ATTACHMENT C

UNITED STATES POSTAL SERVICE

Financial Statements

Years ended September 30, 2000 and 1999 with Report of Independent Auditors

ERNST & YOUNG

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Contents

ERNST & YOUNG

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Report of Independent Auditors

Board of Governors
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2000 and 1999, and the related statements of operations, changes in net capital deficiency and cash flows for each of the three years in the period ended September 30, 2000. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report dated November 10, 2000, on our consideration of the United States Postal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

Ernst + Young LLP

November 10, 2000

United States Postal Service

Balance Sheets

	September 30, 2000	1999
	(dollars in millions)	
Assets		
Current assets:		
Cash and cash equivalents *(Note 2)*	**$ 683**	$ 331
Receivables:		
Foreign countries	**349**	337
U.S. government	**134**	149
Consignment	**55**	58
Other	**158**	147
	696	691
Less allowances	**107**	113
Total receivables, net	**589**	578
Supplies, advances and prepayments	**383**	387
Total current assets	**1,655**	1,296
Other assets, principally revenue forgone appropriations receivable *(Note 7)*	**375**	376
Property and equipment, at cost:		
Buildings	**17,685**	16,513
Equipment	**13,973**	12,421
Land	**2,534**	2,407
Leasehold improvements	**1,133**	1,019
	35,325	32,360
Less allowances for depreciation and amortization	**13,644**	12,143
	21,681	20,217
Construction in progress	**2,389**	2,623
Total property and equipment, net	**24,070**	22,840
Deferred retirement costs *(Note 6)*	**32,183**	31,497
Total assets	**$58,283**	$56,009

See accompanying notes to the financial statements.

	September 30, 2000	1999
	(dollars in millions)	
Liabilities and Net Capital Deficiency		
Current liabilities:		
Compensation and benefits	**$ 5,295**	$ 5,919
Estimated prepaid postage	**1,594**	1,628
Payables and accrued expenses:		
Foreign countries	**439**	527
U.S. government	**150**	164
Other	**1,300**	973
Total payables and accrued expenses	**1,889**	1,664
Prepaid box rentals, permit and metered mail	**1,969**	2,049
Outstanding postal money orders	**716**	813
Current portion of long-term debt	**6,814**	3,363
Total current liabilities	**18,277**	15,436
Long-term debt, less current portion *(Note 5)*	**2,502**	3,554
Other liabilities:		
Amounts payable for deferred retirement benefits *(Note 6)*	**30,212**	29,685
Workers' compensation costs *(Note 2)*	**5,029**	4,901
Employees' accumulated leave	**2,090**	2,041
Other	**819**	839
Total other liabilities	**38,150**	37,466
Commitments and contingencies *(Notes 8 and 9)*		
Total Liabilities	**58,929**	56,456
Net capital deficiency:		
Capital contributions of the U.S. government	**3,034**	3,034
Deficit since reorganization	**(3,680)**	(3,481)
Total Net Capital Deficiency	**(646)**	(447)
Total Liabilities and Net Capital Deficiency	**$58,283**	$56,009

See accompanying notes to the financial statements.

0012-0124481

United States Postal Service

Statements of Operations

	Year ended September 30,		
	2000	**1999**	**1998**
	(dollars in millions)		
Operating revenue *(Note 7)*	**$64,540**	$62,726	$60,072
Operating expenses:			
Compensation and benefits *(Notes 2, 3, and 6)*	**49,532**	47,333	45,596
Transportation	**4,709**	4,267	4,207
Other	**8,751**	9,042	7,983
Total operating expenses	**62,992**	60,642	57,786
Income from operations	**1,548**	2,084	2,286
Interest and investment income	**41**	29	44
Interest expense on deferred retirement liabilities *(Note 6)*	**(1,568)**	(1,592)	(1,613)
Interest expense on borrowings	**(220)**	(158)	(167)
Net (Loss) Income	**$ (199)**	$ 363	$ 550

See accompanying notes to the financial statements.

0012-0124481

United States Postal Service

Statements of Changes in Net Capital Deficiency

Years Ended September 30, 2000, 1999 and 1998

	Capital Contributions of U.S. Government	**Deficit Since Reorganization**	**Total Net Capital Deficiency**
		(dollars in millions)	
Balance, September 30, 1997	$3,034	$(4,394)	$(1,360)
Net Income	–	550	550
Balance, September 30, 1998	3,034	(3,844)	(810)
Net Income	–	363	363
Balance, September 30, 1999	3,034	(3,481)	(447)
Net Loss	–	**(199)**	**(199)**
Balance, September 30, 2000	**$3,034**	**$(3,680)**	**$ (646)**

See accompanying notes to the financial statements.

United States Postal Service

Statements of Cash Flows

	Year ended September 30,		
	2000	**1999**	**1998**
	(dollars in millions)		
Cash flows from operating activities			
Net (loss) income	**$ (199)**	$ 363	$ 550
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	**2,029**	1,795	1,579
(Gain) loss on disposals of property and equipment, net	**(5)**	(55)	7
Decrease (increase) in other assets, principally revenue forgone appropriations receivable	**1**	3	(7)
Increase in USPS workers' compensation	**254**	19	195
Decrease in Post Office Department workers' compensation	**(17)**	(21)	(27)
Decrease in retroactive assessments payable to the U.S. government	**–**	–	(331)
Increase in employees' accumulated leave	**49**	82	101
(Decrease) increase in other liabilities	**(20)**	207	143
Changes in current assets and liabilities:			
(Increase) decrease in receivables, net	**(11)**	207	(113)
Decrease (increase) in supplies, advances and prepayments	**4**	(39)	40
(Decrease) increase in compensation and benefits	**(892)**	503	451
Decrease in estimated prepaid postage	**(34)**	(45)	(70)
Increase (decrease) in payables and accrued expenses	**225**	(371)	(62)
(Decrease) increase in prepaid box rentals, permit and metered mail	**(80)**	94	31
(Decrease) increase in outstanding postal money orders	**(97)**	121	52
Net cash provided by operating activities	**1,207**	2,863	2,539
Cash flows from investing activities			
Purchase of U.S. government securities, available-for-sale	**–**	–	(620)
Proceeds from sale of U.S. government securities, available-for sale	**–**	–	622
Purchase of property and equipment	**(3,337)**	(3,917)	(3,055)
Proceeds from sale of property and equipment	**83**	129	49
Net cash used in investing activities	**(3,254)**	(3,788)	(3,004)
Cash flows from financing activities			
Issuance of debt	**5,550**	4,129	5,696
Payments on debt	**(3,151)**	(3,633)	(5,147)
Net cash provided by financing activities	**2,399**	496	549
Net increase (decrease) in cash and cash equivalents	**352**	(429)	84
Cash and cash equivalents at beginning of year	**331**	760	676
Cash and cash equivalents at end of year	**$ 683**	$ 331	$ 760

See accompanying notes to the financial statements.

1. Description of Business

Nature of Operations

The United States Postal Service (Postal Service) provides mail service to the public, offering a variety of classes of mail services without discrimination among its many customers. This means that within each class of mail our price does not vary by customer for the levels of service we provide. This fulfills our legal mandate to offer universal services at a fair price. Our primary lines of business are First Class Mail, Standard Mail (A) and Priority Mail. The principal markets for these services are the communications, distribution and delivery, advertising and retail markets. Our products are distributed through our more than 38,000 post offices and a large network of consignees. As in the past, we continue to conduct our significant operations primarily in the domestic market, with our international operations representing less than 3% of our total revenue.

Our labor force is primarily represented by the American Postal Workers Union, National Association of Letter Carriers, National Postal Mail Handlers Union and National Rural Letter Carriers Association. Almost 90% of our career employees are covered by collective bargaining agreements. Three of our largest contracts representing 61% of our career employees expire November 20, 2000. Negotiations have begun between management and unions, and agreements are expected during fiscal year 2001.

Postal Reorganization

The Postal Service commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act (the Act). The equity that the U.S. government held in the former Post Office Department became the initial capital of the Postal Service. The Postal Service valued the assets of the former Post Office Department at original cost less accumulated depreciation. The initial transfer of assets and subsequent cash contributions totaled approximately $3 billion. The U.S. government remained responsible for all the liabilities attributable to operations of the former Post Office Department. However, under the Balanced Budget Act of 1997, the remaining liability for certain Post Office Department costs was transferred to the Postal Service.

1. Description of Business (continued)

Price Setting Process

Since 1971, the Act has required the Postal Service to establish prices that cover the costs of operating the postal system. The Act established the independent Postal Rate Commission with oversight responsibility for mail prices, subject to approval by the Governors of the Postal Service. The Act provides for the recovery of operating losses through future rate increases.

2. Summary of Significant Accounting Policies

Basis of Accounting and Use of Estimates

We maintain our accounting records and prepare our financial statements on the accrual basis of accounting. This basis conforms to accounting principles generally accepted in the United States. Following these principles, we made estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results may differ from our estimates.

Cash Equivalents

Cash equivalents are securities that mature within 90 days or less from the date we buy them.

Current Values of Financial Instruments

The current value of our debt is what it would cost us to pay off the debt if we used the current yield on equivalent U.S. Treasury debt.

Supplies, Advances and Prepayments

Supplies, advances and prepayments are primarily composed of our inventories of supplies, motor vehicle parts, repairable parts for mail processing equipment, and advances to employees for annual leave. We value our inventories at the lower of average cost or current market price. Total inventories amounted to $173 million at the end of 2000 and $172 million at the end of 1999.

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

We record property and equipment at what it costs us to acquire the assets, including the interest we pay on the money we borrow to pay for the construction of major capital additions. This interest amounted to $49 million in 2000, $59 million in 1999 and $44 million in 1998.

We depreciate buildings and equipment over their estimated useful lives, which range from 3 to 40 years, using the straight-line method. We amortize leasehold improvements over the period of the lease or the useful life of the improvement, whichever time is shorter.

Estimated Prepaid Postage

This is the amount of cash we estimate that we collected by the end of the year for services that we will perform in the following year.

Compensation and Benefits Payable

This is the salaries and benefits we owe to current and retired employees, including the amounts employees have earned but have not yet been paid, current workers' compensation, unemployment costs, health benefits, and the current portion of the amounts payable for retirement benefits.

Deferred Retirement Benefits and Costs

This is the present value of our estimated legal obligation to the Civil Service Retirement and Disability Fund for the amount of retirement benefits payable in the future for our current employees' retirement and our present retirees and their survivors. The present value of our benefits payable for our current employees increases when management increases basic pay. The present value of our benefits payable also increases when Cost of Living Adjustments (COLAs) are granted to our retirees or their survivors. We capitalize as deferred retirement costs the amounts due and payable in future years. We expense and pay these costs over periods of 30 years for amounts attributable to current employees and 15 years for amounts attributable to retirees, at 5% interest. We account for our participation in the U.S. government sponsored retirement plans as participation in a multi-employer plan arrangement.

2. Summary of Significant Accounting Policies (continued)

Post-Retirement Health Benefits

Retiree health benefits costs are our obligation to pay a portion of the health insurance premiums of those retirees and their survivors who participate in the Federal Employees Health Benefits Program (FEHBP). We account for our participation in FEHBP as participation in a multi-employer plan arrangement. Therefore, we expense the costs of our retiree health benefits as we incur them.

Workers' Compensation Costs

We are self-insured for workers' compensation costs under a program administered by the Department of Labor (DOL). We record these costs, which include the employees' medical expenses and payment for continuation of wages, as an operating expense. At the end of the year, our liability represents the estimated present value of the total amounts we expect to pay in the future for postal workers injured through the end of fiscal year 2000. We base our estimate of the total costs of a claim upon the severity of the injury, the age of the injured employee, the assumed life expectancy of the employee, the trend of our experience with such an injury, and other factors. In our calculation of present value, we use a net discount rate of 1.4% for medical expenses and 3.0% for compensation claims.

In fiscal year 1999, we changed the net discount rate used in determining the present value of estimated future workers' compensation payments for medical claims. The net discount rate for medical claims was changed from 0.1% to 1.4%. The effect of the adoption of this rate has been accounted for as a change in accounting estimate. It resulted in a decrease of $131 million in the fiscal year 1999 compensation and benefits expense. In management's opinion, this net discount rate better reflects the excess of rates of return on government debt instruments of comparable terms relative to expected future medical inflation.

In fiscal year 2000, we refined our methodology used to estimate the present value of the total amounts we expect to pay for current Postal Service workers' compensation claims. The major refinement is the use of a life table that reflects long-term experience with a disabled population to estimate mortality rates of our permanently disabled population. Previously, we had used a life table that reflected experience with the general United States population. In management's opinion, the refinements result in a better estimation of our liability for future outlays on behalf of Postal Service workers' compensation claimants. The effect of the refinements was a reduction of $423 million in the fiscal year 2000 compensation and benefits expense.

2. Summary of Significant Accounting Policies (continued)

Workers' Compensation Costs (continued)

At the end of 2000, we estimate our total liability for future workers' compensation costs, excluding Post Office Department (POD) liability, at $5,560 million. At the end of 1999, this liability was $5,306 million. In 2000, we recorded $911 million in workers' compensation expense, compared to the $603 million we recorded in 1999 and the $760 million we recorded in 1998. Our liability for future workers' compensation costs for POD claims was $193 million in 2000 and $210 million in 1999. In 2000, we recorded an expense of $14 million, compared to the $11 million we recorded in 1999 and $8 million in 1998.

Research and Development Costs

We record research and development costs as expenses when we incur them. These costs were $42 million in 2000, $67 million in 1999 and $77 million in 1998.

Advertising

We record advertising costs as expenses when we incur them. These costs were $151 million in 2000, $241 million in 1999 and $301 million in 1998.

Reclassification of Prior Years Amounts

Certain prior years amounts have been reclassified to conform to the 2000 presentation.

3. Post-Retirement Health Benefit Programs

Employees of the Postal Service who participate in the Federal Employees Health Benefits Program (FEHBP) for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. Under the FEHBP, we pay a portion of the health insurance premiums of participating retirees and their survivors. This program is administered by the Office of Personnel Management.

The Omnibus Budget Reconciliation Act of 1990 requires us to pay the employer's share of health insurance premiums for all employees, and their survivors, who participate in the FEHBP and who retire on or after July 1, 1971. However, we do not include the costs attributable to Federal civilian service before that date. Our FEHBP costs amounted to $744 million in 2000, $593 million in 1999, and $581 million in 1998. We include these costs in our compensation and benefits expense.

4. Impaired Assets

In 1997, we began to record losses on long-lived assets when events and circumstances indicate that the assets might be impaired. In accordance with FASB Statement No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of," we have written down our impaired assets to the lower of cost or fair value. No material impairments were recorded in 2000, 1999 and 1998.

5. Debt and Related Interest Costs

Under the Postal Reorganization Act, as amended by Public Law 101-227, we can issue debt obligations. However, we are limited to net annual increases of $2 billion in our debt for capital improvements and to $1 billion for operating expenses. Our total debt cannot exceed $15 billion.

Debt is due as follows (dollars in millions):

Year	Amount
2001	$6,814
2002	–
2003	200
2004	–
2005	–
After 2005	2,302

We paid in cash $263 million in interest in 2000, $202 million in interest in 1999 and $236 million in 1998.

The current estimated market value of our debt is $9,316 million in 2000 and $6,877 million in 1999 (Note 2). All notes payable to the Federal Financing Bank (FFB) may be repurchased at current value at any time with five days notice of intent to do so.

The following page details our debt, which consists of Notes Payable to the FFB and Mortgage Notes Payable.

5. Debt and Related Interest Costs (continued)

Our debt consists of the following:

Interest Rate %	Terms*	September 30, 2000	1999
		(dollars in millions)	
Notes Payable to the Federal Financing Bank (FFB):			
8.075	Payable $32 million each year to May 31, 2000	$ –	$ 32
7.800	Payable $15 million each year to May 31, 2001	15	30
8.760 **	Payable $36 million each year to May 31, 2001	36	72
6.274	Payable May 16, 2005	–	500
6.350 ***	Overnight revolving credit facility; final maturity date October 2, 2000	262	279
5.084	Payable March 30, 2000	–	500
4.977	Payable March 31, 2034; repurchasable at par December 31, 1999 and every March 31, June 30, September 30, and December 31 thereafter	–	750
6.323 ****	Short-term revolving credit facility; final maturity date October 2, 2000	3,400	2,500
6.323	Payable August 31, 2001; repurchasable at par November 30, 2000: February 28, and May 31, 2001	1,000	–
6.323	Payable December 28, 2000	800	–
6.333	Payable March 1, 2001	500	–
6.183	Payable May 31, 2001	800	–
5.568	Payable December 31, 2002	200	200
5.688	Payable August 15, 2007	400	400
5.546	Payable August 15, 2007	150	150
5.959	Payable November 15, 2027	400	400
5.726	Payable November 15, 2027	100	100
5.606	Payable November 15, 2027	300	300
5.426	Payable May 15, 2008	200	200
4.981	Payable May 15, 2008	200	200
4.910	Payable May 15, 2008	200	200
4.836	Payable November 15, 2027	100	100
6.299	Payable May 15, 2030	250	–
		9,313	6,913
Mortgage Notes Payable:			
5.00 to 9.25	Maturing from fiscal years 2001 through 2039 secured by land, buildings and equipment with a carrying amount of $31 million.	3	4
		9,316	6,917
Less current portion of debt		6,814	3,363
		$2,502	$3,554

* All debt is repurchasable at any time at a price determined by then current FFB rates.
** Weighted average interest rate; prior year's weighted average interest rate was 8.761%.
*** Prior year rate was 5.002%.
**** Prior year rate was 4.971%.

6. Retirement Programs

With certain exceptions, employees participate in one of the following three retirement programs based upon the starting date of their employment with the Postal Service. Employee and employer contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), which is administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Postal Service employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Plan is administered by the Federal Retirement Thrift Investment Board.

Civil Service Retirement System (CSRS)

Under the Postal Reorganization Act, officers and career employees are covered by the Civil Service Retirement System, which provides a basic annuity and Medicare coverage. The CSRS fund covers substantially all employees hired prior to January 1, 1984. Effective January 1, 2000, participating employees contribute 7.4% of their basic pay to the CSRDF. Effective January 1, 1999, participating employees contributed 7.25% of their basic pay. Prior to January 1, 1999, participating employees contributed 7% of their basic pay. We contribute an amount equal to 7% of each employee's basic pay to the CSRDF. We and the employee also contribute to Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS.

Dual Civil Service Retirement System (Dual CSRS)/Social Security System

Employees with prior U.S. government service who were hired between January 1, 1984 and January 1, 1987 are covered by the Dual Civil Service Retirement System/Social Security System. We contribute 7% of the employee's basic pay to the CSRDF. Effective January 1, 2000, participating employees contribute 1.20% of their basic pay. Effective January 1, 1999, participating employees contributed 1.05% of their basic pay. Prior to January 1, 1999, participating employees contributed 0.8% of their basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the Dual System.

6. Retirement Programs (continued)

Federal Employees Retirement System (FERS)

Effective January 1, 1987, officers and career employees hired since December 31, 1983, except for those covered by the Dual System, are covered by the Federal Employees Retirement System Act of 1986. In addition, employees hired before January 1, 1984 could choose during certain periods in 1987, 1988 and 1998 to participate in the FERS. This System consists of Social Security, a basic annuity plan, and a Thrift Savings Plan.

We contributed to the basic annuity plan 10.7% of each employee's basic pay in 2000, 1999 and 1998. Effective January 1, 2000, participating employees contribute 1.20% of their basic pay. Effective January 1, 1999, participating employees contributed 1.05% of their basic pay. Prior to January 1, 1999, participating employees contributed 0.8% of their basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1% per year of the basic pay of employees covered by this System. We also match a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of a contribution between 3 and 5% of basic pay.

The number of employees enrolled in each of the retirement plans at the end of 2000, 1999 and 1998 is as follows:

	2000	**1999***	**1998**
CSRS	**263,383**	281,062	298,827
Dual CSRS/Social Security	**12,021**	12,598	13,418
FERS	**510,509**	503,233	479,069

* From July 1998 to December 1998, workers covered by CSRS were allowed to switch to FERS. During this period only 3,436, or less than 1.2%, of our employees chose to change plans.

Deferred Retirement Costs

Deferred retirement costs consist of the following (dollars in millions):

	2000	**1999**
CSRS basic pay increases	**$25,857**	$25,545
CSRS retirees' and survivors' cost of living adjustments	**6,326**	5,952
Total	**$32,183**	$31,497

There are no deferred retirement costs associated with FERS.

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6. Retirement Programs (continued)

Deferred Retirement Liability—Civil Service Retirement System

When we increase CSRS employees' current basic pay, we are liable for the additional deferred retirement liability. The Office of Personnel Management determines the estimated increase in our deferred liability. We amortize and pay this amount in 30 equal annual installments, which includes interest computed at a rate of 5% per year. We make the first payment at the end of the year in which employees receive their pay increase.

The increase in our deferred liability for retirement benefits under the CSRS as a result of basic pay increases was $1,635 million in 2000, $930 million in 1999 and $836 million in 1998.

Deferred Retirement Liability—Retirees' and their Survivors' Cost of Living Adjustments (COLAs)

Congress determines the COLAs granted to our retirees. Under the Omnibus Budget Reconciliation Act of 1990, we are liable for our share of the cost of living adjustments granted to those retirees, and their survivors, retiring on or after July 1, 1971. We are not responsible for any costs due to federal civilian service before that date.

Each year the Office of Personnel Management determines the estimated increase in our liability under this law for the current year. We amortize and pay each year's amount in 15 equal annual installments, which include interest computed at a rate of 5% per year.

The increase in our deferred liability for our retirees' COLAs was $1,056 million in 2000, $537 million in 1999 and $790 million in 1998.

Future Minimum Payments

We estimate the future minimum payments we have to make in order to fund CSRS benefits and retirees' cost of living adjustments as of September 30, 2000 are as follows (dollars in millions):

6. Retirement Programs (continued)

Future Minimum Payments (continued)

Year	Amount
2001	$ 3,580
2002	3,508
2003	3,429
2004	3,308
2005	3,218
After 2005	31,630
	$48,673
Less amount representing interest	16,485
Total future minimum payments	$32,188
Less: Portion classified as a current liability in compensation and benefits	1,976
Long-term portion of future minimum payments	$30,212

Expense Components

Listed below are the components of our total retirement expenses that are included in our compensation and benefits expense and related interest expense in the Statement of Operations for 2000, 1999 and 1998 (dollars in millions):

	2000	1999	1998
CSRS	**$ 800**	$ 816	$ 849
FERS	**1,944**	1,824	1,640
FERS—Thrift Savings Plan	**750**	681	608
Dual CSRS/Social Security	**35**	35	36
Social Security	**1,427**	1,337	1,241
Amortization of deferred cost:			
CSRS	**1,322**	1,214	1,142
Annuitant COLAs	**683**	602	569
Interest expense on deferred liabilities	**1,568**	1,592	1,613
Total retirement expense	**$8,529**	$8,101	$7,698

6. Retirement Programs (continued)

Expense Components (continued)

Employer cash contributions to retirement plans were $7,084 million in 2000, $6,756 million in 1999 and $6,647 million in 1998. These amounts do not include Social Security and Medicare contributions.

7. Revenue Forgone

Our operating revenue includes accruals for revenue forgone. Revenue is forgone when Congress mandates that we provide free or reduced mail rates for certain mailers. The difference between the price Congress has mandated and the price we would have charged the mailer determines the amount of forgone revenue. Congress appropriates money to reimburse us for only a portion of the revenue forgone that we have incurred in past years. In our operating revenue, we have included as revenue the amounts appropriated by Congress for revenue forgone of $64 million for 2000, $71 million for 1999, and $67 million for 1998. Legislation that was passed during 2000 appropriated the $64 million for 2000 but delayed the payment until fiscal year 2001. Accordingly, we have recorded this as a receivable.

Under the Revenue Forgone Reform Act of 1993, Congress is required to reimburse us $29 million annually through 2035 (42 years). This reimbursement is for two purposes: services we performed in 1991, 1992 and 1993 for which we have not yet been paid; and for shortfalls in the reimbursement for the costs we incurred for processing and delivering certain nonprofit mail from 1994 through 1998.

The Revenue Forgone Reform Act of 1993 authorized a total of $1.218 billion in payments. We calculated the present value of these future reimbursements to be approximately $390 million at 7% interest. We recognized the $390 million as revenue during fiscal years 1991 through 1998. The amounts receivable as of September 30, 2000 and 1999 were $375 million and $378 million, respectively. We recognized no revenue in 2000 and 1999 and $10 million in 1998.

8. Commitments

At September 30, 2000, we estimate our financial commitment for approved Postal Service capital projects in progress to be approximately $3,641 million.

8. Commitments (continued)

In addition, we are in negotiations for the buy out of certain assets and leases associated with the processing and transportation of Priority Mail.

Our total rental expense for the years ended September 30 is summarized as follows (dollars in millions):

	2000	1999	1998
Non-cancelable real estate leases including related taxes	**$ 806**	$ 766	$711
Facilities leased from General Services Administration subject to 120-day notice of cancellation	**39**	36	37
Equipment and other short-term rentals	**254**	431	234
Total	**$1,099**	$1,233	$982

At September 30, 2000, our future minimum lease payments for all non-cancelable leases are as follows (dollars in millions):

Year	Operating	Capital
2001	$ 755	$ 83
2002	722	83
2003	682	83
2004	643	83
2005	593	83
After 2005	5,641	531
	$9,036	$946
Less: Interest at 6.5%		279
Total capital lease obligations		667
Less: Short-term portion of capital lease obligations		41
Long-term portion of capital lease obligations		$626

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain non-cancelable real estate leases give us the option to purchase the facilities at prices specified in the leases.

8. Commitments (continued)

Capital leases included in buildings were $772 million in 2000 and $663 million in 1999. Total accumulated amortization is $161 million in 2000 and $122 million in 1999. Amortization expense for assets recorded under capital leases is included in depreciation expense.

9. Contingent Liabilities

Each quarter we review litigation pending against us. As a result of this review, we classify and adjust our contingencies for claims that we think it is probable that we will lose and for which we can reasonably estimate the amount of the unfavorable outcome. These claims cover labor, equal employment opportunity, environmental issues, traffic accidents, injuries on postal properties, personal claims and property damages, and suits and claims arising from postal contracts. We also recognize the settlement of claims and lawsuits and revisions of other estimates. Additionally, we evaluate the materiality of cases determined to have a reasonably possible chance of adverse outcome. Such cases are immaterial to our financial statements taken as a whole.

As a part of our continuing evaluation of estimates required in the preparation of our financial statements, we recorded approximately a $63 million increase in liabilities in 2000 to recognize changes in the estimated cost of litigation and claims asserted prior to 2000. We recognized settlements of claims and lawsuits and revised other estimates in our changes in contingent liabilities. Management and General Counsel believe that we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.