USPS-FY15-39

FY 2015 Competitive Products Fund Reporting Materials

I. PREFACE

A. Purpose and Content

USPS-FY15-39, Competitive Products Fund Reporting Materials, includes a copy of the Postal Service's annual report to the Secretary of the Treasury regarding the Competitive Products Fund, required by section 2011(i), and other Competitive Products Fund materials provided in accordance with Commission Rules 3060.20 through 3060.23. Specifically, this year that other material includes PRC Forms CP-01, CP-02, CP-03, and CP-04.

B. Predecessor Document

USPS-FY14-39

C. Methodology

These materials draw upon cost and revenue data reported throughout the Postal Service's FY 2015 ACR, and therefore are implicitly based on the methodologies upon which the ACR is based. For purposes of specifically developing the PRC Forms, the procedures employed track those previously endorsed by the Commission.

D. Input/Output

For PRC Forms CP-01 and CP-02, inputs are from the FY15 CRA and last year's PRC Forms CP-01 and CP-02. Inputs for PRC Forms CP-03 and CP-04 come from accounting records.

II. ORGANIZATION

USPS-FY15-39 consists of one PDF file, which includes this Preface, and four Excel files.

The Postal Service's Annual Report to the Secretary of the Treasury Regarding the Competitive Products Fund For Fiscal Year 2015, Required by 39 U.S.C. § 2011(i)

CONTROLLER
FINANCE

UNITED STATES
POSTAL SERVICE

December 29, 2015

Mr. David Lebryk
Department of Treasury
1500 Pennsylvania Avenue NW
Room 2112 MT
Washington, DC 20220-2112

Dear Mr. Lebryk:

Pursuant to 39 U.S.C. 2011(i)(1), the United States Postal Service hereby submits the enclosed *Competitive Products Fund Report* (CPFR) for the fiscal year ending September 30, 2015.

Additional information regarding the Postal Service is available elsewhere. The 2015 *United States Postal Service Annual Report* on Form 10-K is available on http://about.usps.com/who-we-are/financials/. In addition, we file an Annual Compliance Report with the Postal Regulatory Commission within 90 days of the end of the fiscal year.

Sincerely,

Richard Rosoff

Richard Rosoff
VP, Controller (A)

Enclosures

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Competitive Products Fund Report
For Fiscal Year Ending
September 30, 2015

BACKGROUND

On December 18, 2008, the Postal Regulatory Commission ("PRC") issued Order No. 151, Docket No. RM2008-5 *Order Establishing Accounting Practices and Tax Rules for Competitive Products* ("Order"). The Order prescribes accounting practices and principles to be followed by the United States Postal Service ("Postal Service," "USPS," "we," "our" and "us") and the substantive and procedural rules for determining the assumed Federal income tax on competitive products' income. Necessarily, the PRC's rules are distinct from generally accepted accounting principles ("GAAP"). The PRC rules are based on a theoretical, on-paper-only, enterprise the financial activity of which is recorded in the Competitive Products Fund ("CPF") established with the United States Treasury.

In Fiscal Year 2015, the Competitive Products Fund generated pretax earnings of $2.660 billion, which produced a tax obligation of $931 million. As required by law, the United States Postal Service (USPS) will transfer the tax obligation from the CPF to the Postal Service General Fund no later than January 15, 2016.

As discussed in our *2015 United States Postal Service Annual Report on Form 10-K ("2015 10-K"),* the law divides our services into two broad categories: Market-Dominant and Competitive. Market-Dominant services include, but are not limited to, First-Class Mail, Standard Mail, Periodicals, and certain parcel services. Price increases for these services are subject to a price cap by class of mail based on the Consumer Price Index–All Urban Consumers. Competitive services, such as Priority Mail, Priority Mail Express, Parcel Select and Parcel Return Service and some types of International Mail have greater pricing flexibility and are commonly referred to as "Shipping and Packages Services."

Prices for Competitive services are set by our Board of Governors and reviewed by the PRC for legal compliance. By law, prices must cover costs attributable to each service and must contribute a reasonable share of the institutional costs of the Postal Service, currently 5.5%, as determined by the PRC. Prices for Competitive services increased an average of 3.5% in May 2015.

Periodic reclassifications and expansions of services from Market-Dominant to Competitive, which require approval from the PRC, are necessary to rationalize service offerings. The additional flexibility provided in Competitive services allows us to better offer services that meet customer needs, to increase business for the Postal Service and to allow us to price our products and services competitively within the markets in which we operate. The Postal Service's Competitive services generally include most of our shipping, package, and expedited delivery services.

While there are distinct legal and regulatory classifications of postal services known as either Market-Dominant or Competitive which are required to be reported in the attachments to this document, Postal Service management utilizes the following broad service categories to evaluate performance and manage the business: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals, and Other. Throughout our *2015 10-K*, operational measurements and financial data, such as revenue and volume, are reported utilizing these categories.

RISK FACTORS

The risk factors identified in this section are discussed in our 2015 10-K *Item 1A,* and they are particularly relevant to our Shipping Services. These risks and others could clearly affect the liquidity of the Competitive Products Fund that is held within the U.S. Treasury.

Continued U.S. Senate inaction on our Governor nominations may result in the number of Governors declining to only one in December 2015. As of December 29, 2015 the number of Governors has declined to one.

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

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.

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

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 the Postal Service brand. This could potentially adversely affect our revenue and results of operations.

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

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

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

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.

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

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.

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.

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

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.

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

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

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

We have a substantial amount of indebtedness.

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

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

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.

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

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.

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

RESULTS OF OPERATIONS

Using PRC methodology, Competitive Mail and Services revenue totaled $16.436 billion in 2015 and volume totaled 4.0 billion pieces. In 2015, Competitive Mail and Services accounted for 2.6% of total Postal Service mail volume and 23.8% of total revenue.

Before further discussion, it may be useful to define several terms that are part of our regulatory lexicon. Coverage is defined as the ratio of revenue to attributable costs, using PRC-determined methodology. The attributable costs of a product are the costs of the Postal Service determined through reliably identified causal relations to be directly or indirectly caused by the provision of that product. Institutional costs are those costs that are not attributable. When a product's revenue exceeds its attributable costs, the difference represents contribution toward covering institutional costs.

In FY2015, the Postal Service transferred $1.575 billion from the Competitive Products Fund to the Postal Service Fund. This transfer represented a prepayment of current and future year's institutional costs. Such prepayment transfers, however, in no way diminish the Postal Service's continuing obligation, in accord with 39 USC 3633(a)(3) and 39 CFR 3015.7(c), to ensure that revenues from Competitive products are sufficient to "collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service."

In addition to covering attributable costs, Competitive Mail and Services are required by the PRC to bear 5.5% of postal-wide institutional costs. Total costs for Competitive Mail and Services are by definition equal to their attributable costs plus 5.5% of postal-wide institutional costs. In 2015, the contribution from Competitive Mail and Services equaled 13.36% of the institutional costs of the Postal Service. The difference between this 13.36% and the required 5.5% threshold is the "income before taxes" for Competitive Mail and Services, and it is used to calculate the required tax transfer from the Competitive Products Fund in the U.S. Treasury to the Postal Service Fund, also within the Treasury. For 2015, this regulatory-defined net income totaled $2.660 billion. Tax due will be transferred by USPS from the Competitive Products Fund to the Postal Service General Fund by January 15, 2016.

PRC Forms CP-01, CP-02, CP-03, and CP-04

For Fiscal Year 2015

Table 1
Competitive Products Income Statement
($ in 000s)

PRC Form CP-01

	FY 2015	FY 2014	$ Change from SPLY	% Change from SPLY
Revenue				
(1) Mail and Services Revenues (a)	$ 16,436,171	$ 15,272,521	$ 1,163,650	7.6%
(2) Investment Income	-	-	-	0.0%
(3) Total Competitive Products Revenue	16,436,171	15,272,521	1,163,650	7.6%
Expenses				
(4) Volume Variable Costs	11,758,600	10,814,800	943,800	8.7%
(5) Product Specific Costs	154,800	155,100	(300)	-0.2%
(6) Total Competitive Products Attributable Cost	11,913,400	10,969,900	943,500	8.6%
(7) Net Contribution Competitive Products Market Tests	(3,418)	-	(3,418)	NM
(8) Net Income Before Institutional Cost Contribution	4,519,353	4,302,621	216,732	5.0%
(9) Required Institutional Cost Contribution	1,859,798	1,880,285	(20,487)	-1.1%
(10) Net Income Before Tax	2,659,555	2,422,336	237,219	
(11) Assumed Federal Income Tax *	930,844	847,818	83,026	9.8%
(12) Net Income After Tax	$ 1,728,711	$ 1,574,518	$ 154,193	9.8%

Line (1): Total revenues from Competitive Products volumes and Ancillary Services

Line (2): Income provided from investment of surplus Competitive Products revenues

Line (3): Sum total of revenues from Competitive Products volumes, services, and investments

Line (4): Total Competitive Products volume variable costs as shown in the Cost and Revenue Analysis (CRA) report

Line (5): Total Competitive Products product specific costs as shown in the CRA report

Line (6): Sum total of Competitive Products costs (sum of lines 4-5)

Line (7): Net Contribution Competitive Products Market Tests from USPS-FY15-NP27

Line (8): Difference between Competitive Products total revenues and attributable costs and Market Tests Contribution (line 3 less line 6 plus line 7)

Line (9): Minimum amount of Institutional Cost contribution required under 39 CFR 3015.7 of this chapter

Line (10): Line 8 less line 9

Line (11): Total assumed Federal income tax as calculated under 39 CFR 3060.40

Line (12): Line 10 less line 11

(a) Note: Mail and Services revenues have been adjusted to include gains from the sales and impairments of property and equipment. The gain for FY 15 was $59M with the amount allocated to Competitive Products (Building and Equipment allocation) of $11.571M. The loss for FY 14 was $43M with the amount allocated to Competitive Products (Building and Equipment allocation) of $7.479M.

* Note: 2015 Assumed Federal Income Tax (35%) is estimated based on the 2015 and 2014 Federal corporate tax rates respectively.

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Table 2
Annual Summary of Competitive Products Financials (FY 2015)
($ in 000s)

PRC Form CP-02

		Beginning Value	Change from Prior Year	Ending Value
(1)	Cumulative Net Income (Loss) After Assumed Federal Income Tax *	$ 4,559,395	$ 1,728,711	$ 6,288,106
(2)	Total Financial Obligations (List of Financial Obligations)	$ -	$ -	$ -
(3)	Total Financial Investments (List of Financial Investments)	$ -	$ -	$ -
Line 1:	Beginning Value: Sum total of Net Income (Loss) as of October 1 of Reportable Fiscal Year			
	Change from Prior Year: Amount of Net Income (Loss) of Reportable Fiscal Year			
	Ending Value: Sum of Beginning Value and the Change from Prior Year			
Line 2:	Beginning Value: Sum total of Financial Obligations as of October 1 of Reportable Fiscal Year			
	Change from Prior Year: Amount of Net Financial Obligations of Reportable Fiscal Year			
	Ending Value: Sum of Beginning Value and the Change from Prior Year			
Line 3:	Beginning Value: Sum total of Financial Investments as of October 1 of Reportable Fiscal Year			
	Change from Prior Year: Amount of Net Financial Investments of Reportable Fiscal Year			
	Ending Value: Sum of Beginning Value and the Change from Prior Year			

* Note: 2015 Assumed Federal Income Tax (35%) is estimated based on the 2015 Federal corporate tax rate.

Table 3
Competitive Products Property and Equipment Assets (FY 2015)
(Actual $)

PRC Form CP-03

Finance Number	Finance Location	Asset Identifier	Asset Description	Cost	Accumulated Depreciation	Net Book Value
ClickNShip	475 L'Enfant Plaza, Wash, DC 20260	1916084	Shredder	$ 3,673.92	$ 1,745.10	$ 1,928.82
ClickNShip	475 L'Enfant Plaza, Wash, DC 20260	1057123	Micro Computer System	4,812.00	4,812.00	-
ClickNShip	475 L'Enfant Plaza, Wash, DC 20260	1147567	Micro Computer System	23,138.00	23,138.00	-
ClickNShip	475 L'Enfant Plaza, Wash, DC 20260	1147569	Micro Computer System	23,138.00	23,138.00	-
Total			**Total**	**$ 54,761.92**	**$ 52,833.10**	**$ 1,928.82**

Table 4
Statement of Allocated Assets and Liabilities for Competitive Products
($ in thousands)

	FY2015		FY 2014	PRC Form CP-04
Total Net Assets	**USPS Annual Report**	**Competitive Products**	**Competitive Products**	**Distributed on Basis of:**
Cash and Cash Equivalents	$ 6,867,000	$ 1,637,093	$ 1,159,715	Revenue
Net Accounts Receivable	930,000	221,712	209,343	Revenue
Supplies, Advances, and Prepayments	118,000	28,131	27,462	Revenue
Total Current Assets	7,915,000	1,886,936	1,396,520	
Property and Equipment				
Buildings	24,622,000	5,249,410	4,916,141	Depreciation cost for Buildings
Leasehold Improvements	1,404,000	299,333	271,129	Depreciation cost for Leasehold Improvements
Equipment	19,692,000	3,276,749	2,565,250	Depreciation cost for Equipment
Land	2,850,000	607,620	576,911	Depreciation cost for Buildings
Accumulated Depreciation	33,403,000	6,588,590	5,724,438	Depreciation cost for Bld/Eq/Leasehold/Vehicle
Construction in Progress	521,000	111,086	82,944	Depreciation cost for Buildings & Leaseholds
Total Property and Equipment, Net	15,686,000	2,955,609	2,687,937	
Appropriations and Receivables - Revenue Forgone	413,000	0	0	Non Competitive
Total Assets	**$ 24,014,000**	**$ 4,842,545**	**$ 4,084,457**	
Total Assets Determined from Section 2011(e)(5)		**$ 5,724,938**	**$ 5,168,746**	
Total Net Liabilities	**USPS Annual Report**	**Competitive Products**	**Competitive Products**	**Distributed on Basis of:**
Liabilities:				
Current Liabilities				
Compensation and Benefits	$ 1,899,000	$ 402,208	$ 289,754	Labor
Retire Health Benefits	28,100,000	5,951,580	4,313,031	Labor
Workers' Compensation	1,401,000	297,432	254,496	Workers' Comp Expense
Payables and Accrued Expenses	1,853,000	441,755	455,377	Revenue
Customer Deposit Accounts	1,201,000	286,318	268,094	Revenue
Deferred Revenue-Prepaid Postage	3,304,000	787,674	689,706	Revenue
Outstanding Postal Money Orders	624,000	391	918	Actual International Money Orders Outstanding
Prepaid Box Rent and Other Deferred Revenue	429,000	254,902	205,470	Actual Competitive Deferred Box Rents
Debt	10,100,000	1,992,730	1,737,540	Volume Variable Interest Expense
Non-Current Liabilities				
Workers' Compensation	17,410,000	3,696,143	3,297,266	Workers' Comp Expense
Employee Accumulated Leave	1,951,000	414,197	382,130	Repriced Annual Leave
Deferred Appropriation and Other Revenue	58,000	0	0	Non Competitive
Long-Term Portion of Capital Lease Obligation	253,000	53,940	58,741	Leasehold Depreciation
Deferred Gains on Sales of Property	299,000	58,638	52,351	Depreciation cost for Buildings & Equipment
Contingent Liabilities and Other	623,000	131,951	155,267	Labor
Long-Term Portion Notes Payables	4,900,000	0	0	Non Competitive
Total Liabilities	**$ 74,405,000**	**$ 14,769,860**	**$ 12,160,141**	