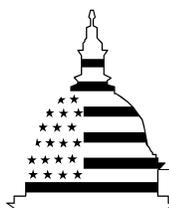


November 2005

# FINANCIAL AUDIT

## Bureau of the Public Debt's Fiscal Years 2005 and 2004 Schedules of Federal Debt



G A O

Accountability \* Integrity \* Reliability

GAO  
Accountability · Integrity · Reliability

# Highlights

Highlights of [GAO-06-169](#), a report to the Secretary of the Treasury

## Why GAO Did This Study

GAO is required to audit the consolidated financial statements of the U.S. government. Due to the significance of the federal debt held by the public to the governmentwide financial statements, GAO has also been auditing the Bureau of the Public Debt's (BPD) Schedules of Federal Debt annually. The audit of these schedules is done to determine whether, in all material respects, (1) the schedules are reliable and (2) BPD management maintained effective internal control relevant to the Schedule of Federal Debt. Further, we test compliance with selected provisions of significant 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. The level of debt held by the public reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of federal revenues. Intragovernmental debt holdings represent balances of Treasury securities held by federal government accounts, primarily federal trust funds such as Social Security, that typically have an obligation to invest their excess annual receipts over disbursements in federal securities.

[www.gao.gov/cgi-bin/getrpt?GAO-06-169](http://www.gao.gov/cgi-bin/getrpt?GAO-06-169).

For a fuller understanding of GAO's opinion on BPD's fiscal years 2005 and 2004 Schedules of Federal Debt, readers should refer to the complete audit report, available by clicking the link above, which includes information on audit objectives, scope, and methodology. For more information, contact Gary T. Engel at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov).

## FINANCIAL AUDIT

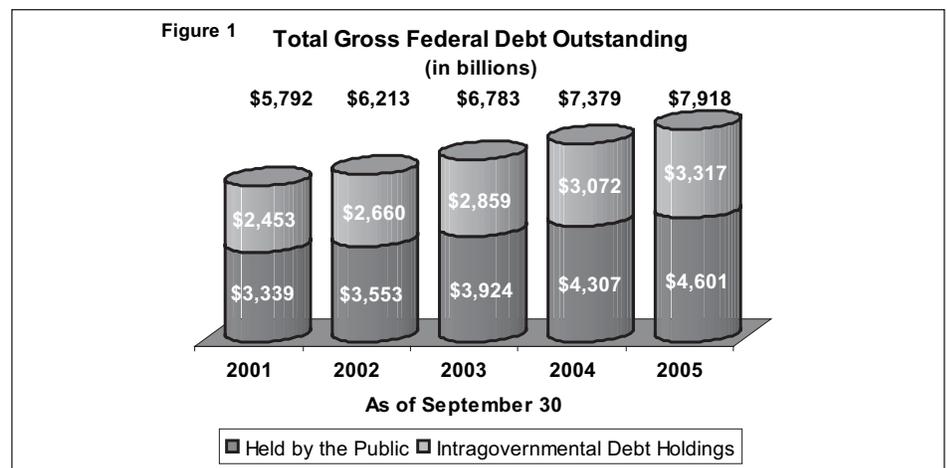
### Bureau of the Public Debt's Fiscal Years and Schedules of Federal Debt

## What GAO Found

In GAO's opinion, BPD's Schedules of Federal Debt for fiscal years 2005 and 2004 were fairly presented in all material respects and BPD maintained effective internal control related to the Schedule of Federal Debt as of September 30, 2005. GAO also found no instances of noncompliance in fiscal year 2005 with selected provisions of the statutory debt limit and debt issuance suspension period laws we tested.

As of September 30, 2005 and 2004, federal debt managed by BPD totaled about \$7,918 billion and \$7,379 billion, respectively. At the end of fiscal year 2005, debt held by the public as a percentage of the U.S. economy is estimated at 37.5 percent, compared to 33.0 percent at the end of fiscal year 2001. Further, certain trust funds (e.g., Social Security) continue to run surpluses, resulting in increased intragovernmental debt holdings. These debt holdings are backed by the full faith and credit of the U.S. government and represent a priority call on future budgetary resources. As a result, total gross federal debt has increased 37 percent between the end of fiscal years 2001 and 2005. During fiscal year 2005, a debt issuance suspension period was invoked to avoid breaching the statutory debt limit. On November 19, 2004, legislation was enacted to raise the debt limit by \$800 billion to \$8,184 billion.

As shown below, total federal debt increased over each of the last 4 fiscal years. Debt held by the public increased during this 4-year period primarily as a result of annual unified budget deficits. Intragovernmental debt holdings steadily increased during this 4-year period primarily due to excess receipts over disbursements in federal trust funds.



Source: BPD.

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# Contents

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<b>Letter</b>		1
<b>Auditor's Report</b>		9
	Opinion on Schedules of Federal Debt	10
	Opinion on Internal Control	10
	Compliance with Laws and Regulations	10
	Consistency of Other Information	11
	Objectives, Scope, and Methodology	11
	Agency Comments	13
<b>Overview, Schedules, and Notes</b>		14
	Overview on Federal Debt Managed by the Bureau of the Public Debt	14
	Schedules of Federal Debt	24
	Notes to the Schedules of Federal Debt	25
<b>Appendixes</b>		
	<b>Appendix I: Comments from the Bureau of the Public Debt</b>	30
	<b>Appendix II: GAO Contact and Staff Acknowledgments</b>	31

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## Abbreviations

BPD	Bureau of the Public Debt
GDP	gross domestic product
OMB	Office of Management and Budget
TIPS	Treasury Inflation Protected Securities

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

November 7, 2005

The Honorable John W. Snow  
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, 2005 and 2004. 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 bureau.<sup>1</sup>

The auditor's report contains our (1) opinion on the Schedules of Federal Debt for the fiscal years ended September 30, 2005 and 2004, (2) opinion on the effectiveness of related internal control as of September 30, 2005, (3) conclusion on the bureau's compliance in fiscal year 2005 with selected provisions of laws we tested, and (4) conclusion on the consistency between information in the Schedules of Federal Debt and the accompanying Overview on Federal Debt Managed by the Bureau of the Public Debt.

As of September 30, 2005 and 2004, federal debt managed by the bureau totaled about \$7,918 billion and \$7,379 billion, respectively, for moneys borrowed to fund the federal government's operations. As shown on the Schedules of Federal Debt, these balances consisted of approximately (1) \$4,601 billion as of September 30, 2005, and \$4,307 billion as of September 30, 2004, of debt held by the public and about (2) \$3,317 billion as of September 30, 2005, and \$3,072 billion as of September 30, 2004, of intragovernmental debt holdings.

The level of debt held by the public reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of federal revenues. It best represents the cumulative effect of past federal borrowing on today's economy and the

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<sup>1</sup>Intragovernmental Debt Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

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federal budget. 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 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.

Cash surpluses during fiscal years 1998 through 2001 enabled Treasury to reduce debt held by the public by \$476 billion, from \$3,815 billion as of September 30, 1997, to \$3,339 billion as of September 30, 2001. Treasury reduced this debt by redeeming maturing debt, reducing the number of auctions and size of new debt issues, conducting “buybacks” of debt before its maturity date, and redeeming callable securities when the opportunities arose.<sup>2</sup> However, because of the return to deficits, in fiscal years 2002 through 2005, debt held by the public increased by \$1,262 billion, with about \$294 billion of this increase occurring in fiscal year 2005. Treasury issued more debt by increasing the number of auctions and the size of new debt issues. During fiscal year 2003, Treasury reintroduced the 3-year note, which will be offered every quarter. In addition, Treasury increased the offerings of the 5-year note from quarterly to monthly; the 10-year note from an offering every quarter to eight offerings a year; and the 10-year Treasury Inflation-Protected Security (TIPS) from three offerings a year to an offering every quarter. During fiscal year 2004, Treasury introduced a 20-year TIPS, first issued on July 30, 2004, and a 5-year TIPS, first issued on October 29, 2004. Both securities will be offered semiannually. During fiscal year 2005, Treasury announced the reintroduction of the 30-year bond, which was suspended in October 2001. The 30-year bond will be issued semi-annually with the first issuance to be on February 15, 2006. Notwithstanding the increases in fiscal years 2002 through 2005, debt held by the public as a percentage of total federal debt has decreased from approximately 71 percent as of September 30, 1997, the first year the Schedule of Federal Debt was audited, to approximately 58 percent as of September 30, 2005.

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 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. These securities

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<sup>2</sup>During this period, Treasury eliminated the 3-year note and the 52-week bill.

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are nonmarketable; however, they represent a priority call on future budgetary resources. Certain of these trust funds, such as the Social Security and federal civilian employee retirement trust funds, have been running cash surpluses, which are loaned to the Treasury and reduce the current need for the federal government to borrow from the public in order to finance current operations. As a result of total trust fund surpluses, intragovernmental debt holdings have increased by approximately \$1,734 billion during fiscal years 1998 through 2005, from \$1,583 billion as of September 30, 1997, to \$3,317 billion as of September 30, 2005, with about \$245 billion of this increase occurring in fiscal year 2005. Intragovernmental debt holdings as a percentage of total federal debt have increased from approximately 29 percent as of September 30, 1997, to approximately 42 percent as of September 30, 2005.

The transactions relating to the use of the federal government accounts' surpluses net out on the federal government's consolidated financial statements because, in effect, they represent loans from one part of the federal government to another. Importantly, these intragovernmental debt holdings also constitute future obligations of the Treasury since the Treasury must provide cash to redeem these securities in order for the individual accounts to pay their benefits or other obligations as they come due. When this occurs, if sufficient cash surpluses are not available to redeem the securities, the federal government would either need to increase borrowing from the public, raise future taxes, reduce future spending, retire less debt (if the budget as a whole is in surplus), or some combination thereof. It also should be noted that the surpluses in the federal government accounts could have served to reduce interest rates on the debt held by the public as compared to what the rates might have been had these surpluses not been available.

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 perform an accounting function but 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 the Treasury are entirely offset by the income

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received by such accounts—in effect, one part of the federal government pays the interest and another part receives it. This intragovernmental debt and the interest on it represents a claim on future resources and hence a burden on future taxpayers and the future economy when it has to be redeemed to meet obligations under the respective programs. However, these intragovernmental debt holdings do not fully reflect the federal government’s total future commitment to trust fund financed programs. They primarily represent the cumulative historical surpluses of those trust funds and also reflect future priority claims on the U.S. Treasury. They do not have the current economic effects of borrowing from the public and do not currently compete with the private sector for available funds in the credit markets. However, when trust funds redeem Treasury securities to obtain cash to fund expenditures, and Treasury borrows from the public to finance these redemptions, there is competition with the private sector and thus an effect on the economy.

During fiscal year 2005, Treasury faced the challenge of managing the debt within the statutory debt limit. On October 14, 2004, Treasury entered into a debt issuance suspension period. A debt issuance suspension period is any period for which the Secretary of the Treasury has determined that obligations of the United States may not be issued without exceeding the debt limit.<sup>3</sup> Actions taken by Treasury, which were consistent with legal authorities provided to the Secretary, included suspending investment of receipts of the Government Securities Investment Fund (G-Fund) of the federal employees' Thrift Savings Plan, the Exchange Stabilization Fund, and the Civil Service Retirement and Disability Trust Fund (Civil Service fund); redeeming Civil Service fund securities early; suspending the sales of State and Local Government Series nonmarketable Treasury securities; exchanging Treasury securities for Federal Financing Bank securities; and postponing an auction of Treasury bills. On November 19, 2004, legislation was enacted to raise the statutory debt limit by \$800 billion to \$8,184 billion.<sup>4</sup> Subsequently, Treasury restored all losses to the G-Fund and Civil Service fund in accordance with legal authorities provided to the Secretary of the Treasury.

During our audits, we have noted certain trends—the increase in the amount of Treasury securities held by foreign and international investors

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<sup>3</sup>5 U.S.C. §§ 8348(j)(5)(B), 8438(g)(6)(B).

<sup>4</sup>Pub. L. No. 108-415, §1, 118 Stat. 2337 (Nov. 19, 2004).

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and the increased costs to finance the federal government's growing debt. Foreign and international investors are a major holder of debt held by the public. Over the last 3 years, foreign and international holdings have significantly increased. According to amounts reported in the September 2005 *Treasury Bulletin*, Treasury estimates that the amount of Treasury securities held by foreign and international investors has increased from about \$1,135 billion as of June 30, 2002, to \$2,030 billion as of June 30, 2005, or \$895 billion. As of June 30, 2005, this represents an estimated 45 percent of total debt held by the public. During the same 3-year period, debt held by the public increased by \$1,064 billion, from about \$3,464 billion to \$4,528 billion. Based on amounts reported in the September 2005 *Treasury Bulletin*, the estimated increase in holdings by foreign and international investors represents about 84 percent of the increase in debt held by the public over the same period. The United States benefits from foreign purchases of Treasury securities because foreign investors fill part of the U.S. government's borrowing needs. However, to service this foreign-held debt, the U.S. government must send interest payments abroad, which adds to the incomes of residents of other countries rather than to the incomes of U.S. residents. In addition, this increasing reliance on foreign investors to finance the deficits of the U.S. government presents a potential risk to the U.S. economy, especially since the U.S. gross national saving rate is low by U.S. historical standards and averages well below that of other major industrialized nations.

Rising interest rates on Treasury securities—although relatively low by historical standards—are contributing to an increased cost to finance the federal government's growing debt. The interest rate for 13-week Treasury bills increased from a low of 1.68 percent during fiscal year 2005 to 3.44 percent as of September 29, 2005. Also during fiscal year 2005, the interest rate on 2-year Treasury notes increased from a low of 2.50 percent as of November 1, 2004, to 4.00 percent as of September 30, 2005. About \$2,130 billion, or 46 percent, of marketable Treasury securities held by the public as of September 30, 2005, will mature at least once during the next 2 years. The Congressional Budget Office projects that interest rates on Treasury securities, especially short-term rates, will continue to increase. As such, as the Treasury securities mature over the next 2 years and are replaced by new debt, the interest rates on the majority of the new issuances will likely be higher than the September 30, 2005, rates and result in continued increased cost to finance the federal government's debt. Thus, the combined effect of greater levels of debt and higher interest rates will likely place increasing pressure on the federal budget in the years ahead.

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The challenge of managing the federal debt is not likely to diminish any time soon. Debt held by the public continues to grow at a faster pace than the economy. At the end of fiscal year 2005, debt held by the public as a share of gross domestic product (GDP) is estimated at 37.5 percent, compared to 33.0 percent at the end of fiscal year 2001—the lowest ratio since 1983. In addition, gross federal debt has increased 37 percent during the same period, from \$5,792 billion as of September 30, 2001, to \$7,918 billion as of September 30, 2005. Further, interest on debt held by the public grew more rapidly than any other major spending category in 2005, rising 14 percent above the 2004 level. While growth in the debt held by the public-to-GDP measure does not necessarily create problems in the short term, continued growth in the long term would reduce budgetary flexibility and ultimately lead to an unsustainable fiscal path.

In fact, GAO's long-range fiscal policy simulations show that the nation's current fiscal condition is but a prelude to a much more daunting long-term fiscal challenge.<sup>5</sup> The pending retirement of the Baby Boom generation and rising health care costs will place unprecedented and long-lasting stress on the federal budget, raising debt held by the public to unprecedented levels as a share of GDP. These projected trends are compounded by the presence of near-term deficits that have arisen from new discretionary and mandatory spending as well as lower revenues as a share of the economy. Absent significant changes on the spending and/or revenue sides of the budget, these long-term deficits will encumber a growing share of federal resources and test the capacity of current and future generations to afford both today's and tomorrow's commitments. Continuing on this unsustainable path will gradually erode, if not suddenly damage, our economy, our standard of living and ultimately our national security.

As discussed earlier, federal debt managed by the bureau totaled about \$7.9 trillion at the end of the fiscal year, or more than \$26,000 for every man, woman, and child in this country today. But that number excludes many items, including the gap between future promised and funded Social Security and Medicare benefits, veterans' health care, and a range of other commitments and contingencies that the federal government has pledged to support. If these items are factored in, the present value of the total burden is about \$46 trillion. Stated differently, the total burden for every American is more than \$150,000—and every day that burden becomes

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<sup>5</sup>See GAO, *Our Nation's Fiscal Outlook: The Federal Government's Long-Term Budget Imbalance*, <http://www.gao.gov/special.pubs/longterm>.

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larger. Our long-term budget simulations show that without action by 2040, the federal government may have to either cut federal spending by 60 percent or raise taxes to about 2.5 times today's level to pay for the mounting cost of the federal government's long-term commitments. Either option would be devastating to the economy and the future standard of living for Americans.

Addressing the nation's long-term fiscal imbalance constitutes a major transformational challenge that may take a generation or more to resolve. Given the size of the projected deficit, the U.S. government will not be able to grow its way out of this problem—tough choices will be required. Traditional incremental approaches to budgeting will need to give way to more fundamental and periodic reexaminations of the base of government. New reporting approaches, budget control mechanisms, and metrics are also needed to better assess the impact of spending and tax policies over the long term. While prompted by fiscal necessity, such a fundamental review could serve to update the federal government's programs and priorities to meet current and future challenges. Our report, *21<sup>st</sup> Century Challenges: Reexamining the Base of the Federal Government*, is intended to support the Congress in identifying issues and options that could help address these fiscal pressures.<sup>6</sup>

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We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations; the Senate Committee on Homeland Security and Governmental Affairs; the Senate Committee on the Budget; the Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies, Senate Committee on Appropriations; the Subcommittee on Federal Financial Management, Government Information, and International Security, the Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Appropriations; the House Committee on Government Reform; the House Committee on the Budget; the Subcommittee on Transportation, Treasury, and Housing and Urban Development, The Judiciary, District of Columbia, House Committee on Appropriations; and the Subcommittee on Government Management, Finance, and Accountability, House Committee on Government Reform. We are also sending copies of this report to the Commissioner of the

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<sup>6</sup>GAO, *21<sup>st</sup> Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: February 2005).

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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, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. If I can be of further assistance, please call me at (202) 512-5500. This report was prepared under the direction of Gary T. Engel, Director, Financial Management and Assurance. Should you or members of your staff have any questions concerning this report, please contact Mr. Engel at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov). Staff acknowledgments are provided in appendix II.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

**United States Government Accountability Office  
Washington, D.C. 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,<sup>1</sup> we 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 financial statements.

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, 2005 and 2004. 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 BPD.<sup>2</sup>

In our audits of the Schedules of Federal Debt for the fiscal years ended September 30, 2005 and 2004, we found the following:

- the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- BPD had effective internal control over financial reporting and compliance with laws and regulations related to the Schedule of Federal Debt as of September 30, 2005; and
- no reportable noncompliance in fiscal year 2005 with selected provisions of laws we tested.

The following sections discuss, in more detail, (1) these conclusions and our conclusion on the Overview on Federal Debt Managed by the Bureau of the Public Debt and (2) the scope of our audits.

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<sup>1</sup>31 U.S.C. § 331(e).

<sup>2</sup>Intragovernmental Debt Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

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## Opinion on 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, 2005, 2004, and 2003, 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, 2005 and 2004.

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## Opinion on Internal Control

BPD maintained, in all material respects, effective internal control relevant to the Schedule of Federal Debt related to financial reporting and compliance with applicable laws and regulations as of September 30, 2005, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the Schedule of Federal Debt would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. § 3512 (c), (d) (commonly referred to as the Federal Managers' Financial Integrity Act) and the Office of Management and Budget (OMB) Circular A-123, revised June 21, 1995, *Management Accountability and Control*.

We found matters involving information security controls that we consider not to be reportable conditions.<sup>3</sup> We will communicate these matters to BPD's management, along with our recommendations for improvement, in a separate letter to be issued at a later date.

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## Compliance with Laws and Regulations

Our tests for compliance in fiscal year 2005 with selected provisions of laws disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 2005, was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

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<sup>3</sup>Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the internal control objectives described in the Objectives, Scope, and Methodology section of this report.

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## 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 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. Based on this limited work, we found no material inconsistencies with the schedules.

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## Objectives, Scope, and Methodology

Management is responsible for the following:

- preparing the Schedules of Federal Debt in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance 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) management maintained effective related internal control as of September 30, 2005, the objectives of which are the following:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt for the fiscal year ended September 30, 2005, in conformity with U.S. generally accepted accounting principles.
- **Compliance with laws and regulations:** Transactions related to the Schedule of Federal Debt for the fiscal year ended September 30, 2005, are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Schedule of Federal Debt.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt. Further, we are responsible for performing limited

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procedures with respect to certain other information appearing with 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 internal control relevant to the Schedule of Federal Debt as of September 30, 2005, related to financial reporting and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control related to the Schedule of Federal Debt as of September 30, 2005;
- considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance in fiscal year 2005 with the (1) statutory debt limit (31 U.S.C. § 3101(b), as amended by Pub. L. No. 107-199, § 1, 116 Stat. 734 (2002), Pub. L. No. 108-24, 117 Stat. 710 (2003), and Pub. L. No. 108-415, § 1, 118 Stat. 2337 (2004)), (2) suspension and early redemption of investments from the Civil Service Retirement and Disability Trust Fund (5 U.S.C. § 8348(j)(k)), and (3) suspension of investments from the G-Fund (5 U.S.C. § 8438(g)).

We did not evaluate all internal controls relevant to operating objectives as broadly described by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also

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caution that projecting our evaluation 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 controls 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, 2005. 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 work in accordance with U.S. generally accepted government auditing standards and applicable OMB audit guidance.

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## Agency Comments

In commenting on a draft of this report, BPD concurred with the conclusions in our report. The comments are reprinted in appendix I.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

October 25, 2005

# Overview, Schedules, and Notes

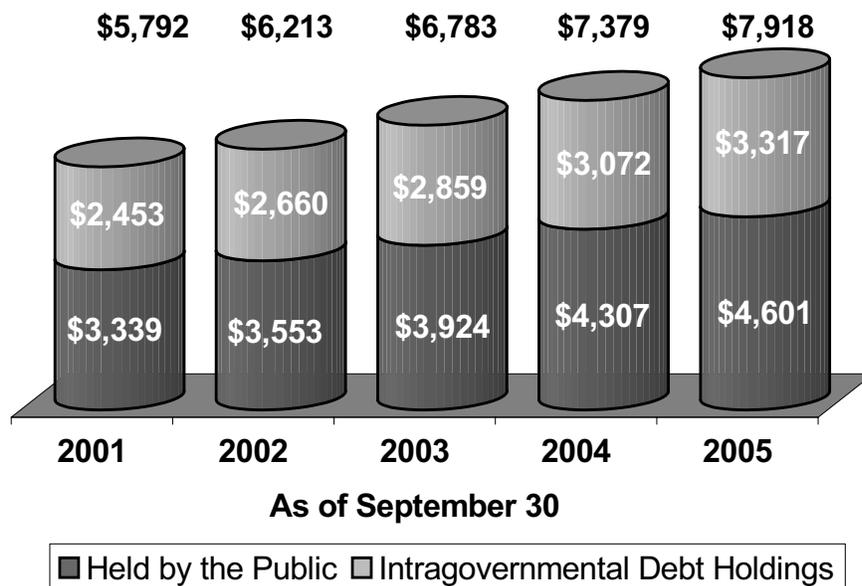
## Overview on Federal Debt Managed by the Bureau of the Public Debt

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

#### Gross Federal Debt Outstanding<sup>1</sup>

Federal debt managed by the Bureau of the Public Debt comprises debt held by the public and debt held by certain federal government accounts, the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2005 and 2004, outstanding gross federal debt managed by the bureau totaled \$7,918 and \$7,379 billion, respectively. The increase in gross federal debt of \$539 billion during fiscal year 2005 was due to an increase in gross intragovernmental debt holdings of \$245 billion and an increase in gross debt held by the public of \$294 billion. As Figure 1 illustrates, both intragovernmental debt holdings and debt held by the public have steadily increased since fiscal year 2001. The primary reason for the increases in intragovernmental debt holdings is the annual surpluses in the Federal Old-Age and Survivors Insurance Trust Fund, Civil Service Retirement and Disability Fund, Federal Hospital Insurance Trust Fund, Federal Disability Insurance Trust Fund, and Military Retirement Fund. The increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. As of September 30, 2005, gross debt held by the public totaled \$4,601 billion and gross intragovernmental debt holdings totaled \$3,317 billion.

**Figure 1 Total Gross Federal Debt Outstanding (in billions)**

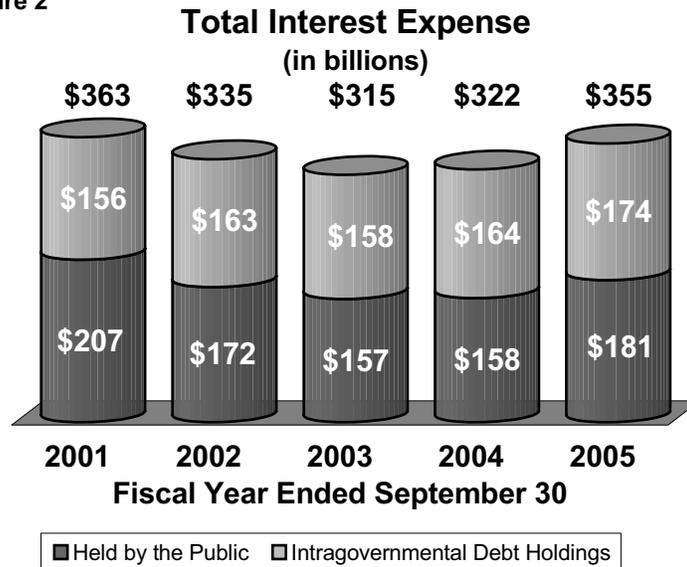


<sup>1</sup> Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by the bureau and which are issued by the Federal Financing Bank and other federal government agencies.

**Interest Expense**

Interest expense incurred during fiscal year 2005 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. During fiscal year 2005, interest expense incurred totaled \$355 billion, interest expense on debt held by the public was \$181 billion, and \$174 billion was interest incurred for intragovernmental debt holdings. As Figure 2 illustrates, total interest expense decreased each year from fiscal year 2001 through 2003, but increased in fiscal years 2004 and 2005. Average interest rates on principal balances outstanding as of fiscal year end are disclosed in the Notes to the Schedules of Federal Debt.

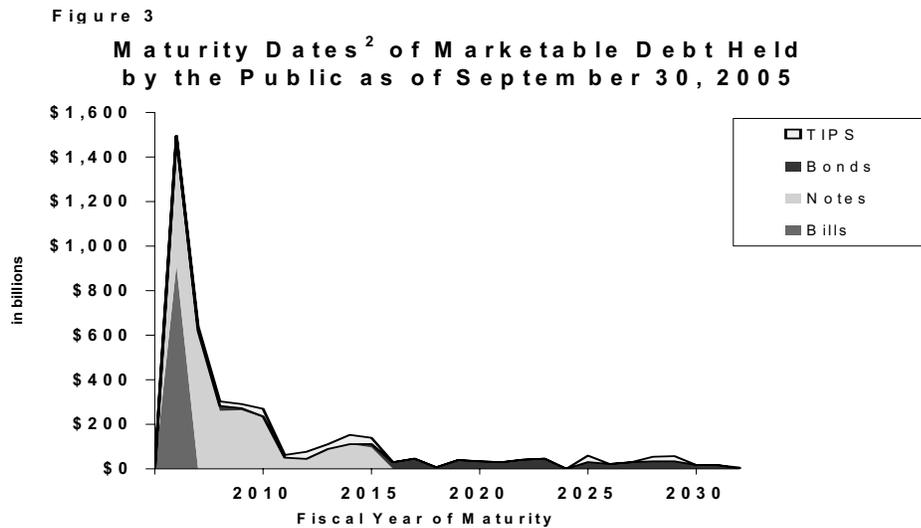
**Figure 2**



**Debt Held by the Public**

Debt held by the public reflects how much of the nation’s wealth has been absorbed by the federal government to finance prior federal spending in excess of total federal revenues. As of September 30, 2005 and 2004, gross debt held by the public totaled \$4,601 billion and \$4,307 billion, respectively (see Figure 1), an increase of \$294 billion. The borrowings and repayments of debt held by the public decreased from fiscal year 2004 to 2005 primarily due to Treasury’s decision to finance current operations using more long-term securities.

As of September 30, 2005, \$4,066 billion, or 88 percent, of the securities that constitute debt held by the public were marketable, meaning that once the 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, 2005, \$2,728 billion or 67 percent will mature within the next 4 years (see Figure 3). As of September 30, 2005 and 2004, notes and TIPS held by the public maturing within the next 10 years totaled \$2,558 billion and \$2,274 billion, respectively, an increase of \$284 billion.



<sup>2</sup> Callable securities mature between fiscal years 2011 and 2015, but are reported by their call date.

***Debt Held by the Public, cont.***

The government also issues to the public, state and local governments, and foreign governments and central banks nonmarketable securities, which cannot be resold, and have maturity dates from on demand to more than 10 years. As of September 30, 2005, nonmarketable securities totaled \$535 billion, or 12 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling \$204 billion and special securities for state and local governments totaling \$225 billion.

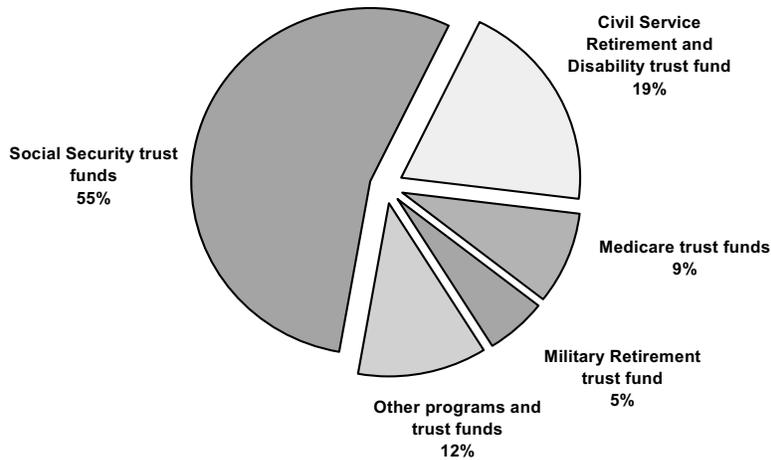
The Federal Reserve Banks (FRBs) act as fiscal agents for Treasury, as permitted by the Federal Reserve Act. As fiscal agents for Treasury, the FRBs play a significant role in the processing of marketable book-entry securities and paper U.S. savings bonds. For marketable book-entry securities, selected FRBs receive bids, issue book-entry securities to awarded bidders and collect payment 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 Civil Service Retirement and Disability trust funds.<sup>3</sup> As of September 30, 2005, such funds accounted for \$2,928 billion, or 88 percent, of the \$3,317 billion intragovernmental debt holdings balances (see Figure 4). As of September 30, 2005 and 2004, gross intragovernmental debt holdings totaled \$3,317 billion and \$3,072 billion, respectively (see Figure 1), an increase of \$245 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, 2005**



<sup>3</sup> The Social Security trust funds consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. In addition, the Medicare trust funds are made up of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

## ***Significant Events in FY 2005***

### **Statutory Debt Ceiling Raised**

From October 14 to November 19, 2004, Treasury faced a debt issuance suspension period that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid breaching the statutory debt limit. During this period, actions taken by Treasury included suspending investment of receipts of the Government Securities Investment Fund (G-Fund) of the federal employees Thrift Savings Plan, the Exchange Stabilization Fund (ESF), and the Civil Service Retirement and Disability Fund (Civil Service Fund); redeeming Civil Service Fund securities early; suspending the sales of State and Local Government Series securities; exchanging Government Account Series nonmarketable Treasury securities for Federal Financing Bank securities not reported on these schedules; and postponing an auction of Treasury bills. On November 19, 2004, Public Law 108-415 was enacted, which raised the statutory debt ceiling by \$800 billion to \$8,184 billion.

### **TreasuryDirect**

#### **Marketable Securities Offered in TreasuryDirect**

Since 1986, individuals buying marketable securities directly from the Treasury have been able to buy and hold these securities through Legacy Treasury Direct. Because this system pre-dated the Internet, it does not operate in a completely paper-free, online manner, although it does permit certain online electronic transactions, such as purchases and reinvestments, through Electronic Services for Treasury Bills, Notes, and Bonds. Savings bonds are not available in Legacy Treasury Direct.

In 2002, Treasury launched a new TreasuryDirect program through the Bureau of the Public Debt that allows investors to manage their accounts electronically for savings bonds as well as marketable securities. Since the introduction of this new program, account holders have only been able to purchase Series I and EE U.S. Savings Bonds. Beginning with the October 3, 2005 auction of 13 and 26 week Treasury bills, individuals with TreasuryDirect online accounts were able to submit noncompetitive bids to purchase marketable Treasury securities (bills, notes, bonds, and TIPS). For the first time, TreasuryDirect account holders were able to purchase and hold savings bonds and marketable securities in a single, online account, providing 24/7 convenience for tracking and managing all Treasury consumer securities. The regulations that allow the marketable securities to be offered in TreasuryDirect were published on September 30, 2005.

#### **Paper Savings Bond Conversions**

Electronic Series I savings bonds, the first securities offered in TreasuryDirect, were introduced in October 2002, and electronic Series EE savings bonds were added in May 2003. Since December 2004, owners of paper Series EE, E and I bonds have been able to convert their paper securities to electronic form and hold them in a TreasuryDirect account. To manage the influx of transactions, the opportunity to convert has initially been extended by invitation to TreasuryDirect account holders. As of September 30, 2005, 190,250 paper bonds have been converted to electronic form.

## ***Significant Events in FY 2005, cont.***

### **Legacy Treasury Direct**

#### **Federal Reserve Bank Consolidation**

Recognizing that the growth of TreasuryDirect would reduce the number of transactions processed by the Federal Reserve Banks, the Bureau of the Public Debt announced in December 2003 that all savings bond and Legacy Treasury Direct processing would be consolidated from seven FRBs to FRB Minneapolis and FRB Pittsburgh. These two banks, designated as Treasury Retail Securities processing sites, were tasked with planning and executing the consolidation with assistance as needed from the Bureau of the Public Debt. Based on these consolidations, the Bureau of the Public Debt began updating the Public Debt Accounting and Reporting System to refine the reporting entities' access. This process was ongoing throughout fiscal year 2005.

#### **Regulations Signed for Legacy Treasury Direct**

The regulations published on September 30, 2005, included changes in the appearance of the name for the existing direct-access system for book-entry marketable securities. The name was formerly presented as legacy *TreasuryDirect*, but will now appear as Legacy Treasury Direct. These regulations were needed to distinguish the legacy system which was introduced in 1986 from the new system which was launched in 2002. The new system is trademarked as TreasuryDirect. In addition, the regulations state that competitive bidding will no longer be allowed for securities held in Legacy Treasury Direct.

### **New Rate Structure for Series EE Bonds**

On April 4, 2005, Treasury announced that Series EE bonds with issue dates of May 2005 and later would earn fixed rates of interest. Previous EE bonds earned interest at a variable rate that was adjusted every 6 months. The new fixed rate applies for the 30-year life of each bond, including a 10-year extended maturity period, unless a different rate or rate structure is announced for the extension period. Rates for new issues are announced each May 1 and November 1. Treasury guarantees that, at a minimum, the value of a Series EE bond issued May 2005 or later will double after 20 years. If a bond does not double in value as a result of applying the fixed rate for 20 years, Treasury will make a one-time adjustment at original maturity to make up the difference. The initial fixed rate, announced on May 2, 2005, and effective for bonds issued May through October 2005, is 3.50%.

### **New SLGS Regulations Published**

On June 30, 2005, final regulations on the State and Local Government Series (SLGS) securities were published in the *Federal Register* and became effective on August 15, 2005. The regulations address certain practices of SLGS market participants that Treasury considers to be an inappropriate use of the SLGS securities program. A significant change was to reduce the basis point differential to 1 basis point below the current Treasury borrowing rates. Other significant changes include prohibiting the cancellation of subscriptions, disallowing issue date changes, restricting the change of principal subscribed for to 10 percent, and requiring the mandatory use of SLGSafe for all SLGS transactions. SLGSafe is the Internet application available to investors in SLGS securities.

***Significant Events in FY 2005, cont.***

**Implementation of Daily GAS Accruals**

Beginning July 1, 2005, the Bureau of the Public Debt began posting daily interest accruals and amortization of discounts and premiums for the Government Account Series (GAS) securities. Previously, this posting was monthly. This effort is in support of the strategic objective to produce daily financial statements by fiscal year 2007.

**Thirty-Year Nominal Issuance**

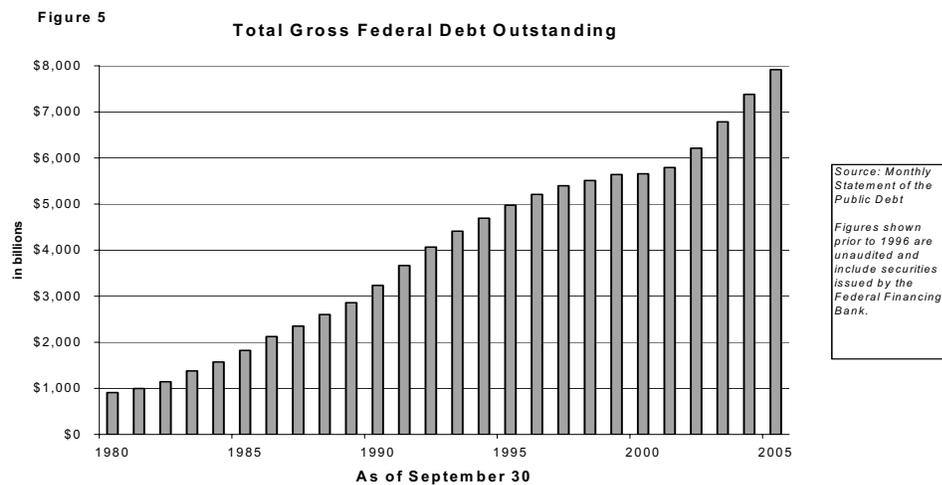
The reintroduction of the thirty-year bond diversifies funding and increases the investor base. Reintroduction of the bond will halt the decline in the average maturity of debt outstanding and modestly lower Treasury's rollover need. Treasury plans to issue the first 30-year bond in February 2006 on a February/August cycle with the first bond maturing on February 15, 2036.

**Early Release of CUSIPS**

Beginning on December 17, 2004, Treasury released the CUSIPS for all securities scheduled for the following week. The early release of CUSIPS will improve efficiency of Treasury market transactions at the time of auction announcements. CUSIPS for scheduled auctions will be announced every Friday at 10:30 a.m. and posted on the Bureau of the Public Debt's website.

### 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 \$908 billion as of September 30, 1980 to \$7,918 billion as of September 30, 2005 (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 more than five fold between 1980 and 1997.

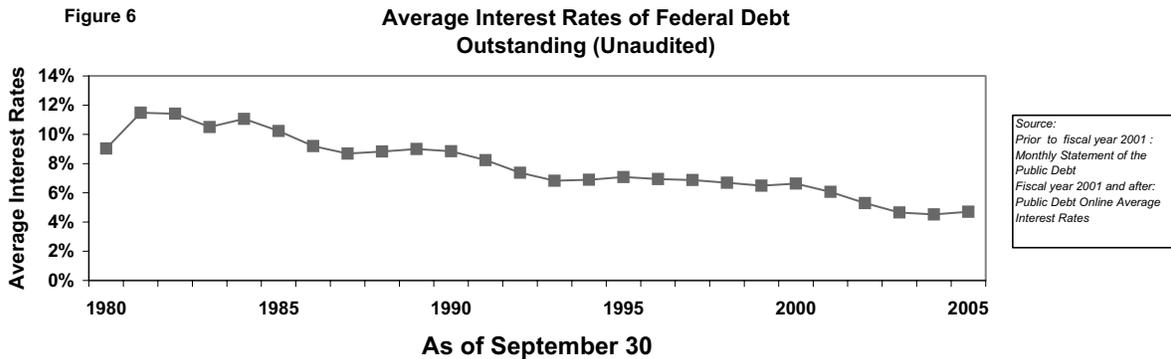


However, by fiscal year 1998, federal debt held by the public was beginning to decline. In fiscal years 1998 through 2001, the amount of debt held by the public fell by \$476 billion, from \$3,815 billion to \$3,339 billion. As a consequence of the changes in the federal government's financing needs, resulting from increased federal outlays, tax policy decisions, and the deterioration of overall economic performance, from fiscal year 2001 to 2005 debt held by the public rose by \$1,262 billion, from \$3,339 billion to \$4,601 billion.

**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 \$864 billion, from \$2,453 billion as of September 30, 2001, to \$3,317 billion as of September 30, 2005. By law, trust funds have the authority or are required to invest surpluses 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.



Schedules of Federal Debt

Schedules of Federal Debt

Managed by the Bureau of the Public Debt  
For the Fiscal Years Ended September 30, 2005 and 2004  
(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)
<b>Balance as of</b>						
<b>September 30, 2003</b>	<b>3,924,090</b>	<b>31,810</b>	<b>(36,846)</b>	<b>2,859,230</b>	<b>40,754</b>	<b>(312)</b>
<b>Increases</b>						
Borrowings from the Public	4,775,523		(10,667)			
Net Increase in Intragovernmental Debt Holdings				212,478		3,440
Accrued Interest (Note 4)		145,585			167,855	
<b>Total Increases</b>	<b>4,775,523</b>	<b>145,585</b>	<b>(10,667)</b>	<b>212,478</b>	<b>167,855</b>	<b>3,440</b>
<b>Decreases</b>						
Repayments of Debt Held by the Public	4,392,268					
Interest Paid		144,660			166,346	
Net Amortization (Note 4)			(12,735)			3,717
<b>Total Decreases</b>	<b>4,392,268</b>	<b>144,660</b>	<b>(12,735)</b>	<b>0</b>	<b>166,346</b>	<b>3,717</b>
<b>Balance as of</b>						
<b>September 30, 2004</b>	<b>4,307,345</b>	<b>32,735</b>	<b>(34,778)</b>	<b>3,071,708</b>	<b>42,263</b>	<b>(589)</b>
<b>Increases</b>						
Borrowings from the Public	4,638,118		(27,521)			
Net Increase in Intragovernmental Debt Holdings				245,763		17,143
Accrued Interest (Note 4)		154,398			175,564	
<b>Total Increases</b>	<b>4,638,118</b>	<b>154,398</b>	<b>(27,521)</b>	<b>245,763</b>	<b>175,564</b>	<b>17,143</b>
<b>Decreases</b>						
Repayments of Debt Held by the Public	4,344,224					
Interest Paid		152,172			174,577	
Net Amortization (Note 4)			(26,768)			1,814
<b>Total Decreases</b>	<b>4,344,224</b>	<b>152,172</b>	<b>(26,768)</b>	<b>0</b>	<b>174,577</b>	<b>1,814</b>
<b>Balance as of</b>						
<b>September 30, 2005</b>	<b>\$4,601,239</b>	<b>\$34,961</b>	<b>(\$35,531)</b>	<b>\$3,317,471</b>	<b>\$43,250</b>	<b>\$14,740</b>

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, 2005 and 2004*

*(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 2005 and 2004 balances and activity relating to monies borrowed from the public and certain federal government accounts to fund the U.S. government's operations. 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.C. 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.

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 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, 2005 and 2004*

*(Dollars in Millions)*

**Note 2. Federal Debt Held by the Public**

As of September 30, 2005 and 2004, Federal Debt Held by the Public consisted of the following:

	2005		2004	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	\$910,323	3.4%	\$961,449	1.6%
Treasury Notes	2,328,212	3.7%	2,109,494	3.5%
Treasury Bonds	520,507	7.9%	551,904	8.0%
TIPS	307,011	2.4%	223,008	2.8%
Total Marketable	<u>\$4,066,053</u>		<u>\$3,845,855</u>	
Nonmarketable	\$535,186	4.9%	\$461,490	5.1%
Total Federal Debt Held by the Public	<u><u>\$4,601,239</u></u>		<u><u>\$4,307,345</u></u>	

Treasury issues marketable bills at a discount 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, 2005 and 2004, respectively. 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, 2005 and 2004. 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, the leading measurement of inflation. TIPS are issued with a term of more than 5 years. 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.

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

*For the Fiscal Years Ended September 30, 2005 and 2004*

*(Dollars in Millions)*

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

As of September 30, 2005, nonmarketable securities primarily consisted of \$203,690 million in U.S. Savings Securities, \$225,283 million in securities issued to State and Local Governments, \$3,086 million in Foreign Series Securities, and \$29,995 million in Domestic Series Securities. As of September 30, 2004, nonmarketable securities primarily consisted of \$204,246 million in U.S. Savings Securities, \$158,214 million in securities issued to State and Local Governments, \$5,881 million in Foreign Series Securities, and \$29,995 million in Domestic Series Securities. 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, 2005 and 2004. Nonmarketable securities are issued with a term of on demand to more than 10 years.

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. These accounts consist of GAS Held by the Public of \$67,961 million and \$58,528 million as of September 30, 2005 and 2004, respectively. 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 2005 and 2004 are included in the respective Borrowings from the Public amounts reported on the Schedules of Federal Debt.

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. The FRB owned \$733 billion and \$698 billion of Federal Debt Held by the Public as of September 30, 2005 and 2004, respectively. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

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

*For the Fiscal Years Ended September 30, 2005 and 2004*

*(Dollars in Millions)*

**Note 3. Intragovernmental Debt Holdings**

As of September 30, 2005 and 2004, Intragovernmental Debt Holdings are owed to the following:

	<u>2005</u>	<u>2004</u>
SSA: Federal Old-Age and Survivors Insurance Trust Fund	\$1,616,159	\$1,452,599
OPM: Civil Service Retirement and Disability Fund	646,749	631,860 *
HHS: Federal Hospital Insurance Trust Fund	277,268	264,375
SSA: Federal Disability Insurance Trust Fund	193,263	182,799 *
DOD: Military Retirement Fund	177,282	177,280
DOL: Unemployment Trust Fund	54,806	45,239
DOD: DOD Medicare-Eligible Retiree Health Care Fund	52,873	35,864
DOE: Nuclear Waste Disposal Fund	33,549	30,518
FDIC: The Bank Insurance Fund	32,733	32,089
OPM: Employees Life Insurance Fund	29,485	28,107
HUD: FHA – Liquidating Account	22,642	23,321
HHS: Federal Supplementary Medical Insurance Trust Fund	17,204	17,439
Treasury: Exchange Stabilization Fund	15,238	10,319
DOS: Foreign Service Retirement and Disability Fund	13,359	12,828
DOL: Pension Benefit Guaranty Corporation	12,997	13,166
OPM: Employees Health Benefits Fund	12,531	10,772
FDIC: The Saving Association Insurance Fund	12,325	11,852
VA: National Service Life Insurance Fund	10,597	10,948
DOT: Airport and Airway Trust Fund	10,047	9,892
DOT: Highway Trust Fund	8,271	10,212
Other Programs and Funds	68,093	60,229
Total Intragovernmental Debt Holdings	<u>\$3,317,471</u>	<u>\$3,071,708</u>

\* These amounts include marketable Treasury securities as well as GAS securities as follows:

	<u>GAS Securities</u>	<u>Marketable Treasury Securities</u>	<u>Total</u>
As of September 30, 2004:			
Civil Service Retirement and Disability Fund	\$631,749	\$111	\$631,860
Federal Disability Insurance Trust Fund	182,769	30	182,799

The marketable securities held by the Civil Service Retirement and Disability Fund and the Federal Disability Insurance Trust Fund were called on February 15, 2005. The proceeds were rolled over as investments in GAS securities.

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Health and Human Services (HHS); Department of Defense (DOD); Department of Labor (DOL); Department of Energy (DOE); Federal Deposit Insurance Corporation (FDIC); Department of Housing and Urban Development (HUD); Department of the Treasury (Treasury); Department of State (DOS); Department of Veterans Affairs (VA); Department of Transportation (DOT).

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

*For the Fiscal Years Ended September 30, 2005 and 2004*

*(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. The average interest rates for fiscal years 2005 and 2004 were 5.2 percent and 5.4 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2005 and 2004. GAS securities are issued with a term of on demand to 30 years.

**Note 4. Interest Expense**

Interest expense on Federal Debt Managed by BPD for fiscal years 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Federal Debt Held by the Public		
Accrued Interest	\$154,398	\$145,585
Net Amortization of Premiums and Discounts	<u>26,768</u>	<u>12,735</u>
Total Interest Expense on Federal Debt Held by the Public	<u>181,166</u>	<u>158,320</u>
Intragovernmental Debt Holdings		
Accrued Interest	175,564	167,855
Net Amortization of Premiums and Discounts	<u>(1,814)</u>	<u>(3,717)</u>
Total Interest Expense on Intragovernmental Debt Holdings	<u>173,750</u>	<u>164,138</u>
Total Interest Expense on Federal Debt Managed by BPD	<u><u>\$354,916</u></u>	<u><u>\$322,458</u></u>

**Note 5. Fund Balance With Treasury**

	As of <u>September 30, 2005</u>	As of <u>September 30, 2004</u>
Appropriated Funds Obligated	\$142	\$145

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.

# Comments from the Bureau of the Public Debt



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

NOV 02 2005

Mr. Gary T. Engel  
Director  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Engel:

This letter is our 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, 2005, and 2004. We agree with your audit report's conclusions.

As we conclude the ninth consecutive year of our professional relationship, thank you for conducting a thorough audit of these schedules. Through our combined efforts, the usability of these financial reports continues to develop. The experience and courteous attitude of your audit team is greatly appreciated and we look forward to continuing this productive and successful collaboration.

Sincerely,

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

Van Zeck  
Commissioner

[www.treasurydirect.gov](http://www.treasurydirect.gov)

# GAO Contact and Staff Acknowledgments

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## GAO Contact

Gary Engel, (202) 512-3406

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## Acknowledgments

In addition to the individual named above, Dawn B. Simpson, Assistant Director; Erik A. Braun; Dean D. Carpenter; Dennis L. Clarke; Thomas F. Dawson; Chau L. Dinh; Mickie E. Gray; James S. Maziasz; Jay McTigue; Timothy J. Murray; Lori B. Ryza; Zakia Simpson; and Jason O. Strange made key contributions to this report.

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