Hidden in Plain Sight: What CPAs Should Know About the Financial Report of the United States Government

By Michael Doorley, CPA | *Reprinted with permission*

Every year, thousands of CPAs prepare, or review audited financial statements for corporations, nonprofit organizations, municipalities, pension plans, healthcare systems, and financial institutions. Accrual accounting, balance sheets, long-term liabilities, management discussion and analysis, and auditor opinions are central to the accounting profession's understanding of financial condition and sustainability.

Yet one of the world's largest and most complex reporting entities—the federal government—produces an audited annual financial report that remains largely outside mainstream view and financial discussion.

The *Financial Report of the United States Government*, produced annually by the U.S. Department of the Treasury in coordination with the Office of Management and Budget (OMB), provides a comprehensive accrual-based assessment of the federal government's financial position and operating condition. The report is audited by the Government Accountability Office (GAO) and prepared in accordance with accounting standards established by the Federal Accounting Standards Advisory Board (FASAB).

Despite its significance, the report receives limited media coverage and virtually no attention within public policy debates, which continue to focus primarily on annual budget deficits and debt ceiling discussions.

For CPAs, however, the report represents something far more significant: the application of modern financial reporting concepts to one of the largest governmental entities in the world.

Looking Beyond the Federal Budget

Most public discussion of federal finances centers on the annual budget deficit. The deficit measures the difference between federal cash receipts and cash expenditures during a fiscal year and remains an important indicator of Treasury borrowing needs and short-term fiscal policy.

The Financial Report approaches federal finances differently.

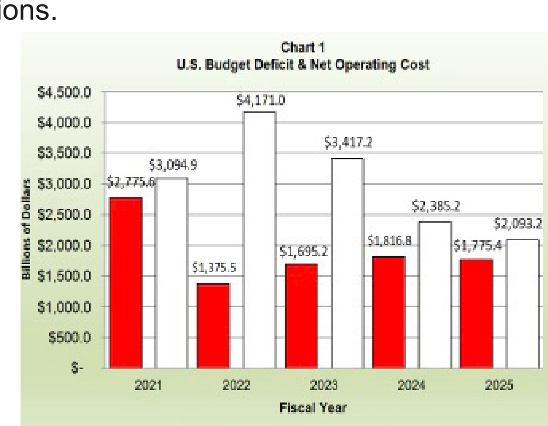
Rather than focusing solely on cash flows, the report incorporates accrual accounting principles designed to recognize the economic effects of governmental activity when obligations are incurred rather than when cash payments occur. In many respects, the distinction mirrors the same cash-versus-accrual considerations CPAs evaluate routinely in private-sector reporting.

One of the report's most important measures is *Net Operating Cost*, which the Financial Report defines as the federal government's "bottom line." Unlike the budget deficit, Net Operating Cost reflects changes in long-term liabilities and other accrued obligations that may not yet require immediate cash expenditures. The differences can be substantial.

For fiscal year 2025, the federal government reported a budget deficit of approximately $1.8 trillion, while Net Operating Cost totaled approximately $2.1 trillion before the reversal of illegally collected tariffs. In fiscal year 2022, the difference was significantly larger: the federal budget deficit was approximately $1.4 trillion while Net Operating Cost reached approximately $4.2 trillion.

For accounting professionals, the reason is familiar. Accrual accounting captures obligations and economic costs as they arise, including actuarial adjustments, pension-related liabilities, veterans' benefits, and other long-term commitments that may not yet affect current-year cash flows.

The distinction is not merely technical. It reflects two fundamentally different approaches to evaluating financial condition—one focused on annual cash financing requirements and the other focused on broader economic obligations.



The Federal Government’s Balance Sheet

The Financial Report also includes a consolidated balance sheet that presents a broader picture of the federal government’s financial position.

EXECUTIVE SUMMARY TO THE FY 2025 FINANCIAL REPORT OF THE U.S. GOVERNMENT

NATION BY THE NUMBERS A Snapshot of The Government's Financial Position & Condition	2025	2024*
Financial Measures (Dollars in Billions):		
Net Cost:		
Gross Costs	$ (8,071.4)	$ (7,750.2)
Less: Earned Revenue	$ 752.2	$ 670.7
Gain/(Loss) from Changes in Assumptions	$ (18.6)	$ (283.6)
Total Net Cost	**$ (7,337.8)**	**$ (7,363.1)**
Less: Total Tax and Other Unearned Revenues	**$ 5,244.6**	**$ 4,977.9**
Net Operating Cost	**$ (2,093.2)**	**$ (2,385.2)**
Budget Deficit	**$ (1,775.4)**	**$ (1,816.8)**
Assets, comprised of:		
Cash and Other Monetary Assets	$ 1,187.7	$ 1,177.7
Inventory and Related Property, Net	$ 504.2	$ 479.9
Loans Receivable, Net	$ 2,002.5	$ 1,751.0
Property, Plant, and Equipment, Net	$ 1,400.3	$ 1,302.1
Other	$ 960.7	$ 973.1
Total Assets	**$ 6,055.4**	**$ 5,683.8**
Less: Liabilities, comprised of:		
Federal Debt and Interest Payable	$ (30,334.1)	$ (28,338.9)
Federal Employee and Veteran Benefits Payable	$ (15,472.2)	$ (15,033.4)
Other	$ (1,972.5)	$ (1,960.8)
Total Liabilities	**$ (47,778.8)**	**$ (45,333.1)**
Net Position[1]	**$ (41,723.4)**	**$ (39,649.3)**
Sustainability Measures (Dollars in Trillions):		
Social Insurance Net Expenditures	$ (88.4)	$ (78.3)
Total Federal Non-Interest Net Expenditures	$ (79.6)	$ (72.7)
Sustainability Measures as Percent GDP:		
Social Insurance Net Expenditures[2]	(4.6%)	(4.2%)
Total Federal Non-Interest Net Expenditures	(3.9%)	(3.6%)
Fiscal Gap[3]	(4.7%)	(4.3%)

1 The government's net position is calculated in accordance with federal accounting standards. Per these standards, net position does not include the financial value of the government's sovereign power to tax, regulate commerce, or set monetary policy, or the value of nonoperational resources, such as national and natural resources, for which the government is a steward.

2 Pursuant to federal accounting standards, for SOSI reporting, the federal government's social insurance programs include Social Security; Medicare Parts A, B, and D; DOL's Black Lung program; and the RRB.

3 To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amount to 4.7 percent of GDP on average is needed (4.3 percent of GDP on average in FY 2024). See Financial Statement Note 24 for additional information.

* Restated for prior period adjustment due to correction of error (see Financial Statement Note 1.V).

For fiscal year 2025, the federal government reported approximately $6 trillion in assets and approximately $48 trillion in liabilities, excluding certain stewardship and heritage assets. The result was a negative net position of approximately $42 trillion.

Major liabilities include publicly held Treasury debt, federal employee retirement obligations, veterans’ benefits, environmental liabilities, and other accrued commitments.

The report also includes long-term projections associated with Social Security and Medicare. Over a 75-year period, the present value shortfall for major social insurance programs was estimated at approximately $88 trillion. Although these long-term projections are not recognized as liabilities under federal accounting standards, they are disclosed to provide users with insight into long-term fiscal sustainability and the potential implications of current fiscal policies.

The report repeatedly warns that the federal government remains on an “unsustainable fiscal trajectory,” a phrase that has appeared consistently in recent years.

Regardless of political perspective, these disclosures present issues familiar to CPAs: sustainability analysis, long-term obligations, actuarial assumptions, and the relationship between current operations and future financial capacity.

Constitutional and Professional Foundations

Federal financial transparency is rooted directly in the U.S. Constitution. Article I, Section 9, Clause 7 states that “a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.”

Federal reporting focuses primarily on cash receipts and expenditures. As federal operations expanded throughout the twentieth century, accounting professionals and policymakers increasingly recognized that annual cash reporting did not fully reflect the government’s growing long-term obligations.

A major shift occurred with passage of the Chief Financial Officers Act of 1990. The legislation established Chief Financial Officer positions throughout major federal agencies and significantly strengthened federal financial management and reporting requirements. It also accelerated the movement toward audited, accrual-based financial statements at the federal level.

Today, FASAB establishes generally accepted accounting principles for federal entities, and the AICPA recognizes FASAB as the official federal accounting standards-setting body.

For the accounting profession, the evolution of federal financial reporting represents a significant extension of principles long associated with transparency, comparability, accountability, and decision-useful financial information.

The Continuing Audit Challenge

Although the federal government prepares consolidated audited financial statements annually, the GAO has issued a disclaimer of opinion on the government-wide financial statements each year since its first audit for fiscal year 1997.

For CPAs and auditors, a disclaimer of opinion represents a serious matter because it indicates that sufficient appropriate audit evidence could not be obtained to express an opinion on the financial statements as a whole.

The GAO has cited several major causes, including material weaknesses in internal controls over financial reporting, limitations involving the Department of Defense, and uncertainties affecting portions of the consolidated statements.

Persistent challenges involving property, equipment, inventory systems, and financial reporting processes within DoD continue to be among the most significant issues.

At the same time, many individual federal agencies receive unmodified opinions on their standalone financial statements. The primary difficulties arise in connection with government-wide consolidation and the extraordinary scale and complexity of federal operations.

For accounting professionals, these audit challenges highlight the importance of enterprise-wide controls, systems integration, data governance, and auditability in large organizations.

Why the Report Matters to CPAs

The *Financial Report of the United States Government* is not simply a governmental accounting exercise. Its implications extend to economic growth, interest rates, taxation, healthcare funding, inflation, capital markets, and long-term fiscal stability.

CPAs routinely advise businesses, lenders, governmental entities, investors, nonprofit organizations, and retirees whose financial outcomes are influenced by federal fiscal conditions. Understanding the federal government's audited financial position therefore provides valuable context for broader economic and financial analysis.

The report also presents an opportunity for CPAs to contribute meaningfully to public financial literacy. In virtually every other environment, audited accrual-based financial statements are considered fundamental tools for evaluating financial condition and long-term sustainability. The same analytical principles should apply at the federal level.

Reasonable professionals may disagree about fiscal policy, taxation, entitlement reform, or debt management strategies. However, objective financial reporting remains essential regardless of political viewpoint.

For the accounting profession, the Financial Report of the United States Government remains possibly one of the most important—and least known and discussed—financial reporting documents produced anywhere in the world.

About the Author

Michael Doorley, CPA*, was a former public accounting auditor, and a 35-year financial services executive serving in CFO, CAO, COO and board roles. He founded usdebtforum.com, which seeks to educate others on the financial position and condition of the U.S. government and the U.S. National Debt. He may be contacted at mikedoorley@gmail.com.*