United States Government Accountability Office

GAO

Report to the Secretary of the Treasury

November 2010

FINANCIAL AUDIT

Bureau of the Public Debt's Fiscal Years 2010 and 2009 Schedules of Federal Debt

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GAO-11-52

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Highlights

Highlights of GAO-11-52, a report to the Secretary of the Treasury

FINANCIAL AUDIT

Bureau of the Public Debt's Fiscal Years 2010 and 2009 Schedules of Federal Debt

Why GAO Did This Study

GAO is required to audit the consolidated financial statements of the U.S. government. Because of the significance of the federal debt held by the public to the governmentwide financial statements, GAO audits the Bureau of the Public Debt's (BPD) Schedules of Federal Debt annually to determine whether, in all material respects, (1) the schedules are reliable and (2) BPD management maintained effective internal control over financial reporting relevant to the Schedule of Federal Debt. Further, GAO tests compliance with a significant provision of law related to the Schedule of Federal Debt (statutory debt limit).

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 to finance cumulative cash deficits. Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts, primarily federal trust funds, that typically have an obligation to invest their excess annual receipts (including interest earnings) over disbursements in federal securities.

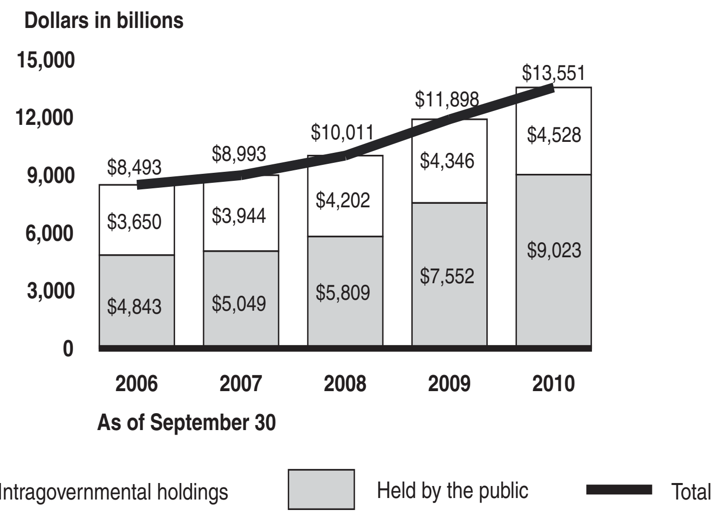
For a fuller understanding of GAO's opinion on BPD's fiscal years 2010 and 2009 Schedules of Federal Debt, readers should refer to the complete audit report, available by clicking on GAO-11-52, which includes information on audit objectives, scope, and methodology. For more information, contact Gary T. Engel at (202) 512-3406 or engelg@gao.gov.

What GAO Found

In GAO's opinion, BPD's Schedules of Federal Debt for fiscal years 2010 and 2009 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, 2010. GAO's tests of BPD's compliance with the statutory debt limit for fiscal year 2010 disclosed no instances of reportable noncompliance.

As of September 30, 2010 and 2009, federal debt managed by BPD totaled about $13,551 billion and $11,898 billion, respectively. Total gross federal debt outstanding increased over each of the last four fiscal years.

Figure 1 – Total Gross Federal Debt Outstanding
(Fiscal Years Ended September 30, 2006–2010)



Source: BPD.

During the last four fiscal years, managing the federal debt has been a challenge, as evidenced by the growth of total federal debt by $5,058 billion, or 60 percent, from $8,493 billion as of September 30, 2006, to $13,551 billion as of September 30, 2010. The increase to the federal debt became particularly acute with the onset of the recession in December 2007. Reduced federal revenues and federal government actions in response to both the financial market crisis and the economic downturn added significantly to the federal government's borrowing needs. And, due to the persistent effects of the recession, which ended in June 2009, federal financing needs remain high. As a result, the increases to total federal debt over the past three fiscal years represent the largest dollar increases over a three year period in history. During fiscal years 2008, 2009, and 2010, legislation was enacted to raise the statutory debt limit on five different occasions. During this period, the statutory debt limit went from $9,815 billion to its current level of $14,294 billion, an increase of 46 percent.

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Abbreviations

BPD	Bureau of the Public Debt
GDP	Gross Domestic Product

United States Government Accountability Office
Washington, DC 20548

November 8, 2010

The Honorable Timothy F. Geithner
The 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, 2010 and 2009. 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).[1]

The auditor's report contains our (1) unqualified opinions on the Schedules of Federal Debt for the fiscal years ended September 30, 2010 and 2009, (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, 2010, and (3) conclusion that our tests of BPD's compliance with the statutory debt limit for fiscal year 2010 disclosed no instances of reportable noncompliance.

As of September 30, 2010 and 2009, federal debt managed by BPD totaled about $13,551 billion and $11,898 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) $9,023 billion as of September 30, 2010, and $7,552 billion as of September 30, 2009, of debt held by the public and (2) $4,528 billion as of September 30, 2010, and $4,346 billion as of September 30, 2009, of intragovernmental debt holdings.

Debt held by the public primarily represents the amount the federal government has borrowed to finance cumulative cash deficits. To finance a cash deficit, the federal government borrows from the public. When a cash surplus occurs, the annual excess funds can then be used to reduce

[1] Intragovernmental Debt Holdings represent federal debt issued by BPD and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

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.

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

While both are important, debt held by the public and intragovernmental debt holdings are very different. Debt held by the public approximates the federal government's competition with other sectors in the credit markets. Federal borrowing 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. It reflects the amount the federal government pays to its outside creditors. 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, interest payments to federal government accounts by Treasury are entirely offset by the income received by such accounts. This intragovernmental debt and related interest represent a claim on future resources and hence a burden on future taxpayers and the future economy. Specifically, when trust funds redeem Treasury securities to obtain cash to fund expenditures, Treasury usually borrows from the public to finance these redemptions. Such borrowings result in competition for funds with the private sector and thus an effect on the economy.[2]

[2] For more information, see GAO, *Federal Debt: Answers to Frequently Asked Questions: An Update*, GAO-04-485SP (Washington, D.C.: August 12, 2004).

We have audited the Schedule of Federal Debt since fiscal year 1997. Over this period, total federal debt has increased by 151 percent. During the last four fiscal years, managing the federal debt has been a challenge, as evidenced by the growth of total federal debt by $5,058 billion, or 60 percent, from $8,493 billion as of September 30, 2006, to $13,551 billion as of September 30, 2010. The increase to the federal debt became particularly acute with the onset of the recession in December 2007. Reduced federal revenues and federal government actions in response to both the financial market crisis and the economic downturn added significantly to the federal government's borrowing needs. And, due to the persistent effects of the recession, which ended in June 2009, federal financing needs remain high. As a result, the increases to total federal debt over the past three fiscal years represent the largest dollar increases over a three year period in history. The largest annual dollar increase occurred in fiscal year 2009 when total federal debt increased by $1,887 billion. During fiscal year 2010, total federal debt increased by $1,653 billion. Of the fiscal year 2010 increase, about $1,471 billion was from the increase in debt held by the public and about $182 billion was from the increase in intragovernmental debt holdings. Treasury primarily utilized its existing suite of securities and increased or decreased auction sizes by security type as needed to finance the operations of the federal government and to lengthen the average maturity of securities within its portfolio. During fiscal years 2008, 2009, and 2010, legislation was enacted to raise the statutory debt limit on five different occasions. During this period, the statutory debt limit went from $9,815 billion to its current level of $14,294 billion, an increase of about 46 percent.

Recovery from the economic downturn is expected to be slow during the next few years and as a result, deficits are expected to remain high. The Congressional Budget Office (CBO) estimates the annual federal deficit will be just over $1 trillion for fiscal year 2011, down from $1.3 trillion for fiscal year 2010. Correspondingly, debt held by the public is expected to grow from an estimated 62.5 percent of gross domestic product (GDP) at the end of fiscal year 2010 to over 66 percent of GDP at the end of fiscal year 2011. The real challenge is not this year's deficit or even next year's; it is how best to address the nation's unsustainable long-term fiscal path over the coming decades.

While considerable attention has been understandably given to the near-term fiscal position, the federal government faces even larger fiscal challenges that will persist long after the return to economic growth. The budget and economic implications of the baby boom generation's retirement have already become a factor in near-term budget projections and will only intensify as the baby boomers age. Since fiscal year 2008, the

Medicare Hospital Insurance program has paid more in benefits than it receives in cash from payroll taxes. For the first time in over 25 years, the Social Security program, which has historically run large cash surpluses that helped reduce the need to borrow to finance other federal government activities, paid more in benefits than it received in tax income in fiscal year 2010 thereby contributing to borrowing needs. GAO and CBO's long-range fiscal policy simulations continue to show that, absent significant changes in policy, the federal government's fiscal condition over the coming decades is on an unsustainable path. The sooner action is taken to address this long-term fiscal challenge, the less disruptive and destabilizing the changes will be. As a result, the nation's leaders face the challenge of dealing with current economic and financial issues in the context of the need to address the long-term fiscal challenges.

A continuing trend that we have noted is the increase in reported foreign ownership of Treasury securities. Treasury securities held by foreign and international investors have increased significantly since 2001. According to amounts reported in the September 2010 *Treasury Bulletin*, Treasury estimates that the amount of Treasury securities held by foreign and international investors has increased by $3,022 billion—from $983 billion[3] as of June 30, 2001, to $4,005 billion as of June 30, 2010. As of June 30, 2010, this represents an estimated 46 percent of debt held by the public as compared to about 30 percent as of June 30, 2001.

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 Acting Director of the Office of Management and Budget, and other agency officials. In addition, this report is available at no charge on the GAO Web site 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

[3] The June 30, 2001, estimated amount was previously reported in the Treasury Bulletin as $1,001 billion and was subsequently revised to match the amount reported by the Treasury International Capital system.

Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,

Gary T. Engel
Director
Financial Management
and Assurance

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

To the Commissioner of the Bureau of the Public Debt

In connection with fulfilling our requirement to audit the 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, 2010 and 2009. 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 BPD.[2]

In our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 2010 and 2009, 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, 2010; and

- no reportable noncompliance in fiscal year 2010 with a selected provision of law 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 the Public Debt; (3) our audit objectives, scope, and methodology; and (4) BPD's comments on a draft of this report.

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[1] 31 U.S.C. § 331(e). 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 the Department of the Treasury (see 31 U.S.C. § 3515).

[2] Intragovernmental Debt Holdings represent federal debt issued by BPD and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

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, 2010, 2009, and 2008 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, 2010 and 2009.

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, 2010, 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.

Compliance with a Selected Provision of Law

Our tests of BPD's compliance with the statutory debt limit for fiscal year 2010 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, 2010, 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 and discussed the methods of measurement and presentation with BPD officials. On the basis of this limited work, we found no material

[3] 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 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 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.

inconsistencies with the schedules 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, 2010, 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, 2010. 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 2010 with the statutory debt limit (31 U.S.C. § 3101(b) (Supp. II 2008), as amended by Pub. L. No. 111-5, Div. B, Title I, § 1604, 123 Stat. 366 (2009); Pub. L. No. 111-123, § 1, 123 Stat. 3483 (2009); and Pub. L. No. 111-139, 124 Stat. 8 (2010)); 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 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.

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 a selected provision of law that has a direct and material effect on the Schedule of Federal Debt for the fiscal year ended September 30, 2010. 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 concurred with the conclusions in our report. The comments are reprinted in appendix II.

Gary T. Engel

Gary T. Engel
Director
Financial Management
and Assurance

November 1, 2010

Overview, Schedules, and Notes

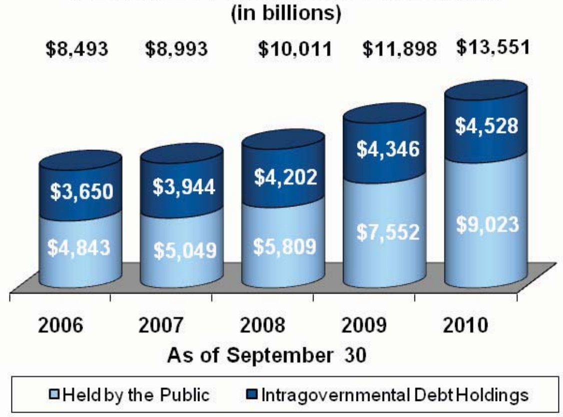
Overview on Federal Debt Managed by the Bureau of the Public Debt

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

Gross Federal Debt Outstanding[1]

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, 2010 and 2009, outstanding gross federal debt managed by the bureau totaled $13,551 and $11,898 billion, respectively. The increase in gross federal debt of $1,653 billion during fiscal year 2010 was due to an increase in gross intragovernmental debt holdings of $182 billion and an increase in gross debt held by the public of $1,471 billion. As Figure 1 illustrates, both intragovernmental debt holdings and debt held by the public have increased since fiscal year 2006. 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, Federal Supplementary Medical Insurance Trust 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, 2010, gross debt held by the public totaled $9,023 billion and gross intragovernmental debt holdings totaled $4,528 billion.

Figure 1 Total Gross Federal Debt Outstanding (in billions)

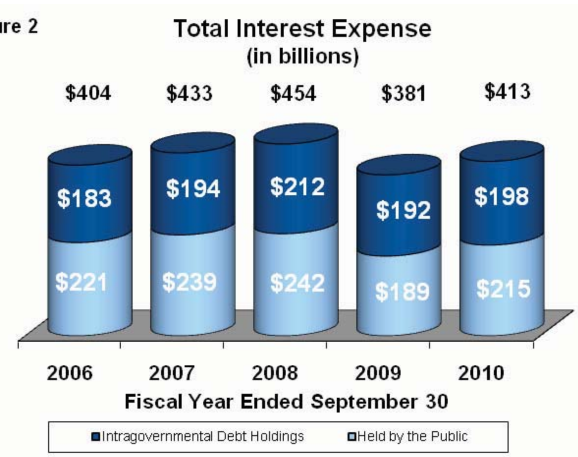


[1] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by the bureau and which are issued by the Federal Financing Bank and other specific securities issued outside of the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

Interest Expense

Interest expense incurred during fiscal year 2010 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 in 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 2010, interest expense incurred totaled $413 billion, interest expense on debt held by the public was $215 billion, and $198 billion was interest incurred for intragovernmental debt holdings. As Figure 2 illustrates, total interest expense has increased from fiscal years 2006 through 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. While the interest rates on Treasury bills have remained relatively steady for fiscal years 2009 and 2010, interest expense has increased 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, 2010 and 2009, are disclosed in the Notes to the Schedules of Federal Debt.

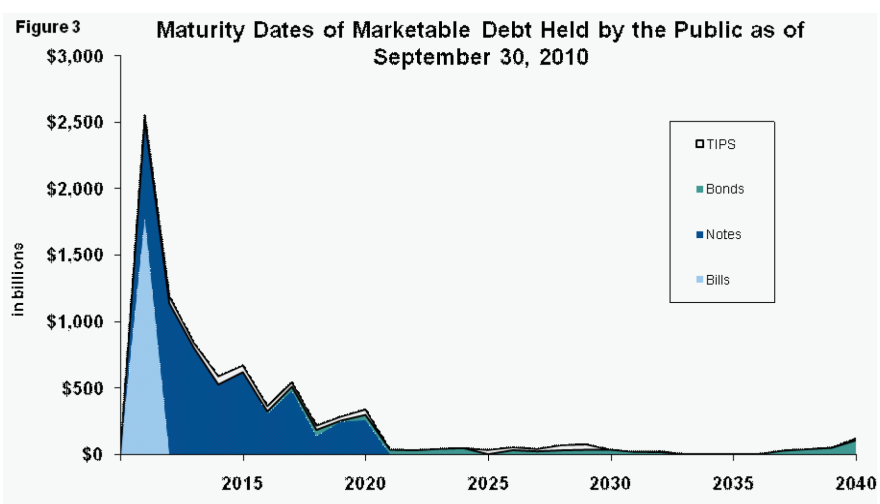
Figure 2



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 2010, Treasury implemented several important components as a debt management strategy, which affected the mix of outstanding Treasury securities. Treasury bills decreased by $202 billion; whereas, Treasury notes and bonds increased by $1,480 billion and $169 billion, respectively, in fiscal year 2010. As of September 30, 2010 and 2009, gross debt held by the public totaled $9,023 billion and $7,552 billion, respectively (see Figure 1), an increase of $1,471 billion. This increase was primarily the result of borrowings needed to finance the government's fiscal year 2010 deficit. However, as a result of most 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 2010.

As of September 30, 2010, $8,476 billion, or 94 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, 2010, $5,180 billion, or 61 percent, will mature within the next 4 years (see Figure 3). As of September 30, 2010 and 2009, notes and TIPS held by the public maturing within the next 10 years totaled $5,673 billion and $4,169 billion, respectively, an increase of $1,504 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, 2010, nonmarketable securities totaled $547 billion, or 6 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling $189 billion, State and Local Government Series securities totaling $193 billion, and Government Account Series securities totaling $129 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.

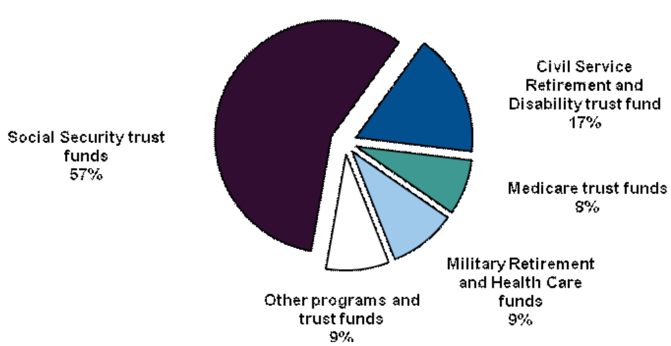
Intragovernmental Debt Holdings

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, 2010, such funds accounted for $4,131 billion, or 91 percent, of the $4,528 billion intragovernmental debt holdings balances (see Figure 4). As of September 30, 2010 and 2009, gross intragovernmental debt holdings totaled $4,528 billion and $4,346 billion, respectively (see Figure 1), an increase of $182 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, 2010



[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 2010

Changes to the Statutory Debt Ceiling

On December 28, 2009, an Act to permit continued financing of Federal Government operations was signed into law becoming Public Law No. 111-123. Section 1 of this law increased the statutory debt limit by $290 billion from $12,104 billion to $12,394 billion.

On February 12, 2010, the Statutory Pay-As-You-Go Act of 2010 was signed into law becoming Public Law No. 111-139. The purpose of this legislation was to reestablish a statutory procedure to enforce a rule of budgetary neutrality on new revenue and direct spending legislation. This law increased the statutory debt limit by $1,900 billion from $12,394 billion to $14,294 billion.

Treasury Inflation-Protected Securities (TIPS)

Treasury Inflation-Protected Securities (TIPS) are an important component of Treasury's debt management strategy. As part of an ongoing effort to improve liquidity in the TIPS program, Treasury announced in the May 2010 Quarterly Refunding Statement the decision to increase the frequency of TIPS auctions by adding a second reopening to 10-year TIPS offerings. This will result in a total of six 10-year TIPS auctions per year. The change began with the July 2010 new-issue 10-year TIPS offering. The security was first reopened in September 2010 and, will subsequently, be reopened in the month of November 2010. Similarly, the January 2011 new-issue 10-year TIPS offering will be reopened in March and May 2011.

In addition, to support Treasury's debt management strategy in the TIPS program, extend the average maturity of the portfolio, and better capture the premium associated with inflation protection, Treasury replaced its 20-year TIPS offering with 30-year TIPS.

The 30-year TIPS are issued on a semi-annual basis. The initial offering was in February 2010, followed by a reopening of the original issue in August 2010. Similar to the 5-year TIPS offering, the security will mature mid-month, but will settle at the end of the month.

Rescheduling of Regular Bill Auctions

As a result of Treasury frequently rescheduling the timing of regular bill auctions from 1:00 p.m. to 11:30 a.m. to accommodate additional auctions of coupon securities, Treasury decided to move all regularly scheduled Treasury bill auctions of 4-week, 13-week, 26-week, and 52-week bills to 11:30 a.m. beginning with the auctions on November 9, 2009. Treasury expects the change to increase the transparency and make the bill auctions more regular and predictable.

Significant Events in Fiscal Year 2010, cont.

Treasury Announced Call of Last Outstanding Callable Security

On July 15, 2009, the Bureau of the Public Debt announced the call of CUSIP 912810DN5 on November 15, 2009. This is the last of the 11-3/4 percent Treasury Bonds of 2004-2019. These bonds were originally issued November 15, 1984, and would have matured on November 15, 2014. There were $5.02 billion of these bonds outstanding, of which $3.82 billion were held by private investors. Treasury estimated gross savings from the call to be about $2 billion. This was the last outstanding callable security issued by Treasury.

Fluctuation in the 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 ongoing crisis in financial markets. As of September 30, 2009, there were a total of 5 cash management bills outstanding that totaled $165 billion. In fiscal year 2010, the balance in the Treasury Supplemental Financing Program decreased to a low of $5 billion in late December, 2009. The action was taken to preserve flexibility in the conduct of debt management. The balance increased to $200 billion by the end of April 2010 through the issuance of 56-day cash management bills. This restored the SFP back to the level maintained between February and September 2009.

As of September 30, 2010, there were 8 cash management bills outstanding that totaled $200 billion. Treasury retains the flexibility to change the level of the SFP in the future. Such a decision will be made in coordination with the Federal Reserve.

Stability in System Open Market Account (SOMA) Holdings

On August 10, 2010, the Federal Open Market Committee directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to keep constant the Federal Reserve's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The Desk will seek to maintain the face value of outright holdings of domestic securities in the SOMA at approximately this level. Due to differences in settlement dates for purchases and principal payments, it is anticipated that the actual level of domestic securities held will vary around this level to some degree.

In the middle of each month, the Desk will publish a tentative schedule of purchase operations expected to take place through the middle of the following month, as well as the anticipated total amount of purchase to be conducted over that period. The Desk will concentrate its purchase in the 2 to 10 year sector of the nominal Treasury curve, although purchases will occur across the nominal Treasury coupon and TIPS yield curves. Additionally, the Desk will refrain from purchasing securities for which there is heightened demand or of which the SOMA already holds large concentrations.

Significant Events in Fiscal Year 2010, cont.

Overall Plan to Promote TreasuryDirect and TreasuryDirect Payroll Savings

On April 19, 2010, Treasury announced a broad initiative focused on increasing the number of electronic transactions. As part of the initiative, Treasury eliminated the option to purchase paper savings bonds through payroll plans beginning September 30, 2010, for federal employees and January 1, 2011, for all other (non-federal) employees. Payroll savers are being encouraged to use TreasuryDirect as an alternative. Transitioning employees to electronic payroll purchases saves employers administrative costs and allows employees to manage their own accounts. This is estimated to save Treasury nearly $50 million in the first five years.

Tax Refund Savings Bond

Beginning in January 2010, taxpayers entitled to tax refunds were provided a new option to direct a portion of their refunds towards the purchase of Series I United States Savings Bonds. The purchase is requested using standard IRS forms. This initiative is a component of President Obama's larger initiative (announced September 5, 2009) to make it easier for American families to save for retirement. The project involved the combined efforts of the Internal Revenue Service, Federal Reserve Banks, Financial Management Service, and the Bureau of the Public Debt.

As of September 30, 2010, more than 22,368 requests for savings bonds had been processed resulting in 98,230 Series I paper bonds being issued worth $11,040,300. Work is underway to add enhancements to the program. Beginning in 2011, more registration options will be available and it will be possible to request gifts in the name of others.

Highway Trust Fund Appropriation

On March 18, 2010, the Jobs for Main Street Act was signed into law becoming Public Law No. 111-147. This law contained a provision to repeal the previous statutory provision that prohibited the crediting of interest to the Highway Trust Fund (HTF). Additionally, the Act provided an appropriation of $19.5 billion for foregone interest. The Department of Transportation (DOT) worked with the Office of Management and Budget and the Financial Management Service (FMS) to establish receipt accounts for the issuance of the appropriation and subsequent transfer of funds into the trust fund.

FMS processed the warrant to transfer the $19.5 billion from the general fund to a DOT transfer account on April 16, 2010. The Bureau of the Public Debt received the funds transfer from DOT on April 22, 2010, and invested $14.7 billion for the Highway Account and $4.8 billion for the Mass Transit Account, as outlined within the legislation.

Significant Events in Fiscal Year 2010, cont.

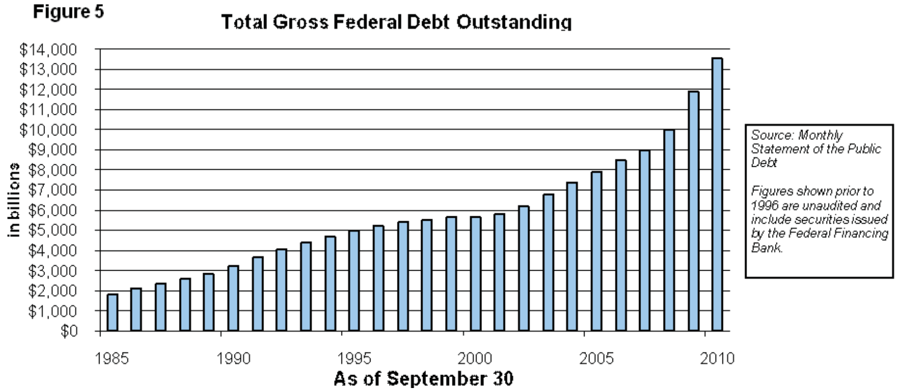
Deposit Insurance Fund Prepaid Assessments

The Federal Deposit Insurance Corporation (FDIC) issued a final rule on November 17, 2009 to address the Deposit Insurance Fund's (DIF) liquidity needs and, require insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009. As a result, on December 30, 2009, the FDIC collected approximately $45.7 billion in prepaid assessments from a majority of financial institutions in the United States. The additional assessments were primarily invested in Treasury securities and contributed to an increase in DIF's outstanding balance from September 30, 2009 to September 30, 2010.

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' excess receipts, primarily trust funds. Total gross federal debt outstanding has dramatically increased over the past 25 years from $1,823 billion as of September 30, 1985, to $13,551 billion as of September 30, 2010 (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 increased nearly three fold between 1985 and 1997.

Figure 5



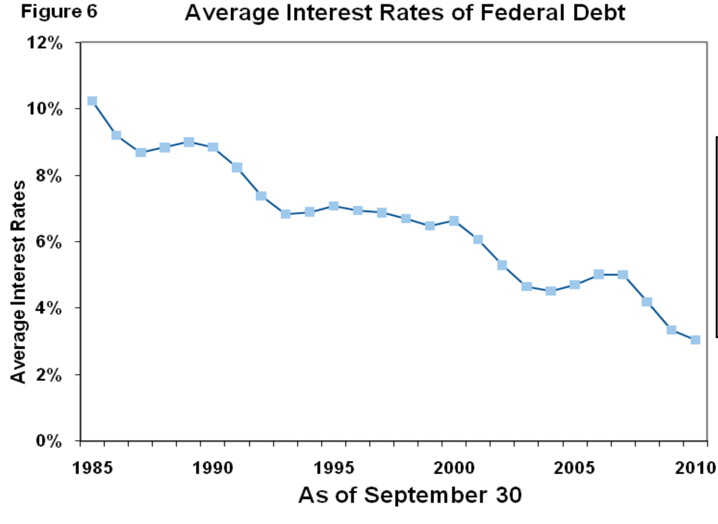
By fiscal year 1998, federal debt held by the public was beginning to decline. In fiscal years 1998 through 2001, the amount of debt held by the public fell by $476 billion, from $3,815 billion to $3,339 billion. However, federal debt held by the public began to increase in fiscal year 2002 as a result of higher federal outlays and tax policy decisions. 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 2010, federal debt held by the public increased an additional 78.7 percent rising by $3,974 billion. This increase is primarily a result of reduced federal revenues and 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 $9,023 billion in 2010.

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 $878 billion, from $3,650 billion as of September 30, 2006, to $4,528 billion as of September 30, 2010. By law, 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 securities outstanding at the end of the fiscal year.

Figure 6 Average Interest Rates of Federal Debt



Source:
Prior to fiscal year 2001: Monthly Statement of the Public Debt

Fiscal year 2001 and after: Public Debt Online Average Interest Rates

Schedules of Federal Debt

Schedules of Federal Debt

Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2010 and 2009
(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, 2008	**$5,808,692**	**$40,127**	**($36,124)**	**$4,202,004**	**$50,393**	**$32,567**
Increases						
Borrowings from the Public	8,946,010		(15,054)			
Net Increase in Intragovernmental Debt Holdings				143,550		1,718
Accrued Interest (Note 4)		171,875			191,955	
Total Increases	**8,946,010**	**171,875**	**(15,054)**	**143,550**	**191,955**	**1,718**
Decreases						
Repayments of Debt Held by the Public	7,202,840					
Interest Paid		170,654			192,905	
Net Amortization (Note 4)			(17,273)			399
Total Decreases	**7,202,840**	**170,654**	**(17,273)**	**0**	**192,905**	**399**
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**

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, 2010 and 2009

(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 2010 and fiscal year 2009 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 has been given the responsibility to issue Treasury securities to trust funds for trust fund receipts not needed for current benefits and expenses. BPD issues and redeems Treasury securities for the trust funds based on data provided by 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. These securities 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 accounting system, Public Debt Accounting and Reporting System. 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, 2010 and 2009

(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 2010 and 2009, Federal Debt Held by the Public consisted of the following:

	2010		2009	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	$1,783,675	0.2%	$1,986,174	0.3%
Treasury Notes	5,252,585	2.6%	3,772,964	3.0%
Treasury Bonds	846,054	6.1%	677,491	6.5%
TIPS	593,614	2.2%	551,308	2.1%
Total Marketable	$8,475,928		$6,987,937	
Nonmarketable	$546,880	2.8%	$563,925	3.7%
Total Federal Debt Held by the Public	$9,022,808		$7,551,862	

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, 2010 and 2009. 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, 2010 and 2009. 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, which 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, 2010 and 2009. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of $57,481 million and $57,552 million as of September 30, 2010 and 2009, respectively.

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

For the Fiscal Years Ended September 30, 2010 and 2009

(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, 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. As of September 30, 2009, the FRB had total holdings of $769,144 million, excluding a very small net amount in Treasury securities lent by the FRB to dealers. 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, 2010 and 2009. Nonmarketable securities are issued with a term of on demand out to 40 years.

As of September 30, 2010 and 2009, nonmarketable securities consisted of the following:

	2010	2009
Domestic Series	$29,995	$29,995
Foreign Series	4,186	4,886
R.E.A. Series	0*	1
State and Local Government Series	193,208	216,488
United States Savings Securities	188,796	192,452
Government Account Series	129,355	118,636
Other	1,340	1,467
Total Nonmarketable	$546,880	$563,925

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 2010 and 2009 are included in the respective Borrowings from the Public amounts reported on the Schedules of Federal Debt.

*Rural Electrification Authority (REA) Series Certificates of Indebtedness were issued to electric and telephone cooperatives as an investment option for unexpended loan proceeds from the REA. On September 30, 2010, the last outstanding REA Series Certificate of Indebtedness was redeemed.

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

For the Fiscal Years Ended September 30, 2010 and 2009

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings

As of September 30, 2010 and 2009, Intragovernmental Debt Holdings are owed to the following:

		2010	2009
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$2,399,111	$2,296,316
OPM:	Civil Service Retirement and Disability Fund	770,126	742,322
DOD:	Military Retirement Fund	282,006	240,807
HHS:	Federal Hospital Insurance Trust Fund	279,475	309,702
SSA:	Federal Disability Insurance Trust Fund	187,222	207,932
DOD:	DOD Medicare-Eligible Retiree Health Care Fund	142,289	126,821
HHS:	Federal Supplementary Medical Insurance Trust Fund	70,982	61,764
DOE:	Nuclear Waste Disposal Fund	47,578	44,643
OPM:	Postal Service Retiree Health Benefits Fund	42,115	35,115
OPM:	Employees Life Insurance Fund	37,605	36,146
FDIC:	The Deposit Insurance Fund	37,441	16,076
DOT:	Highway Trust Fund	24,455	11,484
Treasury:	Exchange Stabilization Fund	20,436	18,615
DOL:	Pension Benefit Guaranty Corporation	19,888 *	17,459 *
DOL:	Unemployment Trust Fund	18,703	19,628
OPM:	Employees Health Benefits Fund	16,242	15,367
DOS:	Foreign Service Retirement and Disability Fund	15,862	15,334
HUD:	Federal Housing Authority – Liquidating Account	4,194	10,664
Other Programs and Funds		112,353	119,359
Total Intragovernmental Debt Holdings		$4,528,083	$4,345,554

* These amounts include $4,999 million and $2,676 million of marketable Treasury securities as well as $14,889 million and $14,783 million of GAS securities as of September 30, 2010 and 2009, 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 Transportation (DOT); Department of the Treasury (Treasury); Department of Labor (DOL); Department of State (DOS); Department of Housing and Urban Development (HUD).

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

For the Fiscal Years Ended September 30, 2010 and 2009

(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, 2010 and 2009, the inflation-adjusted principal balance included inflation of $65,693 million and $54,775 million, respectively. The average interest rates on Intragovernmental Debt Holdings, excluding TIPS, for fiscal years 2010 and 2009 were 4.3 and 4.6 percent, respectively. The average interest rates on TIPS for fiscal years 2010 and 2009 were 1.9 and 2.0 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2010 and 2009.

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal years 2010 and 2009 consisted of the following:

	2010	2009
Federal Debt Held by the Public		
Accrued Interest	$206,843	$171,875
Net Amortization of Premiums and Discounts	7,947	17,273
Total Interest Expense on Federal Debt Held by the Public	214,790	189,148
Intragovernmental Debt Holdings		
Accrued Interest	199,789	191,955
Net Amortization of Premiums and Discounts	(1,549)	(399)
Total Interest Expense on Intragovernmental Debt Holdings	198,240	191,556
Total Interest Expense on Federal Debt Managed by BPD	$413,030	$380,704

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 $6,904 million and deflation adjustments of $10,607 million for fiscal years 2010 and 2009, respectively. Accrued interest on Intragovernmental Debt Holdings includes inflation adjustments of $4,452 million and deflation adjustments of $6,571 million for fiscal years 2010 and 2009, respectively.

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

For the Fiscal Years Ended September 30, 2010 and 2009

(Dollars in Millions)

Note 5. Fund Balance With Treasury

	As of September 30, 2010	As of September 30, 2009
Appropriated Funds Obligated	$102	$115
Fiduciary Funds Obligated	$2	$3
Total FBWT	$104	$118

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

Appendix I: 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, 2010, based on the criteria established under 31 U.S.C. § 3512(c), (d) (commonly known as the Federal Manager's Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2010, BPD's internal control over financial reporting relevant to the Schedule of Federal Debt was effective.

Bureau of the Public Debt
November 1, 2010

Van Zeck
Commissioner

Fred Pyatt
Chief Financial Officer

Debra L. Hines
Assistant Commissioner, OPDA

Kimberly McCoy
Chief Information Officer

Appendix II: Comments from the Bureau of the Public Debt

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

November 2, 2010

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, 2010 and 2009. We agree with the conclusions of your audit report.

We appreciate the knowledge and experience displayed by your audit team as we finalize the fourteenth year of our professional relationship. We would like to thank you and your staff for the thorough audit performed on these schedules. The usability of these reports continues to develop through combined efforts such as the implementation of routine status meetings and an all-inclusive provided by client list during fiscal year 2010. As we move forward with Summary Debt Accounting modernization, we will keep you abreast of our efforts. We look forward to continuing this productive and successful relationship.

Sincerely,

Van Zeck

Van Zeck
Commissioner

www.treasurydirect.gov

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Gary T. Engel, (202) 512-3406 or engelg@gao.gov

Acknowledgments

The following individuals made key contributions to this report: Dawn B. Simpson, Assistant Director; Dean D. Carpenter; Lauren J. Catchpole; Edmund F. Fernandez; Vivian M. Gutierrez; James M. Healy; Alan S. MacMullin; Nicole M. McGuire; Werner F. Miranda-Hernandez; Matthew C. O'Connor; Priscilla M. Pinckney; Chris J. Rodriguez; Carolyn M. Voltz; Melissa A. Wolf; Yiming I. Wu; and Tory E. Wudtke.

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