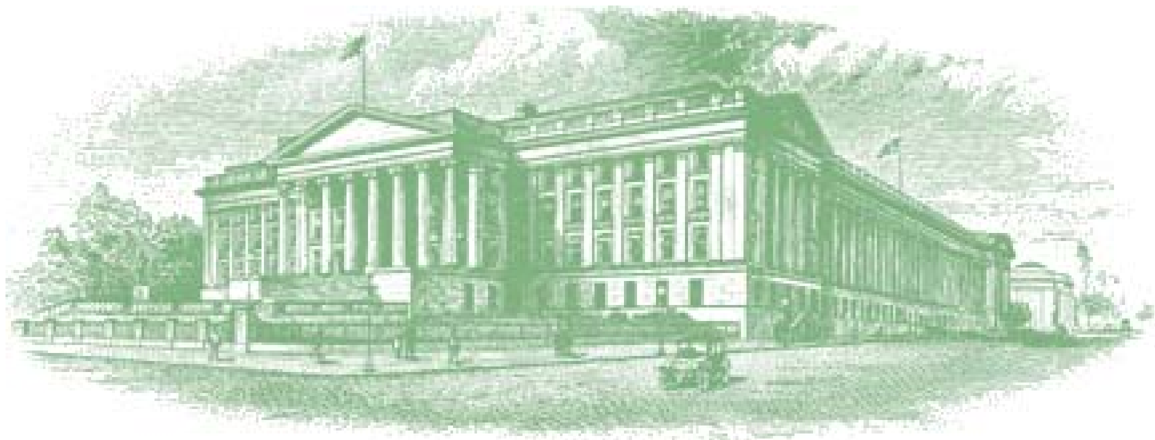
Audit Report



OIG-10-027

Audit of the Exchange Stabilization Fund's Fiscal Years 2009 and 2008 Financial Statements

December 22, 2009

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 22, 2009

MEMORANDUM FOR MARK SOBEL
ACTING ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Exchange Stabilization Fund's Fiscal Years 2009 and 2008 Financial Statements

I am pleased to transmit the attached audited Exchange Stabilization Fund (ESF) financial statement for fiscal years 2009 and 2008. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of ESF as of September 30, 2009 and 2008 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting; and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG LLP found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. However, KPMG LLP identified control deficiencies related to 1) financial reporting and technical accounting and 2) monitoring of foreign currency transactions that collectively are considered a significant deficiency. This significant deficiency is not considered a material weakness. KPMG LLP found no instances of reportable noncompliance with laws and regulations tested.

KPMG LLP also issued a management letter dated December 11, 2009, discussing a matter involving internal control over financial reporting that was identified during the audit but was not required to be included in the auditors' reports. This letter will be transmitted separately.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated December 11, 2009 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits at (202) 927-5591.

Attachment

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND

Financial Report

Fiscal Year 2009

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND

Table of Contents

EXCHANGE STABILIZATION FUND
POLICY AND OPERATIONS STATEMENTS
FISCAL YEAR 2009

The Nature and Function of the Exchange Stabilization Fund

The Gold Reserve Act of 1934 established a fund to be operated by the Secretary of the Treasury, with the approval of the President. Section 10 of the Act provided that “For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section.” To this end, the Congress, in 1934, appropriated to the Exchange Stabilization Fund (ESF) the sum of $2 billion out of the increment resulting from the reduction in the “weight of the gold dollar.” Subsequent amendments to the Gold Reserve Act approved the operation of the ESF through June 30, 1945. Section 7 of the Bretton Woods Agreements Acts, approved July 31, 1945, continued its operations permanently.

The Bretton Woods Agreements Act also directed the Secretary of the Treasury to pay $1.8 billion from the ESF to the International Monetary Fund (IMF), for the initial U. S. quota subscription in the IMF, thereby reducing the ESF’s appropriated capital to $200 million.

Reflecting termination of the fixed exchange rate system, legislation enacted in 1976 (P.L. 94-564, effective April 1, 1978, the date of entry into force of the Second Amendment of the IMF Articles of Agreement) amended the language of Section 10 of the Gold Reserve Act to specify that the ESF is to be utilized as the Secretary “may deem necessary to and consistent with the United States obligations in the International Monetary Fund.” In 1977, P.L. 95-147 further amended Section 10 of the Gold Reserve Act. Following codification, Section 10 now provides as follows:

> Consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary. However, a loan or credit to a foreign entity or government of a foreign country may be made for more than 6 months in a 12-month period only if the President gives Congress a written statement that unique or emergency circumstances require the loan or credit be for more than 6 months (31 U.S.C. 5302 (b)).

Pursuant to the Special Drawing Rights Act of 1968 (P.L. 90-349, amended by P.L. 94-564, which was approved October 18, 1976 and became effective April 1, 1978), Special Drawing Rights (SDRs) allocated by the IMF to the United States or otherwise acquired by the United States are resources of the ESF.

EXCHANGE STABILIZATION FUND
POLICY AND OPERATIONS STATEMENTS

FISCAL YEAR 2009

Section 286p of Title 22 of the United States Code allows for SDRs to be monetized/demonetized through the issuance/redemption by the Secretary of the Treasury of SDR certificates to the Federal Reserve Banks in exchange for dollars. The total amount of SDR certificates outstanding cannot exceed the dollar equivalent of ESF (i.e., U. S.) holdings of SDRs; such certificates are a liability of the ESF.

I. Foreign Currency Operations

a. Euros and Japanese Yen

In fiscal year 2009, the ESF had a net valuation gain of $ 2,247.6 million on its holdings of euros and yen. The ESF had investment income of $358.8 million equivalent on its euro and yen assets.

b. Mexico

In December 2008, the Treasury and Federal Reserve Bank of New York, acting as Treasury's fiscal agent, renewed the Exchange Stabilization Agreement with Mexico Until December 2010.

II. SDR Operations

As of September 30, 2009, U.S. holdings (assets) of SDRs totaled SDR 36.6 billion ($57.9 billion equivalent), a net increase of SDR 30.6 billion during Fiscal Year 2009. However, as the SDR appreciated against the dollar in this period, there was a net valuation gain of $1.1 billion on U. S. holdings of SDRs. The ESF reimbursed the Treasury's General Fund $39.6 million for SDRs received from the IMF as remuneration on the U.S. reserve position in the IMF. The ESF earned interest of $103.5 million equivalent on its SDR holdings.

As of September 30, 2009, cumulative allocations to (liabilities of) the United States totaled SDR 35.3 billion ($55.9 billion equivalent). These liabilities would come due only in the event of liquidation of, or U.S. withdrawal from, the SDR Department of the IMF, or cancellation of SDRs.

The Treasury issued $3 billion of SDR certificates to the Federal Reserve System in September 2009, bringing the total certificates outstanding to $5.2 billion as of the end of fiscal year 2009. There were $2.2 billion of SDR certificates that had been issued to the Federal Reserve System prior to fiscal year 2009.

III. Income and Expense

Interest revenue totaled $461.7 million, consisting of $20.6 million in interest on dollar holdings invested in U.S. Government securities, $6.6 million in interest on dollar holdings invested in Government Sponsored Enterprises (GSE) securities, $75.7 million equivalent in interest on SDR holdings, and $ 358.8 million equivalent in interest on foreign currency investments.

Interest expense totaled $63.3 million, which included $63.3 million in interest charges on SDR Allocations and $3.8 thousand paid by the ESF to the Treasury General Fund on the dollar counterpart of SDRs received as remuneration on the U.S. Reserve Position in the IMF.

IV. Temporary Guarantee Program for Money Market Mutual Funds

On September 19, 2008, the Secretary of the Treasury, with the approval of the President, established a temporary guarantee program for the U.S. money market mutual funds industry. Under the program the assets of the ESF would be available to guarantee the net asset value for shares of participating eligible money market funds. All publicly offered money market funds regulated under Rule 2a-7 of the Investment Company Act of 1940 and registered with the Securities and Exchange Commission that, as of September 19, 2008, had a policy of maintaining a stable net asset value of share price were eligible to participate, provided they paid a program participation fee beginning on September 29 and were accepted into the program by Treasury. The Program was initially offered for a three month period, with the option to extend through September 18, 2009, at the discretion of the Secretary of the Treasury. Since the initial period, the Program was extended two times; first from December 19, 2009 through April 30, 2009 and again through September 18, 2009. As of September 18, 2009 the program has officially expired.

As of September 30, 2009, the ESF collected $1.2 billion in program participation payments. These receipts represent the net collection for the twelve months of coverage which began September 19, 2008. All Treasury Guarantee Program participation payments received are invested in U.S. government securities. Of the total $1.2 billion collected through the Treasury Guarantee Program $1.155 billion was recognized as earned revenue as of September 30, 2009, while $45.0 million was recognized as earned revenue as of September 30, 2008.

FISCAL YEAR 2009

V. Purchase of Government Sponsored Enterprise (GSE) Securities

On November 19, 2008, Treasury entered into a transaction with the Reserve Fund's U.S. Government Fund (USGF), under which Treasury (1) executed the Guarantee Agreement which accepted the USGF into the Treasury Guarantee Program (see Note 7) and (2) signed a Letter Agreement with the USGF. Under the terms of the Letter Agreement, Treasury was obligated to purchase in early January 2009 the USGF's remaining securities issued by four U.S. government sponsored enterprises. On January 15, the ESF purchased approximately $3.6 billion of these securities; the purchase price representing the amortized cost of the remaining securities, plus accrued but unpaid interest. Upon consummation of the purchase, these GSE securities were classified as held to maturity. As of the end of Fiscal Year 2009, $1.1 billion of these securities remained outstanding.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury's (Department) Exchange Stabilization Fund (ESF) as of September 30, 2009 and 2008, and the related statements of income and comprehensive income and retained earnings, and statements of cash flows (hereinafter referred to as financial statements) for the years then ended. These financial statements are the responsibility of the ESF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ESF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ESF as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the ESF adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, effective October 1, 2008.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Policy and Operations Statements section, on pages 2 through 5 is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our reports dated December 11, 2009, on our consideration of the ESF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 11, 2009

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General
U.S. Department of the Treasury:

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury's (Department) Exchange Stabilization Fund (ESF) as of September 30, 2009 and 2008, and the related statements of income and comprehensive income and retained earnings, and statements of cash flows (hereinafter referred to as financial statements) for the years then ended, and have issued our report thereon dated December 11, 2009. As discussed in Note 1 to the financial statements, the ESF adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, effective October 1, 2008.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the ESF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the ESF's internal control over financial reporting by obtaining an understanding of the design effectiveness of ESF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the ESF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ESF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

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. 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. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that collectively we consider to be a significant deficiency as described below.

SIGNIFICANT DEFICIENCY

Financial Management

Financial Reporting and Technical Accounting

ESF does not have sufficient staff resources with the experience in technical accounting that the fund requires. Unique technical skills and experience are needed to understand and monitor accounting and reporting of transactions in the ESF's financial statements to ensure they are in conformity with generally accepted accounting principles (GAAP). As a result of this condition we noted certain inconsistencies and/or unresolved differences between the financial records and the balances reported in the financial statements. In addition, we noted some incomplete disclosures in drafts of the ESF's financial statements for the year ended September 30, 2009 provided to us for review.

Since ESF prepares its financial statements using Financial Accounting Standards Board (FASB) standards, instead of Federal Accounting Standards Advisory Board's standards, and because certain of those FASB standards are the same as those used by commercial financial institutions, the ESF financial reporting personnel should have a working knowledge of applicable FASB standards.

Monitoring of Foreign Currency Transactions

In the prior year we reported deficiencies in ESF procedures and internal controls related to foreign currency investments managed by the ESF fiscal agent, including the accounting and reporting of these foreign currency transactions for much of the year. Specifically, ESF lacks an independent verification process to the transactions accounted for and reported by the fiscal agent.

Although, steps were taken by ESF in fiscal year 2009 to mitigate the control weaknesses identified in fiscal year 2008, further improvements are needed in the procedures and controls that have been developed by ESF to independently verify these transactions. To further enhance the effectiveness of the monitoring activities implemented by ESF in fiscal year 2009, ESF should perform validations and implement internal controls to assure data integrity over key elements of the books and records. Absent an ability to observe the control environment of the fiscal agent and absent a review from a third party (independent) examination of the control objectives and control activities over the services provided by the fiscal agent, ESF should implement sufficient monitoring controls to confirm the validity of the transactions reported by the fiscal agent.

The Federal Management Financial Integrity Act requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the GAO *Standards for Internal Control in the Federal Government* (GAO Standards). These standards define internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. GAO Standards state that internal controls should generally be designed to assure that on-going monitoring occurs in the course of normal operations. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure actions address risks. The activities include reviews by management at the functional or activity level, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control.

Implementation of appropriate processes/procedures/controls over investment transactions/balances reported by the fiscal agent as well as documentation thereof is needed to improve the control structures, and to minimize the potential for undetected errors, fraud, and mismanagement of funds, all of which could ultimately lead to financial statement misstatements.

RECOMMENDATIONS

We recommend that ESF:

1. Employ personnel who possess the unique skills necessary to account for and report ESF transactions consistent with its adopted policies and procedures, some of which are promulgated by the FASB; and
2. Develop and document its policies and procedures to include the details of the documentation necessary to support the foreign currency recalculations, key procedures required for review by authorized ESF officials, as well as required due dates for completion.

The ESF's response to the findings identified in our audit is presented in Exhibit I. We did not audit management's response and, accordingly, we express no opinion on it.

We noted one additional matter that we have reported to management of the ESF in a separate letter dated December 11, 2009.

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This report is intended solely for the information and use of the ESF's management, the Department's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 11, 2009

SIGNIFICANT DEFICIENCY

Financial Management

Financial Reporting and Technical Accounting

Management's Response to Financial Reporting and Technical Accounting, Recommendation 1:

Management concurs with the recommendation. We agree additional skilled staff would improve ESF reporting and we will continue to explore obtaining human resources with significant experience in reporting and accounting for diverse financial instruments, especially individuals with technical expertise in industry and commercial accounting requirements. The ESF statute, however, prohibits the payment of administrative costs by ESF. Therefore, ESF must rely on the Departmental Offices Salaries and Expenses appropriation, which does not receive additional funding for ESF, for funding of human resources needs. Management will continue, however, to seek solutions within our funding capabilities, such as utilizing the commercial accounting expertise of the TARP and CDFI accounting staffs.

We will also improve the overall core competencies of key financial staff through continued training and ensure they possess the knowledge and skills to apply commercial GAAP and to implement new accounting standards, as well as identifying the appropriate GAAP for the unique operations and transactions of ESF.

Monitoring of Foreign Currency Transactions

Management's Response to Monitoring of Foreign Currency Transactions, Recommendation 2:

Management concurs with the recommendation. Policies and procedures were developed and documented by mid-FY 2009. However, based on our continued assessment and review of the documents, we continued to make changes to improve the processes that support our independent foreign currency recalculations. In addition to this documentation, ESF reviewed key procedures required for review by ESF officials, as well as required due dates for completion.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Inspector General
U.S. Department of the Treasury:

We have audited the statements of financial position of the U.S. Department of the Treasury's (Department) Exchange Stabilization Fund (ESF) as of September 30, 2009 and 2008, and the related statements of income and comprehensive income and retained earnings, and statements of cash flows (hereinafter referred to as financial statements) for the years then ended, and have issued our report thereon dated December 11, 2009. As discussed in Note 1 to the financial statements, the ESF adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, effective October 1, 2008.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the ESF is responsible for complying with laws, regulations, and contracts applicable to the ESF. As part of obtaining reasonable assurance about whether the ESF's financial statements are free of material misstatement, we performed tests of the ESF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts, applicable to the ESF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the ESF's management, the Department's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, is not intended to be, and should not be used by anyone other than these specified parties.

KPMG LLP

December 11, 2009

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF FINANCIAL POSITION
(In Thousands)

As of September 30		**2009**		**2008**
Assets				
Cash and Cash Equivalents (Note 2)	$	28,484,464	$	24,261,904
Securities Purchased Under Agreement to Resell (Note 3)		2,642,566		3,650,664
Other Foreign Currency Denominated Assets (Notes 4 and 6)		2,381,386		1,698,740
Special Drawing Right Holdings (Note 5)		57,945,186		9,417,541
Government Sponsored Enterprise Securities (Note 6)		1,100,000		-
Investment Securities (Note 6)		12,307,376		10,417,505
Interest Receivable		137,987		152,092
Interest Receivable on Special Drawing Right Holdings (Note 5)		15,796		45,912
Insurance Premiums Receivable (Note 8)		-		298,147
Total Assets	$	105,014,761	$	49,942,505
Liabilities and Equity				
Liabilities:				
Certificates Issued to Federal Reserve Banks (Note 7)	$	5,200,000	$	2,200,000
Special Drawing Right Allocations (Note 5)		55,953,105		7,629,646
Interest Payable on Special Drawing Right Allocations (Note 5)		14,916		37,196
Deferred Insurance Premium Revenue (Note 8)		-		292,800
Other		228		232
Total Liabilities		61,168,249		10,159,874
Commitments and Contingencies (Note 10)				
Equity:				
Appropriated Capital	$	200,000	$	200,000
Retained Earnings		43,416,852		39,582,631
Accumulated Other Comprehensive Income (Notes 1 and 6)		229,660		-
Total Equity		43,846,512		39,782,631
Total Liabilities and Equity	$	105,014,761	$	49,942,505

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME AND RETAINED EARNINGS
(In Thousands)

For the years-ended September 30	**2009**	**2008**
Interest Income		
Interest on Cash and Cash Equivalents	$ 78,818	$ 655,056
Interest on Securities Purchased Under Agreement to Resell	48,264	117,934
Interest on Other Foreign Currency Denominated Assets	35,071	110,454
Interest on Special Drawing Right Holdings (Note 5)	75,654	301,826
Interest on Government Sponsored Enterprise Securities	6,571	-
Interest on Investment Securities	217,288	223,040
Total Interest Income	461,666	1,408,310
Interest Expense		
Interest on Special Drawing Right Allocations (Note 5)	(63,265)	(245,884)
Interest on Special Drawing Right - Remuneration due to the U.S. Treasury	(4)	(100)
Total Interest Expense	(63,269)	(245,984)
Net Interest Income	398,397	1,162,326
Net Gains (Losses)		
Gain (Loss) on Foreign Currency Valuation of:		
Special Drawing Rights Holdings	1,072,409	830
Special Drawing Rights Allocations	(1,038,686)	(3,248)
Investment Securities and Other Foreign Currency Denominated Assets, net (Notes 4 and 6)	2,355,582	488,055
Securities Purchased Under Agreement to Resell	(107,978)	44,342
Total Net Gains	2,281,327	529,979
Other Income		
Insurance Premiums (Note 8)	1,155,033	45,045
Other Expenses		
International Monetary Fund Annual Assessment	(536)	(662)
Net Income	3,834,221	1,736,688
Other Comprehensive Income		
Unrealized Gain	194,186	-
Comprehensive Income	$ 4,028,407	$ 1,736,688
Retained Earnings, Beginning of Year	$ 39,582,631	$ 37,845,943
Net Income	3,834,221	1,736,688
Retained Earnings, End of Year	$ 43,416,852	$ 39,582,631

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF CASH FLOWS
(In Thousands)

For the years-ended September 30	2009	2008
Cash Flows from Operating Activities:		
Interest Received on:		
Cash and Cash Equivalents	$ 86,140	$ 656,846
Securities Purchased Under Agreement to Resell	49,413	118,761
Other Foreign Currency Denominated Assets	45,258	121,277
Investment Securities	223,934	227,740
Government Sponsored Enterprises	5,880	-
Insurance Premiums	1,160,386	39,693
Other	(11,059)	(9,117)
Net Cash Provided by Operating Activities	1,559,952	1,155,200
Cash Flows from Investing Activities:		
Purchases of Government Sponsored Enterprises Securities (Note 6)	(3,629,795)	-
Maturities of Government Sponsored Enterprises Securities (Note 6)	2,529,795	-
Net Purchases/Maturities of Securities Purchased Under Agreement to Resell	900,120	(1,276,994)
Net Purchases/Maturities of Foreign Currency Denominated Assets	(451,552)	925,370
Net Increase in Investment Securities	(529,845)	(61,792)
Reimbursement for Remuneration Received (Note 5)	(39,657)	(58,704)
Purchase of Special Drawing Rights (Note 5)	(111,128)	-
Other	549	574
Net Cash Used in Investing Activities	(1,331,513)	(471,546)
Cash Flows from Financing Activities:		
Certificates Issued to Federal Reserve Banks	3,000,000	-
Net Cash Provided in Financing Activities	3,000,000	-
Effect of Exchange Rate on Cash	994,121	167,609
Net Increase in Cash and Cash Equivalents	4,222,560	851,263
Cash and Cash Equivalents, Beginning of Year	24,261,904	23,410,641
Cash and Cash Equivalents, End of Year	$ 28,484,464	$ 24,261,904
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net Income	$ 3,834,221	$ 1,736,688
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Net Exchange Rate Gain on FCDAs and Investment Securities	(2,247,604)	(532,397)
(Decrease) Increase in Special Drawing Right Holdings Due to Valuation	(1,074,685)	(282)
Net Increase in Special Drawing Rights Holdings	(19,779)	(58,577)
Decrease (Increase) in Accrued Interest Receivable	44,221	26,348
(Increase) Decrease in Insurance Premium Receivable	298,147	(298,147)
(Decrease) Increase in Special Drawing Right Allocations Due to Valuation	1,040,515	2,793
(Decrease) Increase in Accrued Expenses and Other	(22,284)	(14,026)
(Decrease) Increase in Deferred Insurance Premium Revenue	(292,800)	292,800
Total Adjustments	(2,274,269)	(581,488)
Net Cash Provided by Operating Activities	$ 1,559,952	$ 1,155,200
Significant Non-Cash Transaction		
Allocation of SDRs by IMF	$ 47,597,925	$ -

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Entity

The Exchange Stablization Fund (ESF) was established through the Gold Reserve Act of 1934 (the Act) for the purpose of stabilizing the exchange value of the dollar. The Secretary of the Treasury is authorized to deal in gold and foreign exchange and such other instruments of credit and securities as he/she may deem necessary to carry out the purpose of the ESF.

The Federal Reserve Bank of New York (FRBNY) acts as the fiscal agent for the ESF, as permitted by the Federal Reserve Act. As the fiscal agent, the FRBNY plays a significant role in the processing of foreign currency transactions that the Secretary of the Treasury authorizes. The manager of the ESF foreign currency portfolio at the FRBNY consults regularly with the Federal Open Market Committee and the U.S. Department of the Treasury (Treasury) about the disposition of investments and the status of the portfolio. The level and currency composition of the ESF foreign currency portfolio are the products of Treasury policy determinations. The ESF management is responsible for the record keeping and investment decisions for foreign currency transaction activity carried out by the FRBNY.

By regulation, the ESF is not available to pay administrative expenses. Instead the Treasury’s Office of International Affairs has responsibility for managing ESF operations, and Treasury’s Office of Financial Management provides the recordkeeping and financial reporting services for the ESF. These Treasury offices bear all administrative expenses of the ESF. Accordingly, there are no administrative expenses reported in the financial statements.

B. Basis of Accounting and Presentation

The ESF has historically prepared its financial statements in accordance with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) was designated by the American Institute of Certified Public Accountants (AICPA) as the standards-setting body for financial statements of federal government entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in accordance with generally accepted accounting principles for those federal entities, such as the ESF, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the ESF financial statements are presented in accordance with accounting standards published by the FASB.

C. Use of Estimates

In accordance with generally accepted accounting principles, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in the preparation of amounts related to investments, and the valuations, of contingent liabilities. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of change in value due to changes in interest rates. Cash and Cash Equivalents consist of the following:

- Foreign currency deposits
- US Government Securities
- Foreign currency denominated securities

Both US Government and foreign currency denominated securities are short-term, highly liquid investments with original maturities of less than three months and are considered to be cash equivalents.

E. Investments

Foreign Currency Assets (FCA) include interest-bearing foreign deposit accounts and investments in foreign government securities.

FCAs consist of Foreign Currency Denominated Assets (FCDAs) – reported as Cash and Cash Equivalents, Other FCDAs, Investment Securities, and Securities Purchased under Agreement to Resell. These categorizations are based on maturity. FCDAs have terms of 3 months or less. Other FCDAs have terms of less than or equal to a year but greater than 3 months and Investment Securities have terms greater than a year.

Securities Purchased Under Agreement to Resell, have agreement terms that do not exceed 90 days, and these are generally treated as collateralized financial transactions and are carried at amounts at which the securities were acquired, adjusted for translation gains/losses if such agreements pertained to FCAs.

Held-to-maturity securities are those securities in which the entity has the ability and intent to hold the security until maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization and accretion of premiums or discounts. The Government Sponsored Enterprise (GSE) Securities are classified as held-to-maturity because ESF has the ability and intent to hold these securities until their maturity.

Trading securities are bought and held principally for the purpose of selling them in the near term. ESF has no securities classified as trading.

Available-for-sale securities are those which are neither trading nor held-to-maturity. ESF’s Other FCDAs and Investment Securities are classified as available-for-sale. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest on investments, amortization of premiums, and accretion of discounts are reported in Interest Income and are recognized on an accrual basis. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective–interest method.

In accordance with *Foreign Currency Matters* (FASB ASC 830), FCAs as well as Special Drawing Rights, discussed below, are revalued to reflect current exchange rates in effect as of the reporting date. Such gains or losses, recognized in the period of the fluctuation, are reported on the Statements of Income and Comprehensive Income and Retained Earnings as Gains(Losses) on Foreign Currency Valuation.

F. Fair Values of Financial Instruments

On October 1, 2008 ESF adopted *Fair Value Measurements and Disclosures* (FASB ASC 820-10). This standard provides enhanced guidance on the definition of fair value, the methods to measure fair value, and the expanded disclosures about fair value measurements.

Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the ESF has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability.

All of the ESF's investments except for the GSE Securities and Securities Purchased under Agreement to Resell are Level 1 measurements since these financial assets are traded in active markets where quotable values are readily available. GSE Securities and Securities Purchased under Agreement to Resell are considered Level 2 as they are not traded on active exchanges, however, there are similar securities that can be used to estimate fair value.

G. Other-than-temporary-impairment

A decline in the market value of any investment below cost that is deemed to be other-than-temporary is accounted for as an impairment and the carrying value is reduced to fair value for financial statement reporting purposes. The impairment is charged to earnings and the charge establishes a new cost basis for the investment. To determine whether an impairment is other-than-temporary, the ESF considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in. ESF regularly evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment that would require recognition in the financial statements.

H. Certificates Issued to Federal Reserve Banks

Certificates issued to Federal Reserve Banks (FRB) are reflected on the statements of financial position at their face value. Under the terms of the agreement, there is no set repayment date and no interest accrued while certificates remain outstanding. As a result, amounts to be repaid will be equal to the amount of resources provided.

I. U.S. Government Securities

The ESF invests dollars in excess of its immediate needs in overnight, nonmarketable U.S. government securities issued by the Treasury. The interest rate earned on the investments is equal to the overnight repurchase agreement rate as established by the Treasury's Bureau of Public Debt.

J. Other Comprehensive Income

Accumulated Other Comprehensive Income is made up only of changes in the fair value of investments classified as available-for-sale. Unrealized gains and losses, if any, would subsequently be reclassified into income in the same period the underlying investment is either sold or transferred to the Trading classification.

(In Thousands)	Net Unrealized Holdings Gains/(Losses) On Securities	Accumulated Other Comprehensive Income
Balance at September 30, 2008	$ -	$ -
Net Unrealized Holding Gains on Transferred Securities at the Date of Transfer	35,474	35,474
Net Change in Other Comprehensive Income	194,186	194,186
Balance at September 30, 2009	$ 229,660	$ 229,660

K. Tax-Exempt Status

As a component of the Treasury, which is a federal agency, the ESF is not subject to federal, state, or local income taxes, and accordingly, no provision for income taxes is recorded.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications have no effect on previously reported net income. ESF separately reported Securities Purchased under Agreement to Resell that were previously included in Cash Equivalents. Certain FCAs have been reclassified based on their original maturity dates.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalent amounts held as of September 30, 2009 and 2008 is as follows:

September 30 (In Thousands)	**2009**	**2008**
Cash and cash equivalents:		
Fund balance with Treasury	$ -	$ 33,150
U. S. government securities	19,816,090	16,846,845
Short-term FCDAs:		
European euro	5,129,873	4,273,152
Japanese yen	3,538,501	3,108,757
Total short-term FCDAs	8,668,374	7,381,909
Total cash and cash equivalents	$ 28,484,464	$ 24,261,904

NOTE 3 – SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Securities Purchased Under Agreement to Resell (repo) are issued in book entry form, denominated in Euro, and issued or guaranteed in full by Belgium, France, Germany, Italy, the Netherlands and Spain. Maturities of the Securities do not exceed 10.5 years. The duration of individual repo transactions will not exceed 90 days. ESF's investment in reverse repurchase agreements involves a pledge of securities account with Euroclear, the custodian/tri-party agent for such operations, to facilitate intra-day clearance of transactions. Accrued interest related to these securities is reported as Interest Receivable in the Statements of Financial Position. These agreements are subject to daily margining requirements.

NOTE 4 – OTHER FCDAs

Other FCDAs include Euro denominated Other FCDAs at cost totaling $2.4 billion and $1.7 billion as of September 30, 2009 and 2008, respectively. Other FCDAs at fair value totaled $2.4 billion and $1.7 billion as of September 30, 2009 and 2008, respectively.

NOTE 5 – SPECIAL DRAWING RIGHTS

The SDR is an international reserve asset (capital held back from investment in order to meet probable or possible demands) created by the International Monetary Fund (IMF). It was created as a supplement to

NOTE 5 – SPECIAL DRAWING RIGHTS (Continued)

basic reserve assets, that are held by Treasury directly. On several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDR Department. A reserve asset derives its value from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset. SDR transactions require the explicit authorization of the Secretary of the Treasury.

The IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, of each of the four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro (components consist of the French and German weights), the Japanese yen, and the pound sterling. The ESF's SDR Allocations and Holdings (see below) are revalued monthly based on the SDR valuation rate calculated by the IMF, and an unrealized gain or loss on revaluation is recognized. SDR Holdings and SDR Allocations are reported as an asset and liability respectively in the financial statements of the ESF.

SDR Allocations

SDRs, once allocated, are permanent resources unless:

a. They are canceled by an 85 percent majority decision of the total voting power of the Board of Governors of the IMF;

b. The SDR Department of the IMF is liquidated;

c. The IMF is liquidated; or

d. The United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Because the SDRs are withdrawable, the ESF carries a liability related to such allocations.

Except for the payment of interest charges on SDR allocations to the United States, the payment of the ESF's liability related to the SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made in 1970, 1971, 1972, 1979, 1980, 1981, and 2009.

On August 28, 2009, the ESF received an allocation of 27.5 billion SDRs, or $42.8 billion worth of SDRs, as the U.S. share of a general allocation from the IMF. On September 9, 2009, the ESF received 2.9 billion SDRs or $4.5 billion worth of SDRs as the U.S. share of a special allocation from the IMF. As of September 30, 2009 and 2008, the value of SDR allocations was the equivalent of $55.9 and $7.6 billion, respectively.

SDR Holdings

Pursuant to the Special Drawing Rights Act of 1968, as amended, SDRs allocated by the IMF to, or otherwise acquired by the United States are also resources (holdings) of the ESF. SDR Holdings represent

NOTE 5 – SPECIAL DRAWING RIGHTS (Continued)

transactions resulting from ESF's SDR activities, primarily the result of IMF allocations. Other transactions reported in this account are recorded as they are incurred and include any SDR acquisitions and sales, interest received on SDR Holdings, interest charges on SDR Allocations, and other SDR related activities, as well as valuation adjustments.

In fiscal year 2009, Treasury entered into a voluntary arrangement with the IMF for the purpose of providing additional hard currency liquidity to certain countries. The voluntary arrangement allows Treasury to purchase up to approximately 16 billion SDRs.

Other SDR Activities

The U.S. Government receives remuneration in SDRs from the IMF on the U.S. claim on the IMF, represented by the U.S. Reserve Position. ESF is the only agency within Treasury permitted to transact in SDRs. SDRs received become the resources of ESF, pursuant to 22 USC 286(o), and ESF pays the dollar equivalent to the U. S. Government's Treasury General Account (TGA). The ESF's receipt of the SDRs and payment of the dollar equivalent to the TGA are not simultaneous. Typically, the payment is several weeks after the receipt of SDRs from the IMF. Therefore, the ESF must reimburse the TGA the interest it earned on the dollar equivalent of the SDRs held on behalf of the TGAduring the period, which elapsed between the receipt of the SDRs and the dollar payment to the TGA.

ESF paid to the TGA $4,000 and $100,000 in fiscal years 2009 and 2008, respectively, in interest due on the transferred dollars. During fiscal year 2009 the ESF purchased 70 million SDRs, equivalent of $111 million in U.S dollars from another IMF member on September 25, 2009. The ESF did not sell SDRs to any participating members during fiscal year 2009 or 2008.

The following schedule reflects the activity related to SDR Holdings during fiscal years 2009 and 2008 in SDR and dollar equivalent:

September 30 (SDR In Thousands)	**2009**	**2008**
Beginning balance	6,047,663	5,974,721
Interest received on holdings	69,187	199,394
Interest paid on allocations	(55,965)	(162,789)
Remuneration	26,345	36,685
IMF annual assessment	(366)	(348)
General/Special Allocations	30,416,150	-
Purchases	70,000	-
Total SDR - Holdings	36,573,014	6,047,663

NOTE 5 – SPECIAL DRAWING RIGHTS (Continued)

September 30 (Dollar Equivalent In Thousands)	2009	2008
Beginning balance	$ 9,417,541	$ 9,300,550
Interest received on holdings	103,495	319,025
Interest paid on allocations	(83,716)	(260,448)
Remuneration	39,656	58,704
IMF annual assessment	(547)	(572)
General/Special Allocations	47,282,944	-
Purchases	111,128	-
Net gain on valuation of holdings	1,074,685	282
Total Dollar Equivalent – Holdings	$ 57,945,186	$ 9,417,541

NOTE 6 – INVESTMENTS

The carrying amount, gross unrealized holding gains and losses, and fair value of available-for-sale and held-to-maturity debt securities by major security type and class of security at September 30, 2009 and 2008 were as follows:

September 30, 2009 (In Thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding (Losses)	Fair Value
Available for sale:				
Other FCDAs	$ 2,379,096	$ 2,333	$ (43)	$ 2,381,386
German Bonds	2,107,106	67,408	-	2,174,514
French Bonds	1,159,823	49,935	-	1,209,758
French Notes	1,611,836	66,544	-	1,678,380
Japanese Bonds	7,201,241	43,573	(90)	7,244,724
Total	$ 14,459,102	$ 229,793	$ (133)	$ 14,688,762
Held to maturity:				
GSE Securities	$ 1,100,000	$ 141	$ -	$ 1,100,141

NOTE 6 – INVESTMENTS (Continued)

September 30, 2008 (In Thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding (Losses)	Fair Value
Available for sale:				
Other FCDAs	$ 1,698,740	$ 2,730	$ -	$ 1,701,470
German Bonds	1,928,650	15,950	(1,673)	1,942,927
French Bonds	1,182,557	4,929	(2,497)	1,184,989
French Notes	1,395,099	6,621	(3,806)	1,397,914
Japanese Bonds	5,911,199	13,817	(597)	5,924,419
Total	$ 12,116,245	$ 44,047	$ (8,573)	$ 12,151,719

During fiscal year 2009, ESF transferred Other FCDA and Investment Securities to the available-for-sale classification. This was based on re-assessment by management concerning its intent and ability to hold such securities to maturity. All unrealized holding gains and losses related to held-to-maturity securities transferred to available-for-sale are recorded in Accumulated Other Comprehensive Income.

On November 19, 2008, the Treasury entered into a transaction with the Reserve Fund's U.S. Government Fund (USGF), under which the Treasury (i) executed the Guarantee Agreement which accepted the USGF into the Treasury Guarantee Program (Note 7) and (ii) signed a Letter Agreement with the USGF. The Letter Agreement addresses matters such as the sale of portfolio securities, ESF's purchase of remaining securities, liquidation and other matters arising out of the USGF's decision to suspend the redemption of the USGF's shares and to liquidate the USGF. On January 15, 2009, based on the terms of the Letter Agreement, the ESF purchased approximately $3.6 billion of GSE Securities; which was the purchase price representing the amortized cost of the remaining securities, plus accrued but unpaid interest. As of September 30, 2009 the balance of GSE Securities held totaled $1.1 billion. The ESF purchased GSE Securities in January 2009 and will hold them until maturity. The GSE Securities matured in November 2009.

NOTE 6 – INVESTMENTS (Continued)

Maturities of debt securities classified as available for sale and held-to-maturity were as follows at September 30, 2009:

September 30, 2009 (In Thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due within one year	$ 6,661,361	$ 6,686,566
Due after one year but before five years	7,797,741	8,002,196
Total	$ 14,459,102	$ 14,688,762
Held-to-maturity:		
Due within one year	$ 1,100,000	$ 1,100,141
Total	$ 1,100,000	$ 1,100,141

Impairment Assessment

The ESF evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Based on this evaluation, ESF recognized no other-than-temporary impairment losses on any securities in fiscal years 2009 and 2008.

Fair Value

The fair value of securities available for sale are measured using the hierarchy or lowest level input that is significant to the fair value measurement of the investment in its entirety. The following table presents assets that are measured at fair value on a recurring basis at September 30, 2009:

		Fair Value Measurements at Reporting Date Using		
September 30, 2009 (In Thousands)	Fair Value At 9/30/2009	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale:				
Other FCDAs	$ 2,381,386	$ 2,381,386	$ -	$ -
German Bonds	2,174,514	2,174,514	-	-
French Bonds	1,209,758	1,209,758	-	-
French Notes	1,678,380	1,678,380	-	-
Japanese Bonds	7,244,724	7,244,724	-	-
Total	$ 14,688,762	$ 14,688,762	$ -	$ -

NOTE 7 – CERTIFICATES ISSUED TO FEDERAL RESERVE BANKS

The Special Drawing Right Act of 1968 authorized the Secretary of the Treasury to issue Special Drawing Right certificates (SDRCs), not to exceed the value of SDR holdings, to the Federal Reserve System in return for interest-free dollar amounts equal to the face value of certificates issued (SDR monetization). The certificates may be issued for the purpose of financing the acquisition of SDRs from other countries or to provide resources for financing other operations of the ESF. Certificates issued are to be redeemed by the ESF at such times and in such amounts as the Secretary of the Treasury may determine (SDR demonetization). During FY 2009, Treasury issued $3.0 billion of SDRCs to the Federal Reserve. As of September 30, 2009 and 2008, the amount of certificates issued to Federal Reserve Banks was $5.2 billion and $2.2 billion respectively.

NOTE 8 – TEMPORARY GUARANTEE PROGRAM FOR MONEY MARKET FUNDS

The Department established a Temporary Guarantee Program for Money Market Funds (Treasury Guarantee Program) in September 2008 that was managed under the purview of the Treasury's Office of Financial Institutions Policy. Under the Treasury Guarantee Program, the Treasury guaranteed to individual investors that they would receive the stable share price (SSP) for each share held in a participating money market fund up to the number of shares held as of the close of business as of September 19, 2008. Use of ESF's assets to support the Treasury Guarantee Program was approved by the President and the Secretary of the Treasury on September 19, 2008 and opened for participation on September 29, 2008.

To be eligible funds were required to be regulated under Rule 2a-7 of the Investment Company Act of 1940, maintain a SSP, have a market-based net asset value (NAV) of at least 99.5 percent of the SSP as of September 19, 2008, and be publicly offered and registered with the Securities and Exchange Commission. The Program was initially offered for a three month period, with the option to extend through September 18, 2009, at the discretion of the Secretary of the Treasury. The Program was extended twice during FY 2009; first from December 19 through April 30, 2009 and again through September 18, 2009. The program has officially expired on September 18, 2009.

To participate in the Treasury Guarantee Program, eligible money market funds must have submitted an application and paid a premium of 1 basis point if the fund's NAV was greater than or equal to 99.75 percent of the SSP, or 1.5 basis points of the SSP if the fund's NAV was less than 99.75 percent of the SSP but greater than or equal to 99.50 percent of the SSP.

During the year-ended September 30, 2009, the ESF collected $1.2 billion in program participation payments. These receipts represent the collection, less any returns, for the twelve months of coverage which began September 19, 2008. All Treasury Guarantee Program participation payments received were invested in U.S. government securities. Of the total $1.2 billion collected through the Treasury Guarantee Program $1.155 billion was recognized as earned revenue as of September 30, 2009, while $0.045 billion was recognized as earned revenue as of September 30, 2008.

NOTE 9 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial Instruments (FASB ASC 825-10) requires all entities to disclose the fair value of financial instruments, where feasible, in an effort to provide financial statement users with information in making rational investment and credit decisions.

To estimate the fair value of each class of financial instrument, the ESF applied the following methods using the indicated assumptions:

Cash and Cash Equivalents

Cash and Cash Equivalents consist of U.S. government securities and FCDAs, and are reported in the Statements of Financial Position at amounts that approximate their fair values.

Securities Purchased Under Agreement to Resell

The fair value is based upon quoted market interest rates for similar length securities.

Certificates Issues to Federal Reserve Banks

The fair value of these certificates is based on the face value of the certificate as they are not subject to market or interest rate risk nor are they subject to fluctuations in exchange rates.

Special Drawing Right (SDR) Holdings and SDR Allocations

Using current exchange rates, these amounts have been revalued in the Statements of Financial Position to amounts that approximate fair value, based upon currently quoted value and rate.

Investment Securities, GSE Securities, and Other FCDAs

The fair value of Investment Securities and Other FCDAs are based upon quoted market and current exchange rates.

NOTE 9 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair values of the ESF's financial instruments at September 30 are as follows:

	2009		2008	
September 30, 2009 (In Thousands)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Assets:				
Cash & Cash Equivalents	$ 28,484,464	$ 28,484,464	$ 24,261,904	$ 24,261,904
Securities Purchased - Under Agreement to Resell	2,642,566	2,642,561	3,650,664	3,650,608
Other FCDAs	2,381,386	2,381,386	1,698,740	1,701,470
SDR Holdings	57,945,186	57,945,186	9,417,541	9,417,541
GSE Securities	1,100,000	1,100,141	-	-
Investment Securities	12,307,376	12,307,376	10,417,505	10,450,249
Liabilities:				
Certificates Issued to - Federal Reserve Banks	$ 5,200,000	$ 5,200,000	$ 2,200,000	$ 2,200,000
SDR Allocations	55,953,105	55,953,105	7,629,646	7,629,646

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. Foreign Currency Denominated Agreements

Foreign currency denominated agreements that exist between the Treasury and foreign entities or governments provide for drawings of dollars by those entities or governments and drawings of foreign currencies by the Treasury. The Treasury enters into these agreements through the ESF. Any balance the ESF may hold under such agreements are held until the foreign entity or government repays the dollar counterpart of that balance. The ESF is exposed to credit risk on foreign currency denominated agreements in the event of default by counterparties to the extent of any amounts that have been recorded in the statement of financial position. Market risk would occur as a result of fluctuations in currency exchange rates. Under these agreements, the ESF receives repayment of an agreed-upon amount in dollars regardless of currency fluctuations. There were no foreign currency denominated agreements as of September 30, 2009 and 2008.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

B. Exchange Stabilization Agreements

The ESF has an Exchange Stabilization Agreement (ESA) with Mexico.

In April 1994, Treasury signed the North American Framework Agreement (NAFA), which includes the ESA with Mexico. The Treasury Department has a standing swap line for $3 billion with Mexico under the NAFA and its implementing ESA. The amounts and terms (including the assured source of repayment) of any borrowing under NAFA and ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA provides sample clauses that state the transactions shall be exchange rate neutral for the ESF and shall bear interest based on a then current rate tied to U.S. Treasury bills. There were no drawings outstanding on the ESF swap line as of September 30, 2009 and 2008. On December 10, 2008, the Treasury renewed its participation in the agreement until December 2010.

NOTE 11 – SUBSEQUENT EVENTS

On November 6, 2009, the ESF purchased $477 million equivalent of SDRs from Ukraine under the voluntary SDR purchase agreement with the IMF that was authorized by the Secretary of the Treasury in August 2009.

We evaluated all subsequent events through December 11, 2009, the date that these financial statements were available to be issued.