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HIDDEN IN PLAIN SIGHT:
Why CPAs Should Pay Attention to the Federal Government's Annual Financial Report

By Michael Doorley, CPA

Most Americans are familiar with headlines discussing the federal budget deficit, rising national debt, and congressional debates over spending and taxation. Yet relatively few people—including many financial professionals—are aware that the federal government publishes an annual audited financial report prepared using accrual-based accounting principles familiar to every CPA.

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 one of the most comprehensive assessments available of the federal government's financial condition. The report includes consolidated financial statements, management discussion and analysis, notes to the financial statements, long-term sustainability disclosures, and an independent audit report issued by the Government Accountability Office (GAO).

Despite its significance, the report receives little public attention compared with the annual federal budget.

For CPAs, however, the report represents far more than a governmental accounting exercise. It provides a large-scale example of accrual accounting, long-term liability recognition, sustainability analysis, internal controls, and audit complexity operating at the highest level of government.

Budget Deficit Versus Net Operating Cost

One of the most important distinctions within the Financial Report is the difference between the annual federal budget deficit and Net Operating Cost.

The federal budget deficit is primarily a cash-based measure reflecting the difference between annual receipts and expenditures. It is useful in evaluating short-term financing and borrowing needs. The Financial Report, however, also presents Net Operating Cost, an accrual-based measure defined in the report as the government's "bottom line."

Unlike the budget deficit, Net Operating Cost captures changes in long-term liabilities and obligations, including federal employee retirement benefits, veterans' benefits, actuarial adjustments, and other accrued commitments.

As a result, the two measures can differ significantly.

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 substantially greater, with a budget deficit of approximately $1.4 trillion compared with Net Operating Cost of approximately $4.2 trillion.

For CPAs, the distinction is familiar. Cash-based reporting measures liquidity and near-term financing requirements, while accrual-based reporting provides a broader assessment of financial performance and obligations incurred during the reporting period.

The Federal Government's Financial Position

The Financial Report also includes a consolidated balance sheet that receives relatively little attention in broader public discussion.

For fiscal year 2025, the federal government reported approximately $6 trillion in assets and approximately $48 trillion in liabilities, resulting in a negative net position of approximately $42 trillion, exclusive of Stewardship and Heritage assets.

The report also includes long-term projections associated with Social Security and Medicare. Over a 75-year horizon, 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 assist readers in evaluating long-term fiscal sustainability. The report repeatedly warns that current fiscal trends remain "unsustainable."

Regardless of political perspective, these disclosures reflect accounting concepts familiar to CPAs, including long-term obligations, actuarial assumptions, sustainability analysis, and the importance of transparent financial reporting.

Continuing Audit Challenges

The federal government's consolidated financial statements are audited annually by the GAO. Since government-wide financial statements on the accrual basis were first prepared for fiscal year 1997, the GAO has issued a disclaimer of opinion each year.

The disclaimer primarily results from material weaknesses in internal controls over financial reporting, limitations involving the Department of Defense, and challenges associated with consolidating one of the world's largest and most decentralized organizations.

For accounting professionals, these issues highlight the complexity of enterprise-wide financial reporting, systems integration, data governance, and auditability at massive scale.

Why the Report Matters to CPAs

The Financial Report of the United States Government remains one of the most important—and least discussed—financial reporting documents in the country. CPAs routinely analyze audited accrual-based financial statements when evaluating corporations, municipalities, pension plans, and nonprofit organizations. Applying similar analytical principles to the federal government provides important context for understanding long-term fiscal and economic conditions.

The report also reinforces a broader professional principle: objective financial reporting matters. Regardless of policy preferences or political ideology, transparent accrual-based financial information remains essential for informed analysis and long-term decision-making.

For CPAs, the Financial Report offers not only insight into federal finances, but also a reminder of the accounting profession's broader role in promoting transparency, accountability, and financial literacy.

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.

MEMBERSHIP DUES REMINDER

HAVE YOU PAID YOUR MEMBERSHIP DUES YET?

The 2025-2026 WVSCPA membership dues payments were due May 31st. If you have not yet paid your membership dues, please do so immediately, to remain in good standing as a member. Payments received after June 30th, will incur a $30.00 late fee.

If you have had any changes to your contact information, such as change in employer, change in email address, please notify the society office at **wvscpa@wvscpa.org** and we will update for you.

Payments for outstanding membership dues invoices may be made online at **wvscpa.org** or a check can be mailed to: **WVSCPA 216 Brooks Street, Suite 201, Charleston, WV 25301.**

Please Note – If you no longer wish to maintain your membership with the Society, please contact our office to resign. It is better to resign your membership rather than to be terminated and incur a penalty fee should you want to reinstate your membership in the future.