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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 statements of net assets available for benefits of the Thrift Savings Fund (the "Fund") as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Fund as of December 31, 2010 and 2009, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

lifton Genderson LLP

Calverton, Maryland April 4, 2011



FINANCIAL STATEMENTS

## THRIFT SAVINGS FUND

# Statements of Net Assets Available for Benefits As of December 31, 2010 and 2009 (In thousands)

	2010	2009
ASSETS:		
Investments, at fair value:	6 124 740 529	£ 114.952.405
U.S. Government Securities Investment Fund	\$ 124,749,528	\$ 114,853,495
BlackRock U.S. Debt Index Fund	19,137,669	16,255,885
BlackRock Equity Index Fund	77,058,403	64,673,967
BlackRock Extended Market Index Fund BlackRock EAFE Index Fund	27,157,622	17,771,367
BlackRock EAFE index Fund	24,322,580	22,808,032
Total investments	272,425,802	236,362,746
Receivables:		
Employer contributions	281,922	257,997
Participant contributions	754,045	713,820
Participant loans	7,722,197	7,217,398
Due for securities sold		26,228
Total receivables	8,758,164	8,215,443
Fixed assets:		
Furniture, equipment, and leasehold improvements,		
net of accumulated depreciation and amortization		
of \$14,840 in 2010 and \$8,747 in 2009	7,427	12,830
Data processing software, net of accumulated		2
amortization of \$40,874 in 2010 and \$34,228 in 2009	13,702	17,671
Total fixed assets	21,129	30,501
Other assets	60,146	2,917
Total assets	281,265,241	244,611,607
LIABILITIES:		
Accounts payable	23,194	31,829
Accrued payroll and benefits	1,266	1,117
Benefits and participant loans payable	119,817	85,460
Deferred rent and lease credits	225	293
Due for securities purchased	75,562	57,142
Total liabilities	220,064	175,841
FUNDS RESTRICTED FOR THE PURCHASE OF		
FIDUCIARY INSURANCE	(4,335)	(4,455)
NET ASSETS AVAILABLE FOR BENEFITS	\$ 281,040,842	\$ 244,431,311
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See notes to financial statements and Independent Auditor's Report.

# **THRIFT SAVINGS FUND**

### Statements of Changes in Net Assets Available for Benefits Years Ended December 31, 2010 and 2009 (In thousands)

(in thous	ands)	
A DISTRICTION OF	2010	2009
ADDITIONS:		
Investment income:	£ 2.244.646	e 2.244.222
U.S. Government Securities Investment Fund	\$ 3,344,646	\$ 3,344,233
Net appreciation (depreciation) in fair value of BlackRock funds:		
BlackRock U.S. Debt Index Fund	1,124,939	851,841
BlackRock Equity Index Fund	9,837,728	13,080,601
BlackRock Extended Market Index Fund	5,460,070	4,193,336
BlackRock EAFE Index Fund	1,578,280	4,639,155
Asset manager rebates	30,978	48,411
Less investment expenses	(13,945)	(5,897)
Dess investment expenses	(13,743)	(3,077)
Net investment income	21,362,696	26,151,680
Contributions:		
Participant	17,544,111	16,433,363
Employer	6,950,045	6,287,245
Total contributions	24,494,156	22,720,608
Interest income on participant loans	257,948	267,681
Total additions	46,114,800	49,139,969
DEDUCTIONS:		
Benefits paid to participants	9,155,772	7,189,077
Administrative expenses	120,213	113,834
Participant loans declared taxable distributions	229,404	244,829
Tartiorpant found declared analoge distributions		211,025
Total deductions	9,505,389	7,547,740
CHANGE IN FUNDS RESTRICTED FOR THE		
PURCHASE OF FIDUCIARY INSURANCE	120	115
TORGINGE OF TEDOCEART INSURANCE	120	
Net increase	36,609,531	41,592,344
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of period	244,431,311	202,838,967
End of period	\$ 281,040,842	\$ 244,431,311

See notes to financial statements and Independent Auditor's Report.

#### THRIFT SAVINGS FUND

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010, AND DECEMBER 31, 2009

#### 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, 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, 2010, there were approximately 4.4 million participants in the Plan, with approximately 2.9 million contributing their own money. As of December 31, 2009, there were approximately 4.3 million participants in the Plan, with approximately 2.8 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 could contribute more than the Internal Revenue Service (IRS) elective deferral limit of \$16,500 for 2009 and 2010. In addition, 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 2009 and 2010) 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

<sup>&</sup>lt;sup>1</sup> Members of the uniformed services who are serving in a combat zone earn tax-exempt pay. Tax-exempt pay does not count towards this elective deferral limit.

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> One provision of the 2009 Thrift Savings Plan Enhancement Act (P.L. 111-31) 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 to participate at other than the default rate of three percent. This provision was implemented in August 2010.

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 contracted with Barclays Global Investors (Barclays) for investment in the collective investment trusts in which the F, C, S, and I Fund assets are invested. On December 1, 2009, BlackRock Inc. acquired Barclays Global Investors and the contracting party was renamed BlackRock Trust Company, N.A. (BlackRock). The acquisition has not changed the provisions of the investment management contract.

In 2005, the Agency initiated the TSP L (Lifecycle) Funds. These 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), 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 L2010 Fund was retired on December 31, 2010 and the L2010 investments were rolled into the L Income Fund. 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 L 2050 Fund 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 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

<sup>&</sup>lt;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.

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 made to their accounts 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 \$44,554,712 in 2010, and \$36,564,627 in 2009. 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.

Participant 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.

Participant 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 2010, loan fees of \$14,029,600 were used to offset administrative expenses. In 2009, loan fees of \$13,014,850 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, 2010, and December 31, 2009, 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 <a href="https://www.tsp.gov">www.tsp.gov</a>):

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 U.S. Debt Index Fund "E", which in turn holds shares of the U.S. Debt Index Master Fund. Both the U.S. Debt Index Fund "E" and the Master Fund are passively managed commingled funds that track the Barclays Capital U.S. Aggregate Bond Index.

As of December 31, 2010, the U.S. Debt Index Master Fund contained approximately 35 percent mortgage-backed securities (31 percent securities issued by the Government National Mortgage Association, Fannie Mae, and Freddie Mac; 3 percent commercial mortgage-backed securities and 1 percent hybrid ARMs), 23 percent investment-grade corporate securities (U.S. and sovereign), 33 percent Treasury securities, 8 percent Agency securities, and 1 percent asset-backed securities and taxable municipals.

As of December 31, 2010, the U.S. Debt Index Master Fund held 5,469 securities totaling \$36.1 billion, with a weighted-average life of 6.3 years. The value of the U.S. Debt Index Fund "E" as of December 31, 2010, was \$29.8 billion, which consisted primarily of Master Fund shares totaling \$29.8 billion. The F Fund holdings constituted \$19.1 billion of the December 31, 2010 value of the Debt Index "E" Fund. As of December 31, 2009, the F Fund holdings constituted \$16.3 billion of the value of the Debt Index "E" Fund.

The C Fund was invested primarily in the Equity Index Fund "EX", which in turn holds shares of the Equity Index Master funds. The Equity Index Fund "E", the Equity Index Fund "EX", and the Master Fund are passively managed commingled funds that track the S&P 500 Index. As of December 31,

2009, the C Fund was invested primarily in the Equity Index "E" Fund and Equity Index Fund "EX", which in turn held shares of the Equity Index Master funds.

The Equity Index Master funds hold 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, 2010, the Equity Index Master Funds held \$90.8 billion of securities. The value of the Equity Index Fund "EX" as of December 31, 2010, was \$83.2 billion, which consisted primarily of the Master Funds shares totaling \$83.2 billion. The C Fund holdings constituted \$77.1 billion of the December 31, 2010 value of the Equity Index "EX" Fund. As of December 31, 2009, the C Fund holdings constituted \$64.7 billion of the value of the Equity Index Fund "E" and Equity Index Fund "EX".

The S Fund was invested primarily in the Extended Equity Market Index Fund "E," which in turn holds shares of the Extended Equity Market Master Fund. Both the 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, 2010, the Extended Equity Market Index Master Fund held \$35.3 billion of securities. The value of the Extended Equity Market Index Fund "E" as of December 31, 2010, was \$32.7 billion, which consisted primarily of the Master Fund shares totaling \$32.7 billion. The S Fund holdings constituted \$27.2 billion of the December 31, 2010 value of the Extended Equity Market Index "E" Fund. As of December 31, 2009, the S Fund holdings constituted \$17.8 billion of the value of the Extended Equity Market Index "E" Fund.

The I Fund was invested primarily in the 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 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, 2010, the EAFE Equity Index Master Fund held \$68.0 billion of securities. The value of the EAFE Equity Index Fund "E" as of December 31, 2010, was \$24.4 billion, which included shares of the Master Fund totaling \$23.6 billion, plus liquidity reserves. The I Fund holdings constituted \$24.3 billion of the December 31, 2010 value of the EAFE Equity Index "E" Fund. As of December 31, 2009, the I Fund holdings constituted \$22.8 billion of the value of the EAFE Index "E" Fund.

Change in Accounting Principles—In September 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2010-25, Reporting Loans to Participants by Defined Contribution Pension Plans. The ASU clarifies how loans to participants should be classified and measured by defined contribution pension benefit plans. Participant loans were previously classified as investments at fair value in accordance with ASC 962-325. ASU 2010-25 requires that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The Plan adopted the ASU for the Plan year ending December 31, 2010. The impact of the adoption of ASU 2010-25 was a reclassification of participant loans from investments to notes receivables from participants on the statement of net assets available for benefits and removing these receivables from the fair market valuations disclosure. These changes were made for all years presented.

Fair Market Valuations— The Plan follows the Financial Accounting Standard Board's (FASB) Codification 820-10, which provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, FASB Codification 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 Codification 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 Codification 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 Codification 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, 2010 and December 31, 2009.

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 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 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. 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. As of the years ended December 31, 2010, and December 31, 2009, the TSP's maximum exposure to credit risk from the derivatives, should the counterparties fail to perform and the collateral received prove to be of no value, was approximately \$0.0 million and \$0.2 million, respectively.

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, 2010, and December 31, 2009, 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 \$13 million and \$10 million for the years ended December 31, 2010, and December 31, 2009, 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 gives the Federal Retirement Thrift Investment Board the authority to establish a qualified Roth contribution program and the authority to establish a mutual fund window. 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 \$55 million for CY 2010. 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 each of the call center contracts is one year, with four one-year options renewable at the Agency's discretion. The Active Network contract value for CY 2010 is approximately \$6 million. The Serco call center contract value for CY 2010 is approximately \$5 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 ends in 2012, with an option to extend for two five-year periods. However, the Agency has entered a new lease for new office space in Washington, DC. Monthly base rental payments under the current lease range from approximately \$121,000 to \$127,000. Monthly base rental payments under the new lease range from approximately \$226,000 to \$331,000. The lease commencement date is 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 \$9,169.

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

CY 2011	\$ 2,318,145
CY 2012	4,401,369
CY 2013	2,951,311
CY 2014	3,021,383
CY 2015	2,942,345
Thereafter	34,649,103
Total	\$ 50,283,656

Rent expense is recorded on a straight-line basis over the lease terms. Rent expense under the leases was approximately \$2.4 million and \$2.5 million for the years ended December 31, 2010, and December 31, 2009, 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, 2010, and December 31, 2009, was \$4,335,000 and \$4,455,000, 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 4, 2011, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior to April 4, 2011 that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ending December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010, 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, 2010.

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### Appendix 1

# Fair Value Measurements as of December 31, 2010 (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
U.S. Government				
Securities Investment				
Fund	\$124,749,528		<u> </u>	\$124,749,528
US Debt Index Fund		19,137,669		19,137,669
Equity Index Fund		77,058,403		77,058,403
Extended Equity Market				
Index Fund	<del></del>	27,157,622		27,157,622
EAFE Equity Index Fund		24,322,580		24,322,580
Total assets at fair value	\$124,749,528	\$147,676,274	<u>s</u> -	\$272,425,802

# Fair Value Measurements as of December 31, 2009 (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
U.S. Government				
Securities Investment				
Fund	\$114,853,495	<u> </u>		\$114,853,495
US Debt Index Fund		16,255,885	-	16,255,885
<b>Equity Index Fund</b>	<u> </u>	64,673,967	-	64,673,967
Extended Equity Market				
Index Fund		17,771,367	U.T.	17,771,367
EAFE Equity Index Fund		22,808,032		22,808,032
Total assets at fair value	\$114,853,495	\$121,509,251	<u> </u>	\$236,362,746

### Appendix 2

# Investment Summary by Fund as of December 31, 2010 (in thousands)

Investment Options	G Fund Investment	F Fund Investment	C Fund Investment	S Fund Investment	I Fund Investment	Total	
G Fund	\$ 113,285,286					\$ 113,285,286	
F Fund		\$ 16,453,086				16,453,086	
C Fund			\$ 66,687,253			66,687,253	
S Fund				\$ 23,386,899		23,386,899	
I Fund					\$ 18,551,577	18,551,577	
L Income	3,998,366	324,537	648,328	161,843	270,617	5,403,691	
L 2010 (RETIRED)	(*)	•	-	( <del>-</del>	-	-	
L 2020	4,568,881	968,586	3,912,197	1,271,563	2,192,627	12,913,854	
L 2030	1,923,398	751,685	3,170,955	1,222,145	1,771,837	8,840,020	
L 2040	715,279	631,679	2,649,218	1,120,283	1,528,848	6,645,307	
Differences (*)	258,318	8,096	(9,548)	(5,111)	7,074	258,829	
Statement of Net							
Assets	\$ 124,749,528	\$ 19,137,669	\$ 77,058,403	\$ 27,157,622	\$ 24,322,580	\$ 272,425,802	

<sup>(\*)</sup> Differences are a result of timing differences, including investment transactions not settled as of December 31, 2010. These differences may not be allocated down to the L Funds until the following business day.

# Investment Summary by Fund as of December 31, 2009 (in thousands)

Investment Options					C Fund Investment	S Fund Investment			I Fund Investment		Total		
G Fund	\$	105,803,031									\$	105,803,031	
F Fund			\$ 1	4,223,118								14,223,118	
C Fund					\$	56,960,615						56,960,615	
S Fund							\$	14,950,386				14,950,386	
I Fund									\$	18,507,232		18,507,232	
L Income		892,970		72,270		143,345		35,824		60,284		1,204,693	
L 2010		3,112,539		275,512		633,092		166,548		291,481		4,479,172	
L 2020		3,154,128		706,039		2,865,429		951,135		1,613,011		9,289,742	
L 2030		1,292,656		535,582		2,247,150		884,949		1,259,060		6,219,397	
L 2040		443,554		438,613		1,829,819		778,439		1,067,836		4,558,261	
Differences (*)	_	154,617		4,751	_	(5,483)	_	4,086	_	9,128	_	167,099	
Statement of Net													
Assets	\$	114,853,495	\$ 1	6,255,885	\$	64,673,967	\$	17,771,367	\$	22,808,032	\$	236,362,746	

<sup>(\*)</sup> Differences are a result of timing differences, including investment transactions not settled as of December 31, 2009. These differences may not be allocated down to the L Funds until the following business day.