

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

**FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

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## INDEPENDENT AUDITORS' 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, 2017 and 2016, 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.

### **Auditors' 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 auditors' 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.

Members of the Board and Executive Director  
Federal Retirement Thrift Investment Board

**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, 2017 and 2016, 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*

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
April 17, 2018

## **FINANCIAL STATEMENTS**

**THRIFT SAVINGS FUND**  
Statements of Net Assets Available for Benefits  
As of December 31, 2017 and 2016  
(In thousands)

	<b>2017</b>	<b>2016</b>
<b>ASSETS:</b>		
Investments, at fair value:	\$557,401,422	\$495,351,668
Receivables:		
Employer contributions	345,665	332,555
Participant contributions	892,349	861,564
Notes receivable from participants (loans)	9,058,655	8,985,195
Accrued interest	29,084	14,666
Due for securities sold	74,619	100,131
Total receivables	<u>10,400,372</u>	<u>10,294,111</u>
Fixed assets:		
Furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization of \$35,028 in 2017 and \$33,708 in 2016	3,794	3,823
Data processing software, net of accumulated amortization of \$60,419 in 2017 and \$57,989 in 2016	3,682	5,808
Total fixed assets	<u>7,476</u>	<u>9,631</u>
Other assets	288	174
Total assets	<u>567,809,558</u>	<u>505,655,584</u>
<b>LIABILITIES:</b>		
Accounts payable	15,637	30,526
Accrued payroll and benefits	5,225	3,169
Benefits and participant loans payable	188,004	130,522
Deferred rent and lease credits	9,222	8,657
Due for securities purchased	186,773	190,724
Cash collateral payable	15,000,000	22,000,000
Total liabilities	<u>15,404,861</u>	<u>22,363,598</u>
<b>FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE</b>	<u>(3,613)</u>	<u>(3,697)</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<u><u>\$552,401,084</u></u>	<u><u>\$483,288,289</u></u>

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, 2017 and 2016  
(In thousands)

	2017	2016
ADDITIONS:		
Investment income:		
Interest	\$5,083,173	\$4,005,911
Net appreciation of investments	<u>54,322,921</u>	<u>25,115,342</u>
Net investment income	<u>59,406,094</u>	<u>29,121,253</u>
Contributions:		
Participant	20,858,511	19,995,362
Employer	<u>8,971,337</u>	<u>8,640,048</u>
Total contributions	<u>29,829,848</u>	<u>28,635,410</u>
Loan administrative fees	13,923	13,844
Interest income on notes receivable from participants (loans)	<u>181,737</u>	<u>179,294</u>
Total additions	<u>89,431,602</u>	<u>57,949,801</u>
DEDUCTIONS:		
Benefits paid to participants	19,761,846	17,279,190
Administrative expenses	232,651	234,412
Notes receivable from participants declared taxable distributions	<u>324,394</u>	<u>317,763</u>
Total deductions	<u>20,318,891</u>	<u>17,831,365</u>
CHANGE IN FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE	<u>84</u>	<u>(68)</u>
Net increase	69,112,795	40,118,368
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of period	<u>483,288,289</u>	<u>443,169,921</u>
End of period	<u>\$552,401,084</u>	<u>\$483,288,289</u>

See notes to financial statements and Independent Auditors' Report.

**THRIFT SAVINGS FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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 in FERS, in the Civil Service Retirement System (CSRS), or in 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 contributions. As of December 31, 2017, there were approximately 5.2 million participants in the Plan, with approximately 3.1 million contributing through payroll deductions. As of December 31, 2016, there were approximately 5.0 million participants in the Plan, with approximately 3.1 million contributing through payroll deductions.

**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 may contribute more than the Internal Revenue Service (IRS) elective deferral limit of \$18,000 in both 2017 and 2016.<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 \$6,000 in both 2017 and 2016) 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 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> Civilian Federal Agencies are required to automatically enroll newly hired (and rehired) eligible employees

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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.

<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, six soldiers who took part in the test program are still serving and receiving matching contributions.

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.

Participants may also transfer funds from traditional individual retirement accounts (IRAs) or other eligible employer plans into the Plan. The Plan also allows qualified Roth contributions and transfers from qualified Roth plans.

**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 has contracted with BlackRock to act as investment manager, custodian and securities lending agent for the C, F, S, and I Fund accounts.

The TSP Lifecycle Funds are asset allocation portfolios that use the Plan's existing investment funds and target the mix based on the 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. The L Income Fund was designed to produce current income for the participants who are already receiving money from their accounts through monthly payments. The L2050 Fund is designed for participants who will withdraw their accounts in 2045 or later. The asset allocations are based on 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 an investment consultant, reviews the assumptions underlying the asset allocations at least annually.

Participants may allocate any portion of their contributions among the five individual investment funds and the five TSP Lifecycle Funds. Also, participants may reallocate their account balance among the individual investment 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 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), as of December 31, 2017 and 2016, totaled \$48,140,043 and \$42,392,774 respectively. 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 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**—An individual account is maintained for each Plan participant. As applicable, 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 balance.

**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. During the twelve months ending December 31, 2017 and 2016, loan fees of \$13,923,000 and \$13,844,400 respectively 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 that 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. Taxable loan distributions also occur when a participant separates from service and does not repay an outstanding loan balance. Participants should refer to the booklet, *TSP Loans*, for more information.

**Payment of Benefits**—After leaving service, participants may leave their money in the TSP. If they choose to withdraw their money, they 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 twelve-month periods ended December 31, 2017 and December 31, 2016, 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 invests 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 weighted average yield on outstanding U.S. Treasury marketable securities with 4 or more years to maturity. The interest rate is set every month based on the data as of the last business day of the previous month. As of December 31, 2017 and December 30, 2016, the G Fund fair value was \$220.4 billion and \$222.3 billion, respectively.

The F Fund invests in a separate account that is passively managed and tracks the Bloomberg Barclays U.S. Aggregate Bond Index. The F Fund uses sampling to attempt to replicate the characteristics of the index. As of December 31, 2017, the separate account held 6,632 securities totaling \$28.3 billion. As of December 31, 2016, the separate account held 6,645 securities totaling \$26.2 billion.

The C Fund invests in a separate account that is passively managed and tracks the S&P 500 Index. 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, 2017, the separate account held \$193.8 billion of securities. As of December 31, 2016, the separate account held \$156.4 billion of securities.

The S Fund invests in a separate account that is passively managed and tracks 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, 2017, the separate account held \$67.6 billion of securities. As of December 31, 2016, the separate account held \$55.6 billion of securities.

The I Fund invests in a separate account that is passively managed and tracks the MSCI EAFE Index. As of December 31, 2017, the I Fund held \$47.2 billion of securities. As of December 31, 2016, the separate account held \$34.9 billion of securities.

**Fair Market Valuations**—The Plan’s agent, BlackRock 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.

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).

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 based on a quoted market price 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 Valuation Committee or its delegates. The pricing sources approved by the BlackRock Global Valuation Committee vary according to security or asset type and include, but are not limited to, Thomson Reuters, FTSE TMX (formerly PC-Bond/DEX), Bloomberg, ICE Data Services (formerly Interactive Data/Standard and Poor’s Securities Evaluation Service) and IHS Markit.

The separate accounts have a readily determinable fair value as these securities transact on a daily basis without restrictions. The readily determinable fair value is used to determine net asset value per share. The net asset value is based upon the fair value of the underlying investments.

The table at Appendix 1 sets forth by level, within the fair value hierarchy and at net asset value, the Plan’s assets at fair value for the years ended December 31, 2017 and December 31, 2016, respectively.

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

The separate accounts incurred an investment management fee for the separate account program management for the prior twelve months as follows: the F Fund (\$4.6 million and \$4.5 million as of December 31, 2017 and 2016, respectively), C Fund (\$2.8 million and \$6.0 million as of December 31, 2017 and 2016, respectively), the, the S Fund (\$16.4 million and \$20.0 million as of December 31, 2017 and 2016, respectively) and I Fund (\$4.3 million and \$4.8 million as of December 31, 2017 and 2016, respectively). The separate accounts in which the C, S, and I Funds are 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 domestic securities lent and 105% of the value of international securities, is marked to market each day, and may be invested in cash collateral funds managed by BlackRock, which in turn invest in money market securities and instruments. A portion of the cash collateral for securities lending by the F,C,S, and I Funds (\$15.0 billion and \$22.0 billion as of December 31, 2017 and 2016, respectively), is invested in the G Fund, and is shown on the Statement of Net Assets as “Investments” and the corresponding cash collateral payable.

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 standards 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 December 31, 2017, and 2016, respectively.

**Securities Lending Income**—Securities lending income represents the income earned from the investment of the cash collateral, net of rebates paid to, or fees paid by, borrowers and less the fees paid to the securities lending agent. During the term of the loan, the Fund earns dividend or interest income on the securities loaned but does not receive interest income on any securities received as collateral. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within the standard time period for settlement of securities transactions. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss if the value of an investment purchased with cash collateral falls below the market value of loaned securities or if the value of an investment purchased with cash collateral falls below the value of the original cash collateral received.

**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

During the twelve-month period ended December 31, 2017 and 2016, depreciation and amortization expense was approximately \$3.7 million and \$4.8 million for the years ended December 31, 2017 and 2016, 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. 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 or elect a deferral rate other than the deferral rate of 3 percent (implemented in August 2010). The Act also allows the Agency to establish accounts for the surviving spouses of TSP participants (implemented December 2010). In addition, 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.

**National Defense Authorization Act for Fiscal Year 2016**—On November 25, 2015, the FY 2016 National Defense Authorization Act (Public Law 114-92) was signed into law. The Act creates a new “blended retirement” system for all Armed Forces Personnel who enter service beginning January 1, 2018. The Act provides for immediate Service automatic (1 percent) and matching contributions for new uniformed service members. The Act also provides service members with less than 12 years of service as of January 1, 2018, with the opportunity to elect retirement coverage under the new “blended retirement” system. The TSP expects enrollment to climb substantially as a result of the impending automatic enrollment of new service members into the TSP.

**TSP Modernization Act of 2017** – On November 17, 2017, the TSP Modernization Act (the Act or P.L.115-84) was signed into law. The Act liberalizes the current statutory withdrawal options available to TSP participants and eliminates the current requirement for TSP participants to make an election for a full distribution of their account at age 70 ½. Work has begun to implement this Act; the Act requires full implementation by November 17, 2019.

### **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 contracted with Science Applications International Corporation (SAIC) to provide a broad range of IT and IT-related recordkeeping support services, including program management and cross functional Services, infrastructure and operations (data center, data network, service desk, voice network, end user services), applications services, and recordkeeping. During the twelve-month period ended December 31, 2017 and 2016, the cost of all recordkeeping systems and operations support is approximately \$126.5 million and \$136.3 million, respectively.

The Agency has contracted with Serco Services Inc. to provide a contact center in Virginia and with RA Outdoors, LLC (formerly named The Active Network, Inc.) to provide a contact center in Maryland. During the twelve-month period ended December 31, 2017 and 2016, the cost of the Serco contact center contract is approximately \$28.1 million and \$32.7 million, respectively. During the twelve-month period ended December

31, 2017 and 2016, the cost of the cost of the RA Outdoors, LLC contract is approximately \$8.0 million and \$13.2 million, respectively.

The Agency leases the office space it occupies in Washington, DC and the contact center space in Virginia under operating leases.

The contact center operating lease in Virginia has monthly base rental payments of \$12,548.

The current Washington, DC operating lease ends September 2026. Monthly base rental payments under the current lease range from approximately \$387,526 to \$488,214. The Agency subleases office space in the same building it occupies in Washington, D.C. The current sublease ends March 2023. Monthly base rental payments under the current sublease range from approximately \$43,508 to \$49,970. In April 2017, the Agency entered into a new sublease for two additional office spaces in the same building. The lease commencement date for the first additional office space began April 2017 and ends March 2023. The monthly base rental payments for the first additional office space under the new sublease range from approximately \$149,323 to \$171,502. The lease commencement date for the second additional office space begins January 2018 and ends March 2023. The monthly base rental payments for the second additional office space under the new sublease range from approximately \$149,323 to \$171,502.

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

<b>Calendar Year</b>	<b>Amount</b>
<b>2018</b>	\$8,994,356
<b>2019</b>	9,215,372
<b>2020</b>	9,441,626
<b>2021</b>	9,674,049
<b>Thereafter</b>	<u>37,325,203</u>
<b>Total</b>	<u>\$74,650,606</u>

Rent expense is recorded on a straight-line basis over the lease terms. During the twelve-month period ending December 31, 2017 and 2016 rent expense under the leases was approximately \$6.9 million and \$5.9 million for the years ended December 31, 2017 and December 31, 2016, 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 as of December 31, 2017 and 2016 was \$3,612,764 and \$3,696,546, 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. By statute, such amounts cannot be 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 2018**, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2017 but prior to **April 2018**, that provided additional evidence about conditions that existed at December 31, 2017, have been recognized in the financial statements for the twelve-month period ending December 31, 2017. Events or transactions that provided evidence about conditions that did not exist at December 31, 2017, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the twelve-month period ended December 31, 2017.

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Appendix 1

<b>Fair Value Measurements as of December 31, 2017</b>				
<b>(in thousands)</b>				
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
Description	(Level 1)	(Level 2)	(Level 3)	Total
U.S. Government Securities Investment Account	\$220,422,873	\$ -	\$ -	\$220,422,873
TSP F Fund – U.S. Debt Index Account	-	28,286,180	-	28,286,180
TSP C Fund - Equity Index Account	-	193,825,423	-	193,825,423
TSP S Fund- Extended Equity Index Account	-	67,640,939	-	67,640,939
TSP I Fund- EAFE Equity Index Account	-	47,226,007	-	47,226,007
Total assets at fair value	\$220,422,873	\$336,978,549	\$ -	\$557,401,422

<b>Fair Value Measurements as of December 31, 2016</b>				
<b>(in thousands)</b>				
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
Description	(Level 1)	(Level 2)	(Level 3)	Total
U.S. Government Securities Investment Account	\$222,304,445	\$ -	\$ -	\$222,304,445
TSP F Fund – U.S. Debt Index Account	-	26,161,866	-	26,161,866
TSP C Fund - Equity Index Account	-	156,378,700	-	156,378,700
TSP S Fund- Extended Equity Index Account	-	55,580,600	-	55,580,600
TSP I Fund- EAFE Equity Index Account	-	34,926,057	-	34,926,057
Total assets at fair value	\$222,304,445	\$273,047,223	\$ -	\$495,351,668

Appendix 2

<b>Investment Summary by Fund as of December 31, 2017</b>						
<b>(in thousands)</b>						
<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	\$165,419,304	-	-	-	-	\$165,419,304
F Fund	-	\$21,384,382	-	-	-	21,384,382
C Fund	-	-	\$160,525,412	-	-	160,525,412
S Fund	-	-	-	\$57,823,445	-	57,823,445
I Fund	-	-	-	-	\$28,583,842	28,583,842
L Income	6,286,902	510,336	946,484	236,244	511,530	8,491,496
L 2020	15,716,705	1,769,752	5,537,964	1,457,486	3,025,559	27,507,466
L 2030	10,781,965	2,188,642	11,279,419	3,211,335	6,269,322	33,730,683
L 2040	5,488,384	1,763,205	10,315,259	3,154,651	5,827,898	26,549,397
L 2050	1,381,324	677,126	5,168,558	1,701,160	2,972,186	11,900,354
Differences (*)	15,348,289	(7,263)	52,327	56,618	35,670	15,485,641
<b>Statement of</b>						
Net Assets	<u>\$220,422,873</u>	<u>\$28,286,180</u>	<u>\$193,825,423</u>	<u>\$67,640,939</u>	<u>\$47,226,007</u>	<u>\$557,401,422</u>

(\*) Differences are a result of timing differences, including investment transactions not settled as of December 31, 2017. These differences may not be allocated down to the L Funds until the following business day. The differences in the G Fund is largely due to the securities lending program for the C, F, S and I Funds.

<b>Investment Summary by Fund as of December 31, 2016</b>						
<b>(in thousands)</b>						
<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	\$168,945,157	-	-	-	-	\$168,945,157
F Fund	-	\$21,266,662	-	-	-	21,266,662
C Fund	-	-	\$129,651,058	-	-	129,651,058
S Fund	-	-	-	\$47,690,201	-	47,690,201
I Fund	-	-	-	-	\$19,975,509	19,975,509
L Income	5,322,769	432,585	801,817	200,641	433,766	7,191,578
L 2020	12,520,901	1,435,003	5,675,499	1,510,849	3,109,534	24,251,786
L 2030	8,159,835	1,551,355	8,993,839	2,582,928	5,010,690	26,298,647
L 2040	4,184,470	1,186,936	8,028,302	2,481,639	4,548,977	20,430,324
L 2050	870,466	308,027	3,175,499	1,054,191	1,830,620	7,238,803
Differences (*)	22,300,847	(18,702)	52,686	60,151	16,961	22,411,943
<b>Statement of</b>						
Net Assets	<u>\$222,304,445</u>	<u>\$26,161,866</u>	<u>\$156,378,700</u>	<u>\$55,580,600</u>	<u>\$34,926,057</u>	<u>\$495,351,668</u>

(\*) Differences are a result of timing differences, including investment transactions not settled as of December 31, 2016. These differences may not be allocated down to the L Funds until the following business day. The differences in the G Fund is largely due to the securities lending program for the C, F, S and I Funds.

This information is an integral part of the accompanying financial statements.