

November 2011

FINANCIAL AUDIT

Bureau of the Public Debt's Fiscal Years 2011 and 2010 Schedules of Federal Debt

U.S. Government Accountability Office



YEARS

1921-2011

ACCOUNTABILITY ★ INTEGRITY ★ RELIABILITY

G A O
Accountability • Integrity • Reliability

Highlights

Highlights of [GAO-12-164](#), a report to the Secretary of the Treasury

Why GAO Did This Study

In connection with GAO's requirement to audit the consolidated financial statements of the U.S. government, GAO audits the Schedules of Federal Debt managed by the Department of the Treasury's (Treasury) Bureau of the Public Debt (BPD) annually to determine whether, in all material respects, (1) the schedules are reliable and (2) BPD maintained effective internal control over financial reporting relevant to the Schedule of Federal Debt. Further, GAO tests compliance with selected provisions of laws related to the Schedule of Federal Debt.

Federal debt managed by BPD consists of Treasury securities held by the public and by certain federal government accounts, referred to as intragovernmental debt holdings. Debt held by the public primarily represents the amount the federal government has borrowed from the public to finance cumulative cash deficits. Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts—primarily federal trust funds such as Social Security and Medicare—that typically have an obligation to invest their excess annual receipts (including interest earnings) over disbursements in federal securities.

What GAO Recommends

GAO is not making recommendations in this report, but will be reporting separately on matters identified during its audit, along with recommendations for strengthening internal controls relevant to the Schedule of Federal Debt. In commenting on a draft of this report, BPD's Commissioner concurred with our conclusions.

View [GAO-12-164](#). For more information, contact Gary T. Engel at (202) 512-3406 or engelt@gao.gov.

FINANCIAL AUDIT

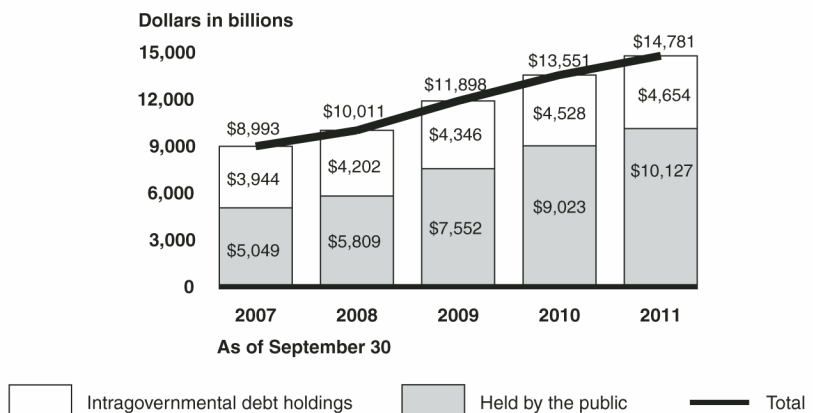
Bureau of the Public Debt's Fiscal Years 2011 and 2010 Schedules of Federal Debt

What GAO Found

In GAO's opinion, BPD's Schedules of Federal Debt for fiscal years 2011 and 2010 were fairly presented in all material respects, and BPD maintained effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2011. GAO's tests of BPD's compliance in fiscal year 2011 with selected provisions of laws disclosed no instances of noncompliance.

As of September 30, 2011 and 2010, federal debt managed by BPD totaled about \$14,781 billion and \$13,551 billion, respectively.

Figure 1 – Total Federal Debt Outstanding
(Fiscal Years Ended September 30, 2007–2011)



Source: BPD.

During the last 4 fiscal years, total federal debt has increased by \$5,788 billion, or 64 percent, from \$8,993 billion as of September 30, 2007, to \$14,781 billion as of September 30, 2011. The rapid growth in federal debt during this period presented debt management challenges for Treasury. The increases to total federal debt over the past 4 fiscal years represent the largest dollar increases over a 4-year period in history. Notably, the statutory debt limit was raised on seven different occasions during the last 4 fiscal years, increasing by about 55 percent, from \$9,815 billion to its current level of \$15,194 billion. During fiscal year 2011, Treasury faced an additional challenge of managing federal debt close to the statutory debt limit. A debt issuance suspension period was declared by Treasury from May 16, 2011, through August 2, 2011. Treasury utilized a number of extraordinary actions within its legal authorities to avoid exceeding the debt limit. On August 2, 2011, the Budget Control Act of 2011 was enacted by Congress and signed into law by the President, which resulted in increases to the statutory debt limit of \$400 billion on August 2, 2011, and \$500 billion on September 22, 2011.

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Abbreviations

| | |
|----------------------|---|
| BPD | Bureau of the Public Debt |
| CSRDF | Civil Service Retirement and Disability Fund |
| ESF | Exchange Stabilization Fund |
| G Fund | Government Securities Investment Fund of the Federal Employees' Retirement System |
| GDP | Gross Domestic Product |
| Postal Benefits Fund | Postal Service Retiree Health Benefits Fund |
| Treasury | Department of the Treasury |

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United States Government Accountability Office
Washington, D.C. 20548

November 8, 2011

The Honorable Timothy F. Geithner
Secretary of the Treasury

Dear Mr. Secretary:

The accompanying auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2011 and 2010. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by the Department of the Treasury's (Treasury) Bureau of the Public Debt (BPD).

The auditor's report contains our (1) unqualified opinions on the Schedules of Federal Debt for the fiscal years ended September 30, 2011 and 2010, (2) opinion that BPD maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2011, and (3) conclusion that our tests of BPD's compliance with selected provisions of laws disclosed no instances of reportable noncompliance.

As of September 30, 2011 and 2010, federal debt managed by BPD totaled about \$14,781 billion and \$13,551 billion, respectively, primarily for borrowings to fund the federal government's operations. As shown on the Schedules of Federal Debt, these balances consisted of approximately (1) \$10,127 billion as of September 30, 2011, and \$9,023 billion as of September 30, 2010, of debt held by the public and (2) \$4,654 billion as of September 30, 2011, and \$4,528 billion as of September 30, 2010, of intragovernmental debt holdings.

Debt held by the public primarily represents the amount the federal government has borrowed from the public to finance cumulative cash deficits. When a cash surplus occurs, the annual excess funds can be used to reduce debt held by the public. In other words, annual cash deficits or surpluses generally approximate the annual net change in the amount of federal government borrowing from the public. Debt held by the public represents federal debt issued by Treasury and held by investors outside of the federal government, including individuals, corporations, state or

local governments, the Federal Reserve, and foreign governments. The majority of debt held by the public consists of marketable Treasury securities, such as bills, notes, bonds, and Treasury Inflation-Protected Securities (TIPS) that are sold through auctions and can be resold by whoever owns them. Treasury also issues a smaller amount of nonmarketable securities, such as savings securities and State and Local Government Series securities.

Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts—primarily federal trust funds such as Social Security and Medicare—that typically have an obligation to invest their excess annual receipts (including interest earnings) over disbursements in federal securities. Most federal government accounts invest in special nonmarketable Treasury securities that represent legal obligations of the Treasury and are guaranteed for principal and interest by the full faith and credit of the U.S. government. The federal government uses the federal government accounts' invested cash surpluses to assist in funding other federal government operations. Unlike debt held by the public, intragovernmental debt holdings are not shown as balances on the federal government's consolidated financial statements because they represent loans from one part of the federal government to another under U.S. generally accepted accounting principles. When the federal government's financial statements are consolidated, those offsetting balances are eliminated.

Debt held by the public and intragovernmental debt holdings are very different. Debt held by the public represents a burden on today's economy as borrowing from the public absorbs resources available for private investment and may put upward pressure on interest rates. In addition, interest on debt held by the public is paid in cash and represents a burden on current taxpayers. Moreover, the interest paid on this debt may reduce budget flexibility because, unlike most of the budget, it cannot be controlled directly. In contrast, intragovernmental debt holdings typically do not require cash payments from the current budget or represent a burden on the current economy. In addition, from the perspective of the budget as a whole, Treasury's interest payments to federal government accounts are entirely offset by the income received by such accounts. However, this intragovernmental debt and related interest represent a claim on future resources and therefore represent a burden on future taxpayers and the future economy. Specifically, when federal trust funds redeem Treasury

securities to obtain cash to fund expenditures, Treasury usually borrows from the public to finance these redemptions.¹

We have audited the Schedule of Federal Debt since fiscal year 1997. Over this period, total federal debt has increased by 174 percent. During the last 4 fiscal years, total federal debt has increased by \$5,788 billion, or 64 percent, from \$8,993 billion as of September 30, 2007, to \$14,781 billion as of September 30, 2011. The rapid growth in federal debt during this period presented debt management challenges for Treasury.² Increases to the federal debt became particularly acute with the onset of the recession in December 2007. The economic downturn along with the federal government's response to it and other actions taken to stabilize financial markets contributed to a rapid buildup in federal debt held by the public. As a result, the increases to total federal debt over the past 4 fiscal years represent the largest dollar increases over a 4-year period in history. Notably, the statutory debt limit was raised on seven different occasions during the last 4 fiscal years, increasing by about 55 percent, from \$9,815 billion to its current level of \$15,194 billion. During fiscal year 2011 alone, total federal debt increased by \$1,230 billion. Of the fiscal year 2011 increase, about \$1,104 billion was from the increase in debt held by the public and about \$126 billion was from the increase in intragovernmental debt holdings.

During fiscal year 2011, Treasury faced an additional challenge of managing federal debt close to the statutory debt limit. A debt issuance suspension period was declared by Treasury from May 16, 2011, through August 2, 2011.³ Treasury utilized a number of extraordinary actions within its legal authorities to avoid exceeding the debt limit. These actions included suspending investments to the Government Securities Investment Fund of the Federal Employees' Retirement System (G Fund), the Civil Service Retirement and Disability Fund (CSRDF), the Postal

¹For more information regarding the federal debt, see GAO, *Federal Debt: Answers to Frequently Asked Questions*, accessed November 1, 2011, www.gao.gov/special.pubs/longterm/debt.

²For more information, see GAO, *Debt Management: Treasury Was Able to Fund Economic Stabilization and Recovery Expenditures in a Short Period of Time, but Debt Management Challenges Remain*, GAO-10-498 (Washington, D.C.: May 18, 2010).

³A debt issuance suspension period is any period for which the Secretary of the Treasury determines that the issuance of obligations of the United States may not be made without exceeding the debt limit.

Service Retiree Health Benefits Fund (Postal Benefits Fund), and the Exchange Stabilization Fund (ESF), as well as disinvesting a security held by CSRDF. In addition to these actions, Treasury also suspended new issuances of State and Local Government Series securities from May 6, 2011, through August 1, 2011, to manage federal debt within the statutory debt limit. On August 2, 2011, the Budget Control Act of 2011 was enacted by Congress and signed into law by the President, thereby establishing procedures to increase the statutory debt limit by \$900 billion—\$400 billion immediately and an additional \$500 billion after 50 calendar days.⁴ As a result, the statutory debt limit was increased to \$14,694 billion on August 2, 2011, and to its current level of \$15,194 billion on September 22, 2011. As of September 30, 2011, debt subject to the limit totaled \$14,747 billion.⁵ Subsequent to the August 2, 2011, increase in the statutory debt limit, Treasury fully restored the G Fund to the position it would have been in had there not been a debt issuance suspension period. Treasury also processed suspended principal investments to CSRDF, the Postal Benefits Fund, and ESF. Additionally, Treasury has established plans to restore all interest losses—currently included on the Schedule of Federal Debt in accrued interest payable on intragovernmental debt holdings—to CSRDF and the Postal Benefits Fund with the next semiannual interest payment for these funds on December 31, 2011, in accordance with the legal authorities provided to the Secretary of the Treasury.

Federal financing needs remain high, in part due to the persistent effects of the economic downturn and its impact on the federal deficit. The reported federal deficit for fiscal year 2011 was \$1,299 billion, approximately the same amount reported for fiscal year 2010. Correspondingly, debt held by the public has increased from roughly 62 percent of Gross Domestic Product (GDP) at the end of fiscal year 2010 to roughly 68 percent at the end of fiscal year 2011. This growth in federal

⁴The Budget Control Act of 2011 (Pub. L. No. 112-25) also established procedures to further increase the statutory debt limit up to \$1.5 trillion for a cumulative increase of up to \$2.4 trillion. In addition to these potential increases, the Budget Control Act of 2011 also includes provisions for the enactment of caps on discretionary spending for fiscal years 2012 through 2021 and the creation of the Joint Select Committee on Deficit Reduction, which is tasked with, by November 23, 2011, voting on (1) a report containing the committee's recommendations and (2) proposed legislative language to carry out such recommendations for additional deficit reduction.

⁵Debt subject to the limit is primarily comprised of total federal debt managed by BPD, as reported on the Schedule of Federal Debt, less unamortized discounts on Treasury bills and Zero Coupon Treasury bonds.

debt comes at a time when the budgetary pressures from rising health care costs and the aging of the U.S. population have begun to build. The oldest members of the baby-boom generation are already eligible for early Social Security retirement benefits and become eligible for Medicare this year. The Social Security program, which historically ran large cash surpluses that helped reduce the government's need to borrow from the public to finance other programs, is now projected to pay more in benefits than it receives in tax income each year into the future. These pressures will increase in coming decades as more members of the baby-boom generation retire and become eligible for federal health programs.

The federal government's fiscal outlook has improved, largely due to provisions in the Budget Control Act of 2011. However, GAO's recent long-range federal budget simulations continue to show an unsustainable fiscal path driven by a structural imbalance between revenues and spending for major entitlement programs.⁶ Addressing the long-term fiscal challenge will not be easy. It will likely require difficult decisions affecting both federal spending and revenue. The challenge is made greater by the need to balance the fragile economic recovery with the need to act soon to change the path.

As we have noted in previous years, Treasury reporting shows that foreign ownership of Treasury securities represents a significant portion of debt held by the public. As of June 30, 2011, the reported amount of Treasury securities held by foreign and international investors represented an estimated 46 percent of debt held by the public. While this percentage remained constant with that as of June 30, 2010, it remains considerably higher than the estimated 30 percent of debt held by the public as of June 30, 2001. According to amounts reported under the Treasury International Capital reporting system, Treasury estimates that the amount of Treasury securities held by foreign and international investors has increased by a total of \$3,518 billion over the past 10 years—from \$983 billion as of June 30, 2001, to \$4,501 billion as of June 30, 2011.⁷

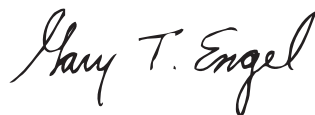
⁶For more information, see GAO, *The Federal Government's Long-Term Fiscal Outlook, Fall 2011 Update*, [GAO-12-28SP](#) (Washington, D.C.: October 2011).

⁷Treasury, *Major Foreign Holders of Treasury Securities*, accessed November 1, 2011, <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt>. Estimates of foreign ownership of Treasury securities are not reported in the Schedules of Federal Debt and as such we do not audit these amounts.

We are sending copies of this report to interested congressional committees, the Commissioner of the Bureau of the Public Debt, the Inspector General of the Department of the Treasury, the Director of the Office of Management and Budget, and other agency officials. In addition, this report is available at no charge on the GAO website at <http://www.gao.gov>.

If you have any questions concerning this report, please contact me at (202) 512-3406 or engelg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive style with a large initial "G" and "E".

Gary T. Engel
Director
Financial Management
and Assurance



To the Commissioner of the Bureau of the Public Debt

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, we have audited the Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) because of the significance of the federal debt to the federal government's consolidated financial statements.¹

This auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 2011 and 2010. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by the Department of the Treasury's (Treasury) BPD.²

In our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 2011 and 2010, we found

- the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- BPD maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2011; and
- no reportable noncompliance in fiscal year 2011 with selected provisions of laws we tested.

The following sections discuss in more detail (1) these conclusions; (2) our conclusion on the Overview on Federal Debt Managed by the Bureau of

¹31 U.S.C. § 331(e)(2). As a bureau within the Department of the Treasury, federal debt and related activity and balances are also significant to the consolidated financial statements of Treasury (see 31 U.S.C. § 3515(b)).

²Debt held by the public represents federal debt issued by Treasury and held by investors outside of the federal government, including individuals, corporations, state or local governments, the Federal Reserve, and foreign governments. Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts, primarily federal trust funds such as Social Security and Medicare.

the Public Debt; (3) our audit objectives, scope, and methodology; and (4) BPD's comments on a draft of this report.

Opinion on the Schedules of Federal Debt

The Schedules of Federal Debt including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the balances as of September 30, 2011, 2010, and 2009 for Federal Debt Managed by BPD; the related Accrued Interest Payables and Net Unamortized Premiums and Discounts; and the related increases and decreases for the fiscal years ended September 30, 2011 and 2010.

Opinion on Internal Control

BPD maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2011, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the Schedule of Federal Debt would be prevented or detected and corrected on a timely basis. Our opinion on internal control is based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We identified deficiencies in BPD's system of internal control that we consider not to be material weaknesses or significant deficiencies.³ We have communicated these matters to management and, where appropriate, will report on them separately.

³A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Compliance with Selected Provisions of Laws

Our tests of BPD's compliance in fiscal year 2011 with selected provisions of laws disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 2011, was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

BPD's Overview on Federal Debt Managed by the Bureau of the Public Debt contains information, some of which is not directly related to the Schedules of Federal Debt. We did not audit and we do not express an opinion on this information. However, we compared this information for consistency with the Schedules of Federal Debt and discussed the methods of measurement and presentation with BPD officials. On the basis of this limited work, we found no material inconsistencies with the Schedules of Federal Debt or U.S. generally accepted accounting principles.

Objectives, Scope, and Methodology

BPD management is responsible for (1) preparing the Schedules of Federal Debt in conformity with U.S. generally accepted accounting principles; (2) establishing and maintaining effective internal control over financial reporting, and evaluating its effectiveness; and (3) complying with applicable laws and regulations. BPD management evaluated the effectiveness of BPD's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2011, based on the criteria established under FMFIA. BPD management's assertion based on its evaluation is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) BPD management maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2011. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt; and (2) performing limited procedures with respect to certain other information accompanying the Schedules of Federal Debt.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Federal Debt;
- assessed the accounting principles used and any significant estimates made by management;
- evaluated the overall presentation of the Schedules of Federal Debt;
- obtained an understanding of the entity and its operations, including its internal control over financial reporting relevant to the Schedule of Federal Debt;
- considered BPD's process for evaluating and reporting on internal control over financial reporting relevant to the Schedule of Federal Debt based on the criteria established under FMFIA;
- assessed the risk that a material misstatement exists in the Schedule of Federal Debt and the risk that a material weakness exists in internal control over financial reporting relevant to the Schedule of Federal Debt;
- evaluated the design and operating effectiveness of internal control over financial reporting relevant to the Schedule of Federal Debt based on the assessed risk;
- tested internal control over financial reporting relevant to the Schedule of Federal Debt;
- tested compliance in fiscal year 2011 with the (1) statutory debt limit (31 U.S.C. §§ 3101 and 3101A); (2) suspension and early redemption of investments from the Civil Service Retirement and Disability Fund (CSRDF) (5 U.S.C. § 8348(j),(k)); and (3) suspension of investments from the Government Securities Investment Fund (G-Fund) (5 U.S.C. § 8438(g)); and
- performed such other procedures as we considered necessary in the circumstances.

Internal control over financial reporting relevant to the Schedule of Federal Debt is a process effected by those charged with governance,

management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt in conformity with U.S. generally accepted accounting principles; and (2) transactions related to the Schedule of Federal Debt are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Schedule of Federal Debt.

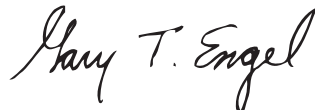
We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to BPD. We limited our tests of compliance to selected provisions of laws that have a direct and material effect on the Schedule of Federal Debt for the fiscal year ended September 30, 2011. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Agency Comments

In commenting on a draft of this report, BPD's Commissioner concurred with our conclusions. BPD's comments are reprinted in their entirety in appendix II.



Gary T. Engel
Director
Financial Management
and Assurance

November 1, 2011

Overview, Schedules, and Notes

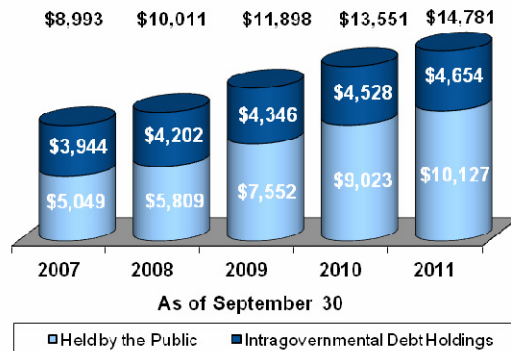
Overview on Federal Debt Managed by the Bureau of the Public Debt

Overview on Federal Debt Managed by the Bureau of the Public Debt

Gross Federal Debt Outstanding¹

Federal debt managed by the Bureau of the Public Debt (BPD) comprises debt held by the public and debt held by certain federal government accounts (under 31 U.S.C. § 3101), the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2011 and 2010, outstanding gross federal debt managed by BPD totaled \$14,781 and \$13,551 billion, respectively. The increase in gross federal debt of \$1,230 billion during fiscal year 2011 was due to an increase in gross intragovernmental debt holdings of \$126 billion and an increase in gross debt held by the public of \$1,104 billion. As Figure 1 illustrates, both intragovernmental debt holdings and debt held by the public have increased since fiscal year 2007. The primary reason for the increases in intragovernmental debt holdings is the excess annual receipts (including interest earnings) over disbursements in the Federal Old-Age and Survivors Insurance Trust Fund, Civil Service Retirement and Disability Fund, Military Retirement Fund, and DOD Medicare-Eligible Retiree Health Care Fund. The increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. As of September 30, 2011, gross debt held by the public totaled \$10,127 billion and gross intragovernmental debt holdings totaled \$4,654 billion.

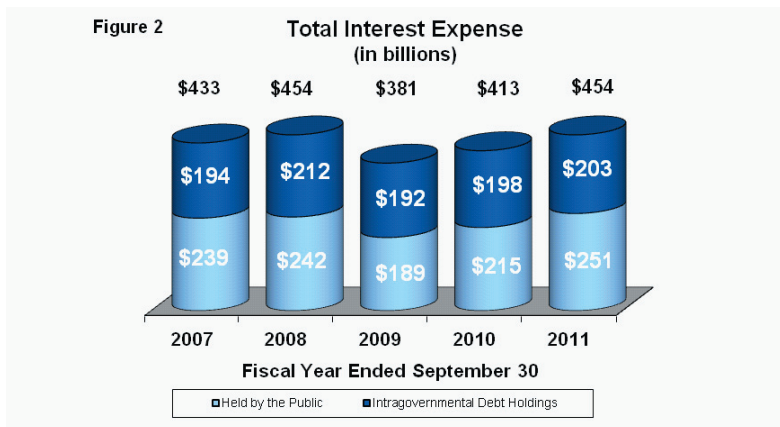
Figure 1 Total Gross Federal Debt Outstanding
(in billions)



¹ Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by BPD which are issued by the Federal Financing Bank and other specific securities issued outside of the authority of Title 31, U.S. Code, section 3101.

Interest Expense

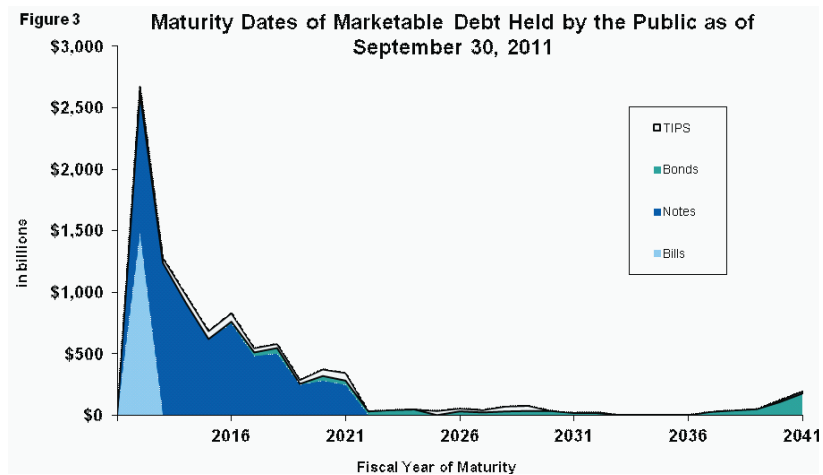
Interest expense incurred during fiscal year 2011 consists of (1) interest accrued and paid on debt held by the public or credited to accounts holding intragovernmental debt during the fiscal year, (2) interest accrued during the fiscal year, but not yet paid on debt held by the public or credited to accounts holding intragovernmental debt, and (3) net amortization of premiums and discounts. The primary components of interest expense are interest paid on the debt held by the public and interest credited to federal government trust funds and other federal government accounts that hold Treasury securities. The interest paid on the debt held by the public affects the current spending of the federal government and represents the burden of servicing its debt (i.e., payments to outside creditors). Interest credited to federal government trust funds and other federal government accounts, on the other hand, does not result in an immediate outlay of the Federal Government because one part of the government pays the interest and another part receives it. However, this interest represents a claim on future budgetary resources and hence an obligation on future taxpayers. This interest, when reinvested by the trust funds and other federal government accounts, is included in the programs' excess funds not currently needed in operations, which are invested in federal securities. For fiscal year 2011, interest expense incurred totaled \$454 billion, interest expense on debt held by the public was \$251 billion, and \$203 billion was interest incurred for intragovernmental debt holdings. As Figure 2 illustrates, total interest expense increased from fiscal year 2007 to 2008. However, due to the economic conditions, there was a significant increase in the demand for government backed securities during fiscal year 2009, which resulted in lower average interest rates and interest expense for that year. For example, the average interest rates on Treasury bills outstanding as of September 30, 2009 and 2008 were 0.3 percent and 1.6 percent, respectively. Interest expense increased for fiscal years 2010 and 2011 due primarily to an increase in Treasury notes and bonds outstanding, which have higher average interest rates than Treasury bills. Average interest rates on principal balances outstanding as of September 30, 2011 and 2010, are disclosed in the Notes to the Schedules of Federal Debt.



Debt Held by the Public

Debt held by the public primarily represents the amount the Federal Government has borrowed to finance cumulative cash deficits. During fiscal year 2011, Treasury primarily used the existing suite of securities to meet the borrowing needs of the Federal Government while increasing its offerings of longer term securities to extend the average length of maturity. As a result, Treasury bills decreased by \$308 billion; whereas, Treasury notes, bonds, and TIPS increased by \$1,154 billion, \$170 billion, and \$112 billion respectively, in fiscal year 2011. As of September 30, 2011 and 2010, gross debt held by the public totaled \$10,127 billion and \$9,023 billion, respectively (see Figure 1), an increase of \$1,104 billion. This increase was primarily the result of borrowings needed to finance the government's fiscal year 2011 deficit. However, as a result of the increase in outstanding gross debt held by the public being in the form of longer term securities, the total dollar amount of activity for both borrowings and repayments of debt held by the public decreased for fiscal year 2011.

As of September 30, 2011, \$9,604 billion, or 95 percent, of the securities that constitute debt held by the public were marketable, meaning that once the Federal Government issues them, they can be resold by whoever owns them. Marketable debt is made up of Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation-Protected Securities (TIPS) with maturity dates ranging from less than 1 year out to 30 years. Of the marketable securities currently held by the public as of September 30, 2011, \$5,625 billion, or 59 percent, will mature within the next 4 years (see Figure 3). As of September 30, 2011 and 2010, notes and TIPS held by the public maturing within the next 10 years totaled \$6,916 billion and \$5,673 billion, respectively, an increase of \$1,243 billion.



Debt Held by the Public, cont.

The Federal Government also issues to the public nonmarketable securities, which cannot be resold, and have maturity dates from on demand out to 40 years. As of September 30, 2011, nonmarketable securities totaled \$523 billion, or 5 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling \$185 billion, State and Local Government Series securities totaling \$152 billion, and Government Account Series securities totaling \$151 billion.

The Federal Reserve Banks (FRBs) act as fiscal agents for Treasury, as permitted by the Federal Reserve Act. As fiscal agents for Treasury, the FRBs play a significant role in the processing of marketable book-entry securities and paper U.S. savings bonds. For marketable book-entry securities, selected FRBs receive bids; issue book-entry securities to awarded bidders and collect payments on behalf of Treasury; and make interest and redemption payments from Treasury's account to the accounts of security holders. For paper U.S. savings bonds, selected FRBs sell, print, and deliver savings bonds; redeem savings bonds; and handle the related transfers of cash.

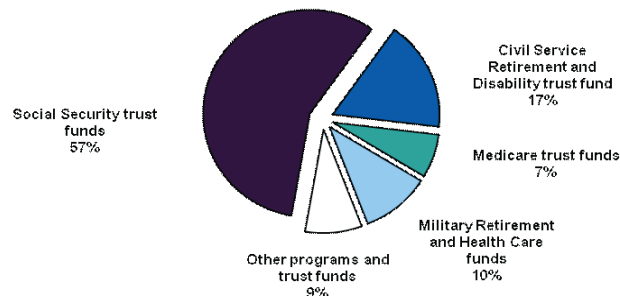
Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by over 230 individual federal government accounts with either the authority or the requirement to invest excess receipts in special U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. Government.

Intragovernmental debt holdings primarily consist of balances in the Social Security, Medicare, Military Retirement and Health Care, and Civil Service Retirement and Disability trust funds.² As of September 30, 2011, such funds accounted for \$4,254 billion, or 91 percent, of the \$4,654 billion intragovernmental debt holdings balances (see Figure 4). As of September 30, 2011 and 2010, gross intragovernmental debt holdings totaled \$4,654 billion and \$4,528 billion, respectively (see Figure 1), an increase of \$126 billion.

The majority of intragovernmental debt holdings are Government Account Series (GAS) securities. GAS securities consist of par value securities and market-based securities, with terms ranging from on demand out to 30 years. Par value securities are issued and redeemed at par (100 percent of the face value), regardless of current market conditions. Market-based securities, however, can be issued at a premium or discount and are redeemed at par value on the maturity date or at market value if redeemed before the maturity date.

Figure 4 Components of Intragovernmental Debt Holdings as of September 30, 2011



² The Social Security trust funds consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. The Medicare trust funds are made up of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund. The Military Retirement and Health Care Funds consist of the Military Retirement Fund and the DOD Medicare-Eligible Retiree Health Care Fund.

Significant Events in Fiscal Year 2011

Statutory Debt Limit Raised

On August 2, 2011, the Budget Control Act of 2011 was signed into law, becoming Public Law No. 112-25. Pursuant to Public Law No. 112-25, the statutory debt limit was raised by \$400 billion to \$14,694 billion on August 2, 2011, and by \$500 billion to \$15,194 billion on September 22, 2011. The Budget Control Act of 2011 also enacted caps on discretionary spending for fiscal years 2012 through 2021 and created the Joint Select Committee on Deficit Reduction, which is tasked with proposing legislation for additional deficit reduction over the same period.

Prior to the enactment of the Budget Control Act of 2011, Treasury faced a period that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. On May 16, 2011, the Secretary of the Treasury declared a debt issuance suspension period beginning on that date, and extending through August 2, 2011. Treasury then utilized a number of extraordinary actions within its legal authorities, which included suspending investment of receipts and reinvestment of maturities (including interest earnings) of the Government Securities Investment Fund of the Federal Employees' Retirement System (G-Fund), the Exchange Stabilization Fund (ESF), the Civil Service Retirement and Disability Fund (Civil Service Fund), and the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund); and redeeming a Civil Service Fund security early to make benefit payments. In addition to these actions, sales of State and Local Government Series securities were suspended from May 6, 2011 through August 1, 2011.

Subsequent to the August 2, 2011 increase to the statutory debt limit, BPD took steps to restore foregone principal and interest to the four funds used as "extraordinary measures" to keep the debt under the limit. Principal for the four funds (nearly \$240 billion) was restored on August 2, 2011, and interest for the G-Fund (\$378 million) was restored on August 3, 2011. ESF is not entitled to foregone interest. Interest for the Civil Service Fund and the Postal Benefits Fund – currently included on the Schedule of Federal Debt in accrued interest payable on intragovernmental debt holdings – will be restored on the next semi-annual interest payment date of December 31, 2011.

Supplementary Financing Program

The Supplementary Financing Program (SFP) is a temporary program announced on September 17, 2008, by Treasury and the Federal Reserve to provide emergency cash for Federal Reserve initiatives aimed at addressing the financial markets crisis. As of September 30, 2010, there were a total of 8 cash management bills outstanding that totaled \$200 billion. In July 2011, the balance in the SFP declined to zero and remained at that balance through September 30, 2011. At this time, Treasury does not plan to resume auctions of bills under the SFP in the near term.

However, Treasury retains the flexibility to increase the size of the SFP in the future. Such a decision will be made in consultation with the Federal Reserve.

Treasury Inflation-Indexed Securities (TIPS)

TIPS are an important component of Treasury's debt management strategy. Over the past year, Treasury has made changes to TIPS issuances to improve liquidity in the TIPS market. These changes have included increasing overall TIPS issuances and adding reopenings of TIPS.

After extensive consultation with market participants, Treasury added a second reopening to each of its 5-year and 30-year TIPS offerings. As a result, the original-issue 5-year TIPS are now auctioned in April with reopening auctions in August and December. Similarly, the original-issue 30-year TIPS are now auctioned in February with subsequent reopening auctions in June and October. As a result of these changes, Treasury is now holding a TIPS auction in every month of the year.

System Open Market Account (SOMA) Holdings

Federal Debt held by the Public includes debt held by the Federal Reserve Bank (FRB) of New York in SOMA holdings. These securities are held by the FRB of New York for the purpose of conducting monetary policy. On June 22, 2011, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk at the FRB of New York (the Desk) to complete purchases of \$600 billion of longer-term Treasury securities, which began in November 2010, by the end of June 2011. The FOMC also directed the Desk to maintain its existing policy of reinvesting principal payments on all domestic securities, which include Treasury and Agency securities in SOMA, in Treasury securities. As of September 30, 2011, the FRB had total holdings of \$1,665 billion, including a net of \$759 million in Treasury securities held by the FRB as collateral for securities lending activities.

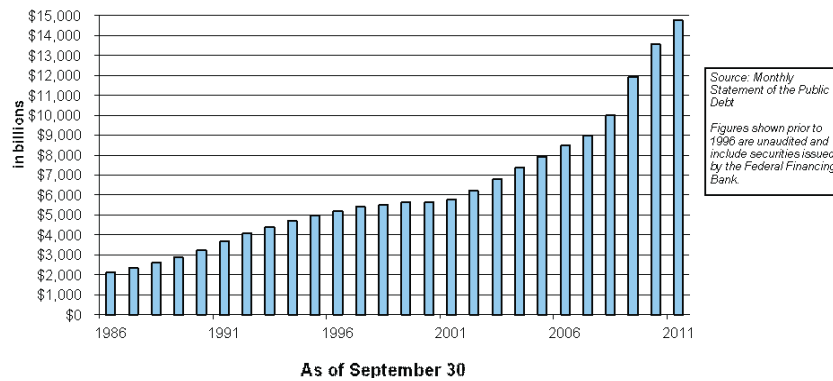
Decommissioning Legacy Treasury Direct

In April 2011, BPD announced to its customers that it will decommission Legacy Treasury Direct (LTD), a book-entry system used to purchase marketable securities directly from the Treasury. Effective May 1, 2011, no new accounts or incoming transfers were permitted in LTD and only 13-week and 26-week Treasury bills were available for purchase. BPD intends to stop all purchases in LTD no later than November 1, 2012. LTD customers were encouraged to open an account in TreasuryDirect, BPD's online system for purchasing electronic securities, to continue investing in marketable securities or to convert their existing securities.

Historical Perspective

Federal debt outstanding is one of the largest legally binding obligations of the Federal Government. Nearly all the federal debt has been issued by the Treasury with a small portion being issued by other federal government agencies. Treasury issues debt securities for two principal reasons, (1) to borrow needed funds to finance the current operations of the Federal Government and (2) to provide an investment and accounting mechanism for certain federal government accounts' (primarily federal trust funds) excess receipts. Total gross federal debt outstanding has dramatically increased over the past 25 years from \$2,125 billion as of September 30, 1986, to \$14,781 billion as of September 30, 2011 (see Figure 5). Large budget deficits emerged during the 1980's due to tax policy decisions and increased outlays for defense and domestic programs. Through fiscal year 1997, annual federal deficits continued to be large and debt continued to grow at a rapid pace. As a result, total federal debt more than doubled between 1986 and 1997.

Figure 5 Total Gross Federal Debt Outstanding

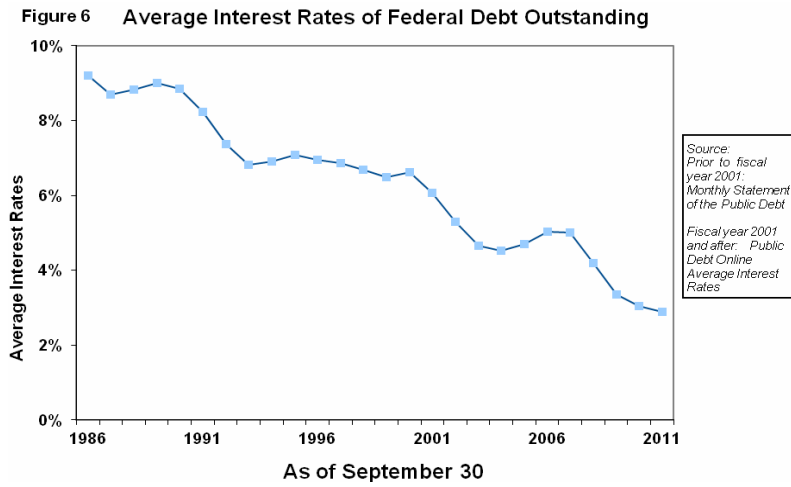


By fiscal year 1998, federal debt held by the public was beginning to decline. In fiscal years 1998 through 2001, the amount of debt held by the public fell by \$476 billion, from \$3,815 billion to \$3,339 billion. However, federal debt held by the public began to increase in fiscal year 2002, primarily as a result of higher federal outlays. Federal debt held by the public increased by 51.2 percent from fiscal year 2002 through fiscal year 2007. From fiscal year 2008 through fiscal year 2011, federal debt held by the public more than doubled rising by \$5,078 billion. This increase is primarily a result of the federal government's response to the financial market crisis and the economic downturn. As a result, debt held by the public has increased from \$3,339 billion in 2001 to \$10,127 billion in 2011.

Historical Perspective, cont.

Even in those years where debt held by the public declined, total federal debt increased because of increases in intragovernmental debt holdings. Over the past 4 fiscal years, intragovernmental debt holdings increased by \$710 billion, from \$3,944 billion as of September 30, 2007, to \$4,654 billion as of September 30, 2011. By law, federal government accounts, including trust funds, have the authority or are required to invest their excess annual receipts (including interest earnings) over disbursements in federal securities. As a result, the intragovernmental debt holdings balances primarily represent the cumulative surplus of funds due to the trust funds' cumulative annual excess of tax receipts, interest credited, and other collections compared to spending.

As shown in Figure 6, interest rates have fluctuated over the past 25 years. The average interest rates reflected here represent the original issue weighted effective yield on debt held by the public and intragovernmental debt holdings outstanding at the end of the fiscal year.



Schedules of Federal Debt

Schedules of Federal Debt

Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2011 and 2010
(Dollars in Millions)

| | Federal Debt | | | | | |
|---|-----------------------|--------------------------------|---|---------------------------------|--------------------------------|---|
| | Held by the Public | | | Intragovernmental Debt Holdings | | |
| | Principal (Note 2) | Accrued Interest Payable | Net Unamortized Premiums/ (Discounts) | Principal (Note 3) | Accrued Interest Payable | Net Unamortized Premiums/ (Discounts) |
| Balance as of September 30, 2009 | \$7,551,862 | \$41,348 | (\$33,905) | \$4,345,554 | \$49,443 | \$33,886 |
| Increases | | | | | | |
| Borrowings from the Public | 8,533,376 | | (7,912) | | | |
| Net Increase in Intragovernmental Debt Holdings | | | | 182,529 | | 6,067 |
| Accrued Interest (Note 4) | | 206,843 | | | 199,789 | |
| Total Increases | 8,533,376 | 206,843 | (7,912) | 182,529 | 199,789 | 6,067 |
| Decreases | | | | | | |
| Repayments of Debt Held by the Public | 7,062,430 | | | | | |
| Interest Paid | | 201,200 | | | 200,650 | |
| Net Amortization (Note 4) | | | (7,947) | | | 1,549 |
| Total Decreases | 7,062,430 | 201,200 | (7,947) | 0 | 200,650 | 1,549 |
| Balance as of September 30, 2010 | 9,022,808 | 46,991 | (33,870) | 4,528,083 | 48,582 | 38,404 |
| Increases | | | | | | |
| Borrowings from the Public | 7,965,202 | | (2,368) | | | |
| Net Increase in Intragovernmental Debt Holdings | | | | 126,291 | | 12,364 |
| Accrued Interest (Note 4) | | 244,218 | | | 205,881 | |
| Total Increases | 7,965,202 | 244,218 | (2,368) | 126,291 | 205,881 | 12,364 |
| Decreases | | | | | | |
| Repayments of Debt Held by the Public | 6,860,979 | | | | | |
| Interest Paid | | 239,739 | | | 206,685 | |
| Net Amortization (Note 4) | | | (6,700) | | | 3,144 |
| Total Decreases | 6,860,979 | 239,739 | (6,700) | 0 | 206,685 | 3,144 |
| Balance as of September 30, 2011 | \$10,127,031 | \$51,470 | (\$29,538) | \$4,654,374 | \$47,778 | \$47,624 |

The accompanying notes are an integral part of these schedules.

Notes to the Schedules of Federal Debt

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2011 and 2010

(Dollars in Millions)

Note 1. Significant Accounting Policies

Basis of Presentation

The Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) have been prepared to report fiscal year 2011 and fiscal year 2010 balances and activity relating to monies borrowed from the public and certain federal government accounts under 31 U.S.C. § 3101 to fund the operations of the U.S. government. Permanent, indefinite appropriations are available for the payment of interest on the federal debt and the redemption of Treasury securities.

Reporting Entity

The Constitution empowers the Congress to borrow money on the credit of the United States. The Congress has authorized the Secretary of the Treasury to borrow monies to operate the federal government within a statutory debt limit. Title 31, U.S. Code authorizes Treasury to prescribe the debt instruments and otherwise limit and restrict the amount and composition of the debt. BPD, an organizational entity within the Fiscal Service of the Department of the Treasury, is responsible for issuing Treasury securities in accordance with such authority and to account for the resulting debt. In addition, BPD maintains an investment program for federal government accounts, including trust funds, that have legislative authority to invest temporary cash reserves not needed for current benefits and expenses. BPD issues and redeems Treasury securities for these federal government accounts based on data provided by the respective program agencies and other Treasury entities. BPD also issues other specific securities outside of the authority of 31 U.S.C. §3101, such as HOPE Bonds, that are not reported on the Schedules of Federal Debt Managed by the Bureau of the Public Debt.

Basis of Accounting

The schedules were prepared in conformity with U.S. generally accepted accounting principles and from BPD's automated debt accounting system. Accounting principles generally accepted for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official body for setting accounting standards of the Federal government. The FASAB issued the Statement of Federal Financial Accounting Standards (SFFAS) No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* in July 2009. SFFAS No. 34 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with Federal generally accepted accounting principles.

Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long term securities and the straight line method for short term securities. The Department of the Treasury also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

*Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2011 and 2010*

(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 2011 and 2010, Federal Debt Held by the Public consisted of the following:

| | 2011 | | 2010 | |
|---------------------------------------|--------------|------------------------|-------------|------------------------|
| | Amount | Average Interest Rates | Amount | Average Interest Rates |
| Marketable: | | | | |
| Treasury Bills | \$1,475,557 | 0.1% | \$1,783,675 | 0.2% |
| Treasury Notes | 6,406,983 | 2.3% | 5,252,585 | 2.6% |
| Treasury Bonds | 1,016,408 | 5.8% | 846,054 | 6.1% |
| TIPS | 705,352 | 1.9% | 593,614 | 2.2% |
| Total Marketable | \$9,604,300 | | \$8,475,928 | |
| Nonmarketable | \$522,731 | 2.8% | \$546,880 | 2.8% |
| Total Federal Debt Held by the Public | \$10,127,031 | | \$9,022,808 | |

Treasury issues marketable bills usually at a discount, but may also issue at par, and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding as of September 30, 2011 and 2010. Treasury bills are issued with a term of one year or less.

Treasury issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rate. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding as of September 30, 2011 and 2010. Treasury notes are issued with a term of 2 – 10 years and Treasury bonds are issued with a term of more than 10 years.

Treasury also issues TIPS that have interest and redemption payments that are tied to the Consumer Price Index for all Urban Consumers, a widely used measure of inflation. TIPS are issued with a term of 5 years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of September 30, 2011 and 2010. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of \$76,133 million and \$57,481 million as of September 30, 2011 and 2010, respectively.

*Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2011 and 2010*

(Dollars in Millions)

Note 2. Federal Debt Held by the Public (continued)

Federal Debt Held by the Public includes federal debt held outside of the U. S. government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, and foreign governments and central banks. As of September 30, 2011, the FRB had total holdings of \$1,665,419 million, including a net of \$759 million in Treasury securities held by the FRB as collateral for securities lending activities. As of September 30, 2010, the FRB had total holdings of \$813,550 million, including a net of \$1,880 million in Treasury securities held by the FRB as collateral for securities lending activities. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

Treasury issues nonmarketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the nonmarketable securities represents the original issue weighted effective yield on securities outstanding as of September 30, 2011 and 2010. Nonmarketable securities are issued with a term of on demand out to 40 years.

As of September 30, 2011 and 2010, nonmarketable securities consisted of the following:

| | 2011 | 2010 |
|-----------------------------------|------------------|------------------|
| Domestic Series | \$29,995 | \$29,995 |
| Foreign Series | 2,986 | 4,186 |
| State and Local Government Series | 151,831 | 193,208 |
| United States Savings Securities | 185,187 | 188,796 |
| Government Account Series | 151,346 | 129,355 |
| Other | 1,386 | 1,340 |
| Total Nonmarketable | \$522,731 | \$546,880 |

Government Account Series (GAS) securities are nonmarketable securities issued to federal government accounts. Federal Debt Held by the Public includes GAS securities issued to certain federal government accounts. One example is the GAS securities held by the Government Securities Investment Fund (G-Fund) of the federal employees' Thrift Savings Plan. Federal employees and retirees who have individual accounts own the GAS securities held by the fund. For this reason, these securities are considered part of the Federal Debt Held by the Public rather than Intragovernmental Debt Holdings. The GAS securities held by the G-Fund consist of overnight investments redeemed one business day after their issue. The net increase in amounts borrowed from the fund during fiscal years 2011 and 2010 are included in the respective Borrowings from the Public amounts reported on the Schedules of Federal Debt.

*Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2011 and 2010*

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings

As of September 30, 2011 and 2010, Intragovernmental Debt Holdings are owed to the following:

| | <u>2011</u> | <u>2010</u> |
|---|--------------------|--------------------|
| SSA: Federal Old-Age and Survivors Insurance Trust Fund | \$2,492,531 | \$2,399,111 |
| OPM: Civil Service Retirement and Disability Fund | 795,371 | 770,126 |
| DOD: Military Retirement Fund | 326,040 | 282,006 |
| HHS: Federal Hospital Insurance Trust Fund | 245,939 | 279,475 |
| SSA: Federal Disability Insurance Trust Fund | 161,965 | 187,222 |
| DOD: DOD Medicare-Eligible Retiree Health Care Fund | 161,741 | 142,289 |
| HHS: Federal Supplementary Medical Insurance Trust Fund | 70,446 | 70,982 |
| DOE: Nuclear Waste Disposal Fund | 48,611 | 47,578 |
| OPM: Postal Service Retiree Health Benefits Fund | 43,708 | 42,115 |
| OPM: Employees Life Insurance Fund | 39,678 | 37,605 |
| FDIC: The Deposit Insurance Fund | 34,926 | 37,441 |
| Treasury: Exchange Stabilization Fund | 22,721 | 20,436 |
| DOL: Pension Benefit Guaranty Corporation | 20,974 * | 19,888 * |
| OPM: Employees Health Benefits Fund | 19,191 | 16,242 |
| DOS: Foreign Service Retirement and Disability Fund | 16,397 | 15,862 |
| DOT: Highway Trust Fund | 16,302 | 24,455 |
| DOL: Unemployment Trust Fund | 16,030 | 18,703 |
| NCUA: National Credit Union Share Insurance Fund | 10,733 | 9,279 |
| Other Programs and Funds | 111,070 | 107,268 |
| Total Intragovernmental Debt Holdings | <u>\$4,654,374</u> | <u>\$4,528,083</u> |

* These amounts consist of \$5,243 million and \$4,999 million of marketable Treasury securities as well as \$15,731 million and \$14,889 million of GAS securities as of September 30, 2011 and 2010, respectively.

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Defense (DOD); Department of Health and Human Services (HHS); Department of Energy (DOE); Federal Deposit Insurance Corporation (FDIC); Department of the Treasury (Treasury); Department of Labor (DOL); Department of State (DOS); Department of Transportation (DOT); National Credit Union Administration (NCUA).

*Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2011 and 2010*

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings (continued)

Intragovernmental Debt Holdings primarily consist of GAS securities. Treasury issues GAS securities at either par value or at an amount that reflects a discount or a premium. GAS securities are issued with a term of on demand out to 30 years. GAS securities include TIPS, which are reported at an inflation-adjusted principal balance using the Consumer Price Index for all Urban Consumers. As of September 30, 2011 and 2010, the inflation-adjusted principal balance included inflation of \$87,986 million and \$65,693 million, respectively. The average interest rates on Intragovernmental Debt Holdings, excluding TIPS, for fiscal years 2011 and 2010 were 4.1 and 4.3 percent, respectively. The average interest rates on TIPS for fiscal years 2011 and 2010 were 1.8 and 1.9 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2011 and 2010.

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal years 2011 and 2010 consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|---|------------------|------------------|
| Federal Debt Held by the Public | | |
| Accrued Interest | \$244,218 | \$206,843 |
| Net Amortization of Premiums and Discounts | 6,700 | 7,947 |
| Total Interest Expense on Federal Debt Held by the Public | <u>250,918</u> | <u>214,790</u> |
| Intragovernmental Debt Holdings | | |
| Accrued Interest | 205,881 | 199,789 |
| Net Amortization of Premiums and Discounts | (3,144) | (1,549) |
| Total Interest Expense on Intragovernmental Debt Holdings | <u>202,737</u> | <u>198,240</u> |
| Total Interest Expense on Federal Debt Managed by BPD | <u>\$453,655</u> | <u>\$413,030</u> |

The valuation of TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers. This daily adjustment is an interest expense for the Bureau of the Public Debt. Accrued interest on Federal Debt Held by the Public includes inflation adjustments of \$22,735 million and \$6,904 million for fiscal years 2011 and 2010, respectively. Accrued interest on Intragovernmental Debt Holdings includes inflation adjustments of \$15,220 million and \$4,452 million for fiscal years 2011 and 2010, respectively.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2011 and 2010

(Dollars in Millions)

Note 5. Fund Balance with Treasury

| | As of <u>September 30, 2011</u> | As of <u>September 30, 2010</u> |
|----------------------------------|------------------------------------|------------------------------------|
| Appropriated Funds Obligated | \$107 | \$102 |
| Fiduciary Funds Obligated | <u>\$2</u> | <u>\$2</u> |
| Total Fund Balance with Treasury | <u>\$109</u> | <u>\$104</u> |

The Fund Balance with Treasury, a non-entity, intragovernmental account, is not included on the Schedules of Federal Debt and is presented for informational purposes.

Management's Report on Internal Control over Financial Reporting Relevant to the Schedule of Federal Debt


Management's Report on Internal Control over Financial Reporting
Relevant to the Schedule of Federal Debt

The Bureau of the Public Debt's (BPD) internal control over financial reporting relevant to the Schedule of Federal Debt is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt in accordance with U.S. generally accepted accounting principles; and (2) transactions related to the Schedule of Federal Debt are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Schedule of Federal Debt.

BPD management is responsible for establishing and maintaining effective internal control over financial reporting. BPD management evaluated the effectiveness of BPD's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2011, based on the criteria established under 31 U.S.C. § 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2011, BPD's internal control over financial reporting relevant to the Schedule of Federal Debt was effective.

Bureau of the Public Debt
November 1, 2011



Van Zeck
Commissioner



Fred Pyatt
Chief Financial Officer



Debra L. Hines
Assistant Commissioner, OPDA



Kimberly McCoy
Chief Information Officer

Comments from the Bureau of the Public Debt



DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, DC 20239-0001

November 2, 2011

Mr. Gary T. Engel
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Engel:

This letter is in response to your audit of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2011 and 2010. We agree with the conclusions of your audit report.

This year was an especially challenging year as we were faced with a Debt Issuance Suspension Period (DISP) that spanned nearly three months. We value the involvement of your staff as we encountered unique accounting scenarios during the DISP. Their support allowed for continued accuracy and consistency when reporting for the debt. We appreciate the knowledge and experience displayed by your audit team as we finalize the fifteenth year of our professional relationship. We would also like to thank you and your staff for your efficiency and timeliness exhibited throughout the audit of these schedules. Through combined efforts, the usability of these reports continues to grow and we look forward to sustaining this productive and successful relationship.

Sincerely,

A handwritten signature in black ink, appearing to read "Van Zeck".

Van Zeck
Commissioner

Department of the Treasury • Bureau of the Public Debt
www.treasurydirect.gov

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