 - Retirement Plans*. Additionally, the PAEA established the Postal Service Retiree Health Benefits Fund ("PSRHBF") and mandated certain obligations for paying the normal costs and amortization payments for full prefunding of retiree health benefits. Normal costs are the present value of the estimated retiree health benefits attributable to active employees' current years of service. These prefunding obligations are described in greater detail below and in *Note 13 - Health Benefits Plans*.

Past Due Obligations

In order to preserve liquidity and ensure that its ability to fulfill its primary mission is not placed at undue risk, the Postal Service has not made certain payments to OPM for certain CSRS and FERS retirement benefits, nor has it made certain payments to the PSRHBF for certain retiree health benefit programs.

The following table presents the total expenses accrued but unpaid by the Postal Service as of September 30, 2021 related to retiree health benefits, CSRS, and FERS, and the fiscal years in which the accruals were recorded:

<i>(in millions)</i>	2021	2020	2019	2012 to 2018	Total
PSRHBF prefunding fixed amount	\$ —	\$ —	\$ —	\$ 33,900	\$ 33,900
PSRHBF unfunded benefits amortization	907	810	789	1,770	4,276
Normal cost of retiree health benefits	4,203	3,850	3,775	6,971	18,799
CSRS unfunded retirement benefits amortization	1,858	1,817	1,617	3,181	8,473
FERS unfunded retirement benefits amortization	1,401	1,343	1,060	2,370	6,174
Total expenses accrued but unpaid	\$ 8,369	\$ 7,820	\$ 7,241	\$ 48,192	\$ 71,622

As of the date of this report, the Postal Service has not incurred any penalties or negative financial consequences as a result of not making these payments.

Mitigating Circumstances

The Postal Service continues to pursue strategies within its control to increase operational efficiency and improve liquidity. The Postal Service has managed capital in recent years by spending only what it believed essential to maintain its existing facilities and service levels and to increase efficiencies. However, continued increases in capital investment are necessary to upgrade its facilities, fleet of vehicles, and processing equipment in order to remain operationally viable. Aggressive management of the business operations and legislative and regulatory reforms that will enable it to increase revenue and reduce costs will all be necessary to restore the Postal Service to financial health.

The Postal Service continues to support legislation that will enable it to increase revenue and reduce costs. Specifically, reforms to establish a set of health-care plans within the Federal Employees Health Benefits ("FEHB") program that are integrated with Medicare, for current and future retirees, would eliminate most of the current retiree health benefits unfunded liability and substantially reduce annual amortization and normal cost payment requirements.

The Postal Service's status as an independent establishment of the executive branch that does not generally 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 total revenue of approximately \$77 billion in 2021, a financially sound Postal Service continues to be vital to the 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 as it would significantly inhibit the remittance of payments through the mail, as well as vital mail and packages like medicine, essential consumer staples, benefit checks, and important information. 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 executive branch, Congress, the PRC, and other stakeholders of the immediate and long-term financial challenges it faces and the legislative and regulatory changes that are required to restore its financial stability.

In the event that circumstances leave the Postal Service with insufficient liquidity, it would likely be required to implement additional contingency plans to ensure that its primary mission is fulfilled and that mail deliveries continue. These measures may require the Postal Service to prioritize payments to the FFB, employees, and suppliers ahead of some payments to fund retirement and retiree health benefits, as has been done in the past.

NOTE 4 - REVENUE RECOGNITION AND DEFERRED REVENUE

The Postal Service generates the majority of its revenue from contracts associated with the processing and delivery of different types of mail and packages, both domestically and internationally, which generally occurs over a relatively short period of time (e.g., several days).

The Postal Service's revenue is generated primarily from deliveries within the domestic market, with international revenue representing 2.9%, 3.3% and 3.5% of operating revenue for the years ended September 30, 2021, 2020, and 2019, respectively.

Disaggregation of Revenue

The following table summarizes the Postal Service's disaggregated operating revenue for the year ended September 30, 2021, 2020, and 2019 by each service category:

<i>(in millions)</i>	2021	2020¹	2019¹
Operating revenue:			
First-Class Mail ²	\$ 23,281	\$ 23,781	\$ 24,431
Marketing Mail ³	14,590	13,909	16,359
Shipping and Packages ⁴	32,013	28,529	22,783
International	2,223	2,408	2,474
Periodicals	942	1,024	1,194
Other ⁵	3,960	3,472	3,895
Total operating revenue	\$ 77,009	\$ 73,123	\$ 71,136

¹ Prior period amounts for certain service categories include reclassifications of amounts amongst service categories to conform to current period presentation. These reclassifications are immaterial for each affected category and have no effect on total operating revenue for the period. These reclassifications are required by Postal Service regulatory requirements and are included in this document for consistency amongst publicly-available information.

² Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.

³ Excludes *Marketing Mail Parcels*.

⁴ Includes *Priority Mail*, *USPS Retail Ground*, *Parcel Select Mail*, *Parcel Return Service Mail*, *Marketing Mail Parcels*, *Package Service Mail*, *First-Class Package Service - Retail*, *First-Class Package Service - Commercial* and *Priority Mail Express*.

⁵ Revenue includes *PO Box services*, *Certified Mail*, *Return Receipts*, *Insurance*, *Other Ancillary Services*, *Shipping and Mailing Supplies*, *Collect on Delivery*, *Registered Mail*, *Stamped Envelopes and Cards*, *Money Orders* and other services.

Satisfaction of Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

First-Class Mail, *Marketing Mail*, *Shipping and Packages*, *International Mail* and *Periodicals* are categorized as mailing and shipping services for purposes of satisfying performance obligations. The Postal Service recognizes revenue for mailing and shipping services as it fulfills its obligation to process and deliver each mailpiece and the customer mail sender/recipient receives and consumes the benefits of these services.

Other revenue includes *PO Box services*, *Return Receipts*, *Insurance*, *Other Ancillary Services*, *Shipping and Mailing Supplies*, *Collect on Delivery*, *Registered Mail*, *Stamped Envelopes and Cards*, *money orders*, and other goods and services. The Postal Service recognizes revenue for the majority of these services over time as the customer receives and consumes the benefits of the service. The revenue for a small portion of certain goods or services in this service category is recognized at a point in time when the goods or service are provided to the customer.

The vast majority of the Postal Service's contracts include only one performance obligation. However, if a contract is separated into more than one performance obligation, the total transaction price for each performance obligation is allocated in an amount based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. The majority of the goods or services

the Postal Service sells have observable stand-alone sales prices. Furthermore, the Postal Service receives payment for the majority of its goods and services up front.

The Postal Service recognizes revenue over time as mail and packages move through its network and the progress of the completion of performance obligations are satisfied.

Variable Consideration

The Postal Service offers certain contracts to its customers that contain various types of customer incentives or other provisions that can either increase or decrease the transaction price. Customer incentives include discounts, money back guarantees, rebates, refunds or incentive payments. The other provisions include performance penalties. The Postal Service uses the expected value approach to estimate variable consideration to which it expects to be entitled.

Contract Modifications

The Postal Service considers contract modifications to exist when the modification either creates new enforceable rights and obligations or alters the existing arrangement. Contract modifications do not add distinct services; they are typically used to change the prices that the Postal Service charges its customer for existing services. These contract modifications are accounted for prospectively as the remaining performance obligations are executed.

Principal vs. Agent Consideration

The Postal Service utilizes third parties to assist with the transportation of mailpieces between different points as part of the processing and delivery process. Based on its evaluation of the transfer of control model, the Postal Service has determined that it acts as the principal rather than the agent within these arrangements.

Contract Liabilities

The vast majority of the Postal Service's contract liabilities consist of *Deferred revenue-prepaid postage* and prepaid *PO Box* and *Caller Service* fees. *Deferred revenue-prepaid postage* is an estimate of postage that has been sold, but not yet used by customers. Because the Postal Service collects payments for its services in advance of the satisfaction of related performance obligations, it defers and reports this unearned revenue as *Deferred revenue-prepaid postage* as a liability in its balance sheet.

The following table presents the opening balance of the Postal Service's contract liabilities, including *Deferred revenue-prepaid postage* and prepaid *PO Box* and *Caller Service* fees, as of September 30, 2021 and 2020:

<i>(in millions)</i>	September 30, 2021	September 30, 2020
Deferred revenue-prepaid postage:		
Forever stamps	\$ 1,581	\$ 1,446
Mail-in-transit	600	589
Metered postage	324	329
Other prepaid postage	118	125
Total deferred revenue-prepaid postage	2,623	2,489
Prepaid PO Box and Caller Service fees	557	489
Total deferred revenue	\$ 3,180	\$ 2,978

Deferred revenue for forever stamps is developed and validated through mathematical and statistical sampling methods for estimating postage stamp usage. Revenue is recognized based on this estimated usage. Revenue is also recognized for "breakage" representing a portion of forever stamps that will never be used for mailing due to loss, damage or stamp collection.

Deferred revenue for metered postage, which is primarily a commercial product, 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.

The liability also includes an estimate for mail that is in-transit within the Postal Service processing and delivery network. Deferred revenue for mail-in-transit is recognized over time as it is processed through the Postal Service's network. The revenue is fully recognized once the mail piece reaches its final destination.

The prepaid *PO Box* and Caller Service fees consist of payments received from customers for *PO Box* fees at the beginning of their contracts. The Postal Service defers and reflects this unearned revenue as prepaid *PO Box* and Caller Service fees within *Other current liabilities* in the accompanying *Balance Sheets*. Revenue is recognized over time as customers use the *PO Box* and Caller Services over the terms of their contracts.

The following table provides details of revenue recognized for the year ended September 30, 2021, that was reported in the Postal Service's contract liabilities for deferred revenue as of September 30, 2020:

<i>(in millions)</i>	2021
Revenue recognized from deferred revenue:	
Forever stamps	\$ 1,143
Mail-in-transit	589
Metered postage	329
Other prepaid postage	111
PO Box and Caller Service fees	489

NOTE 5 - RELATED PARTIES

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities and discloses the balances and transactions, which are considered related parties in accordance with GAAP.

The following table presents related-party assets and liabilities as of September 30, 2021 and 2020:

<i>(in millions)</i>	September 30, 2021	September 30, 2020¹
Related-party assets:		
Carrying amount of revenue forgone installment receivable ²	\$ 504	\$ 485
Related-party liabilities:		
Short-term debt	\$ 1,000	\$ 3,000
Other current liabilities ³	73,814	65,365
Long-term debt	10,000	11,000
Other noncurrent liabilities ⁴	16,861	18,768
¹ Prior period amounts for certain categories include immaterial adjustments to conform to current period presentation. ² Included within <i>Other assets</i> in the accompanying <i>Balance Sheets</i> . See further discussion in <i>Note 17 - Fair Value Measurement</i> . ³ Amounts include CSRS, FERS and PSRHBFB obligations and current workers' compensation obligations due to DOL, as well as payables to other agencies. ⁴ Amounts include noncurrent workers' compensation obligations due to DOL.		

In March 2021, the President signed the *American Rescue Plan Act of 2021*, enacted as Public Law 117-2, which included \$570 million in funding for COVID-19 related leave taken through September 30, 2021 for all

federal employees, including the Postal Service's employees. Pursuant to this law, the Postal Service was eligible for reimbursement of certain pandemic-related leave expenses. However, receipt of funds under this law is not guaranteed as it is subject to approval from the OPM and the available remaining balance. As of September 30, 2021, the Postal Service received \$233 million.

The following table presents related-party revenue and expenses for the years ended September 30, 2021, 2020, and 2019:

<i>(in millions)</i>	2021	2020	2019
Related-party operating revenue ¹	\$ 1,304	\$ 1,373	\$ 971
Related-party operating expenses ²	18,286	17,519	16,699
Related-party interest income ³	28	91	151
Related-party interest expenses ⁴	149	203	227

¹ Included within *Operating revenue* in the accompanying *Statements of Operations*.
² Included within *Operating expenses* in the accompanying *Statements of Operations*.
³ Imputed on the revenue forgone installment receivable, as well as interest generated on U.S. Treasury instruments and other cash equivalents held with the Federal Reserve Bank of New York. Included within *Interest and investment income* in the accompanying *Statements of Operations*.
⁴ Incurred on debt issued to the FFB and included within *Interest expense* in the accompanying *Statements of Operations*.

NOTE 6 - CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The following table provides a reconciliation of *Cash and cash equivalents* and *Restricted cash* reported in the accompanying *Balance Sheets* as of September 30, 2021 and 2020, respectively, along with the reported *Cash and cash equivalents* and *Restricted cash* balances as of September 30, 2019. These amounts correspond to the totals reported in the accompanying *Statements of Cash Flows* for the years ended September 30, 2021, 2020, and 2019:

<i>(in millions)</i>	September 30,		
	2021	2020	2019
Cash and cash equivalents	\$ 23,858	\$ 14,358	\$ 8,795
Restricted cash	449	354	366
Total cash, cash equivalents, and restricted cash	\$ 24,307	\$ 14,712	\$ 9,161

The Postal Service holds its *Cash and cash equivalents* and *Restricted 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. Treasury.

NOTE 7 - RECEIVABLES, NET

The following table details *Receivables, net* from the accompanying *Balance Sheets* as of September 30, 2021 and 2020:

<i>(in millions)</i>	September 30, 2021	September 30, 2020
Foreign postal administrations	\$ 991	\$ 882
U.S. government*	25	28
Other	530	536
Receivables before allowances	1,546	1,446
Less: Allowances	134	87
Receivables, net	\$ 1,412	\$ 1,359

* U.S. government receivables amounts exclude noncurrent receivables.

NOTE 8 - PROPERTY AND EQUIPMENT, NET

The following table provides details for *Property and equipment, net* from the accompanying *Balance Sheets* as of September 30, 2021 and 2020:

<i>(in millions, except years)</i>	Estimated life in years	September 30, 2021	September 30, 2020
Buildings	3 - 40	\$ 26,449	\$ 26,100
Equipment	3 - 20	14,566	14,726
Vehicles	5 - 24	4,909	4,602
Land	-	2,869	2,865
Leasehold improvements	3 - 20	1,862	1,765
Property and equipment, at cost		\$ 50,655	\$ 50,058
Less: Accumulated depreciation and amortization		37,474	36,632
Construction in progress		1,597	1,141
Property and equipment, net		\$ 14,778	\$ 14,567

The Postal Service defers gains when it enters into any leaseback arrangements or contractual obligations requiring continued Postal Service involvement with the property. Total deferred gains on the sale of property were \$371 million and \$292 million as of September 30, 2021 and 2020, respectively. The current portions of deferred gains were approximately \$1 million as of both September 30, 2021 and 2020, and are included within *Other current liabilities* in the accompanying *Balance Sheets*. The noncurrent portions of deferred gains were \$370 million and \$291 million as of September 30, 2021 and 2020, respectively, and are included within *Other noncurrent liabilities* in the accompanying *Balance Sheets*. Deferred gains are amortized over the periods during which the Postal Service has continuing involvement with the applicable properties.

Depreciation and amortization expenses were approximately \$1.7 billion for each of the years ended September 30, 2021, 2020, and 2019, and are included within *Other operating expenses* in the accompanying *Statements of Operations*.

NOTE 9 - PAYABLES AND ACCRUED EXPENSES

The following table provides details for *Payables and accrued expenses* from the accompanying *Balance Sheets* as of September 30, 2021 and 2020:

<i>(in millions)</i>	September 30, 2021	September 30, 2020
Trade payables	\$ 698	\$ 852
Foreign postal administrations	589	494
Inspection Service seizure and forfeiture account	212	140
Current portion of contingent liabilities	138	103
U.S. government	91	78
Other accrued expenses	795	661
Total payables and accrued expenses	\$ 2,523	\$ 2,328

NOTE 10 - DEBT

As mentioned in *Note 3 - Liquidity*, under the PRA, the Postal Service can issue debt obligations. 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 securities market at the time of repayment. The floating-rate debt obligations may also be repaid at par each quarter, when their interest rates reset. As of September 30, 2021, the premium associated with a prepayment of all debt was \$462 million based on prevailing interest rates. The weighted average interest rate for all outstanding debt was 1.314% as of September 30, 2021.

The following table provides details for *Short-term debt* and *Long-term debt* from the accompanying *Balance Sheets* as of September 30, 2021 and 2020:

<i>(in millions, except percentages)</i> Maturity	September 30, 2021		September 30, 2020	
	Balance	Rate %	Balance	Rate %
Short-term debt:				
Revolving credit line:				
April 2, 2021	\$ —	—	\$ 3,000	0.289
Fixed rate note:				
April 15, 2022	1,000	2.446	—	—
Total short-term debt	\$ 1,000		\$ 3,000	
Long-term debt:				
Floating rate notes: [*]				
November 20, 2053	\$ 1,000	0.185	\$ 1,000	0.216
June 20, 2053	1,300	0.166	1,300	0.216
February 12, 2054	1,200	0.186	1,200	0.237
February 12, 2054	800	0.186	800	0.237
February 25, 2054	500	0.176	500	0.247
May 12, 2054	700	0.186	700	0.237
Fixed rate notes:				
April 15, 2022	—	—	1,000	2.446
April 30, 2024	1,000	2.425	1,000	2.425
July 31, 2026	700	1.679	700	1.679
August 15, 2029	1,000	1.728	1,000	1.728
August 15, 2029	300	1.620	300	1.620
May 17, 2038	200	3.770	200	3.770
February 15, 2039	1,000	3.790	1,000	3.790
August 16, 2049	300	2.180	300	2.180
Total long-term debt	\$ 10,000		\$ 11,000	
Total debt	\$ 11,000		\$ 14,000	

^{*} The interest rates on the floating rate notes reset three months after the initial advance date and then on a quarterly basis throughout the life of the individual notes.

At September 30, 2021, scheduled repayments of debt principal are listed below:

<i>(in millions)</i>	Principal Amount
2022	\$ 1,000
2023	—
2024	1,000
2025	—
2026	700
Thereafter	8,300
Total debt maturities	\$ 11,000

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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, 2021 and 2020:

<i>(in millions)</i>	September 30, 2021	September 30, 2020
Mail processing equipment	\$ 823	\$ 260
Building improvements, construction and building purchase	530	630
Postal support equipment	89	40
Vehicles and other	791	817
Total capital commitments	\$ 2,233	\$ 1,747

Collective Bargaining Agreements

In September 2021, the Postal Service agreed to extend contract negotiations on a new collective bargaining agreement with the APWU. The contract with the APWU expired on September 20, 2021, and the respective parties mutually agreed to extend negotiations beyond the deadline. As of the date of this report, no final agreement has been reached.

In May 2021, the Postal Service agreed to extend contract negotiations on a new collective bargaining agreement with the NRLCA. The contract with the NRLCA expired on May 20, 2021, and the respective parties mutually agreed to extend negotiations beyond the deadline. As of the date of this report, no final agreement has been reached.

In November 2020, the Postal Service reached an agreement with the NALC on a new 44-month collective bargaining agreement, which the NALC membership ratified on March 8, 2021. The new contract has an effective date of September 20, 2019 and will expire on May 20, 2023.

In January 2020, the Postal Service reached an agreement with the NPMHU on a new three-year collective bargaining agreement, which the union membership ratified on April 7, 2020. The new contract has an effective date of September 20, 2019 and will expire on September 20, 2022.

Contingent Liabilities

The Postal Service's contingent liabilities consist primarily of claims resulting from labor and employment matters; asset retirement obligations and environmental matters; property damage and injuries on the Postal Service's properties; and issues arising from the Postal Service's contracts, personal claims, and traffic accidents. Each quarter, the Postal Service evaluates each new claim to determine its potential liability. If the Postal Service determines that an unfavorable outcome from a new claim is both probable and reasonably estimable, it records a liability for the potential loss. Preexisting claims are also reviewed and adjusted quarterly for resolutions or revisions to prior estimates based on new facts and circumstances.

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 financial condition or operations.

Provision for Losses

The Postal Service has made adequate provision for probable losses arising from all claims. The following table presents contingent liabilities by current and noncurrent portions and by category as of September 30, 2021 and 2020:

<i>(in millions)</i>	September 30, 2021	September 30, 2020
Current/noncurrent portions of contingent liabilities:		
Current portion ¹	\$ 138	\$ 103
Noncurrent portion ²	201	188
Total contingent liabilities	\$ 339	\$ 291
Contingent liabilities by category:		
Labor and employment matters	\$ 195	\$ 137
Asset retirement obligations	63	72
Tort matters	81	82
Total contingent liabilities	\$ 339	\$ 291

¹ Included within *Payables and accrued expenses* in the accompanying *Balance Sheets*.
² Included within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

Reasonably Possible Contingencies

The Postal Service does not accrue for contingencies, which it deems reasonably possible of an unfavorable outcome. These ranged in amount from \$300 million to \$1.2 billion and from \$200 million to \$1.1 billion at September 30, 2021 and 2020, respectively.

Class Action Litigation

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

The *McConnell* 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 NRP's creation of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages for individual claimants of an uncertain amount.

In 2015, the Administrative Judge assigned to handle the *McConnell* case granted in-part both the Class Agent's and the Postal Service's motions for summary judgment. In her decision, the Administrative Judge found that the NRP violated the Rehabilitation Act. The Postal Service appealed this decision to the OFO, and the OFO denied this appeal in 2018. The Postal Service implemented the OFO's order and notified all class members of their right to file an individual claim for relief. The claims submission deadline has passed and the dispute process for individual claims is currently underway before the assigned EEOC Administrative Judge.

The class members have the right to pursue individual claims. Should they be successful in establishing liability and damages that they assert, the ultimate outcome in this case could have a material impact on the Postal Service's financial results.

NOTE 12 - RETIREMENT PLANS

The majority of career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, which OPM administers. These plans provide retirement, death, and disability benefits for eligible employees based on specific eligibility and participation requirements, vesting periods, and benefit formulas. Each employee's participation in either plan is based on the starting date of employment with the Postal Service or another U.S. government entity.

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. Likewise, because the Postal Service cannot direct the costs, benefits or funding requirements of these plans, it accounts for program expenses under multiemployer plan accounting rules. As such, the Postal Service records contributions to the plans as an expense in the period in which each contribution is due.

CSRS provides a basic annuity plan benefit to employees hired before January 1, 1984. CSRS Offset provides Social Security benefits in addition to its basic annuity plan for employees hired between January 1, 1984, and January 1, 1987. The 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 U.S. Code, although CSRS employees continue to contribute to the plan.

Effective January 1, 1987, FERS provides a basic annuity plan benefit to most employees hired since December 31, 1983. FERS employees are further categorized as either FERS, FERS - Revised Annuity Employees ("FERS - RAE"), or FERS - Further Revised Annuity Employees ("FERS - FRAE") depending on whether their date of hire was before, during, or after calendar year 2013, respectively.

For FERS, the Postal Service contributes to the plan an amount established by OPM as the employer portion of retirement benefits for participating employees and their qualifying survivors, upon retirement, for each employee's current year of service (normal cost). The Postal Service records expenses for FERS normal costs within *Retirement benefits* in the accompanying *Statements of Operations*.

The Postal Service makes payments for FERS normal costs in accordance with its bi-weekly payroll cycle. Any unpaid employer amounts at the end of a period, along with any employee amounts withheld but not remitted at the end of a period, are recorded as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*. Those accrued amounts were \$268 million and \$195 million at September 30, 2021 and 2020, respectively.

Career 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. The Postal Service's TSP expenses are related only to its contributions for FERS employees. CSRS and CSRS Offset employees may participate in the TSP, although the Postal Service does not match contributions for these participants.

For FERS employees, the Postal Service contributes an automatic 1% contribution of basic pay, a 100% match of the first 3% of basic pay, and a 50% match of the next 2% of basic pay. The Postal Service recognizes Social Security and TSP expenses as they are incurred and records them within *Compensation and benefits* in the *Statements of Operations*. A liability is established for any contribution due and unpaid at the end of each reporting period. Amounts are generally expected to be paid within one year and are included within *Compensation and benefits* in the accompanying *Balance Sheets*. However, as of September 30, 2021, the Postal Service had deferred payment of approximately \$1.8 billion relating to the employer portion of Social Security as authorized by the *CARES Act*. One half of these deferred payments is due by December 31, 2021, and is recorded within *Compensation and benefits* in the accompanying *Balance Sheets*. The other half is due by December 31, 2022, and is recorded within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

The following table presents the employee and employer contributions, as a percentage of employee basic pay, for the years ended September 30, 2021, 2020, and 2019:

	September 30, 2021		September 30, 2020		September 30, 2019	
	Employee Contribution	Postal Service Contribution	Employee Contribution	Postal Service Contribution	Employee Contribution	Postal Service Contribution
CSRS	7.0%	—%	7.0%	—%	7.0%	—%
FERS	0.8%	15.7%	0.8%	14.7%	0.8%	13.7%
FERS-RAE	3.1%	13.8%	3.1%	12.8%	3.1%	11.9%
FERS-FRAE	4.4%	12.7%	4.4%	11.7%	4.4%	10.7%

Aside from these different contribution rates, the Postal Service uses the term "FERS employees" to apply to all of the FERS employee categories as a whole.

The following table provides details for the number of active employees enrolled in CSRS and FERS for the years ended September 30, 2021, 2020, and 2019:

	2021	2020	2019
CSRS and CSRS Offset	11,132	14,458	18,359
FERS	250,820	275,386	299,038
FERS - RAE	6,737	6,965	7,164
FERS - FRAE	247,985	198,959	171,900
Total enrollment	516,674	495,768	496,461

The following table presents the retirement benefits expenses for the years ended September 30, 2021, 2020, and 2019:

(in millions)	Year Ended September 30,		
	2021	2020	2019
FERS normal costs	\$ 4,117	\$ 3,804	\$ 3,520
CSRS unfunded retirement benefits amortization ¹	1,858	1,817	1,617
FERS unfunded retirement benefits amortization ²	1,401	1,343	1,060
Total retirement benefits	\$ 7,376	\$ 6,964	\$ 6,197

¹ Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made through 2043 based on OPM invoices.

² Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made over a 30-year rolling period based on OPM invoices.

CSRS and FERS Unfunded Retirement Benefits

OPM periodically notifies the Postal Service regarding its revaluation of unfunded CSRS and FERS liabilities. OPM calculates these obligations using Postal Service-specific demographics data and government-wide economic assumptions, including salary growth assumptions. The Postal Service records these expenses as *Retirement benefits* in the accompanying *Statement of Operations*. These amounts may be significantly impacted by changes in actuarial assumptions used to revalue the unfunded liabilities.

The Postal Service received invoices from OPM in the amounts of \$1.9 billion, \$1.8 billion, and \$1.6 billion for the annual CSRS amortization payments due September 30, 2021, 2020, and 2019, respectively. The Postal Service also received invoices from OPM in the amounts of \$1.4 billion, \$1.3 billion, and \$1.1 billion for its 2021, 2020, and 2019 FERS amortization obligations, respectively. As indicated in *Note 3 - Liquidity*, the Postal Service did not make any of these payments in order to preserve liquidity to ensure that the ability to fulfill the primary universal service mission was not placed at undue risk.

Given that OPM considers these amounts to be due and payable, the Postal Service reflects the cumulative unpaid amounts as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*. Those accrued but unpaid amounts were approximately \$14.6 billion and \$11.4 billion at September 30, 2021 and 2020, respectively.

CSRS and FERS Funded Status

For the year ended September 30, 2019, the most current period available, the Postal Service provided approximately 17% of the total plan contributions for FERS from all U.S. government employers (as disclosed in OPM's *Civil Service Retirement and Disability Fund Annual Report* dated February 2021).

As noted above, the latest available actual data for the government-wide CSRS and FERS plans is September 30, 2019. As of that date, the CSRS plan for the U.S. government, taken as a whole, was approximately 21% funded. Total plan assets and accumulated benefit obligations for the CSRS plan were approximately \$216 billion and approximately \$1.0 trillion, respectively. The FERS plan for the U.S. government, taken as a whole, was approximately 78% funded. Total plan assets and accumulated benefit obligations for the FERS plan were approximately \$732 billion and approximately \$933 billion, respectively.

NOTE 13 - HEALTH BENEFITS PLANS

FEHB covers nearly all career employees. It also covers pre-career employees and retirees who meet certain eligibility requirements. OPM administers FEHB and allocates the cost of funding the program to participating U.S. government employers.

Separate from FEHB, the Postal Service offers its own self-insured health-care plan to certain pre-career employees who are ineligible for FEHB. For the years ended September 30, 2021, 2020, and 2019, the Postal Service incurred expenses of \$196 million, \$172 million, and \$147 million, respectively, for this plan. These amounts are included within *Compensation and benefits* under *Operating Expenses* in the accompanying *Statements of Operations*. The Postal Service establishes liabilities for estimates of cash outlays that it expects to ultimately incur on reported claims, as well as estimates of the costs of claims that have been incurred but not yet reported. The accrued amounts were \$35 million as of both September 30, 2021 and 2020, and are recorded as a current liability within *Compensation and benefits* in the accompanying *Balance Sheets*.

Active Employees

The Postal Service paid 72% of health-care premium costs for active employees during each of the years ended September 30, 2021, 2020, and 2019. Although OPM determines the actual FEHB premium costs, the allocation of these costs between the Postal Service and most of its employees is determined through agreements with Postal Service labor unions.

The Postal Service's employer share of employee health-care expenses (including Medicare taxes) was \$5.2 billion, \$5.2 billion, and \$5.1 billion for the years ended September 30, 2021, 2020, and 2019, respectively, and these amounts are included within *Compensation and benefits* under *Operating Expenses* in the accompanying *Statements of Operations*.

The Postal Service makes payments for health-care benefits in accordance with its bi-weekly payroll cycle. Any unpaid employer amounts at the end of a period, along with any employee amounts withheld but not remitted at the end of a period, are recorded as a current liability within *Compensation and benefits* in the accompanying *Balance Sheets*. Those accrued amounts were \$239 million and \$236 million at September 30, 2021 and 2020, respectively.

Retirees

Retirees of the Postal Service who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. Qualifying survivors of retirees are also eligible to receive benefits. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Therefore, it accounts for program expenses using multiemployer plan accounting rules by recording required contributions for both the normal cost and the amortization of the unfunded liability as expenses in the period in which the contributions are due. These amounts are included within Retiree health benefits in the accompanying audited *Statements of Operations*.

The PAEA required the Postal Service to prefund retiree health benefits during years 2007 through 2016 by paying annual amounts that were statutorily set ranging from \$1.4 billion to \$5.8 billion, totaling \$54.8 billion, into the PSRHBF, which began paying the Postal Service's share of retiree health benefit premiums in 2017. Most federal entities and private-sector businesses are not subject to this type of prefunding requirement. Because the amounts required to be paid into the PSRHBF were set by PAEA, retiree health benefits expenses during the years 2007 through 2016 may have represented more or less than the full cost of the benefits earned by the Postal Service's employees during those specific years.

Beginning in 2017, the PAEA began requiring the Postal Service to pay two annual amounts into the PSRHBF:

1. An amount estimated to be equal to the employer portion of FEHB insurance premiums for participating employees and their qualifying survivors, upon retirement, attributable to each eligible employee's current year of service (normal cost); and
2. An amount sufficient to fully amortize any unfunded liability of the PSRHBF by 2056.

OPM calculates the Postal Service's unfunded liability as the amount of the PSRHBF that remains unfunded, less any scheduled or invoiced payments that it is obligated to make, regardless of whether it has made those payments or not. These amounts are based, in part, on each current and prospective retiree's length of federal civilian service occurring on or after July 1, 1971. Each participant's share of premium costs in retirement is set by law and is not subject to negotiation with the Postal Service's labor unions.

The Postal Service remains obligated to fund the \$33.9 billion in PSRHBF prefunding payments that it defaulted on for the years 2012 through 2016, as well as the normal cost and amortization payments of \$18.8 billion and \$4.3 billion, respectively, that it did not pay for the years 2017 through 2021. The Postal Service notified key stakeholders including the executive branch and Congress prior to each of these non-payments. PAEA contains no provisions addressing non-payments, and as of the date of this report, the Postal Service has not been assessed any resulting penalties.

The cumulative amounts of defaulted PSRHBF prefunding, normal cost and amortization payments were \$57.0 billion and \$51.9 billion as of September 30, 2021 and 2020, respectively. Given that OPM considers these amounts to be due and payable, the Postal Service continues to reflect these amounts as a current liability within *Retiree health benefits* in the accompanying *Balance Sheets*.

The following table details retiree health benefits expenses for the years ended September 30, 2021, 2020, and 2019, based on the invoices provided by OPM:

<i>(in millions)</i>	2021	2020	2019
PSRHBF unfunded liability expense ¹	\$ 907	\$ 810	\$ 789
Normal cost of retiree health benefits ²	4,203	3,850	3,775
Total retiree health benefits expense	\$ 5,110	\$ 4,660	\$ 4,564

¹ Expense for the annual payment due by September 30 of the respective year, on the unfunded liability as calculated by OPM.
² Expense for the annual payment due to the PSRHBF by September 30 of the respective year, as calculated by OPM, for the actuarially determined normal cost of retiree health benefits for current employees.

As indicated above, the Postal Service recorded an expense for these invoiced amounts but did not make these payments in order to preserve liquidity to ensure that the ability to fulfill the primary universal service mission was not placed at undue risk.

NOTE 14 - WORKERS' COMPENSATION

The Postal Service's 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 the Postal Service's 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 for their qualified survivors. The Postal Service uses an estimation model that utilizes four generally accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked.

Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial assumptions, new compensation and medical cases, the progression of existing cases and changes in interest (discount) and inflation rates, including long-term cost of living adjustments ("COLA") rates for compensation claims, and medical rates for medical claims. These rates are updated as of the balance sheet date and factored into the model.

To determine the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries and the expected trend in future costs. The Postal Service then calculates the amount that would need to be invested at current interest (discount) rates to fully fund the future total cost of claims, and this calculated present value is the recorded value of workers' compensation liability.

An independent actuary assists in determining the liability for claims arising more than 15 years ago for years 1972 through 2006. 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, 2021 liability and related expense by approximately \$2.0 billion. Similarly, a 1% decrease in the discount rate would increase the September 30, 2021 liability and related expense by approximately \$2.5 billion.

The following table details the applicable discount and inflation rates for compensation and medical claims used to estimate the workers' compensation liability as of September 30, 2021, 2020, and 2019:

	2021	2020	2019
Compensation claims liability:			
Discount rate	1.79 %	1.09 %	1.90 %
Long-term wage inflation	2.60 %	2.60 %	2.60 %
Medical claims liability:			
Discount rate	1.81 %	1.12 %	1.91 %
Historical medical inflation rate	3.10 %	3.50 %	2.50 %

The Postal Service's total liability for workers' compensation was approximately \$18.2 billion and \$20.1 billion as of September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, the current portion of the liability was approximately \$1.3 billion and \$1.3 billion, respectively, and the noncurrent portion of the liability was approximately \$16.9 billion and \$18.8 billion, respectively, as reflected in the accompanying *Balance Sheets*.

Workers' Compensation (Benefit) Expense

The impacts of changes in discount and inflation rates, the actuarial valuation of new cases, revaluation of existing cases, and the administrative fee are components of total workers' compensation (benefit) expense recorded in the accompanying *Statements of Operations*.

The table below details the components of workers' compensation (benefit) expense for the years ended September 30, 2021, 2020, and 2019:

<i>(in millions)</i>	2021	2020	2019
Impact of discount rate changes	\$ (1,649)	\$ 1,909	\$ 2,365
Actuarial revaluation of existing cases	(229)	(390)	(139)
Costs of new cases	1,208	1,302	1,195
Administrative fee	90	82	83
Total workers' compensation (benefit) expense	\$ (580)	\$ 2,903	\$ 3,504

NOTE 15 - LEASES

Postal Service Leases

The Postal Service holds lessee positions in real property leases as well as lessee positions embedded in service contracts involving rights to use transportation equipment and facilities.

Real property leases support retail, delivery, mail processing, maintenance, administrative and support activities. The non-cancellable base terms of these leases typically range from five to seven years, with one or more options to renew for additional five-year terms. The lease terms for these arrangements generally range from one to thirty years including any renewal options that are reasonably certain to be exercised. Additionally, certain real property leases contain purchase and termination options. At the commencement of most real property lease arrangements, the Postal Service is not reasonably certain if it will exercise such options. Real property leases include certain variable lease payments associated with non-lease components, such as common area maintenance costs, and non-lease components such as real estate taxes, which are generally charged as a pass-through based on actual amounts incurred by the lessor. The Postal Service records costs associated with real property leases within *Other operating expenses* in the accompanying unaudited *Statements of Operations*.

Transportation equipment leases apply primarily to vehicles, trailers, and aircraft. The non-cancellable base terms of these leases typically range from one to five years, and may include one or more options to renew for an additional one or two years. The lease terms for these arrangements generally range from one to five years including any renewal options the Postal Service is reasonably certain to exercise. Transportation equipment leases do not contain purchase options, however certain of these leases contain termination options. At the commencement of most transportation lease arrangements, the Postal Service is not reasonably certain if it will exercise such termination options. Certain transportation leases contain variable lease payments based on the volume of activity under the contract. The Postal Service records costs associated with transportation leases within *Transportation* in the accompanying unaudited *Statements of Operations*.

The Postal Service's leases do not contain any material residual value guarantees or restrictive covenants.

Sublease income was not material to the financial statements for the years ended September 30, 2021 and 2020.

The table below reconciles the undiscounted cash flows for the first five years and the total remaining finance lease liabilities and operating lease liabilities recorded in the accompanying unaudited *Balance Sheet* as of September 30, 2021:

<i>(in millions)</i>	September 30, 2021		
	Finance Leases	Operating Leases	Total Leases
2022	\$ 36	\$ 1,382	\$ 1,418
2023	28	1,165	1,193
2024	26	943	969
2025	23	702	725
2026	22	490	512
Thereafter	114	706	820
Total undiscounted lease payments	\$ 249	\$ 5,388	\$ 5,637
Present value adjustment	(50)	(205)	(255)
Net lease liabilities	\$ 199	\$ 5,183	\$ 5,382

Leases that were entered into but not yet commenced as of September 30, 2021 are not significant to the Postal Service's financial statements.

Lease costs for finance and operating leases for all non-cancellable leases are set forth below for the years ended September 30, 2021 and 2020:

<i>(in millions)</i>	2021	2020
Finance lease cost:		
Amortization of right-of-use assets	\$ 28	\$ 29
Interest on lease liabilities	8	12
Total finance lease cost	\$ 36	\$ 41
Operating lease cost	1,349	1,402
Variable lease cost	761	706
Short-term lease cost	250	148
Total lease cost	\$ 2,396	\$ 2,297

The following information represents supplemental cash and non-cash information as well as lease term and discount rate information separately for finance leases and operating leases, for the years ended September 30, 2021 and 2020:

<i>(\$ in millions)</i>	2021	2020
Finance Leases:		
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows - interest on lease liability	\$ 9	\$ 12
Financing cash flows - principal repayments	\$ 31	\$ 40
Right-of-use assets obtained in exchange for lease payments	\$ 9	\$ 15
Weighted-average remaining lease term - finance leases	10.74 years	8.98 years
Weighted-average discount rate - finance leases	4.61 %	4.92 %
Operating Leases:		
Operating cash flows from operating leases	\$ 1,359	\$ 1,274
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 487	\$ 382
Weighted-average remaining lease term - operating leases	5.36 years	5.40 years
Weighted-average discount rate - operating leases	1.39 %	1.67 %

Lease Accounting Policies

General Definition

The Postal Service determines at the inception of the contract if an arrangement represents a lease or contains lease components. A contract is deemed to represent or include a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Postal Service is assumed to have the right to control the use of the underlying asset if the contract conveys the rights to obtain substantially all of the economic benefits of the underlying asset and the rights to direct how and for what purpose such asset is used during the contract term.

As the lessee, the Postal Service classifies all leases with original lease terms less than one year as short-term leases. The Postal Service classifies all other leases which transfer substantially all the risks and rewards of ownership to the Postal Service as finance leases. Finance lease right-of-use assets are included within *Property and equipment, net* in the accompanying *Balance Sheets*. The current and noncurrent portions of finance lease liabilities are included within *Payables and accrued expenses* and *Other noncurrent liabilities*, respectively, within the accompanying *Balance Sheets*. The Postal Service classifies the remaining leases, not classified as short-term leases or finance leases, as operating leases. The Postal Service considers a lease term to include all non-cancelable periods and renewal periods when the Postal Service is reasonably certain that it will exercise the related renewal option.

Short-Term Leases

For short-term leases, the Postal Service records lease expenses in the statement of operations on a straight-line basis over the lease term.

Leases that do not qualify as short-term are recorded in the balance sheet on the lease commencement date, each as a right-of-use asset and a lease liability.

Lease Liabilities

Lease liabilities are initially measured at the net present value of the lease payments due after the commencement date. For this purpose, lease payments include fixed and in-substance fixed rental payments, variable lease payments that depend on an index or rate, and the price of options that the Postal Service is, at the commencement of the lease, reasonably certain to exercise. Lease liabilities are subsequently increased to reflect the interest accrued and reduced when lease payments are made by the Postal Service.

Right-of-Use Assets

Right-of-use assets are initially measured at the net present value of the lease payments (including amounts due prior to or on the commencement date), adjusted for the impact of initial direct costs and lease incentives. For finance leases, right-of-use assets are subsequently amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term. For operating leases, right-of-use assets are amortized in such a way that the combination of the interest expense accrued on the lease liability and the asset amortization results in a straight-line expense over the lease term.

Right-of-use assets for operating and finance leases are periodically reviewed for impairment losses, following the same process as for other long-lived 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. The Postal Service uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment - Overall*, to determine whether a right-of-use asset is impaired, and if so, the amount of the impairment loss to recognize. No impairment losses have been recognized to date.

Discount Rates

The discount rates used in net present value calculations are determined based on the Postal Service's incremental borrowing rates on debt outstanding with the FFB at the beginning of each year, which is approximated as the daily U.S. Treasury Yield Curve Rates for the five-year, 10-year, 20-year and 30-year periods, plus a 12.5 basis point spread.

Variable lease payments, except for those based on an index or rate, are recognized as variable lease expenses in the period in which the obligation for those payments are incurred.

NOTE 16 - REVENUE FORGONE

The Postal Service is required by law to offer 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 oversees 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 "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.

Installment Payments

In 1993, the Postal Service determined the present value of the installment payments, calculated at 7% discount rate, was \$390 million and recognized this revenue and recorded the corresponding receivable ratably between 1991 and 1998.

Since no stated interest rate was included within the RFA, the Postal Service recognizes imputed interest on this receivable. The Postal Service recognized interest income of \$18 million, \$19 million, and \$20 million for the years ended September 30, 2021, 2020, and 2019, respectively. Imputed interest is included within *Interest and investment income* in the accompanying *Statements of Operations*.

Although the RFA authorized the reimbursement, Congress must appropriate the \$29 million to the Postal Service within the annual federal budget for the Postal Service to receive funding. During the years 2015 and

2016, Congress appropriated and paid \$29 million for each of the respective annual installments. However, for the years 2011 through 2014, and for the years 2017 through 2021, the installment amounts were either not appropriated, or only a portion of the \$29 million was appropriated. The total unfunded amount was \$250 million as of September 30, 2021, and is included within *Other assets* in the accompanying *Balance Sheets*.

The Postal Service continues to include the total past-due installments in each annual appropriations request to Congress. Although it has not consistently received the installment payments, the amounts are established by the RFA and, in any year, Congress could appropriate the full amount, including past-due installments. The Postal Service believes that the amount remains fully collectible and no reserve is necessary for the uncollected amounts due to the good faith and credit of the U.S. government,

Outstanding receivables associated with the installment payments, inclusive of the total unfunded amounts, were \$504 million and \$485 million as of September 30, 2021 and 2020, 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*.

Free and Reduced Mail

Congress has historically appropriated funds each year to subsidize the Postal Service's costs to provide free and reduced mail; however, the annual appropriation may be higher or lower than the amount the Postal Service requests. 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 a 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 \$54 million, \$59 million, and \$30 million for the years ended September 30, 2021, 2020, and 2019, respectively, and this is included within *Operating Revenue* in the accompanying *Statements of Operations*. As of September 30, 2021 and 2020, outstanding receivables associated with free and reduced mail were \$6 million and \$7 million, respectively, all of which were considered noncurrent and are reflected within *Other assets* in the accompanying *Balance Sheets*.

NOTE 17 - 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 and cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued expenses, approximate fair value due to their short-term nature. Assets within *Property and equipment, net* are recorded at cost and measured at fair value on a nonrecurring basis if they are determined to be impaired or classified as assets held for sale.

Noncurrent receivables and long-term debt are disclosed at fair value using inputs of the fair value hierarchy model. This model prioritizes observable and unobservable inputs, which are used to measure fair value, and 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 using this model to determine estimates of fair value and, accordingly, they may not necessarily be indicative of amounts that would be realized upon disposition of a specific asset or liability.

The carrying amounts and fair value of these items are presented for disclosure purposes only in the following table:

(in millions)	September 30, 2021		September 30, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue forgone installment receivable ¹	\$ 504	\$ 540	\$ 485	\$ 579
Long-term debt ²	\$ 10,000	\$ 10,449	\$ 11,000	\$ 11,881

¹ The carrying amount is included within *Other assets* (which includes items in addition to revenue forgone installment receivable) in the accompanying *Balance Sheets*.

² The fair value amount reflects the premium or discount associated with prepayment of all debt based on prevailing interest rates plus any prepayment penalties, as applicable.

The revenue forgone installment receivable qualifies as a financial instrument in accordance with authoritative literature. To calculate its fair value, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of this receivable using the interest method, which converts future cash flows to a single discounted amount using interest rates for similar assets, which are considered *Level 2* inputs. The Postal Service then calculates the net present value of anticipated annual installment payments to be received, discounted by the 20-year U.S. Treasury Constant Maturity Rate.

The long-term debt also qualifies as a financial instrument. Because no active market exists for its debt with the FFB, the Postal Service estimates the disclosed fair value of the long-term debt using expected future payments at discount rates provided by the FFB, considered *Level 3* inputs.

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, 2021. Based upon and as of the date of the evaluation, we concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2021, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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 GAAP. 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, 2021.

Ernst & Young LLP, an independent registered public accounting firm, has audited our financial statements and issued an attestation report on our internal control over financial reporting as of September 30, 2021, a copy of which appears on the following page.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Governors of the United States Postal Service

Opinion on Internal Control over Financial Reporting

We have audited the United States Postal Service's internal control over financial reporting as of September 30, 2021, 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). In our opinion, the United States Postal Service (the Postal Service) maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB), and in accordance with auditing standards generally accepted in the United States of America, the balance sheets of the Postal Service as of September 30, 2021 and 2020, the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2021 and the related notes and our report dated November 10, 2021 expressed an unqualified opinion thereon that included an emphasis-of-matter paragraph regarding the Postal Service's ability to generate sufficient cash flow to meet all of its financial obligations throughout the fiscal year ending September 30, 2022.

Basis for Opinion

The 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 Postal Service's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Postal Service in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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.

Definition and Limitations of Internal Control Over Financial Reporting

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 its 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.

/s/ Ernst & Young LLP

Tysons, Virginia
November 10, 2021

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. GOVERNORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

BOARD OF GOVERNORS

We are governed by an eleven-member Board, which consists of our Postmaster General, Deputy Postmaster General, and nine independent Governors. The Governors are appointed by the President with the advice and consent of the Senate. Nine Governors currently sit on our Board:

Name, Age and Term of Office	Positions and Experience
Ron A. Bloom, Chairman of the Board of Governors Age 66 Governor since August 2019. Holdover term expiring December 2021.	Member of the Board of Governors since August 2019 and Chairman of the Board since February 2021. Chairman of the Strategy and Innovation Committee since September 2019. Member of the Election Mail Committee from September 2020 to January 2021 and since August 2021. Previously served as a member of the Audit and Finance Committee from September 2019 to June 2021. Vice Chairman and Managing Partner, Brookfield Asset Management since 2016. Serves on the Board of Directors of Westinghouse Electric Company since 2018 and Clarios since 2019.
Roman Martinez IV, Vice Chairman of the Board of Governors Age 73 Governor since August 2019. Term expiring December 2024.	Member of the Board of Governors since August 2019 and Vice Chairman of the Board since February 2021. Chairman of the Audit and Finance Committee and member of the Compensation and Governance Committee since September 2019. Member of the Board of Trustees of New York-Presbyterian Hospital and Board of Advisors of the International Rescue Committee for more than five years. Former Member of the Board of Directors of Cigna Corporation and Orbital ATK within the past five years. Former Vice Chairman of the Investment Advisory Council of the State Board of Administration of Florida from 2006 to 2008 and former Managing Director at Lehman Brothers from 1971 to 2003.
John M. Barger, Age 65 Governor since August 2019. Term expiring December 2021.	Member of the Board of Governors since August 2019. Chairman of the Compensation and Governance Committee and member of the Strategy and Innovation Committee since September 2019. Chairman of the Communications Committee and member of the Election Mail Committee from September 2020 to January 2021. Managing Director, NorthernCross Partners since 2005. From 2008 to 2015, served as board member of the Los Angeles County Employees Retirement Association (LACERA), including on the Board of Retirement and Board of Investments (former Chairman).

Name, Age and Term of Office	Positions and Experience
<p>Robert M. Duncan, Age 70 Governor since August 2018. Term expiring December 2025.</p>	<p>Member of the Board of Governors since August 2018 and Chairman of the Board from September 2018 to February 2021. Member of the Compensation and Governance Committee and the Strategy and Innovation Committee since June 2021. Member of the Election Mail Committee since August 2021. Previously served as chairman of the Audit and Finance Committee from September 2018 to September 2019, chairman of the Compensation and Governance Committee from September 2018 to September 2019, and member of the Operations Committee from September 2019 to July 2021. Chairman of the Board of Trustees at Alice Lloyd College since 1978. Former Chairman and CEO of Inez Deposit Bank from 1977 to 2021. Former Member of the Board of Directors of the Tennessee Valley Authority from 2006 to 2012, including a term serving as Chairman of the Board of Directors from 2009 to 2010.</p>
<p>Anton G. Hajjar, Age 74 Governor since June 2021. Term expiring December 2023.</p>	<p>Member of the Board of Governors since June 2021. Member of the Audit and Finance Committee and the Operations Committee since June 2021. Previously served as general counsel of the American Postal Workers Union, AFL-CIO from 2013 to 2016. Member of the American Law Institute (ALI) since 2002 and has served on the ALI Council since 2010.</p>
<p>Amber F. McReynolds, Age 42 Governor since June 2021. Term expiring December 2026.</p>	<p>Member of the Board of Governors since June 2021. Member of the Compensation and Governance Committee and the Strategy and Innovation Committee since June 2021. Member of the Election Mail Committee since August 2021. Founding CEO of the National Vote at Home Institute since 2018. Former Director of Elections for the City and County of Denver, Colorado from 2011 to 2018. Serves on the National Election Task Force on Election Crises, the National Council on Election Integrity, advisory board member for the Massachusetts Institute of Technology Election and Data Science Lab, board member for Represent Women, and board member for City Year Denver, with each of these roles beginning in the last five years.</p>
<p>Donald L. Moak, Age 64 Governor since June 2020. Term expiring December 2022.</p>	<p>Member of the Board of Governors since June 2020. Member of the Operations Committee since August 2020. Member of the Audit and Finance Committee since June 2021. Chairman of the Election Mail Committee from September 2020 to January 2021 and since August 2021. Member of the Compensation and Governance Committee from August 2020 to June 2021. Member of the Communications Committee from September 2020 to January 2021. Co-founder and Chief Executive Officer of The Moak Group, a public affairs, advocacy, and business consulting firm since 2015.</p>
<p>Ronald A. Stroman, Age 69 Governor since June 2021. Term expiring December 2021 and second term expiring December 2028.</p>	<p>Member of the Board of Governors since June 2021. Member of the Audit and Finance Committee and the Operations Committee since June 2021. Served as 20th Deputy Postmaster General and Chief Government Relations Officer and member of the Board between April 2011 and June 2020. Member of the Audit and Finance Committee from September 2019 to June 2020.</p>
<p>William D. Zollars, Age 74 Governor since June 2020. Term expiring December 2022.</p>	<p>Member of the Board of Governors since June 2020. Chairman of the Operations Committee and member of the Audit and Finance Committee since August 2020. Serves on the Board of Directors of Cerner Corporation since 2005, including as Chairman of the Board of Directors since 2021. Serves on Board of Directors of ProLogis Inc. since 2005, C2FO since 2014, Redstone Logistics since 2012, and Main Street Data since 2019. Former Chairman, President, and Chief Executive Officer of YRC Worldwide, Inc. from 1999 to 2011.</p>

AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee ("Audit Committee") is composed of Governor Martinez (Chair), Governor Hajjar, Governor Moak, Governor Stroman, and Governor Zollars. Governors Martinez, Hajjar, Moak, Stroman, and Zollars are all considered independent, as defined in *Part III., Item 13. Certain Relationships and Related Transactions, and Governor Independence*. The Board has determined that Governors Martinez and Zollars each qualify as an audit committee financial expert.

COMPENSATION AND GOVERNANCE COMMITTEE

The Compensation and Governance Committee is composed of Governor Barger (Chair), Governor Duncan, Governor Martinez, and Governor McReynolds.

OPERATIONS COMMITTEE

The Operations Committee is composed of Governor Zollars (Chair), Governor Hajjar, Governor Moak, Governor Stroman, and Deputy Postmaster General Tulino.

STRATEGY AND INNOVATION COMMITTEE

The Strategy and Innovation Committee is composed of Governor Bloom (Chair), Governor Barger, Governor Duncan, Governor McReynolds, and Postmaster General DeJoy.

ELECTION MAIL COMMITTEE

The Election Mail Committee (Special Committee) is composed of Governor Moak (Chair), Governor Bloom, Governor Duncan, and Governor McReynolds.

EXECUTIVE OFFICERS

We had eleven executive officers as of September 30, 2021, as per the schedule below:

Name and Age	Positions and Experience
Louis DeJoy Age 64	75th Postmaster General, Chief Executive Officer and a member of the Board since June 2020; President of LDJ Global Strategies, LLC since January 2016; Member of Board of Directors for XPO Logistics, Inc. from December 2015 to May 2018. Prior to that, Chief Executive Officer, XPO Logistics Supply Chain in the Americas from September 2014 until his retirement in December 2015. Prior to that, Chairman and CEO of New Breed Logistics until September 2014.
Douglas A. Tulino Age 63	21st Deputy Postmaster General and Chief Human Resources Officer since May 2021 and November 2020, respectively. Previously Vice President, Labor Relations from 2005 to November 2020.
Scott R. Bombaugh Age 59	Chief Technology Officer & Executive Vice President since August 2020 (in an acting capacity from March 2020 until August 2020). Previously, Vice President Engineering Systems from January 2019 to March 2020; Director, Technology Development and Application from December 2011 to January 2019.
Joshua D. Colin Age 55	Chief Retail & Delivery Officer and Executive Vice President since August 2021. Previously, Vice President, Delivery Operations from August 2020 to August 2021, and Vice President, Area Operations, Eastern Area from November 2012 to July 2020.
Joseph Corbett Age 61	Chief Financial Officer and Executive Vice President since 2009, except for the period from June 20, 2012 through September 30, 2012, when he served as Acting Chief Information Officer and Executive Vice President.
Isaac S. Cronkhite Age 43	Chief Logistics & Processing Operations Officer and Executive Vice President since November 2020. Previously, Chief Human Resources Officer and Executive Vice President from January 2019 to November 2020 (in an acting capacity until June 2019); Vice President, Enterprise Analytics from May 2016 to June 2019; Manager, Processing Operations from June 2015 to May 2016.
Luke T. Grossmann Age 42	Finance and Strategy Senior Vice President since August 2019. Previously, Finance and Planning Vice President from March 2016 to August 2019. Prior to that, Director, Operations Research, Insight and Continuous Improvement since February 2016; Manager Package Platform since May 2014.
Thomas J. Marshall Age 59	General Counsel and Executive Vice President since May 2013.
Pritha Mehra Age 59	Chief Information Officer and Executive Vice President as of August 2020 (in an acting capacity until November 2020). Previously, Vice President, Information Technology from July 2019 to March 2020; Vice President, Business Mail Entry and Payment Technology from July 2008 to July 2019.
Steven W. Monteith Age 60	Chief Customer & Marketing Officer and Executive Vice President as of August 2020 (in an acting capacity until November 2020). Previously, Vice President, Marketing from October 2016 to March 2020; Executive Director, Product Management from January 2016 to October 2016; Manager, Pricing from November 2013 to January 2016.
Jacqueline Krage Strako Age 55	Chief Commerce & Business Solutions Officer and Executive Vice President, Commerce & Business Solutions, since August 2020. Previously, Chief Customer and Marketing Officer and Executive Vice President from December 2018. Prior to that, Acting Chief Customer and Marketing Officer and Executive Vice President from February 2018 to December 2018; Great Lakes Area Operations Vice President from February 2012 to February 2018.

CODE OF ETHICS

All 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 Postal Service's employees. 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 training throughout the year as required by law and as otherwise deemed appropriate. To ensure that all 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 our website at: <https://about.usps.com/who-we-are/financials/senior-financial-managers-code-of-ethics-09-29-2020.pdf>

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The Board establishes 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 the officers. The Compensation Committee makes recommendations to the full Board for its review and approval.

Set forth in Title 39 of the U.S. Code, federal law 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. With approximately 653,000 employees as of the end of 2021, we are the third largest civilian employer in the nation. We operate approximately 232,000 motor vehicles and approximately 31,000 retail units. In 2021, we delivered 128.9 billion mailpieces, approximately 46% of the world's mail, and generated over \$77 billion in revenue. In 2021, we ranked 123rd in *Fortune* magazine's listing of *Fortune Global 500* companies. By way of comparison, two of our largest competitors ranked 89th and 135th on this list. If we were listed on the *Fortune 500* annual ranking of America's largest corporations, we would be ranked 43rd. The same two of our largest competitors are ranked 35th and 45th on that list.

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 officers should be compensated at a level comparable to the private sector, the law does not afford the Board or the Compensation Committee the tools to achieve this standard of compensation for our officers, which remains significantly below that of similarly ranked senior executives in the private sector.

The law imposes three different compensation caps. 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 2021, the upper limit on federal salaries rose 1.0% to \$221,400.

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 2021, this cap rose 1.0% to \$255,800. 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 2021, the compensation cap for calendar year 2021 was \$306,960.

By law, our employees, including officers, are entitled to participate in either 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 U.S. government, our policy also authorizes certain additional benefits for our officers. Other than changes required by law, the Board must authorize 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 the law governing us and that the various compensation caps do not enable the Board to provide compensation and benefits for our 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 us, given our status as a U.S. government entity. These limitations hinder our ability to competitively recruit in the marketplace for officers and to retain current officers.

In an attempt to achieve some level of comparability within the confines of the law, the Board designed a compensation system intended to balance an officer's annual salary with the ability to earn additional compensation by meeting performance goals and objectives; however, because of the compensation caps discussed above, a portion of this compensation might need to be deferred.

At the start of calendar year 2021, the compensation system operated pursuant to its terms, and eligible officers received an increase in their basic compensation or a performance lump-sum payment based upon their 2020 fiscal year performance. Uncertainty about future payments and the viability of the compensation system continues to impact our ability to retain and recruit talented employees, including officers.

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

- Individual officer compensation should be strongly connected to our performance on a number of dimensions, including service, employee safety, net income, and productivity;
- Compensation and benefits should be designed to attract and retain high-performing officers to ensure that we have the caliber of officers who will enable us to operate at the highest levels of performance and productivity;
- Lump-sum incentives should be set to motivate officers 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 could be paid less;
- A significant amount of the officer's compensation should be "at-risk" and the "at-risk" amount should increase as the officer'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;
- Officer compensation should be fair and equitable internally, recognizing the width and breadth of the responsibilities of our officers; and
- Officer success is defined by a number of factors, including financial returns, the quality of service we provide, the results achieved by the officer's actions to enhance the organization's efficiency and overcome challenges and whether an officer met established individual goals.

THE COMPENSATION PROGRAM

In 2007, with the assistance of an independent consulting firm specializing in officer 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, improved external marketplace competitiveness and honored legislative constraints and existing pay ranges. For the other officers, the Board sets salary ranges based on salary relationships of comparable officers in the external market. In general, the Board has maintained this method of setting officer pay ranges since 2007.

The Governors have authorized the Postmaster General to establish salaries for the other officers within the confines of the salary ranges established by the Governors. As noted above in *Part II., Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, after reviewing recommendations from the Postmaster General, the Governors approved the application of the PFP system according to its terms.

In 2021, we continued to employ a national performance assessment program ("Performance Assessment") to set annual performance goals and metrics that vary among officers and are weighted to reflect appropriately the degree to which an officer is able to influence our overall performance. The annual Performance Assessment metrics and targets generally take into consideration our performance during the prior fiscal year and the particular challenges that we anticipate having to face during the following year. The Performance Assessment places emphasis on measurable financial, customer service, and employee performance indicators. The Postmaster General and Deputy Postmaster General performance goals are governed by our corporate goals.

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 the Postal Service 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 continued to persist over the last several years and these challenges have caused uncertainty as to whether officer salary increases or performance bonuses will be awarded on a year-to-year basis. 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 legislation and regulatory reform.

The Governors in the past have repeatedly stated that our economic challenges 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 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 we compensate our officers in a manner comparable with their private-sector counterparts.

We continued to use the Performance Assessment process to measure performance during 2021. Performance Assessment performance goals and rewards fall into several categories that an officer may directly influence, such as service, safety, efficiency, and productivity, as well as those that are more susceptible to 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 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 our overall corporate performance. The officers' goals are aligned with national performance goals and linked to our overall success.

Once the goals and indicators are established, 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 incentives are authorized, the potential level of performance-based incentives they can expect depending on their individual performance and our performance as a whole. Under this program, an individual officer can receive a numerical rating within a range of one to ten depending on how we perform on the corporate indicators and the individual's performance, as determined by the Postmaster General and the applicable pay policies.

The system is designed to operate as follows: an individual 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 officers would generally follow the percentage increase in the applicable statutory cap for any given year. Any salary increases for officers are limited by these maximums and are solely performance based, as determined by the Postmaster General. Lump-sum incentive payments would be tied to the Postmaster General's rating of the 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 officers in a given year is limited by our overall performance on Performance Assessment goals and metrics. Generally, officer performance scores must average to our overall Performance Assessment performance score for the fiscal year. Salary increases, if any, are generally determined after the end of the fiscal year, and such increases become effective for the following calendar year.

COMPONENTS OF OFFICER COMPENSATION AND BENEFITS

On September 9, 2020, the Board reviewed and approved a consolidated Officer Pay Policy, which updated and memorialized the Postmaster General's authority to grant certain incentive payments to officers and also provided for severance payments for officers under certain circumstances. Specifically, the policy provides severance in an amount of one year's salary to an officer if he or she is asked to separate from the Postal Service for any reason other than cause and he or she is otherwise not eligible to retire and receive an immediate retirement annuity. Severance may be paid in a single lump sum payment or multiple payments following the date of an officer's separation from the Postal Service. Officers that voluntarily separate from the Postal Service will not be entitled to receive severance.

Base Salary

Base salaries provide a level of financial security that is appropriate for the officer's position. Within the confines of 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. 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.

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 Performance Assessment 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 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, 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

Officers are also eligible for recognition awards for specific activities that reflect a high degree of leadership. Officers are eligible for recruitment, relocation and retention incentives designed to attract and retain highly talented and marketable individuals in key positions. Payments 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 CSRS or FERS, depending on when they began their federal employment. 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-three* salary multiplied by years of service. The percentage is 1.5% for the first five years of service, plus 1.75% from five years to ten 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 five years of service, with a requirement of completing at least five 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-three* 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 birth year) with 30 years of service, age 60 with 20 years of service, age 62 with five years of service, or MRA with ten years of service (at a reduced benefit), with a requirement of completing at least five 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 minus 1% when the CPI is at least 3%. Disability, early retirement, and 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 (\$19,500 in calendar year 2021). We do not make or match the TSP contributions for CSRS employees. For FERS employees, we make an automatic contribution of 1% of basic pay and match a percentage of employee contributions for up to an additional 4% of basic pay, for a total employer contribution of up to 5% 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 (\$6,500 in calendar year 2021). The 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 and Far East) stock index; and lifecycle funds.

Supplemental Nonqualified Deferred Compensation

Where appropriate and on a highly selective basis, we have offered supplemental nonqualified 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, or *Option C*, family optional insurance coverage, of up to five multiples of \$5,000 for their spouse and \$2,500 for each eligible dependent child under age 22. Officers continuously covered under FEGLI for the five

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 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. In 2021, our share of the premium 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 plan they selected. 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: *Wellness* reimbursement incentive, parking, financial planning, retirement counseling services, TSA Pre-Check reimbursement, and membership in up to two airline clubs per year. In certain circumstances executives are entitled to relocation benefits at the time of their retirement. On September 9, 2020, the Governors clarified and updated their policies to provide that the Postmaster General, the Deputy Postmaster General, and officers 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 for cause and they are otherwise ineligible 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 multiple payments following the date of separation. In addition, eligible officers may receive outplacement services and post-employment financial counseling.

COMPENSATION AND GOVERNANCE COMMITTEE REPORT

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

The Compensation and Governance Committee

John M. Barger, Chair
Roman Martinez IV
Robert M. Duncan
Amber F. McReynolds

SUMMARY COMPENSATION TABLE

The following represents the compensation of our Postmaster General and Chief Executive Officer, Chief Financial Officer and our other three most highly compensated executive officers ("named executive officers"):

Name and principal position	Fiscal year	Salary	Bonus	Non-equity incentive plan compensation ³	Change in pension value and non-qualified deferred compensation ⁴	All other compensation	Total
Louis DeJoy, <i>Postmaster General & Chief Executive Officer</i> ¹	2021	\$ 305,681	\$ —	\$ 75,865	\$ 43,202	\$ 56,237	\$ 480,985
	2020	87,537	—	—	11,827	18,100	117,464
	2019	—	—	—	—	—	—
Joseph Corbett, <i>Chief Financial Officer & Executive VP</i>	2021	271,673	11,452	51,182	86,794	29,068	450,169
	2020	266,895	1,757	35,000	88,774	27,479	419,905
	2019	259,280	1,825	35,000	71,303	22,705	390,113
Jacqueline Krage Strako, <i>Chief Commerce & Business Solutions Officer and Executive VP</i>	2021	281,362	21,452	16,782	273,002	23,849	616,447
	2020	267,279	1,757	—	263,339	21,728	554,103
	2019	251,806	30,983	—	133,844	19,773	436,406
Douglas A. Tulino, <i>Deputy Postmaster General & Chief Human Resources Officer</i> ²	2021	268,350	11,452	13,146	288,241	14,503	595,692
	2020	—	—	—	—	—	—
	2019	—	—	—	—	—	—
Scott R. Bombaugh, <i>Chief Technology Officer and Executive VP</i> ²	2021	261,681	11,452	12,285	224,775	21,897	532,090
	2020	—	—	—	—	—	—
	2019	—	—	—	—	—	—

¹ Mr. DeJoy was selected as the Postal Service's 75th Postmaster General and Chief Executive Officer by the Postal Service Board of Governors, effective June 15, 2020, and, as such, information for 2019 is not reported.

² Mr. Tulino and Mr. Bombaugh were appointed to their respective executive officer positions on November 21, 2020. As such, information for 2020 and 2019 is not reported.

³ Amounts reflect the performance-based incentive compensation awarded to executive officers for performance in prior fiscal years. The amount shown for Mr. Corbett also reflects the lump sum performance retention payment required by his employment agreement. 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 nonqualified deferred compensation table below.

⁴ Mr. Tulino participates in CSRS. Mr. DeJoy, Mr. Corbett, Ms. Strako, and Mr. Bombaugh participate in FERS. The calculation of retirement annuities under FERS is explained in the Pension Benefits table, the associated note and in the Retirement Annuities section of Compensation Discussion and Analysis. The amounts shown for each of these individuals represent the change in annuity value from the prior year. "Nonqualified deferred compensation earnings" is defined as above-market earnings on deferred income. There were no reportable amounts of nonqualified deferred compensation earnings for the named executive officers in 2021, 2020 or 2019, with the exception of Mr. Corbett, whose above-market earnings on deferred income were \$3,551 in 2021, \$3,324 in 2020, and \$2,733 in 2019.

GRANTS OF PLAN-BASED AWARDS

The following table presents information regarding potential non-equity incentive awards to the named executive officers for 2021. Whether a named executive officer receives an award and, if so, the amount of an award for 2021 will depend on both the Postal Service's and the individual's performance.

Name	Estimated future payouts under non-equity incentive plan awards		
	Threshold	Target	Maximum
Louis DeJoy	\$ 9,195	\$ 30,650	\$ 76,625
Joseph Corbett	8,172	27,240	68,100
Jacqueline Krage Strako	8,475	28,250	70,625
Douglas A. Tulino	8,520	28,400	71,000
Scott R. Bombaugh	8,172	27,240	68,100

Note: The PFP program relies on a 10-point scale with clearly defined and transparent corporate goals. The FY21 PFP target is set at a rating of 5. The maximum threshold for payment is set at a rating of 10. Individual ratings vary but the corporate score is used as the regulator. Given our financial condition, any individual award is unlikely to exceed the target amount.

PENSION BENEFITS

The following table shows the present value of accumulated pension benefits payable to the named executive officers as of September 30, 2021:

Name	Plan name	Number of years credited service	Present value of accumulated benefit
Louis DeJoy	FERS Annuity	1	\$ 55,029
Joseph Corbett	FERS Annuity	12	649,216
Jacqueline Krage Strako	FERS Annuity	32	1,822,985
Douglas A. Tulino	CSRS Annuity	40	3,439,361
Scott R. Bombaugh	FERS Annuity	34	1,552,525

Note: The Plan name is described in the *Retirement Annuities* section within *Compensation Discussion and Analysis*. The present value of the accumulated FERS and/or CSRS benefit represents the value of the pension over the individual's actuarial lifetime, as of September 30, 2021. Mr. Tulino participates in CSRS. Mr. DeJoy, Mr. Corbett, Ms. Strako, and Mr. Bombaugh participate in FERS. The valuation for all named executive officers assumes that they have satisfied vesting requirements for retirement; however, because of their current tenure with the Postal Service or their age, their retirement annuities have not fully vested.

NONQUALIFIED DEFERRED COMPENSATION

The following table presents contributions to, and earnings on, the named executive officers' deferred compensation for 2021:

Name	Executive contributions in 2021 ¹	Aggregate earnings in 2021 ²	Aggregate withdrawals / distributions in 2021	Aggregate balance at September 30, 2021
Louis DeJoy	\$ 75,865	\$ 439	\$ —	\$ 76,304
Joseph Corbett	35,000	24,168	—	545,427

¹This column represents 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.

²We calculate interest on deferred compensation semi-annually at 5.0% per year for Mr. Corbett per his contract. Others are calculated at the Federal Long-Term Rate. Interest is prorated from the relevant pay period of the deferral.

POTENTIAL PAYMENTS UPON TERMINATION

The Postmaster General and all the other named executives are subject to the standard policies governing 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 *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 officer's employment had terminated on September 30, 2021. Additionally, pursuant to statutes and regulations generally applicable to federal employees, the named executive officers 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 FEHB for the requisite period of time prior to retiring.

DEFERRED COMPENSATION

All federal employees, including our 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 exceed the compensation limit, or the year in which an employee leaves federal service, whichever occurs first. Named executive officers appearing in the nonqualified deferred compensation table in the *Officer Compensation* above 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 us following their departure, had they ended their employment with us on September 30, 2021.

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 2010. When Mr. Corbett concludes his employment with us, 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 officer at this time.

SEVERANCE PAYMENT

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

INSURANCE BENEFIT

The Governors have not authorized supplemental insurance benefits for any officer at this time. The insurance benefits to which all of our officers are entitled are described above.

OUTPLACEMENT ASSISTANCE

The Governors have authorized professional outplacement services to all officers at a cost not to exceed \$40,000.

ACCRUED ANNUAL LEAVE

All of our 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, 2021:

Name	Value of accrued annual leave
Louis DeJoy	\$ 36,544
Joseph Corbett	182,298
Jacqueline Krage Strako	283,587
Douglas A. Tulino	560,354
Scott R. Bombaugh	39,550

CEO PAY RATIO

In accordance with Section 953(b) of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, we are providing the ratio of the annual total compensation of Louis DeJoy, our Postmaster General and CEO, to the annual total compensation of our median employee. This ratio is based on our employee and payroll records and the methodology described below.

2021 PAY RATIO

The following ratio of our Postmaster General's annual total compensation to the median employee's for 2021 is a reasonable estimate calculated in a manner consistent with applicable SEC rules.

- The annual total compensation of our Postmaster General during the year, as reported in the *Summary Compensation Table* above, was \$480,985.
- The annual total compensation of our median employee was \$90,113.
- Based on this information, we estimate that the ratio of our Postmaster General's annual total compensation to that of our median employee is 5:1.

Total compensation for this purpose includes base pay plus other forms of cash compensation, such as overtime and bonuses, plus any change in pension value, as discussed in the *Calculate 2021 Median Employee Compensation* section below.

CALCULATING METHODOLOGY

SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices. Other comparably sized organizations have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios. Given the uniqueness of our compensation practices, most notably the caps on compensation for our executives described in *Compensation Discussion and Analysis*, the pay ratio we have reported above may significantly differ from ratios reported by comparably sized organizations.

Identify Median Employee

We identified our median compensated employee based on annual "taxable wages" (W-2 Box 5 or equivalent) from payroll data for tax year 2020. For the purposes of this determination, taxable wages includes all cash compensation, including base pay, overtime pay, cash bonuses and any other taxable cash awards, before deducting retirement plan contributions or other benefits that are generally excluded from federal income tax.

We took the following steps to determine our median employee:

1. We used a database of career and pre-career (both full-time and part-time) employees who received wages through our payroll system during tax year 2020.
2. We excluded employees who were not receiving wages as of September 30, 2021, the end of our 2021 fiscal year, either because their employment ended before or began after that date.

The resulting number of employees for tax year 2020 was 577,304 (not including our Postmaster General), and we determined from this population which employee represented the median. The number of employees in this population varied somewhat from the total number of employees elsewhere within this report, as it represents a different time period, and we have historically used employee complement figures, not payroll records, to report employee composition.

Calculate 2021 Median Employee Compensation

We took the following steps to determine our median employee's annual total compensation for 2021:

1. We obtained our median employee's gross compensation from payroll records for each pay period during 2021, and summed those amounts to determine total gross compensation for the year. Gross compensation includes base pay plus other forms of cash compensation, including overtime and bonuses, which may vary from year to year.
2. We then calculated our median employee's annual total compensation by taking the sum of annual taxable wages and the change in pension value.

To calculate change in pension value for our median employee, we used Postal-Service specific demographic and salary growth assumptions. Given the differences in the nature of work performed, we calculated the change in pension value for our Postmaster General using government-wide demographic and salary growth assumptions. Other than this difference, we calculated annual total compensation of our median employee using the same methodology that we used to calculate annual total compensation of our most highly compensated executive officers, including our Postmaster General, as disclosed in the *Summary Compensation Table*.

GOVERNORS COMPENSATION

The following table presents information regarding the compensation of the Governors during 2021:

Name	Fees earned or paid in cash ¹	All other compensation ²	Total
Ron A. Bloom ³	\$ 39,000	\$ 764	\$ 39,764
Roman Martinez IV ³	39,000	764	39,764
John McLeod Barger ³	40,200	764	40,964
Robert M. Duncan ⁴	36,000	764	36,764
Anton G Hajjar ⁵	12,050	—	12,050
Amber F. McReynolds ⁵	12,600	—	12,600
Donald L. Moak ⁶	39,300	764	40,064
Ronald A. Stroman ⁵	12,300	—	12,300
William D. Zollars ⁶	36,600	764	37,364

¹ 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.

² Other compensation includes a 2021 commemorative stamp book with a fair market value of \$764 each.

³ Governors Barger, Bloom, and Martinez were appointed in August 2019. Governor Barger's term expires on December 8, 2021, Governor Bloom's term expired on December 8, 2020 (he is currently serving a one-year holdover term that expires on December 31, 2021), and Governor Martinez's term expires on December 8, 2024. Each governor may serve for up to one additional year until a successor is confirmed and appointed.

⁴ Governor Duncan was originally appointed in August 2018. Governor Duncan's initial term expired on December 8, 2018, and he continued to serve in a holdover year. In December 2019, Governor Duncan was reappointed for a second term which expires on December 8, 2025. Each governor may serve for up to one additional year until a successor is confirmed and appointed.

⁵ Governors Hajjar, McReynolds, and Stroman were appointed in June 2021. Governor Hajjar's term expires on December 8, 2023, Governor McReynolds' term expires on December 8, 2026, and Governor Stroman's initial term expires on December 8, 2021. Governor Stroman was also appointed to a second term that expires on December 8, 2028. Each governor may serve for up to one additional year until a successor is confirmed and appointed.

⁶ Governors Moak and Zollars were appointed in June 2020. Both Governor Moak's and Zollars' terms expire on December 8, 2022. Each governor may serve for up to one additional year until a successor is confirmed and appointed.

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

This is not applicable to the Postal Service. As an "independent establishment of the executive branch of the Government of the United States" (39 U.S.C. §201), we do not issue equity securities.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND GOVERNOR INDEPENDENCE

CERTAIN TRANSACTIONS

We enter into significant transactions with other government agencies. Although such agencies do not fall within the definition of "related parties" for purposes of Item 404(a) of Regulation S-K, they are considered "related parties" in accordance with GAAP. See *Part II., Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements, Note 5 - Related Parties.*

GOVERNOR INDEPENDENCE

Our Governors are appointed by the President with the advice and consent of the Senate. The composition of our Board is governed by the PRA, as amended by PAEA. The PRA contained provisions similar to considerations for independence under section 10(a) of the *Exchange Act* that have been codified in 39 U.S.C. § 205. This provision stipulates that "no officer or employee of the United States may concurrently serve as a Governor" or "hold any other office or employment . . . in conflict with his duties, responsibilities, and powers as an officer of the Government of the United States in the Postal Service."

In addition, our Governors are subject to the requirements set forth in the *Ethics in Government Act of 1978* and the Standards of Ethical Conduct for Employees of the Executive Branch. These provisions prohibit the Governors from participating in postal matters if such matters could have an impact on their personal financial

interests. To this end, upon appointment, and yearly thereafter, Governors are required to file financial disclosure reports listing their assets and interests, to enable Postal Service ethics officials to assess potential conflicts. Based upon their satisfaction of the foregoing requirements, we have determined that the Governors are independent.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

Audit fees totaled approximately \$7.3 million and \$8.9 million for the years ended September 30, 2021 and 2020, respectively. Audit fees include fees for professional services associated with the annual financial statement audit, the reviews of our quarterly reports on Form 10-Q, and testing of our internal control over financial reporting. We did not incur any other fees from our independent auditors.

PART IV

ITEM 15. EXHIBIT AND 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, 2021, 2020, and 2019	56
Balance Sheets as of September 30, 2021 and 2020	57
Statements of Changes in Net Deficiency for the Years Ended September 30, 2021, 2020, and 2019	58
Statements of Cash Flows for the Years Ended September 30, 2021, 2020, and 2019	59
Notes to Financial Statements	60

2. Financial Statement Schedules

None.

3. Exhibits

Exhibit Number	Exhibit Description
<u>10.1</u>	<u>Employment/Compensation Contract with Joseph Corbett, Chief Financial Officer (filed with the Postal Regulatory Commission ("PRC") on January 29, 2009, as Exhibit No. 10.1 to the Current Report on Form 8-K).</u>
<u>10.2</u>	<u>Next Generation Delivery Vehicle contract dated February 23, 2021 between Oshkosh Defense LLC and United States Postal Service (filed with the PRC on May 6, 2021, as Exhibit No. 10.1 to the Quarterly Report on Form 10-Q).</u>
31.1	Certificate of United States Postal Service's Principal Executive Officer Adopted Pursuant to Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> .
31.2	Certificate of United States Postal Service's Principal Financial Officer Adopted Pursuant to Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> .
32.1	Certificate of United States Postal Service's Principal Executive Officer Adopted Pursuant to Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> .
32.2	Certificate of United States Postal Service's Principal Financial Officer Adopted Pursuant to Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> .

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/ Louis DeJoy

Louis DeJoy

Postmaster General and Chief Executive Officer

Date: November 10, 2021

/s/ Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

Date: November 10, 2021

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 United States Postal Service and in the capacities indicated as of November 10, 2021.

Signature	Title
<u>/s/ Ron A. Bloom</u> Ron A. Bloom	Chairman, Board of Governors
<u>/s/ Roman Martinez IV</u> Roman Martinez IV	Vice Chairman, Board of Governors
<u>/s/ John McLeod Barger</u> John McLeod Barger	Governor
<u>/s/ Robert M. Duncan</u> Robert M. Duncan	Governor
<u>/s/ Anton G. Hajjar</u> Anton G. Hajjar	Governor
<u>/s/ Amber F. McReynolds</u> Amber F. McReynolds	Governor
<u>/s/ Donald L. Moak</u> Donald L. Moak	Governor
<u>/s/ Ronald A. Stroman</u> Ronald A. Stroman	Governor
<u>/s/ William D. Zollars</u> William D. Zollars	Governor
<u>/s/ Louis DeJoy</u> Louis DeJoy	Board Member, Postmaster General and Chief Executive Officer
<u>/s/ Douglas A. Tulino</u> Douglas A. Tulino	Board Member and Deputy Postmaster General
<u>/s/ Joseph Corbett</u> Joseph Corbett	Chief Financial Officer and Executive Vice President (Principal Financial Officer)
<u>/s/ Cara M. Greene</u> Cara M. Greene	Vice President, Controller (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, Louis DeJoy, 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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors:
 - 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.

/s/ Louis DeJoy

Date: November 10, 2021

Louis DeJoy

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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors:
 - 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.

/s/ Joseph Corbett

Date: November 10, 2021

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, 2021, (the "Report"), I, Louis DeJoy, 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.

/s/ Louis DeJoy

Date: November 10, 2021

Louis DeJoy

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, 2021, (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.

/s/ Joseph Corbett

Date: November 10, 2021

Joseph Corbett

Chief Financial Officer and Executive Vice President