

**THRIFT SAVINGS FUND**  
**Washington, DC**

**FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

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## **Independent Auditor's Report**

Members of the Board and Executive Director  
Federal Retirement Thrift Investment Board  
Washington, DC

We have audited the accompanying financial statements of Thrift Savings Fund (the "Fund"), which comprise the statements of net assets available for benefits as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Fund as of December 31, 2012 and 2011, and the changes in its net assets available for benefits for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

Calverton, Maryland  
April 15, 2013

## **FINANCIAL STATEMENTS**

## THRIFT SAVINGS FUND

### Statements of Net Assets Available for Benefits As of December 31, 2012 and 2011 (In thousands)

	2012	2011
<b>ASSETS:</b>		
Investments, at fair value:		
U.S. Government Securities Investment Fund	\$ 158,520,886	\$ 147,726,298
BlackRock U.S. Debt Index Fund	28,647,407	22,993,195
TSP C Fund – Equity Index Account	84,397,548	71,539,971
BlackRock Extended Equity Market Index Fund	29,282,228	25,688,537
BlackRock EAFE Equity Index Fund	24,632,395	21,228,212
Sub-total investments	325,480,464	289,176,213
TSP C Fund pledged	4,474,000	5,524,000
Total investments	329,954,464	294,700,213
Receivables:		
Employer contributions	298,225	293,603
Participant contributions	764,536	759,851
Participant loans	8,392,822	7,953,037
Accrued interest	-	7,181
Due for securities sold	314,619	158,735
Total receivables	9,770,202	9,172,407
Fixed assets:		
Furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization of \$22,250 in 2012 and \$19,187 in 2011	5,753	4,662
Data processing software, net of accumulated amortization of \$52,682 in 2012 and \$47,374 in 2011	2,156	7,182
Total fixed assets	7,909	11,844
Other assets	2,960	18,468
Total assets	339,735,535	303,902,932
<b>LIABILITIES:</b>		
Accounts payable	19,086	21,757
Accrued payroll and benefits	1,777	1,470
Benefits and participant loans payable	198,361	108,524
Deferred rent and lease credits	7,122	958
Due for securities purchased	78,378	129,082
Sub-total liabilities	304,724	261,791
C Fund cash collateral payable	4,474,000	5,524,000
Total liabilities	4,778,724	5,785,791
FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE	(4,114)	(4,231)
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 334,952,697</b>	<b>\$ 298,112,910</b>

See notes to financial statements and Independent Auditors' Report.

## THRIFT SAVINGS FUND

### Statements of Changes in Net Assets Available for Benefits Years Ended December 31, 2012 and 2011 (In thousands)

	2012	2011
<b>ADDITIONS:</b>		
Investment income:		
U.S. Government Securities Investment Fund	\$ 2,166,017	\$ 3,245,204
Net appreciation (depreciation) in fair value of BlackRock funds:		
BlackRock U.S. Debt Index Fund	1,092,282	1,544,878
TSP C Fund – Equity Index Account	12,428,989	1,674,008
BlackRock Extended Equity Market Index Fund	4,664,970	(964,641)
BlackRock EAFE Equity Index Fund	3,911,384	(2,781,871)
Asset manager rebates/ securities lending income (net)	31,556	54,917
Less investment expenses	<u>(5,453)</u>	<u>(15,995)</u>
Net investment income	<u>24,289,745</u>	<u>2,756,500</u>
Contributions:		
Participant	18,017,246	17,867,481
Employer	<u>7,585,266</u>	<u>7,375,456</u>
Total contributions	<u>25,602,512</u>	<u>25,242,937</u>
Interest income on participant loans	<u>203,023</u>	<u>237,176</u>
Total additions	<u>50,095,280</u>	<u>28,236,613</u>
<b>DEDUCTIONS:</b>		
Benefits paid to participants	12,824,118	10,776,397
Administrative expenses	142,180	127,950
Participant loans declared taxable distributions	<u>289,312</u>	<u>260,302</u>
Total deductions	<u>13,255,610</u>	<u>11,164,649</u>
CHANGE IN FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE	<u>117</u>	<u>104</u>
Net increase	36,839,787	17,072,068
<b>NET ASSETS AVAILABLE FOR BENEFITS:</b>		
Beginning of period	<u>298,112,910</u>	<u>281,040,842</u>
End of period	<u>\$ 334,952,697</u>	<u>\$ 298,112,910</u>

See notes to financial statements and Independent Auditors' Report.

# THRIFT SAVINGS FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011

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### 1. PLAN DESCRIPTION

The following description is provided for general information purposes. Participants should refer to the *Summary of the Thrift Savings Plan*, [www.tsp.gov](http://www.tsp.gov), and applicable legislation and regulations for more complete information.

**General**—The Thrift Savings Plan (the Plan or the TSP) is a retirement savings and investment plan for Federal employees and members of the uniformed services. It was authorized by the United States Congress in the Federal Employees' Retirement System Act of 1986 (FERSA). The Plan provides Federal employees and members of the uniformed services with a savings and tax benefit similar to what many private sector employers offer their employees under 401(k) plans. The Plan was primarily designed to be a key part of the retirement package (along with a basic annuity benefit and Social Security) for employees who are covered by the Federal Employees' Retirement System (FERS).

The Plan is administered by an independent Government agency, the Federal Retirement Thrift Investment Board (the Agency), which is charged with operating the Plan prudently and solely in the interest of the participants and their beneficiaries. Assets of the Plan are maintained in the Thrift Savings Fund (the Fund).

Federal employees, who are participants of FERS, the Civil Service Retirement System (CSRS), or equivalent retirement systems, as provided by statute, and members of the uniformed services, are eligible to join the Plan immediately upon being hired. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 2012, there were approximately 4.6 million participants in the Plan, with approximately 2.9 million contributing their own money. As of December 31, 2011, there were approximately 4.5 million participants in the Plan, with approximately 2.9 million contributing their own money.

**Contributions**—The Plan is a defined contribution plan and, as such, the law specifies how much an employee may contribute and how much the employing agency must contribute to each FERS employee's account. No participant under age 50 could contribute more than the Internal Revenue Service (IRS) elective deferral limit of \$17,000 for 2012 and \$16,500 for 2011.<sup>1</sup> Participants age 50 and older who are already contributing the maximum amount of contributions for which they are eligible may make supplemental tax-deferred catch-up contributions (up to \$5,500 in 2012 and 2011) from their basic pay. FERS participants are entitled to receive agency matching contributions on the first 5 percent of basic pay that they contribute each pay period, according to a formula prescribed by FERSA (5 United States Code (U.S.C.) § 8432(c)). For FERS employees, their employing agencies also contribute an agency automatic contribution equal to 1 percent of each employee's basic pay each pay period, as prescribed by FERSA (5 U.S.C. § 8432 (c)). Uniformed services members may also contribute up to

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<sup>1</sup> Members of the uniformed services who are serving in a combat zone earn tax-exempt pay. Contributions from tax-exempt pay do not count towards this elective deferral limit.



100% of designated special pay, incentive pay, and bonuses. The Federal Government or uniformed services does not match amounts contributed by CSRS employees or uniformed services members.<sup>2</sup> Under the 2009 Thrift Savings Plan Enhancement Act (P.L. 111-31) civilian Federal Agencies are required to automatically enroll newly hired (and rehired) eligible employees unless the employee makes an affirmative election not to participate in the Plan or to participate at other than the default rate of three percent. This provision was implemented in August 2010.

The Act also gives the Federal Retirement Thrift Investment Board the authority to establish a qualified Roth contribution program (implemented in May 2012) and the authority to establish a mutual fund window.

Participants may also transfer funds from traditional individual retirement accounts (IRAs) or other eligible employer plans into the Plan.

**Investments**—Pursuant to FERSA (5 U.S.C. § 8438), Plan participants are offered five investment funds: the Government Securities Investment Fund (G Fund), the Fixed Income Index Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Investment Fund (S Fund), and the International Stock Index Investment Fund (I Fund).

The Agency contracts with BlackRock Institutional Trust Company, N.A. (BlackRock) for investment in the collective investment trusts in which the F, S, and I Fund assets are invested and in which the C Fund was invested until June 2011. In June 2011, the Executive Director approved the use of the G Fund as an investment vehicle for the C Fund securities lending collateral. To facilitate this, in August 2011, the C Fund securities were moved from a commingled fund to a separate account. BlackRock is acting as investment manager and securities lending agent for this account.

The TSP L (Lifecycle) Funds are asset allocation portfolios designed for the TSP by Mercer Investment Consulting, Inc. (Mercer) with investment mixes, based on the Plan's existing investment funds, tailored to a target time horizon when the participant intends to withdraw the funds. As described in the TSP L Funds Information Sheet on the TSP website ([www.tsp.gov](http://www.tsp.gov)), the L2020 Fund, the L2030 Fund and the L2040 Fund are designed for participants who will withdraw their accounts five years before or after the year in the title of the account. L Income Fund was designed to produce current income for the participants who are already receiving money from their accounts through monthly payments. The L 2050 Fund, designed for participants who will withdraw their accounts in 2045 or later, was established on January 31, 2011. The asset allocations are based on Mercer's economic assumptions regarding future investment returns, inflation, economic growth, and interest rates. These asset allocations are adjusted quarterly, moving to a more conservative mix over time. Between quarterly adjustments, the asset allocations of each fund are maintained through daily rebalancing to that fund's target allocation. The Agency, with the help of Mercer, reviews the assumptions underlying the asset allocations at least annually.

Participants may allocate any portion of their contributions among the five investment funds and the TSP Lifecycle Funds. Also, participants may reallocate their account balance among the five investment

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<sup>2</sup> The Army ran a small test matching program for soldiers who agreed to enlist for five years or more. This program is no longer open to new soldiers. However, soldiers who took part in the test program and who are still serving their initial term of enlistment continue to receive matching contributions.

funds and the TSP Lifecycle Funds through the interfund transfer process. The Agency restricts the number of interfund transfers a participant can make per month in order to curb frequent trading and its associated costs to all TSP participants. The first two (2) interfund transfers per calendar month are unrestricted. After that, participants may move money only from the F, C, S, and I Funds and the TSP Lifecycle Funds to the G Fund.

***Vesting***—Plan participants are immediately vested in all of their own contributions and attributable earnings. Participants are also immediately vested in any agency matching contributions and attributable earnings. In order to be vested in the agency automatic (1%) contributions, a FERS employee must have either 2 or 3 years of service as described in section 8432(g) of FERSA. FERS employees who are not vested and who separate from the Federal Government forfeit all agency automatic contributions and attributable earnings.

***Forfeitures***—Forfeited funds, consisting primarily of statutory forfeitures (pursuant to 5 U.S.C. §8432(g)) and agency contributions forfeited due to retirement coverage corrections made under the Federal Erroneous Retirement Coverage Correction Act (FERCCA), totaled \$39,722,617 in 2012, and \$47,711,072 in 2011. Under FERCCA, when a participant's retirement coverage is corrected from FERS to CSRS, any excess agency contributions are forfeited to the Plan. All forfeitures are used by the Plan daily to offset accrued administrative expenses. If the forfeited funds (along with participant loan fees) are not sufficient to meet all administrative expenses, earnings on investments are then charged.

***Individual Accounts***—Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contributions, agency automatic and matching contributions, and loan repayments and charged with loans and withdrawals. The value of the participant's account reflects the number of shares and the daily share prices of the funds in which the participant is invested. Administrative expenses are a component of the share price calculation. The benefit to which a participant is entitled is the amount of the participant's vested account.

***Notes Receivable From Participants (Loans)***—Participants may apply for loans from their accounts. There are two types of Plan loans: general purpose and residential. General purpose loans can be obtained for any purpose, with a repayment period from 1 to 5 years. Residential loans can be obtained for the purpose of purchasing a primary residence, with a repayment period from 1 to 15 years. Participant loans may only be taken from participant contributions and attributable earnings. The minimum loan amount is \$1,000 and the maximum loan amount is \$50,000. A \$50 fee is deducted from the proceeds of the loan. In 2012, loan fees of \$14,395,950 were used to offset administrative expenses. In 2011, loan fees of \$13,752,600 were used to offset administrative expenses.

The interest rate for loans is the G Fund rate at the time the loan agreement is issued. The rate is fixed at this level for the life of each loan. Participant loans are valued at their unpaid balances. Interest earned on loans is allocated to the participant account as loan payments are made to the account.

By IRS regulation, the Agency must identify each calendar quarter any participant loan that is in default. The participant then has until the end of the following calendar quarter to pay the overdue amount. If not paid, a taxable distribution of the unpaid loan balance, plus accrued interest, will be declared. Participants should refer to the booklet, *TSP Loans*, for more information.

***Payment of Benefits***—After leaving service, participants may elect benefit withdrawals in the form of a partial withdrawal or they may choose a full withdrawal as a single payment, a series of monthly payments, or a life annuity. Participants may choose to combine any two or all three, of the available

full withdrawal options. Participants should refer to the booklet, *Withdrawing Your TSP Account After Leaving Federal Service*, for more complete information.

Participants should refer to the booklet, *TSP In-Service Withdrawals*, for information on withdrawal options while employed in Federal service.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Accounting***—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recognized when incurred. Benefits and participant loans payable for the last three trade dates of each month are recorded when withdrawn from participants' accounts.

***Investments***—All investments are stated at fair value, based upon the quoted market values of the underlying securities at the end of each period. The Agency invests in (or redeems from) the Thrift Savings Fund investment funds each business day. Purchases and sales of securities are recorded on a trade-date basis.

The Plan offers its participants various investment funds that are exposed to different types and amounts of risk, including interest rate, credit, and market risk. The funds (except for the G Fund, which is invested in a way to avoid losses) can be expected to experience greater or lesser volatility over time, depending upon each fund's individual risk profile, thus affecting the fund balances from one period to the next.

During the years ended December 31, 2012, and December 31, 2011, the Plan's investment funds consisted of the following (objectives of the investment funds are described in the various TSP Fund Information Sheets, available on [www.tsp.gov](http://www.tsp.gov)):

The G Fund was invested in short-term nonmarketable U.S. Treasury securities specially issued to the Thrift Savings Plan. All investments in the G Fund earned interest at a rate that is equal, by law, to the average of market rates of return on outstanding U.S. Treasury marketable securities with 4 or more years to maturity.

The F Fund was invested primarily in the BlackRock U.S. Debt Index Fund "E". The BlackRock U.S. Debt Index Fund "E" is a passively managed commingled fund that tracks the Barclays Capital U.S. Aggregate Bond Index.

As of December 31, 2012, the BlackRock U.S. Debt Index Fund "E" contained approximately 30 percent mortgage-backed securities (29 percent securities issued by the Government National Mortgage Association, Fannie Mae, and Freddie Mac, less than 1 percent commercial mortgage-backed securities and 1 percent hybrid ARMs); 28 percent investment-grade corporate securities (U.S. and sovereign); 37 percent Treasury securities; 4 percent Agency securities; and 1 percent asset-backed securities and taxable municipals.

As of December 31, 2012, the BlackRock U.S. Debt Index Fund "E" held 6,788 securities totaling \$44.8 billion, with a weighted-average life of 6.4 years. The F Fund holdings constituted \$28.6 billion of the December 31, 2012 value of the BlackRock U.S. Debt Index Fund "E". As of December 31, 2011, the F Fund holdings constituted \$23.0 billion of the value of the BlackRock U.S. Debt Index Fund "E".

The C Fund was invested primarily in a separate account that is passively managed and tracks the S&P 500 Index. Before August 2011, the C Fund was invested primarily in the BlackRock Equity Index

Fund “E” and BlackRock Equity Index Fund “EX”, which in turn held shares of the Equity Index Master funds.

The C Fund separate account holds stocks of all the companies represented in the S&P 500 Index in virtually the same weights as they are represented in the S&P 500 Index. As of December 31, 2012, the separate account held \$88.9 billion of securities. As of December 31, 2011, the separate account held \$77.1 billion of securities.

The S Fund was invested primarily in the BlackRock Extended Equity Market Index Fund “E,” which in turn holds shares of the Extended Equity Market Master Fund. Both the BlackRock Extended Market Index Fund “E” and the Master Fund are passively managed commingled funds that track the Dow Jones U.S. Completion Total Stock Market Index by holding most of the stocks with larger capitalizations in virtually the same weights as they are represented in the index and by holding a representative sample of the remaining stocks in the index.

As of December 31, 2012, the Extended Equity Market Index Master Fund held \$36.6 billion of securities. The value of the BlackRock Extended Equity Market Index Fund “E” as of December 31, 2012, was \$35.0 billion, which consisted primarily of the Master Fund shares totaling \$35.0 billion. The S Fund holdings constituted \$29.3 billion of the December 31, 2012 value of the BlackRock Extended Equity Market Index Fund “E”. As of December 31, 2011, the S Fund holdings constituted \$25.7 billion of the value of the BlackRock Extended Equity Market Index Fund “E”.

The I Fund was invested primarily in the BlackRock EAFE Equity Index Fund “E”, which in turn holds shares of the EAFE Index Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the BlackRock EAFE Equity Index Fund “E” and the Master Fund are passively managed commingled funds that track the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index. The EAFE Equity Index Master Fund holds stocks of all the companies represented in the EAFE Index in virtually the same weights as they are represented in the index.

As of December 31, 2012, the EAFE Equity Index Master Fund held \$58.7 billion of securities. The value of the BlackRock EAFE Equity Index Fund “E” as of December 31, 2012, was \$25.3 billion, which included shares of the Master Fund totaling \$24.5 billion, plus liquidity reserves. The I Fund holdings constituted \$24.6 billion of the December 31, 2012 value of the BlackRock EAFE Equity Index Fund “E”. As of December 31, 2011, the I Fund holdings constituted \$21.2 billion of the value of the EAFE Index “E” Fund.

***Fair Market Valuations***— The Plan follows the FASB’s ASC 820-10, which provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, FASB ASC 820-10 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

Under FASB ASC 820-10, the fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three broad levels: Level I, Level II, and Level III. Inputs may be based on independent market data (“observable inputs”) or they may be internally developed (“unobservable inputs”). The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level I) and the lowest priority to unobservable inputs (Level III). BlackRock has worked with pricing vendors to confirm its understanding of their pricing methodologies and has consulted with BlackRock’s independent auditors, PricewaterhouseCoopers LLP, to perform necessary analysis to support BlackRock’s approach to comply with FASB ASC 820-10.

Pursuant to BlackRock's global pricing policy, to the extent possible, securities and other assets held by Funds are valued using independent market quotations. An "independent market quotation" for a security or other asset is defined as a quoted price in an active market for an identical security or asset (a "Level I Price").

As a general principle, the current "fair market value" of a security or other asset is the amount that a Fund might reasonably expect to: (i) receive upon the sale of the security or asset; or (ii) pay to transfer the liability associated with the security or asset in an orderly transaction between market participants on the date on which the security or asset is being valued. In the event that a Level I Price is not readily available for a given type of security or asset, the fair value of the security or other asset is determined by using pricing inputs that are either directly or indirectly observable on the valuation date for the security or asset, which may include the use of models or other valuation methodologies (a "Level II Price").

Level I Prices and Level II Prices are provided by broker dealers or by pricing providers, services, and vendors (together, "pricing sources") approved by the BlackRock Global Pricing Committee or its delegates. The pricing sources approved by the BlackRock Global Pricing Committee vary according to security or asset type and include, but are not limited to, Reuters, Bloomberg, IDC, and Mark-it Partners.

The net asset value of a Fund is calculated based on the compilation of primarily observable market information. The number of units of the Fund that are outstanding on the calculation date is derived from observable purchase and redemption activity in the Fund. Accordingly, pursuant to FASB ASC 820-10, the unit values for all BlackRock Funds are classified as Level II Prices.

The table at Appendix 1 sets forth by level, within the fair value hierarchy, the Plan's assets at fair value for the years ended December 31, 2012 and December 31, 2011.

The F Fund, C Fund, S Fund, and I Fund include temporary investments in the same securities held by the G Fund pending purchase of shares in their respective index funds and to cover liquidity needs, such as loans and withdrawals from the Thrift Savings Fund.

Certain BlackRock funds in which the S and I Funds are invested, and the separate account in which the C Fund is invested, may invest in futures contracts and other derivatives to the extent contemplated by the fund guidelines. As part of the investment strategies, derivative instruments may be used to provide liquidity for daily investments or to manage currency, interest, and other exposures.

The F, C, S, and I Funds also participate in securities lending activities, under agreements between BlackRock and third parties to lend debt and equity securities in exchange for collateral. The collateral received, which is required to equal 102% of the value of the securities lent (for domestic equities) and 105% of the value of securities lent (for international equities), as marked to market each day, may be invested in cash collateral funds managed by BlackRock, which in turn invest in money market securities and instruments. (As stated in Note 1, a portion of the cash collateral for securities lending by the C Fund (\$4,474,000 and \$5,524,000 as of December 31, 2012 and 2011, respectively) is invested in G Fund and is shown as on the Statement of Net Assets as "TSP C Fund Pledge" and the corresponding cash collateral payable). The cash collateral funds may also invest in certain derivative financial instruments, including swaps and futures. The major source of risk in any securities lending program is that the securities and instruments in which the cash collateral received (against security loans) is invested may decline in value. BlackRock's responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral and complying with applicable Department of Labor and Federal Financial Institutions Examiner Council regulations regarding securities lending.

The tables at Appendix 2 show how the participants' account balances in the various investment options are allocated among the core TSP funds as of and for the years ended December 31, 2012, and December 31, 2011, respectively.

**Fixed Assets**—All fixed assets were recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, which range as follows:

Furniture and Equipment	3 to 10 years
Leasehold Improvements	10 years
Data Processing Software	3 to 10 years

Depreciation expense was approximately \$8 million and \$11 million for the years ended December 31, 2012, and December 31, 2011, respectively.

**Earnings Allocation**—Net earnings are used to calculate the daily share price of each investment fund as defined in regulations issued by the Agency (5 Code of Federal Regulations (CFR) Part 1645).

**Contributions Receivable**—Contributions receivable are estimated as the amount of contributions recorded through the first 2 weeks of the month following the date of the financial statements and represent both participant and employer portions of contributions.

**Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

**Thrift Savings Plan Enhancement Act of 2009**—On June 22, 2009, the Thrift Savings Plan Enhancement Act (the Act or P.L. 111-31) was signed into law by President Obama. The Act provides for immediate agency automatic (1%) and matching contributions for FERS employees (implemented in August 2009). The Act also requires civilian Federal agencies to automatically enroll newly hired (and rehired) eligible employees unless the employee makes an affirmative election not to participate in the Fund (implemented in August 2010) or elect a deferral rate other than the deferral rate of 3 percent. The Act also allows the Agency to establish accounts for the surviving spouses of TSP participants (implemented December 2010).

### 3. INCOME TAX STATUS

FERSA (5 U.S.C. § 8440(a)(1)) states that the Thrift Savings Fund shall be treated as a trust described in section 401(a) of the Internal Revenue Code (I.R.C. or Code), which is exempt from taxation under section 501(a) of the Code. This status was reaffirmed in the Tax Reform Act of 1986, Section 1147 (codified at I.R.C. § 7701(j)). It is not necessary for the Plan to apply for a tax status determination letter as it is qualified by statute.

#### 4. COMMITMENTS AND CONTINGENCIES

The Agency has entered into a contract with Serco Systems, Inc. (Serco) to perform TSP software maintenance and development, systems operations and recordkeeping support. The annual cost of this service is approximately \$45 million for CY 2012. The Agency contracts with Serco to provide a call center in Virginia and with The Active Network, Inc. to provide a call center in Maryland. The term of the Serco call center contracts is one year. The term of The Active Network contract is three years with three one-year options renewable at the Agency's discretion. The Serco call center contract value for CY 2012 is approximately \$5.3 million. The Active Network contract value for CY 2012 is approximately \$6.3 million.

The Agency leases the office space it occupies in Washington, DC, the call center space in Virginia, and the Agency's business continuity space in northern Virginia, under operating leases. The current Washington, DC operating lease ended in 2012. However, the Agency has entered a new lease for new office space in Washington, DC. Monthly base rental payments under the current lease ranged from approximately \$105,000 to \$127,000. Monthly base rental payments under the new lease range from approximately \$226,000 to \$331,000. The lease commencement date for the new lease was October 1, 2011, with an end-date of September 30, 2026. The terms of the lease provide for a fifteen month free-rent allowance that is not reflected in the future minimum lease commitments shown below. The call center operating lease ends in August 2015, with an option to extend for a five-year period. Monthly base rental payments are \$12,548. The business continuity space is an annual obligation and monthly rental payments are \$6,667.

Future minimum lease commitments (through CY 2026) under the operating leases are:

CY 2013	\$ 3,165,574
CY 2014	3,003,377
CY 2015	3,024,491
CY 2016	2,997,059
Thereafter	<u>35,378,895</u>
Total	<u>\$ 47,569,396</u>

Rent expense is recorded on a straight-line basis over the lease terms. Rent expense under the leases was approximately \$5.0 million and \$2.9 million for the years ended December 31, 2012 and December 31, 2011, respectively.

#### 5. FIDUCIARY INSURANCE

FERSA (5 U.S.C. § 8479(b)(1)) provides that the Executive Director may assess Federal agencies for the purpose of buying fiduciary insurance. The Agency's Executive Director exercised this authority in 1987 and required agencies to submit an amount equal to 1 percent of their agency automatic contributions. Such sums were collected during 1987 and 1988 and are invested to the extent not currently required to purchase fiduciary insurance. In February 1988, the Executive Director instructed agencies to discontinue the 1 percent fiduciary insurance contributions. The balance of funds available for the purchase of fiduciary insurance for the years ended December 31, 2012 and December 31, 2011, was \$4,114,000 and \$4,231,000, respectively. These funds are invested in the same securities held by the G Fund and are included in total investments on the accompanying statements of net assets available for benefits, with a corresponding reduction in the net assets available for benefits. Such amounts

cannot be, by statute, allocated to participants' accounts. The Agency has determined that the current insurance reserve is adequate to fund coverage needs for the foreseeable future.

**6. SUBSEQUENT EVENTS**

Agency management evaluated subsequent events through April 15, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to April 15, 2013, that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ending December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2012.

The Agency will be subleasing office space in the same building it occupies in Washington, D.C., beginning with the full month of February 2013 for a period up to three years. Monthly base rental payments under current sublease range from \$34,849 to \$37,690.

\* \* \* \* \*



## Appendix 1

**Fair Value Measurements as of December 31, 2012**  
(in thousands)

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>U.S. Government Securities Investment Fund</b>	\$158,520,886	\$ -	\$ -	\$158,520,886
<b>BlackRock U.S. Debt Index Fund</b>	-	28,647,407	-	28,647,407
<b>TSP C Fund - Equity Index Account</b>	-	84,397,548	-	84,397,548
<b>BlackRock Extended Equity Market Index Fund</b>	-	29,282,228	-	29,282,228
<b>TSP C Fund Pledged BlackRock EAFE Equity Index Fund</b>	-	4,474,000	-	4,474,000
	-	24,632,395	-	24,632,395
<b>Total assets at fair value</b>	<b>\$158,520,886</b>	<b>\$171,433,578</b>	<b>\$ -</b>	<b>\$329,954,464</b>

**Fair Value Measurements as of December 31, 2011**  
(in thousands)

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>U.S. Government Securities Investment Fund</b>	\$147,726,298	\$ -	\$ -	\$147,726,298
<b>BlackRock U.S. Debt Index Fund</b>	-	22,993,195	-	22,993,195
<b>TSP C Fund - Equity Index Account</b>	-	71,539,971	-	71,539,971
<b>BlackRock Extended Equity Market Index Fund</b>	-	25,688,537	-	25,688,537
<b>TSP C Fund Pledged BlackRock EAFE Equity Index Fund</b>	-	5,524,000	-	5,524,000
	-	21,228,212	-	21,228,212
<b>Total assets at fair value</b>	<b>\$147,726,298</b>	<b>\$146,973,915</b>	<b>\$ -</b>	<b>\$294,700,213</b>

## Appendix 2

**Investment Summary by Fund as of December 31, 2012**  
(in thousands)

<b>Investment Options</b>	<b>G Fund Investment</b>	<b>F Fund Investment</b>	<b>C Fund Investment</b>	<b>S Fund Investment</b>	<b>I Fund Investment</b>	<b>Total</b>
G Fund	\$ 139,990,317	-	-	-	-	\$ 139,990,317
F Fund	-	\$ 25,218,371	-	-	-	25,218,371
C Fund	-	-	\$ 75,142,383	-	-	75,142,383
S Fund	-	-	-	\$ 24,276,344	-	24,276,344
I Fund	-	-	-	-	\$ 17,086,986	17,086,986
L Income	3,918,215	317,329	646,028	161,765	266,456	5,309,793
L 2020	5,920,984	1,115,419	4,510,717	1,421,625	2,485,662	15,454,407
L 2030	2,955,658	1,019,803	4,400,873	1,645,127	2,426,299	12,447,760
L 2040	1,180,767	843,863	3,619,505	1,534,502	2,025,019	9,203,656
L 2050	51,081	102,169	548,696	236,536	328,893	1,267,375
Differences (*)	4,503,864	30,453	(4,470,654)	6,329	13,080	83,072
Statement of Net Assets	<u>\$ 158,520,886</u>	<u>\$ 28,647,407</u>	<u>\$ 84,397,548</u>	<u>\$ 29,282,228</u>	<u>\$ 24,632,395</u>	<u>\$ 325,480,464</u>

(\*) Differences are a result of timing differences, including investment transactions not settled as of December 31, 2012. These differences may not be allocated down to the L Funds until the following business day. The differences in the G and C Fund are largely due to the security lending program for the C Fund.

**Investment Summary by Fund as of December 31, 2011**  
(in thousands)

<b>Investment Options</b>	<b>G Fund Investment</b>	<b>F Fund Investment</b>	<b>C Fund Investment</b>	<b>S Fund Investment</b>	<b>I Fund Investment</b>	<b>Total</b>
G Fund	\$ 130,273,039	-	-	-	-	\$ 130,273,039
F Fund	-	\$ 20,097,850	-	-	-	20,097,850
C Fund	-	-	\$ 65,744,117	-	-	65,744,117
S Fund	-	-	-	\$ 21,511,048	-	21,511,048
I Fund	-	-	-	-	\$ 14,873,523	14,873,523
L Income	3,705,387	300,741	598,254	149,620	252,176	5,006,178
L 2020	5,023,531	1,003,002	4,004,076	1,284,705	2,256,371	13,571,685
L 2030	2,281,653	836,883	3,526,349	1,341,507	1,984,558	9,970,950
L 2040	855,790	676,949	2,835,494	1,202,841	1,633,840	7,204,914
L 2050	28,658	57,374	330,988	142,720	203,977	763,717
Differences (*)	5,558,240	20,396	(5,499,307)	56,096	23,767	159,192
Statement of Net Assets	<u>\$ 147,726,298</u>	<u>\$ 22,993,195</u>	<u>\$ 71,539,971</u>	<u>\$ 25,688,537</u>	<u>\$ 21,228,212</u>	<u>\$ 289,176,213</u>

(\*) Differences are a result of timing differences, including investment transactions not settled as of December 31, 2011. These differences may not be allocated down to the L Funds until the following business day. The differences in the G and C Fund are largely due to the security lending program for the C Fund.