United States Government Accountability Office

Report to the Secretary of the Treasury

November 2015

FINANCIAL AUDIT

Bureau of the Fiscal Service's Fiscal Years 2015 and 2014 Schedules of Federal Debt

Accessible Version

GAO-16-160

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GAO Highlights

Highlights of GAO-16-160, a report to the Secretary of the Treasury

Why GAO Did This Study

GAO audits the consolidated financial statements of the U.S. government. Because of the significance of the federal debt to the government-wide financial statements, GAO audits Fiscal Service's Schedules of Federal Debt annually to determine whether, in all material respects, (1) the schedules are reliable and (2) Fiscal Service management maintained effective internal control over financial reporting relevant to the Schedule of Federal Debt. Further, GAO tests compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements related to the Schedule of Federal Debt.

Federal debt managed by the Fiscal Service 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 essentially 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 such as Social Security and Medicare—that typically have an obligation to invest their excess annual receipts (including interest earnings) over disbursements in federal securities.

In commenting on a draft of this report, Fiscal Service concurred with GAO's conclusions.

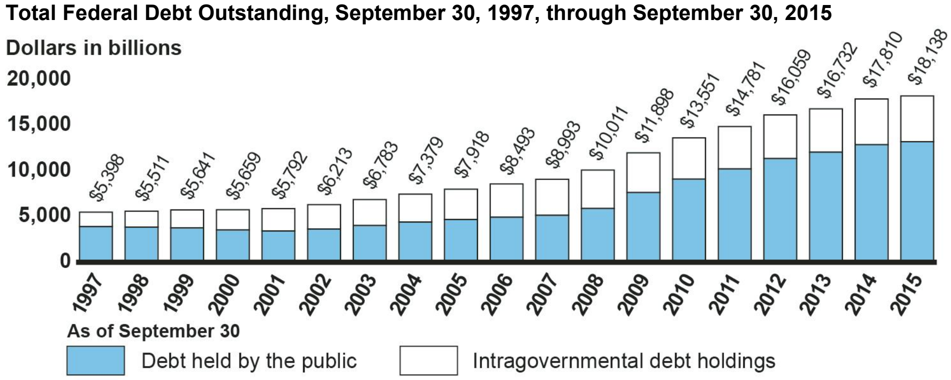
View GAO-16-160. For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov.

What GAO Found

In GAO's opinion, the Bureau of the Fiscal Service's (Fiscal Service) Schedules of Federal Debt for fiscal years 2015 and 2014 were fairly presented in all material respects, and the Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2015. GAO's tests disclosed no instances of reportable noncompliance for fiscal year 2015 with selected provisions of applicable laws, regulations, contracts, and grant agreements related to the Schedule of Federal Debt.

From fiscal year 1997, the first year of audit, through September 30, 2015, total federal debt managed by the Fiscal Service has increased by 236 percent and the debt limit has been raised 16 times, from $5,950 billion to $18,113 billion.

Total Federal Debt Outstanding, September 30, 1997, through September 30, 2015



Note: A small amount of total federal debt is not subject to the debt limit.

Source: GAO analysis of Fiscal Service information. | GAO-16-160

Total Federal Debt Outstanding, September 30, 1997, through September 30, 2015 (in billions of dollars)

Year	Debt Hel by the Public	Intergovernmental Debt
1997	3815	1583
1998	3761	1750
1999	3668	1973
2000	3439	2220
2001	3339	2453
2002	3553	2660
2003	3924	2859
2004	4307	3072
2005	4601	3317
2006	4843	3650
2007	5049	3944
2008	5809	4202
2009	7552	4346
2010	9023	4528
2011	10127	4654
2012	11270	4789
2013	11976	4756
2014	12785	5025
2015	13124	5014

Prior to the start of fiscal year 2015, a law was enacted to suspend the debt limit from February 15, 2014, through March 15, 2015. Due to delays in raising the debt limit, the Department of the Treasury (Treasury) deviated from its normal debt management operations and took a number of extraordinary actions—consistent with relevant laws and regulations—from March 16, 2015 through September 30, 2015 to avoid exceeding the debt limit. Many extraordinary actions taken by Treasury during fiscal year 2015 resulted in federal debt securities not being issued to certain federal government accounts. Consequently, the resulting uninvested principal as of September 30, 2015, totaling $350 billion, and related interest totaling $2 billion, are appropriately not reported on the fiscal year 2015 Schedule of Federal Debt. Legislation suspending the debt limit was enacted on November 2, 2015, and Treasury restored the uninvested principal as of this date to affected federal government accounts, thereby increasing the federal debt. As GAO has previously reported, delays in raising the debt limit have created uncertainty and disruptions in the Treasury market and challenges for Treasury debt and cash management. To avoid such disruptions and to help inform fiscal policy debate in a timely way, GAO has noted in reports related to the debt limit, most recently in July 2015, that Congress should consider alternative approaches that better link decisions about the debt limit with decisions about spending and revenue at the time those decisions are made.

Contents

Abbreviations

Fiscal Service	Bureau of the Fiscal Service
FMFIA	Federal Managers' Financial Integrity Act
GDP	gross domestic product
Schedule of Federal Debt	Schedule of Federal Debt Managed by the Bureau of the Fiscal Service
Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

November 13, 2015

The Honorable Jacob J. Lew
Secretary of the Treasury

Dear Mr. Secretary:

The accompanying independent auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service (Schedule of Federal Debt) for the fiscal years ended September 30, 2015, and 2014. The independent auditor's report contains (1) our opinion that the Schedules of Federal Debt for the fiscal years ended September 30, 2015, and 2014, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles; (2) our opinion that Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2015; and (3) the results of our tests of Fiscal Service's compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements related to the Schedule of Federal Debt, which identified no instances of reportable noncompliance.

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 Fiscal Service (Fiscal Service), and include accompanying notes. As of September 30, 2015, and 2014, federal debt managed by Fiscal Service totaled $18,138 billion and $17,810 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) $13,124 billion as of September 30, 2015, and $12,785 billion as of September 30, 2014, of debt held by the public and (2) $5,014 billion as of September 30, 2015, and $5,025 billion as of September 30, 2014, of intragovernmental debt holdings.

Debt held by the public essentially represents the amount the federal government has borrowed from the public to finance cumulative cash deficits. When a cash surplus occurs, the annual excess funds can be used to reduce debt held by the public. In other words, annual cash deficits or surpluses generally approximate the annual net change in the amount of federal government borrowing from the public. Debt held by the public represents federal debt issued by Treasury and held by investors outside of the federal government, including individuals, corporations, state or local governments, the Federal Reserve, and foreign governments. The majority of debt held by the public consists of marketable Treasury securities, such as bills, notes, bonds, floating rate notes, and Treasury Inflation-Protected Securities that are sold through auctions and can be resold by whoever owns them. Treasury also issues a smaller amount of nonmarketable securities, such as savings securities and State and Local Government Series securities.

As we have noted in previous years, Treasury reporting shows that foreign ownership of Treasury securities represents a significant portion of debt held by the public.[1] As of June 30, 2015, the reported amount of Treasury securities held by foreign and international investors represented an estimated 47 percent of debt held by the public. This percentage is close to the 48 percent as of June 30, 2014, but considerably higher than the estimated 30 percent of debt held by the public as of June 30, 2001. Treasury estimated that the amount of Treasury securities held by foreign and international investors has increased from $983 billion as of June 30, 2001, to $6,175 billion as of June 30, 2015—an increase of $5,192 billion.[2] Estimates of foreign ownership of Treasury securities are derived from information reported under the Treasury International Capital reporting system, not from the financial system used to prepare the Schedule of Federal Debt.[3] These estimates are not reported on the Schedules of Federal Debt, and as such, we do not audit these amounts.

Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts—primarily federal trust funds such as

[1]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2014 and 2013 Schedules of Federal Debt*, GAO-15-157 (Washington, D.C.: Nov. 10, 2014).

[2]Department of the Treasury, *Major Foreign Holders of Treasury Securities*, accessed November 6, 2015, http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt.

[3]The data reported under the Treasury International Capital reporting system are collected primarily from U.S.-based custodians. According to Treasury, since U.S. securities held in overseas custody accounts may not be attributed to the actual owners, the data may not provide a precise accounting of individual country ownership of Treasury securities.

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

Debt held by the public and intragovernmental debt holdings are very different. Debt held by the public represents a claim on today's taxpayers and absorbs resources from today's economy. In addition, the interest paid on this debt may reduce budget flexibility because, unlike most of the budget, it cannot be controlled directly. In contrast, intragovernmental debt holdings reflect a claim on taxpayers and the economy in the future. Specifically, when federal government accounts redeem Treasury securities to obtain cash to fund expenditures, Treasury usually borrows from the public to finance these redemptions.[4]

We have audited the Schedule of Federal Debt since fiscal year 1997. Over this period, total federal debt has increased by 236 percent. Also during this period, the statutory debt limit was raised 16 times, from \$5,950 billion to \$18,113 billion.[5] Notably, delays in raising the debt limit have occurred in each of the last 5 fiscal years resulting in Treasury deviating from its normal debt management operations and taking extraordinary actions to avoid exceeding the debt limit. During fiscal year 2015, total federal debt increased by a net \$328 billion, consisting of a (1) \$339 billion increase in debt held by the public and (2) \$11 billion

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[4]For more information regarding the federal debt, see GAO, *Fiscal Outlook: Understanding The Federal Debt*, accessed November 6, 2015, http://www.gao.gov/fiscal_outlook/understanding_federal_debt/overview.

[5]A small amount of total federal debt reported on the Schedule of Federal Debt is not subject to the debt limit. This amount is primarily composed of unamortized discounts on Treasury bills and Zero Coupon Treasury bonds.

decrease in intragovernmental debt holdings. This decrease in intragovernmental debt holdings resulted from certain extraordinary actions taken by Treasury consistent with relevant laws and regulations to manage federal debt to avoid exceeding the debt limit.[6] Prior to the start of fiscal year 2015, the debt limit was suspended from February 15, 2014, through March 15, 2015, in accordance with Section 2 of the Temporary Debt Limit Extension Act.[7] Pursuant to this act, the statutory debt limit, established in 31 U.S.C. § 3101(b), as amended, did not apply for the suspension period.

An increase in the debt limit was not enacted before the suspension period ended; therefore, consistent with the Temporary Debt Limit Extension Act, the debt limit was raised on March 16, 2015, to the amount of qualifying federal debt securities outstanding as of the beginning of that date, or $18,113 billion. As such, Treasury began taking certain extraordinary actions consistent with relevant laws and regulations to avoid exceeding the debt limit and continued taking extraordinary actions beyond the end of the fiscal year. Many extraordinary actions taken by Treasury during the period of March 16, 2015, through September 30, 2015, resulted in federal debt securities not being issued to certain federal government accounts. Consequently, the resulting uninvested principal as of September 30, 2015, totaling $350 billion and related interest totaling $2 billion are appropriately not reported on the fiscal year 2015 Schedule of Federal Debt. On November 2, 2015, the Bipartisan Budget Act of 2015 was enacted, suspending the debt limit from the date of enactment through March 15, 2017.[8] As a result, Treasury restored the uninvested principal as of November 2, 2015, to affected federal government accounts, thereby increasing the federal debt. The Overview on Federal Debt Managed by the Bureau of the Fiscal Service and note 6 to the Schedules of Federal Debt provide details on the (1) extraordinary actions taken by Treasury during this period; (2) uninvested principal as of September 30, 2015, and related interest; and (3) subsequent restorations of principal and related interest to the affected federal government accounts by Treasury consistent with relevant laws. The fiscal year 2015 increase in debt held by the public of $339 billion was

[6]Actions that are not part of Treasury's normal cash and debt management operations are considered "extraordinary actions" by Treasury.

[7]Pub. L. No. 113-83, § 2, 128 Stat. 1011 (Feb. 15, 2014).

[8]Pub. L. No. 114-74, § 901, 129 Stat. 584 (Nov. 2, 2015).

less than the reported fiscal year 2015 deficit of $439 billion primarily because of the above-noted uninvested principal offset by increases in the government's cash balance and federal direct student loans.

As we have previously reported, the debt limit does not restrict Congress's ability to enact spending and revenue legislation that affects the level of federal debt or otherwise constrain fiscal policy, but it does restrict Treasury's authority to borrow to finance the decisions already enacted by Congress and the President.[9] The United States benefits from the confidence investors have that debt backed by the full faith and credit of the United States will be honored. However, as we have also previously reported, delays in raising the debt limit have created uncertainty and disruptions in the Treasury market and challenges for Treasury debt and cash management. To avoid such disruptions and to help inform fiscal policy debate in a timely way, GAO has noted in reports related to the debt limit, most recently in July 2015, that Congress should consider alternative approaches that better link decisions about the debt limit with decisions about spending and revenue at the time those decisions are made.

In fiscal year 2015, the federal deficit shrank for the third year in a row, but this deficit and the need to refinance maturing debt meant that federal financing needs remained high. The reported federal deficit for fiscal year 2015 of $439 billion, down from the fiscal year 2014 reported federal deficit of $483 billion, was the smallest recorded deficit since 2007. Debt held by the public remained the same as a percentage of gross domestic product (GDP) at roughly 74 percent of GDP at the end of fiscal years 2014 and 2015. While today's relatively lower interest rates have kept borrowing costs lower than they otherwise could have been despite the recent increases in debt held by the public, interest rates are expected to increase as the economy continues to recover, resulting in increasing pressure on the budget. Over the longer term, debt held by the public as a share of GDP is expected to grow as a result of the structural imbalance between revenue and spending driven on the spending side by rising

[9]GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (Washington, D.C.: July 9, 2015); *Debt Limit: Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs*, GAO-12-701 (Washington, D.C.: July 23, 2012); and *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203 (Washington, D.C.: Feb. 22, 2011).

health care costs and demographics. Increasing numbers of baby-boom generation members are becoming eligible for Social Security retirement benefits and for Medicare. In addition, health care spending has been growing faster than the overall economy over the past several decades and is expected to continue to grow at an increased rate as more members of the baby boom generation retire and become eligible for federal health programs. The aging of the population and rising health care costs will continue to put upward pressure on spending and, absent action to address the growing imbalance between spending and revenue, the federal government faces an unsustainable growth in debt.

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

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

Sincerely yours,

Dawn Simpson

Dawn B. Simpson
Acting Director
Financial Management
and Assurance

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Commissioner of the Bureau of the Fiscal Service

In our audits of the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service (Schedules of Federal Debt) for the fiscal years ended September 30, 2015, and 2014, we found

- the Schedules of Federal Debt for the fiscal years ended September 30, 2015, and 2014, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- the Bureau of the Fiscal Service (Fiscal Service) maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2015; and
- no reportable noncompliance for fiscal year 2015 with provisions of applicable laws, regulations, contracts, and grant agreements we tested related to the Schedule of Federal Debt.

The following sections discuss in more detail (1) our report on the Schedules of Federal Debt and on internal control over financial reporting, which includes other information[1] included with the Schedules of Federal Debt; (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

[1]Other information consists of the Overview on the Schedule of Federal Debt Managed by the Bureau of the Fiscal Service.

Report on the Schedules of Federal Debt and on Internal Control over Financial Reporting

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, we have audited the Schedules of Federal Debt because of the significance of the federal debt to the federal government's consolidated financial statements.[1] 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) Fiscal Service, and include accompanying notes.[2] We also have audited Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2015, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

Fiscal Service management is responsible for (1) the preparation and fair presentation of the Schedules of Federal Debt in accordance with U.S. generally accepted accounting principles; (2) preparing and presenting other information included in documents containing the audited Schedules of Federal Debt and auditor's report, and ensuring the consistency of that information with the audited Schedules of Federal Debt; (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Schedules of Federal Debt that are free from material misstatement, whether due to fraud or

[1]31 U.S.C. § 331(e)(2). Because Fiscal Service is a bureau within the Department of the Treasury, federal debt and related activity and balances that it manages are also significant to the consolidated financial statements of the Department of the Treasury (see 31 U.S.C. § 3515(b)).

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

error; (4) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (5) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2015, based on its evaluation, included in the accompanying Management's Report on Internal Control over Financial Reporting Relevant to the Schedule of Federal Debt in appendix I.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedules of Federal Debt and an opinion on Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the Schedules of Federal Debt are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to the other information included with the Schedules of Federal Debt.

An audit of the Schedules of Federal Debt involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules of Federal Debt. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the Schedules of Federal Debt, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedules of Federal Debt in order to design audit procedures that are appropriate in the circumstances. An audit of the Schedules of Federal Debt also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules of Federal Debt. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and testing relevant internal control over financial reporting. Our audit of internal control also considered Fiscal Service's process for evaluating and reporting on internal control over financial reporting relevant to the Schedule of Federal Debt based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information 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 whether effective internal control over financial reporting relevant to the Schedule of Federal Debt was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting relevant to the Schedule of Federal Debt that are less severe than a material weakness.[3]

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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 provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the Schedule of Federal Debt.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. 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.

Opinion on the Schedules of Federal Debt

In our opinion, the Schedules of Federal Debt present fairly, in all material respects, Federal Debt Managed by Fiscal Service and the related Accrued Interest Payables and Net Unamortized Premiums and

[3]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Discounts as of September 30, 2015, and 2014, and the related increases and decreases for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2015, based on criteria established under FMFIA.

During our fiscal year 2015 audit, we identified deficiencies in Fiscal Service's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[4] Nonetheless, these deficiencies warrant Fiscal Service management's attention. We have communicated these matters to Fiscal Service management and, where appropriate, will report on them separately.

Other Matter

Other Information

Fiscal Service's other information contains a wide range of information, some of which is not directly related to the Schedules of Federal Debt. This information is presented for purposes of additional analysis and is not a required part of the Schedules of Federal Debt. We read the other information included with the Schedules of Federal Debt in order to identify material inconsistencies, if any, with the audited Schedules of Federal Debt. Our audit was conducted for the purpose of forming an opinion on the Schedules of Federal Debt. We did not audit and do not express an opinion or provide any assurance on the other information.

[4]A significant deficiency is a deficiency, or a 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.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the Schedules of Federal Debt, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

Fiscal Service management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to Fiscal Service.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to Fiscal Service that have a direct effect on the determination of material amounts and disclosures in the Schedules of Federal Debt, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Fiscal Service.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2015 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to Fiscal Service. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, Fiscal Service concurred with our conclusions. The complete text of Fiscal Service's response is reprinted in appendix II.

Dawn Simpson

Dawn B. Simpson
Acting Director
Financial Management
and Assurance

November 6, 2015

Overview, Schedules, and Notes

OVERVIEW ON FEDERAL DEBT MANAGED BY THE BUREAU OF THE FISCAL SERVICE

Gross Federal Debt Outstanding

Federal debt managed by the Bureau of the Fiscal Service (Fiscal Service) comprises debt held by the public and debt held by certain federal government accounts (issued under 31 U.S.C. §§ 3101-3113), the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2015 and September 30, 2014, outstanding gross federal debt managed by Fiscal Service totaled $18,138 billion and $17,810 billion, respectively.[15] As Figure 1 illustrates, overall intragovernmental debt holdings and debt held by the public increased by $371 billion and $2,658 billion, respectively, from September 30, 2011 to September 30, 2014. 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 (CSRDF), Military Retirement Fund, and DOD Medicare-Eligible Retiree Health Care Fund. From September 30, 2014 to September 30, 2015, intragovernmental debt holdings decreased by $11 billion while debt held by the public increased by $339 billion. On February 15, 2014, the Temporary Debt Limit Extension Act (Public Law 113-83) was signed into law suspending the statutory debt limit through March 15, 2015. On March 16, 2015, the statutory debt limit increased to $18,113 billion as a result of the Temporary Debt Limit Extension Act, and a delay in raising the statutory debt limit began and continued through the end of the fiscal year. Because of a delay in raising the debt limit, the Department of Treasury (Treasury) had to take extraordinary actions to meet the government's obligations as they came due without exceeding the debt limit, which included suspension of investments to the CSRDF, the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund), and the Exchange Stabilization Fund (ESF). As of September 30, 2015, the delay still existed and suspension of investments for these funds continued, which contributed to the decrease in the intragovernmental debt holdings. The increases in debt held by the public are due primarily to total federal spending exceeding total federal revenues. As of September 30, 2015, gross debt held by the public totaled $13,124 billion and gross intragovernmental debt holdings totaled $5,014 billion. Gross federal debt (with some adjustments) is subject to a statutory debt limit. As of September 30, 2015 and September 30, 2014, the debt subject to the statutory debt limit was $18,113 billion and $17,781 billion, respectively.

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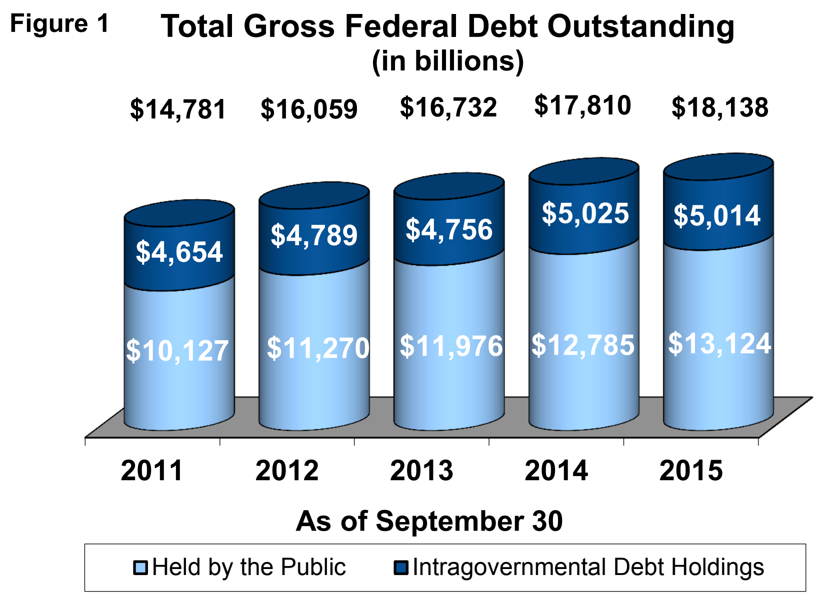
[15] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by Fiscal Service which are issued by the Federal Financing Bank and other specific securities issued outside of the authority of 31 U.S.C. §§ 3101-3113.

Figure 1: Total Gross Federal Debt Outstanding (in billions



	Held by the Public	Intragovernmental Debt Holdings
9/30/2011	10,127	4,654
9/30/2012	11,270	4,789
9/30/2013	11,976	4,756
9/30/2014	12,785	5,025
6/30/2015	13,076	5,062

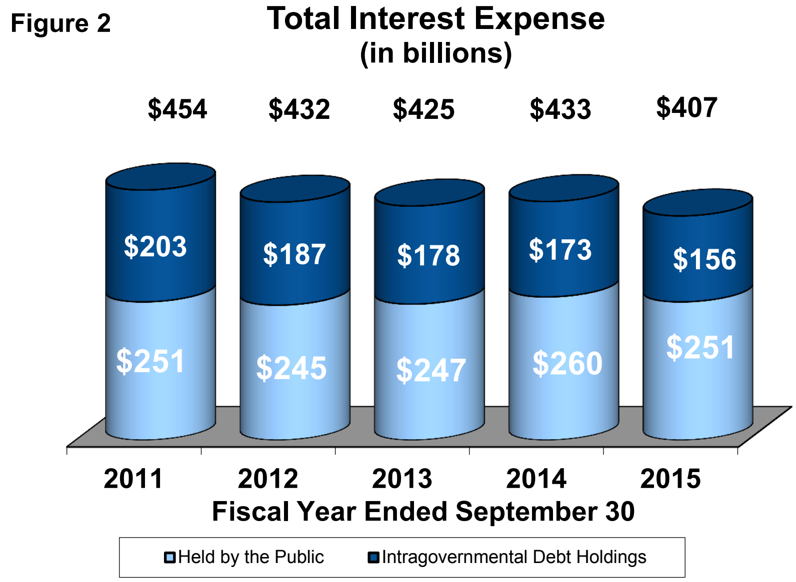
Interest Expense

Interest expense incurred during fiscal year 2015 consists of (1) interest accrued and paid on debt held by the public or credited to accounts holding intragovernmental debt during the fiscal year, (2) interest accrued during the fiscal year, but not yet paid on debt held by the public or credited to accounts holding intragovernmental debt, and (3) net amortization of premiums and discounts. The primary components of interest expense are interest paid on the debt held by the public and interest credited to federal government trust funds and other federal government accounts that hold Treasury securities. The interest paid on the debt held by the public affects the current spending of the federal government and represents the burden of servicing its debt (i.e., payments to outside creditors). Interest credited to federal government trust funds and other federal government accounts, on the other hand, does not result in an immediate outlay of the Federal Government because one part of the government pays the interest and another part receives it. However, this interest represents a claim on future budgetary resources and hence an obligation on future taxpayers. This interest, when reinvested by the trust funds and other federal government accounts, is included in the programs' excess funds not currently needed in operations, which are invested in federal securities. For fiscal year 2015, interest expense incurred totaled $407 billion; this consisted of interest expense on debt held by the public of $251 billion, and $156 billion in interest incurred for intragovernmental debt holdings.

As Figure 2 illustrates, interest expense decreased from fiscal year 2011 through 2013 primarily from a decrease in the average interest rates for Treasury notes, bonds and Treasury Inflation-Protected Securities (TIPS). From fiscal year 2013 to 2014, total interest expense increased from $425 billion to $433 billion. This increase results from an increase of $13 billion in interest expense on debt held by the public offset by a $5 billion decrease in interest expense on intragovernmental debt holdings. The $13 billion increase in interest expense on debt held by the public results from the overall increase in the outstanding debt held by the public almost fully offset by a decrease in the average interest rates for Treasury bonds and TIPS. The $5 billion decrease in interest expense in intragovernmental debt holdings resulted primarily from the decrease in the average interest rates on intragovernmental debt holdings.

From fiscal year 2014 to 2015, total interest expense decreased from $433 billion to $407 billion. This decrease results from a decrease in interest expense on debt held by the public and intragovernmental debt holdings of $9 billion and $17 billion, respectively. The $9 billion decrease in interest expense on debt held by the public primarily results from (1) a decrease in inflation adjustments, and (2) the continued decrease in average interest rates for Treasury bonds and TIPS, offset by the overall increase in outstanding debt. Average interest rates on federal debt held by the public, marketable have continued to decrease while the average interest rate on federal debt held by the public, nonmarketable increased this fiscal year. The suspension of investments to the Government Securities Investment Fund of the Federal Employees Retirement System (G-Fund) and the suspension of new issuances of State and Local Government Series (SLGS) securities related to the extraordinary actions taken due to the aforementioned delay in raising the debt limit was primarily the reason for the decrease in nonmarketable debt outstanding of $221 billion from that of fiscal year 2014. Since these suspended investments had lower interest rates than the average, the result is an overall increase in the nonmarketable average interest rate. The $17 billion decrease in interest expense on intragovernmental debt holdings primarily results from (1) a decrease in inflation adjustments, and (2) a decrease in the average interest rates on intragovernmental debt holdings. Average interest rates on principal balances outstanding as of September 30, 2015 and 2014, are disclosed in the Notes to the Schedules of Federal Debt.

Figure 2: Total Interest Expense (in billions)



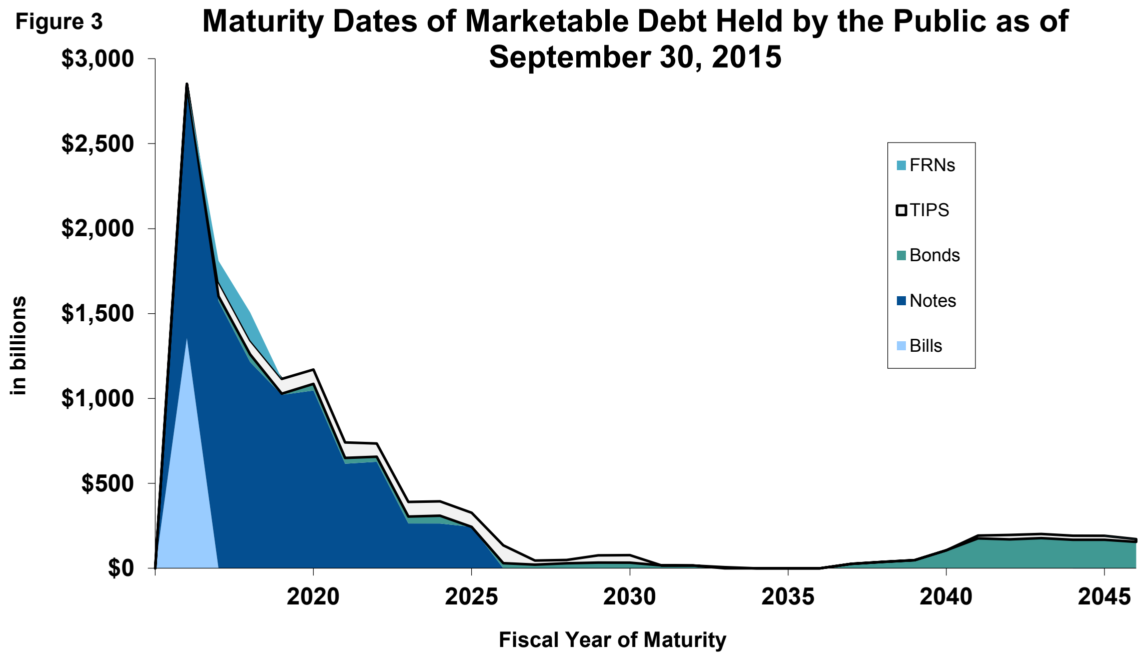
	Held by the Public	Intragovernmental Debt Holdings
9/30/2011	251	203
9/30/2012	245	187
9/30/2013	247	178
9/30/2014	260	173
9/30/2015	251	156

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 2015, Treasury used the existing suite of securities to meet the borrowing needs of the Federal Government while primarily increasing its offerings of longer term securities to extend the average length of maturity. These actions contributed to Treasury notes, bonds, TIPS and Floating Rate Notes (FRN) increasing by $206 billion, $154 billion, $91 billion, and $164 billion, respectively; whereas Treasury bills decreased by $54 billion in fiscal year 2015. As of September 30, 2015 and 2014, gross debt held by the public totaled $13,124 billion and $12,785 billion, respectively (see Figure 1), an increase of $339 billion. This increase was primarily the result of borrowings needed to finance the government's fiscal year 2015 deficit. Due primarily to a decrease in short term debt issuances, as compared to the prior year, the total dollar amount of activity for borrowings from the public decreased for fiscal year 2015. The effect of fewer repayments of short term debt issuances was offset by the suspension of investments to the G-Fund related to the extraordinary actions taken due to the delay in raising the debt limit and resulted in a slight increase in activity for repayments of debt held by the public for fiscal year 2015.

As of September 30, 2015, $12,832 billion, or 98 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, TIPS, and FRNs 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, 2015, $7,408 billion, or 58 percent, will mature within the next 4 years (see Figure 3). As of September 30, 2015 and 2014, total marketable debt held by the public maturing within the next 10 years totaled $11,178 billion and $10,744 billion, respectively, an increase of $434 billion.

Figure 3: Maturity Dates of Marketable Debt Held by the Public as of September 30, 2015



Maturity or Callable Date	Bills	Notes	Bonds	TIPS	FRNs
2016	1355.490848	1,496.79400	29.8760	85.5532	122.9900
2017		1,572.02478	45.3150	83.2120	164.0478
2018		1,214.23721	6.7170	86.8830	-
2019		1,021.34472	39.2060	84.2730	-
2020		1,046.64095	34.1180	91.0860	-
2021		615.78598	29.6490	77.9650	-
2022		627.35879	40.7600	86.0760	-
2023		264.00100	45.8650	84.4308	-
2024		263.92468	-	83.1024	-
2025		243.91417	30.3010	104.9276	-
2026			21.6480	24.0376	-
2027			29.5790	19.5060	-
2028			33.7980	42.5750	-
2029			33.4760	44.0278	-
2030			17.0430	-	-
2031			16.4280	-	-
2032			-	6.7390	-
2033			-	-	-
2034			-	-	-
2035			-	-	-
2036			26.3970	-	-
2037			37.9979	-	-
2038			48.0250	-	-
2039			106.1159	-	-
2040			176.1530	16.7510	-
2041			170.3920	26.1380	-
2042			177.7560	24.4265	-
2043			167.9850	23.8740	-
2044			167.9770	23.5671	-
2045			155.6369	16.2119	-

The Federal Government also issues to the public nonmarketable securities, which cannot be resold, and have maturity dates ranging from on demand out to 40 years. As of September 30, 2015, nonmarketable securities totaled $292 billion, or 2 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling $173 billion, SLGS securities totaling $78 billion, and GAS securities totaling $9 billion. From fiscal year end 2014 to 2015, total nonmarketable securities decreased from $513 billion to $292 billion. This decrease primarily results from the suspension of investments to the G-Fund and the suspension of new issuances of SLGS securities related to the extraordinary actions taken due to the delay in raising the debt limit that continued to exist as of September 30, 2015.

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 print and deliver savings bonds purchased with federal income tax refunds; and redeem savings bonds, including handling the related transfers of cash.

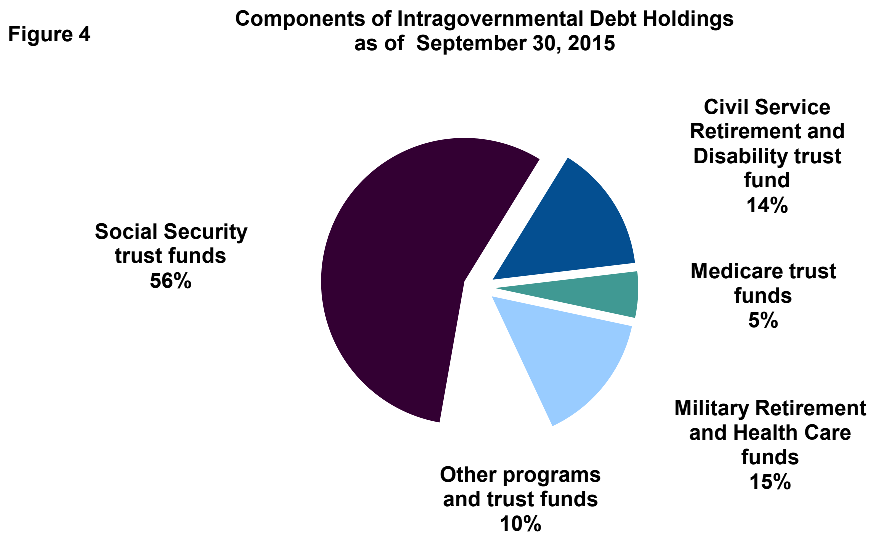
Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by over 240 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.[16] As of September 30, 2015, such funds accounted for $4,526 billion, or 90 percent, of the $5,014 billion intragovernmental debt holdings balances (see Figure 4). As of September 30, 2015 and 2014, gross intragovernmental debt holdings totaled $5,014 billion and $5,025 billion, respectively (see Figure 1), a decrease of $11 billion. The suspension of investments to the CSRDF, Postal Benefits Fund, and ESF related to the extraordinary actions taken due to the delay in raising the debt limit that continued to exist as of September 30, 2015, contributed to this decrease.

The majority of intragovernmental debt holdings are 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.

[16] 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 DOD Military Retirement Fund and the DOD Medicare Eligible Retiree Health Care Fund.

Figure 4: Components of Intragovernmental Debt Holdings as of September 30, 2015



Category	Amount
Held by the Public	13,123,847
Social Security trust funds	2,808,287
Civil Service Retirement and Disability trust fund	718,952
Medicare trust funds	261,586
Military Retirement and Health Care funds	736,753
Other programs and trust funds	488,383
Total Intragovernmental	5,013,961

Category	Percentage
Social Security trust funds	56%
Civil Service Retirement and Disability trust fund	14%
Medicare trust funds	5%
Military Retirement and Health Care funds	15%
Other programs and trust funds	10%

Significant Event in Fiscal Year 2015

Delay in Raising the Statutory Debt Limit

A delay in raising the statutory debt limit began on March 16, 2015 and continued through the end of fiscal year 2015. During this period, Treasury departed from its normal debt management procedures and invoked legal authorities to avoid exceeding the debt limit. Extraordinary actions taken by Treasury to ensure the debt limit was not exceeded included (1) suspending investments to the G-Fund, CSRDF, Postal Benefits Fund, and ESF, (2) redeeming certain investments held by CSRDF earlier than normal, and (3) suspending new issuances of SLGS securities.

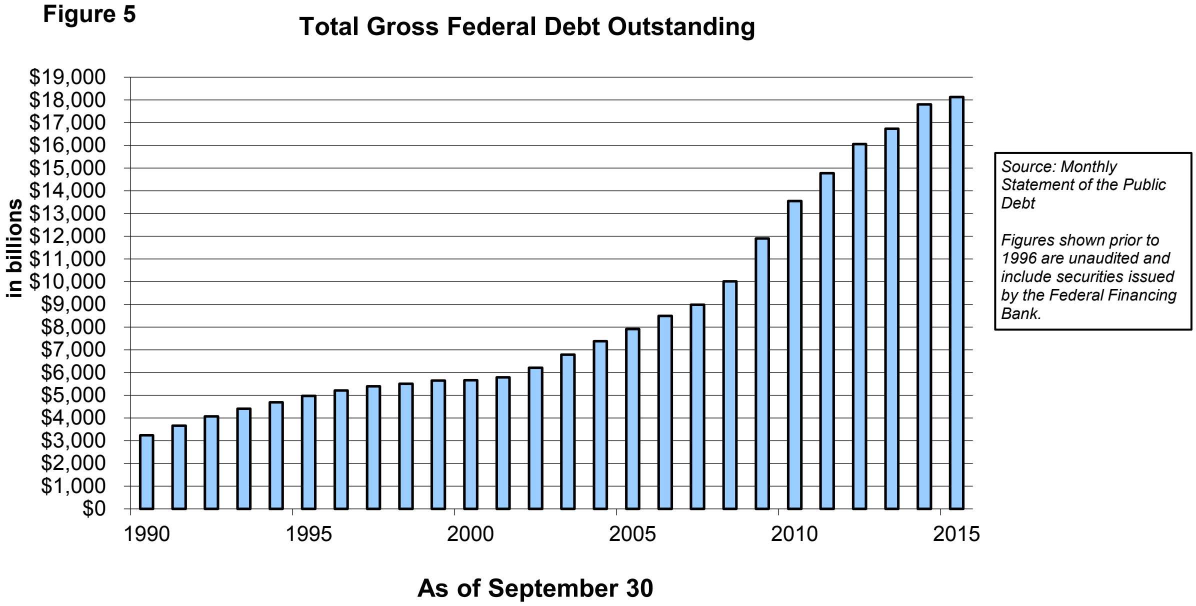
A delay in raising the statutory debt limit continued to exist as of September 30, 2015. Many extraordinary actions taken by Treasury during the period March 16, 2015, through September 30, 2015, resulted in federal debt securities not being issued to certain federal government accounts. Consequently, the resulting uninvested principal as of September 30, 2015, totaling $350,476 million and related interest totaling $2,052 million are not reported on the Schedule of Federal Debt. Uninvested principal amounts for the G-Fund, CSRDF, Postal Benefits Fund, and ESF are $203,246 million, $140,602 million, $4,757 million, and $1,871 million, respectively, as of September 30, 2015. Additionally, the related interest for the G-Fund, CSRDF, and the Postal Benefits Fund that would have been accrued and/or paid during the period March 16, 2015, through September 30, 2015, would have been $1,345 million, $683 million, and $24 million, respectively, on September 30, 2015. In accordance with relevant laws, ESF is not entitled to foregone interest.

Historical Perspective

Federal debt outstanding is one of the largest legally binding obligations of the Federal Government. Nearly all the federal debt has been issued by the Treasury with a small portion being issued by other federal government agencies. Treasury issues debt securities for two principal reasons, (1) to borrow needed funds to finance the current operations of the Federal Government and (2) to provide an investment and accounting mechanism for certain federal government accounts' (primarily federal trust funds) excess receipts. Total gross federal debt outstanding has dramatically increased over the past 25 years from $3,233 billion as of September 30, 1990, to $18,138 billion as of September 30, 2015 (see Figure 5). Large budget deficits continued during the 1990'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 steady pace.

By fiscal year 1998, federal debt held by the public was beginning to decline. In fiscal years 1998 through 2001, the amount of debt held by the public fell by $476 billion, from $3,815 billion to $3,339 billion. However, federal debt held by the public began to increase in fiscal year 2002, primarily as a result of higher federal outlays. Federal debt held by the public increased by 51.2 percent from fiscal year 2002 through fiscal year 2007. From fiscal year 2008 through fiscal year 2015, federal debt held by the public more than doubled, rising by $8,075 billion. Since fiscal year 2002, debt held by the public has increased from $3,339 billion as of September 30, 2001 to $13,124 billion as of September 30, 2015.

Figure 5: **Total Gross Federal Debt Outstanding**

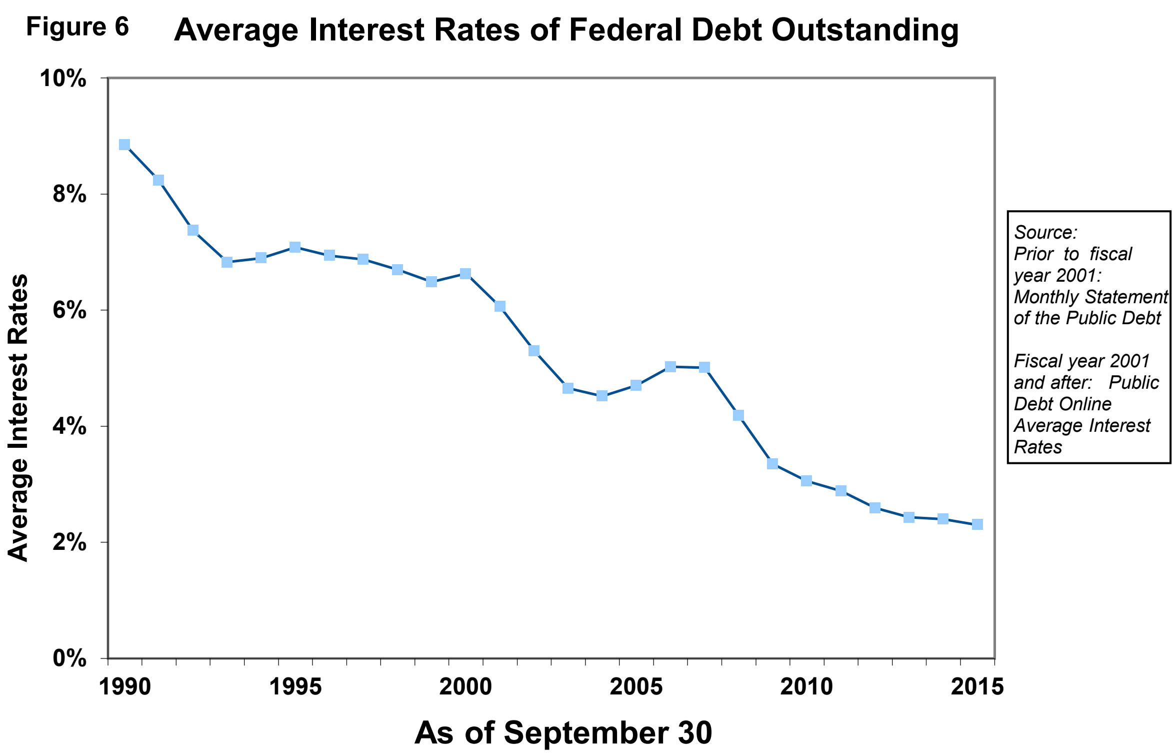


Year	Total Federal Debt Outstanding (in billions)	Average Interest Rate
1990	3,233	8.850%
1991	3,665	8.234%
1992	4,065	7.372%
1993	4,411	6.829%
1994	4,693	6.897%
1995	4,974	7.082%
1996	5,210	6.941%
1997	5,398	6.874%
1998	5,511	6.694%
1999	5,641	6.485%
2000	5,659	6.630%
2001	5,792	6.064%
2002	6,213	5.298%
2003	6,783	4.654%
2004	7,379	4.517%
2005	7,918	4.704%
2006	8,493	5.022%
2007	8,993	5.009%
2008	10,011	4.188%
2009	11,898	3.347%
2010	13,551	3.052%
2011	14,781	2.886%
2012	16,059	2.588%
2013	16,732	2.430%
2014	17,810	2.400%
2015	18,138	2.300%

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 $360 billion, from $4,654 billion as of September 30, 2011, to $5,014 billion as of September 30, 2015. By law, federal government accounts, including trust funds, have the authority or are required to invest their excess annual receipts (including interest earnings) over disbursements in federal securities. As a result, the intragovernmental debt holdings balances primarily represent the cumulative surplus of funds due to the trust funds' cumulative annual excess of tax receipts, interest credited, and other collections compared to spending.

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

Figure 6: **Average Interest Rates of Federal Debt Outstanding**



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2012	16,059	2.588%
2013	16,732	2.430%
2014	17,810	2.400%
2015	18,139	2.300%

Significant Change After Fiscal Year 2015 Affecting Federal Debt

A delay in raising the statutory debt limit existed at the end of the fiscal year 2015 and lasted until Monday,

November 2, 2015, when the Bipartisan Budget Act of 2015 (Public Law No 114-74) was enacted. During the period of October 1, 2015 through October 30, 2015, Treasury continued to use extraordinary actions to meet the government's obligations as they came due without exceeding the debt limit. In addition to continuing with the actions used from March 16, 2015 to September 30, 2015, Treasury (1) exchanged $2.7 billion of Treasury securities held by the CSRDF for securities issued by the Federal Financing Bank, and (2) postponed the 2-year note auction originally scheduled for Tuesday, October 27, 2015. On November 2, 2015, a temporary suspension of the statutory debt limit through March 15, 2017 was enacted. The amounts related to the restoration of uninvested principal as of October 30, 2015, and related interest for the period March 16, 2015 through October 30, 2015, are disclosed in Note 6 to the Schedules of Federal Debt.

Schedules of Federal Debt Managed by the Bureau of the Fiscal Service

For the Fiscal Years Ended September 30, 2015 and 2014 - (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, 2013		**$11,976,279**	**$51,195**	**($24,444)**	**$4,755,715**	**$43,129**	**$69,447**
Increases	Borrowings from the Public	7,485,194		(9,368)			
	Net Increase in Intragovernmental Debt Holdings				269,279		7,535
	Accrued Interest (Note 4)		255,517			182,165	
Total Increases		**7,485,194**	**255,517**	**(9,368)**	**269,279**	**182,165**	**7,535**
Decreases	Repayments of Debt Held by the Public	6,676,502					
	Interest Paid		252,881			182,902	
	Net Amortization (Note 4)			(4,433)			9,160
Total Decreases		**6,676,502**	**252,881**	**(4,433)**	**0**	**182,902**	**9,160**
Balance as of September 30, 2014		**12,784,971**	**53,831**	**(29,379)**	**5,024,994**	**42,392**	**67,822**
Increases	Borrowings from the Public	7,044,951		(7,448)			
	Net Increase in Intragovernmental Debt Holdings - Premiums						16,293
	Accrued Interest (Note 4)		245,355			165,037	
Decreases	Repayments of Debt Held by the Public	6,706,075					
	Net Decrease in Intragovernmental Debt Holdings - Principal				11,033		
	Interest Paid		243,455			166,867	
	Net Amortization (Note 4)			(5,449)			8,776
Total Decreases		**6,706,075**	**243,455**	**(5,449)**	**11,033**	**166,867**	**8,776**
Balance as of September 30, 2015		**$13,123,847**	**$55,731**	**($31,378)**	**$5,013,961**	**$40,562**	**$75,339**
TOTAL INCREASES		**7,044,951**	**245,355**	**(7,448)**	**0**	**165,037**	**16,293**
TOTAL INCREASES		**7,044,951**	**245,355**	**(7,448)**	**0**	**165,037**	**16,293**

Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service

For the Fiscal Years Ended September 30, 2015 and 2014 (Dollars in Millions)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Schedules of Federal Debt Managed by the Bureau of the Fiscal Service (Fiscal Service) have been prepared to report fiscal year 2015 and fiscal year 2014 balances and activity relating to monies borrowed from the public and certain federal government accounts under 31 U.S.C. §§ 3101- 3113 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. Fiscal Service, an organizational entity within 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, Fiscal Service maintains an investment program for federal government accounts, including trust funds that have legislative authority to invest temporary cash reserves not needed for current benefits and expenses. Fiscal Service issues and redeems Treasury securities for these federal government accounts based on data provided by the respective program agencies and other Treasury entities. Fiscal Service also issues other specific securities outside of the authority of 31 U.S.C. §§ 3101 - 3113, such as HOPE Bonds, that are not reported on the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service.

Basis of Accounting

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

Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long term securities and the straight line method for short term securities. The Department of the Treasury also issues Treasury

Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service

For the Fiscal Years Ended September 30, 2015 and 2014 (Dollars in Millions)

NOTE 2. FEDERAL DEBT HELD BY THE PUBLIC

As of September 30, 2015 and 2014, Federal Debt Held by the Public consisted of the following:

		2015		2014	
		Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:	Treasury Bills	$ 1,355,231	0.1 %	$1,409,627	0.1%
	Treasury Notes	8,366,026	1.8 %	8,160,196	1.8%
	Treasury Bonds	1,688,208	4.7 %	1,534,068	4.9%
	TIPS	1,135,363	0.8 %	1,044,676	0.9%
	Floating Rate Notes	287,039	0.1%	122,985	0.1%
Total Marketable		$ 12,831,867		$12,271,552	
Nonmarketable		$ 291,980	2.5 %	$513,419	2.3%
Total Federal Debt Held by the Public		$ 13,123,847		$12,784,971	

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, 2015 and 2014. 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, 2015 and 2014. Treasury notes are issued with a term of 2 to 10 years and Treasury bonds are issued with a term of more than 10 years.

Treasury issues TIPS that have interest and redemption payments that are tied to the Consumer Price Index for all Urban Consumers, a widely used measure of inflation. TIPS are issued with a term of 5 years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of September 30, 2015 and 2014. The TIPS Federal

Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service

For the Fiscal Years Ended September 30, 2015 and 2014 (Dollars in Millions)

Debt Held by the Public inflation-adjusted principal balance includes inflation of $90,035 million and $97,149 million as of September 30, 2015 and 2014, respectively.

Treasury also issues marketable Floating Rate Notes (FRN), which pay interest quarterly based on the interest rate at the time of payment. The interest rate of FRNs can change over time and is indexed to the highest accepted discount rate of the most recent 13-week marketable bill auction. These securities, like marketable notes and bonds, are issued at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable FRNs represents the highest accepted discount rate of the most recent 13-week marketable auction as of September 30, 2015, and 2014, adjusted by any discount or premium on securities outstanding as of these dates. These notes are currently issued with a term of 2 years.

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, 2015, the FRB had total holdings of $1,845,344 million, which (1) excludes $618,451 million in Treasury securities used in overnight reverse repurchase transactions and (2) includes a net of $1,848 million in Treasury securities held by the FRB as collateral for securities lending activities. As of September 30, 2014, the FRB had total holdings of $1,919,365 million, which (1) excludes $534,667 million in Treasury securities used in overnight reverse repurchase transactions and (2) includes a net of $2,289 million in Treasury securities held by the FRB as collateral for securities lending activities. Treasury securities are held by the FRB 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, 2015 and 2014. Nonmarketable securities are issued with a term of on demand out to 40 years.

As of September 30, 2015 and 2014, nonmarketable securities consisted of the following:

	2014	2015
Domestic Series	$ 29,995	$ 29,995
Foreign Series	264	2,986
State and Local Government Series	78,115	105,668
United States Savings Securities	172,826	176,762
Government Account Series	9,138	196,520
Other	1,642	1,488

Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service

For the Fiscal Years Ended September 30, 2015 and 2014 (Dollars in Millions)

	2014	2015
Total Nonmarketable	$291,980	$513,419

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 decrease in the fund's principal balance during fiscal year 2015 is included in the Repayments of Debt Held by the Public amount reported on the Schedules of Federal Debt. The net increase in the fund's principal balance during fiscal year 2014 is included in the Borrowings from the Public amount reported on the Schedules of Federal Debt.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service

For the Fiscal Years Ended September 30, 2015 and 2014 (Dollars in Millions)

NOTE 3. INTRAGOVERNMENTAL DEBT HOLDINGS

As of September 30, 2015 and 2014, Intragovernmental Debt Holdings are owed to the following:

Agency	Department	2015	2014
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$2,766,649	$2,712,805
OPM:	Civil Service Retirement and Disability Fund	718,952	843,557
DOD:	Military Retirement Fund	530,960	483,111
DOD:	DOD Medicare-Eligible Retiree Health Care Fund	205,793	200,372
HHS:	Federal Hospital Insurance Trust Fund	195,458	202,207
HHS:	Federal Supplementary Medical Insurance Trust Fund	6,128	68,391
FDIC:	Deposit Insurance Fund	60,096	48,750
DOE:	Nuclear Waste Disposal Fund	51,812	51,527
OPM:	Postal Service Retiree Health Benefits Fund	45,237	48,468
DOL:	Unemployment Trust Fund	44,368	35,919
OPM:	Employees Life Insurance Fund	43,958	43,213
SSA:	Federal Disability Insurance Trust Fund	41,638	70,113
OPM:	Employees Health Benefits Fund	23,018	23,556
Treasury:	Exchange Stabilization Fund	20,773	22,649
DOL:	Pension Benefit Guaranty Corporation	18,492	17,444
DOS:	Foreign Service Retirement and Disability Fund	18,144	17,792
HUD:	FHA, Mutual Mortgage Insurance Capital Reserve Account	14,733	6,379
HUD:	Guarantees of Mortgage-Backed Securities Capital Reserve Account	12,772	0 *
DOT:	Airport and Airway Trust Fund	12,716	12,759
NCUA:	National Credit Union Share Insurance Fund	11,584	11,024
		2014	2015
Other Programs and Funds		110,680	104,958
Total Intragovernmental Debt Holdings		$ 5,013,961	$5,024,994

* Guarantees of Mortgage-Backed Securities Capital Reserve Account is a new account which began investing in GAS securities in April 2015.

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

For the Fiscal Years Ended September 30, 2015 and 2014 (Dollars in Millions)

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, 2015 and 2014, the inflation-adjusted principal balance included inflation of $122,397 million and $121,483 million, respectively. The average interest rates on Intragovernmental Debt Holdings, excluding TIPS, for fiscal years 2015 and 2014 were 3.1 and 3.3 percent, respectively. The average interest rates on TIPS for both fiscal years were 1.3 percent. The average interest rate represents the original issue weighted effective yield on securities outstanding as of September 30, 2015 and 2014.

NOTE 4. INTEREST EXPENSE

Interest expense on federal debt for fiscal years 2015 and 2014 consisted of the following:

		2015	2014
Federal Debt Held by the Public	Accrued Interest	$245,355	$255,517
	Net Amortization of Premiums and Discounts	5,449	4,433
Total Interest Expense on Federal Debt Held by the Public		250,804	259,950
		2015	2014
Intragovernmental Debt Holdings	Accrued Interest	165,037	182,165
	Net Amortization of Premiums and Discounts	(8,776)	(9,160)
Total Interest Expense on Intragovernmental Debt Holdings		156,261	173,005
Total Interest Expense on Federal Debt Managed by Fiscal Service		$407,065	$432,955

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 federal debt managed by Fiscal Service. Accrued interest on Federal Debt Held by the Public includes inflation adjustments of $2,282 million and $19,682 million for fiscal years 2015 and 2014, respectively. Accrued interest on Intragovernmental Debt Holdings includes inflation adjustments of $1,063 million and $12,381 million for fiscal years 2015 and 2014, respectively.

For the Fiscal Years Ended September 30, 2015 and 2014 (Dollars in Millions)

NOTE 5. FUND BALANCE WITH TREASURY

	As of September 30, 2015	As of September 30, 2014
Appropriated Funds Obligated	$20	$16

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.

NOTE 6. UNINVESTED PRINCIPAL AND RELATED INTEREST AND SUBSEQUENT EVENTS

Delays in raising the statutory debt limit impacted the amounts reported on the Schedules of Federal Debt for fiscal years 2015 and 2014. When delays in raising the statutory debt limit occur, Treasury often must deviate from its normal debt management operations and take a number of extraordinary actions consistent with relevant laws and regulations to meet the government's obligations as they come due without exceeding the debt limit. Many extraordinary actions taken by Treasury result in federal debt securities not being issued to certain federal government accounts.

A delay in raising the statutory debt limit that began in fiscal year 2013 continued into fiscal year 2014. During this period, Treasury took extraordinary actions consistent with relevant laws and regulations to avoid exceeding the debt limit, including suspending investments to certain federal government accounts. As of September 30, 2013, uninvested principal amounts totaled $247,827 million and related interest totaled $801 million. These amounts were not reported on the fiscal year 2013 Schedule of Federal Debt since securities had not been issued at that time to the affected federal governmental accounts. On October 17, 2013, the Continuing Appropriations Act, 2014, was enacted, which suspended the statutory debt limit through February 7, 2014. In accordance with relevant laws, Fiscal Service subsequently restored uninvested principal and related interest to the affected federal government accounts, which included the uninvested principal and related interest that existed as of September 30, 2013. These amounts were appropriately reported on the fiscal year 2014 Schedule of Federal Debt.

On February 15, 2014, the Temporary Debt Limit Extension Act was enacted, which suspended the statutory debt limit through March 15, 2015. A delay in raising the statutory debt limit began on March 16, 2015 and continued beyond the end of fiscal year 2015. Many extraordinary actions taken by Treasury during the period of

March 16, 2015 through September 30, 2015, resulted in federal debt securities not being issued to certain federal government accounts. Consequently, the resulting uninvested principal as of September 30, 2015, totaling $350,476 million and related interest totaling $2,052 million are not reported on the fiscal year 2015 Schedule of Federal Debt. Uninvested principal amounts for the G-Fund, the Civil Service Retirement and Disability Fund (CSRDF), the Postal Service Retirees Health Benefits Fund (Postal Benefits Fund), and the Exchange Stabilization

Fund (ESF) were $203,246 million, $140,602 million, $4,757 million, and $1,871 million, respectively, as of September 30, 2015. Additionally, the related interest for G-Fund, CSRDF, and Postal Benefits Fund that would have been accrued and/or paid during the period of March 16, 2015 through September 30, 2015, would have been $1,345 million, $683 million, and $24 million, respectively, on September 30, 2015. In accordance with relevant laws, ESF is not entitled to forgone interest.

On October 15, 2015, the Secretary of the Treasury notified Congress that extraordinary actions would be exhausted no later than November 3, 2015. Under the authority of the Bipartisan Budget Act of 2015 (Public Law 114-74), the statutory debt limit identified in 31 U.S.C. §§ 3101(b) will not apply for the period of November 2, 2015 through March 15, 2017. On November 2, 2015, Treasury discontinued its use of the extraordinary actions and resumed normal debt management operations. On this date, in accordance with relevant laws, Fiscal Service restored uninvested principal amounts to G-Fund, CSRDF, and Postal Benefits Fund of $204,839 million, $143,033 million, and $4,757 million, respectively. All principal not invested for ESF had been reinvested as of October 21, 2015. In accordance with relevant laws, Fiscal Service restored the interest related to the uninvested principal during the period of March 16, 2015 through October 30, 2015, to G-Fund on November 3, 2015, in the amount of $1,717 million. Interest related to the uninvested principal during the period of March 16, 2015 through October 30, 2015, for CSRDF and Postal Benefits Fund will be restored on the next semi-annual interest payment date of

December 31, 2015. As of November 2, 2015, these amounts were $946 million and $33 million respectively.

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

DEPARTMENT OF THE TREASURY
WASHINGTON, DC 20239-0001

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

The Bureau of the Fiscal Service's (Fiscal Service) 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 provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the Schedule of Federal Debt.

Fiscal Service management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule of Federal Debt that is free from material misstatement, whether due to fraud or error. Fiscal Service management evaluated the effectiveness of Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2015, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2015, Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt was effective.

Sheryl R. Morrow
Commissioner,
Bureau of the Fiscal Service

Kimberly A. McCoy
Deputy Commissioner,
Fiscal Accounting and Shared Services

Matthew J. Miller
Assistant Commissioner,
Fiscal Accounting

Patricia M. Greiner
Chief Financial Officer and Assistant
Commissioner for Management (CFO)

Stephen L. Manning
Chief Information Officer, and
Assistant Commissioner,
Information and Security Services

November 6, 2015

DEPARTMENT OF THE TREASURY

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

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Security Services November 6, 2015

Sheryl R. Morrow
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Bureau of the Fiscal Service

Kimberly A. McCoy
Deputy Commissioiner,
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Assistant Commissioner
Fiscal Accounting

Patricia M. Greiner
Chief Financial Officer and Assistant
Commissioner for Management (CFO)

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Chief Information Officer and
Assistant Commissioner
Information and Security Services

Appendix II: Comments from the Bureau of the Fiscal Service

DEPARTMENT OF THE TREASURY
WASHINGTON, DC 20239-0001

November 6, 2015

Ms. Dawn B. Simpson, Acting Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Simpson:

This letter is in response to your audit of the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service for the fiscal years ended September 30, 2015 and 2014. We agree with the conclusions of your audit report.

This year was especially challenging as we were faced with a suspension of the Statutory Debt Limit, which occurred the first half of the fiscal year, and a Debt Issuance Suspension Period (DISP), which was in effect the second half of the fiscal year continuing into the next fiscal year. We appreciate the knowledge and experience displayed by your audit team as we encountered unique reporting requirements during these circumstances. Your team's expertise related to our accounting operations provided continued accuracy and consistency as we worked through unique accounting scenarios. We would like to thank you and your staff for the thorough audit of these schedules as we finalize the nineteenth year of our professional relationship. We look forward to sustaining a productive and successful relationship with your staff.

Sincerely,

Sheryl R. Morrow

Sheryl R. Morrow
Commissioner
Bureau of the Fiscal Service

DEPARTMENT OF THE TREASURY

Text of Appendix II: Comments from the Bureau of the Fiscal Service

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Acting Director Financial Management and Assurance
U.S. Government Accountability Office
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Washington, DC 20548

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Sheryl R. Morrow Commissioner

Bureau of the Fiscal Service

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