FINANCIAL STATEMENTS
of the Thrift Savings Fund — 2003 and 2002

Deloitte.

Independent Auditors' Report

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

We have audited the accompanying statement of net assets available for benefits of the Thrift Savings Fund (the "Fund") as of December 31, 2003, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Federal Retirement Thrift Investment Board. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund for the year ended December 31, 2002, were audited by other auditors whose report, dated March 19, 2003, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Fund at December 31, 2003, and the changes in its net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

McLean, Virginia
April 28, 2004

THRIFT SAVINGS FUND

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2003 AND 2002
(In thousands)

ASSETS	2003	2002
Investments, at fair value:		
U.S. Government Securities Investment Fund	**$51,121,034**	$46,844,278
Barclays U.S. Debt Index Fund	**10,071,287**	11,047,005
Barclays Equity Index Fund	**54,303,506**	37,317,190
Barclays Extended Market Index Fund	**5,622,444**	1,239,019
Barclays EAFE Index Fund	**2,211,875**	480,066
Participant loans	**5,130,170**	4,313,453
Total investments	**128,460,316**	101,241,011
Receivables:		
Employer contributions	**151,497**	141,867
Participant contributions	**446,574**	381,179
Due for securities sold	**–**	594,723
Total receivables	**598,071**	1,117,769
Fixed assets:		
Furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization of $6,093 in 2003 and $5,785 in 2002	**358**	469
Data processing software, net of accumulated amortization of $12,528 in 2003 and $9,856 in 2002	**39,357**	29,327
Total fixed assets	**39,715**	29,796
Other assets:	**11,236**	2,109
Total assets	**129,109,338**	102,390,685
LIABILITIES		
Accounts payable	**29,372**	34,487
Accrued payroll and benefits	**1,194**	1,114
Benefits and participant loans payable	**54,181**	1,297
Deferred rent and lease credits	**121**	–
Due for securities purchased	**94,348**	36,804
Total liabilities	**179,216**	73,702
FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE	**(4,978)**	(5,354)
NET ASSETS AVAILABLE FOR BENEFITS	**$128,925,144**	$102,311,629

THRIFT SAVINGS FUND

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2003 AND 2002
(In thousands)

ADDITIONS	2003	2002
Investment income (loss):		
U.S. Government Securities Investment Fund	**$2,074,004**	$2,086,976
Net appreciation (depreciation) in fair value of Barclays funds:		
Barclays U.S. Debt Index Fund	**455,956**	924,154
Barclays Equity Index Fund	**11,316,657**	(10,842,060)
Barclays Extended Market Index Fund	**914,990**	(255,178)
Barclays EAFE Index Fund	**358,102**	(76,978)
Interest income on participant loans	**222,422**	225,883
Asset manager rebates	**1,616**	2,264
Less investment expenses	**(3,708)**	(4,270)
Net investment income (loss)	**15,340,039**	(7,939,209)
Contributions:		
Participant	**10,366,123**	8,815,515
Employer	**3,887,260**	3,496,867
Total contributions	**14,253,383**	12,312,382
Total additions	**29,593,422**	4,373,173
DEDUCTIONS		
Benefits paid to participants	**2,774,685**	2,422,282
Administrative expenses	**75,038**	70,637
Participant loans declared taxable distributions	**130,559**	121,166
Total deductions	**2,980,282**	2,614,085
CHANGES IN FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE	**375**	(259)
Net increase	**26,613,515**	1,758,829
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	**102,311,629**	100,552,800
End of year	**$128,925,144**	$102,311,629

See notes to financial statements.

THRIFT SAVINGS FUND
Notes to Financial Statements
as of December 31, 2003 and 2002

(1) PLAN DESCRIPTION

The following description is provided for general information purposes. Participants should refer to the *Summary of the Thrift Savings Plan for Federal Employees* or the *Summary of the Thrift Savings Plan for the Uniformed Services* and applicable legislation for more complete information.

General

The Thrift Savings Plan (the Plan) 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 corporations offer their employees. 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 participants of 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 plans, 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, 2003, there were approximately 3.2 million participants in the Plan, with approximately 2.4 million contributing their own money.

Contributions

The Plan is a defined contribution plan and, as such, specifies how much an employee may contribute and how much the employing agency must contribute to each FERS employee's account. In 2003 and 2002, FERS employees could contribute up to 13 percent and 12 percent, respectively, of their basic pay each pay period, on a tax-deferred basis, and were entitled to receive agency matching contributions on the first 5 percent, according to a formula prescribed by FERSA (5 U.S.C. § 8432(c)). In 2003 and 2002, CSRS employees and members of the uniformed services could contribute up to 8 percent and 7 percent, respectively, of their basic pay each pay period, on a tax-deferred basis. The Federal Government does not match any of this amount. 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 defined in FERSA (5 U.S.C. § 8401(4)).

In accordance with the Internal Revenue Code, no participant could contribute more than $12,000 and $11,000 in 2003 and 2002, respectively. This limit will increase to $13,000 in 2004. 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 $2,000 in 2003 and $3,000 in 2004) from their basic pay. Participants may also transfer funds from traditional Individual Retirement Accounts (IRAs) or other eligible employer 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). Participants may allocate any portion of their contributions among the five investment funds. Also, participants may reallocate their entire account balance among the five investment funds through the interfund transfer process. Participants can make an interfund transfer daily, without an annual limit.

The Agency has contracted with Barclays Global Investors (Barclays) to manage the index funds in which the F, C, S, and I Fund assets are invested.

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. Forfeited funds, consisting primarily of monies forfeited pursuant to 8432(g), totaled $7,824,000 in 2003 and $9,751,000 in 2002, and, by law, are used by the Fund to pay accrued administrative expenses. If the forfeited funds 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 contribution, agency automatic and matching contribution, and Fund earnings, and charged with withdrawals and an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from 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 4 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 are secured by the balance in participant accounts representing participant contributions and attributable earnings. The minimum loan amount is $1,000. The interest rate for loans is the G Fund rate at the time the loan application is received by the Agency's record keeper. The rate is fixed at this level for the life of each loan. Participant loans are valued at their unpaid balances, which approximate fair value.

By regulation, the Agency must identify each calendar quarter any participant loan that is in default by an amount equal to or greater than one loan payment. 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.

Payment of Benefits

After leaving Federal service, participants may elect benefit withdrawals in the form of a single payment, a series of payments, or a life annuity. Participants may choose to combine any two, or all three, of the available withdrawal options. Participants should refer to the booklet titled *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

A. 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 are recorded when disbursed from participants' accounts.

B. Investments. All investments are stated at fair value, based upon the quoted market values of the underlying securities at year-end. The Agency invests in (or redeems from) the Fund's investment funds on a daily basis. Purchases and sales of securities are recorded on a trade-date basis.

During the years ended December 31, 2003 and 2002, the Fund's investment funds consisted of the following (objectives of the investment funds are described in the *Guide to TSP Investments*, dated August 2003):

The G Fund was invested in short-term nonmarketable U.S. Treasury securities specially issued to the Fund. 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 Barclays U.S. Debt Index Fund "E", which in turn holds shares of the Barclays 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 Lehman Brothers U.S. Aggregate Bond Index.

As of December 31, 2003, the Barclays U.S. Debt Index Master Fund contained approximately 38 percent mortgage-backed securities, 24 percent investment-grade corporate securities (U.S. and non-U.S.), 22 percent U.S. Treasury securities, 12 percent Federal agency securities, and 4 percent foreign government securities (dollar-denominated securities traded in the U.S. that are issued by foreign or international entities (sovereigns, multilateral lending institutions, foreign agencies, and foreign local governments)). The mortgage-backed sector contains securities guaranteed by the Government National Mortgage Association, Fannie Mae, and Freddie Mac, as well as commercial mortgaged-backed securities.

As of December 31, 2003, the Barclays U.S. Debt Index Master Fund held 4,148 securities totaling $25.6 billion, with a weighted average life of 6.47 years. The U.S. Debt Index Fund "E" held shares of the Master Fund totaling $11.2 billion, and the F Fund holdings constituted $10.1 billion of the December 31, 2003, value of the "E" Fund.

The C Fund was invested primarily in the Barclays Equity Index Fund "E", which in turn holds shares of the Barclays Equity Index Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Equity Index Fund "E" and the Master Fund are passively managed commingled funds that track the S&P 500 index.

The Equity Index Master Fund 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, 2003, the Barclays Equity Index Master Fund held $141.1 billion of securities. The Barclays Equity Index Fund "E" held shares of the Master Fund totaling $73.4 billion, and the C Fund holdings constituted $54.3 billion of the December 31, 2003, value of the "E" Fund.

The S Fund was invested primarily in the Barclays Extended Market Index Fund "E", which in turn holds shares of the Barclays Extended Market Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Barclays Extended Market Index Fund "E" and the Master Fund are passively managed commingled funds that track the Wilshire 4500 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, 2003, the Barclays Extended Market Index Master Fund held $19.9 billion of securities. The Barclays Extended Market Index Fund "E" held shares of the Master Fund totaling $7.2 billion, and the S Fund holdings constituted $5.6 billion of the December 31, 2003, value of the "E" Fund.

The I Fund was invested primarily in the Barclays EAFE (Europe, Australasia, Far East) Index Fund "E", which in turn holds shares of the Barclays EAFE Index Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Barclays EAFE Index Fund "E" and the Master Fund are passively managed commingled funds that track the Morgan Stanley Capital International EAFE Index. The Barclays EAFE 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, 2003, the Barclays EAFE Index Master Fund held $32.2 billion of securities. The Barclays EAFE Index Fund "E" held shares of the Master Fund totaling $2.2 billion, and the I Fund holdings constituted $2.2 billion of the December 31, 2003, value of the "E" Fund.

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 Fund.

C. Fixed Assets. All fixed assets were recorded at historical cost. Assets with a useful life in excess of 1 year and a cost greater than $25,000 are capitalized and expensed over their useful life using the straight line method. The estimated useful lives are as follows:

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

D. Earnings Allocation. Beginning in June 2003, net earnings are used to calculate the daily share price of each investment fund as defined in regulations issued by the Agency (5 C.F.R. Part 1645). Prior to June 2003, net earnings were allocated to participant accounts monthly.

E. 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.

F. 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.

G. Reclassifications. Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

(3) INCOME TAX STATUS

FERSA (5 U.S.C. § 8440(a)(1)) states that the Plan shall be treated as a trust as described in section 401(a) of the Internal Revenue Code (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 since it is qualified by statute.

(4) COMMITMENTS AND CONTINGENCIES

The Agency has entered into Interagency Agreements with the Department of Agriculture's National Finance Center (NFC). Under the agreements, the NFC performs detailed record keeping of participant account balances (operations) and software development and maintains a service office responsible for loan, withdrawal, and interfund transfer processing for employees who have left Federal service. These agreements may be canceled by the Agency with 3 months' notice or by the Department of Agriculture with 1 year's notice. The NFC's fees for fiscal year 2004 are estimated to be $49,853,000.

On May 20, 1997, the Agency entered into a contract with American Management Systems, Inc. (AMS) for the design, development, and implementation of an automated daily valued record keeping system. On July 17, 2001, the Agency terminated its contract with AMS for default and filed suit against AMS alleging that the company had breached its contract and had committed fraud in performance of the contract. The lawsuit sought to recover approximately $50 million in actual damages and $300 million in punitive damages.

On October 10, 2001, AMS filed a complaint against the United States alleging that the Agency improperly terminated its contract by terminating it for default. AMS's complaint did not request monetary damages; however, AMS had submitted a claim to the Contracting Officer seeking recovery of an additional $58 million in unreimbursed costs.

On June 20, 2003, the parties to the litigation entered into a settlement agreement which provided for a net payment by AMS to the Thrift Savings Plan of $5 million. Both the lawsuit brought by the Agency and AMS's countersuit have been dismissed as part of the settlement.

Total costs of $65 million incurred by the Agency under the AMS contract were capitalized as data processing software through 2001. The Agency determined that $1 million of the capitalized costs were salvageable, and that the other $64 million had no value. Of this amount, $23 million were reversed from the 2001 statement of net assets available for benefits. The remaining $41 million were expensed on the 2001 statement of changes in net assets available for benefits and remained to be allocated to participants. By offsetting the $5 million settlement proceeds against the $41 million outstanding, the amount to be allocated to the participants was reduced from $41 million to $36 million. On June 23, 2003, $36 million were allocated to participant accounts pursuant to 5 C.F.R. § 1645.4(c), which requires that accrued administrative expenses not covered by forfeitures will be charged on a pro rata basis, based on the respective investment fund balances on the last day of the prior valuation period.

As a contingency against the potential performance failure of AMS, in January 2001, the Agency awarded a contract to Materials, Communication & Computers, Inc. (MATCOM) to complete the new record keeping system. On August 1, 2001, the Agency authorized MATCOM to begin work on the same project that AMS was unable to complete. Under the terms of the Agency's contract with MATCOM, the project cost $32.3 million. The new system was implemented in June 2003. Since June 2003, MATCOM continues to operate and maintain the new system at an annual cost of approximately $18 million.

The Agency leases the office space it occupies in Washington, D.C., under an operating lease. The operating lease ends in 2012, with an option to extend for two 5-year periods. Monthly base rental payments under the lease range from approximately $106,000 to $127,000. Rent expense is recorded on a straight-line basis over the lease term.

Future minimum lease commitments under the operating lease are as follows:

CY2004	$ 1,295,596
CY2005	$ 1,321,679
CY2006	$ 1,348,236
CY2007	$ 1,375,267
CY2008	$ 1,402,772
Thereafter	$ 5,897,050
	$12,640,600

(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, 2003 and 2002, were $4,978,000 and $5,354,000, respectively, which have been invested in the same securities held by the G Fund and 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.