

# America's "Hidden" Financial Statements:

## Why the Federal Government's Financial Report Matters

by Michael Doorley, CPA

*Each year*, the federal government publishes one of the most comprehensive financial reports in the world, yet most Americans—and financial professionals—have little awareness that it exists.

On March 19, the U.S. Treasury released the [Financial Report of the United States Government for Fiscal Year 2025](#). The Financial Report presents audited, accrual-based financial statements for the federal government. It resembles the annual report of a large corporation, containing consolidated financial statements, management discussion and analysis, notes to the financial statements, required supplementary information, and an independent auditor's report issued by the Government Accountability Office (GAO).

For CPAs, the report should feel familiar. It applies many of the same accounting concepts used in private-sector reporting, including accrual accounting, liability recognition, sustainability analysis, internal controls, and audit reporting. Yet despite its significance, the report remains largely absent from mainstream financial discussions, media coverage, and public policy debates.

### Constitutional Origins and Modern Financial Reporting

Federal financial accountability has been embedded in the nation's framework since the adoption of the Constitution. Article I, Section 9, Clause 7 requires that "a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time."

This requirement is fulfilled primarily through cash-based reporting centered on annual receipts, expenditures, and deficits. As the federal government expanded throughout the twentieth century, however, the limitations of cash-based reporting became increasingly apparent. Programs such as Social Security, Medicare, federal pensions, and veterans' benefits created long-term obligations that were not fully reflected in annual budget measures.

After decades of discussions, Congress enacted the Chief Financial Officers Act of 1990. The Act established CFO positions at major federal agencies. And required annual, audited, consolidated accrual-based financial statements for the government. The first audit was for fiscal year 1997.

### Budget Deficit Versus Net Operating Cost

One of the most important concepts within the Financial Report is the distinction between the federal budget deficit and net operating cost.

Public discussion almost always focuses on the annual cash-based budget deficit which reflects how much the government must borrow during a fiscal year. While useful for evaluating short-term financing needs, it does not capture the long-term economic effects of government operations.

The Financial Report instead emphasizes net operating cost, an accrual-based measure defined in the report as the government's "bottom line." Under accrual accounting, expenses are recognized when incurred rather than when cash payments are made. This includes changes in long-term liabilities and future obligations that may not require immediate cash expenditures.

The difference between the two measures can be substantial.

For fiscal year 2025:

- Budget deficit: \$1.8 trillion
- Net operating cost: \$2.1 trillion before reversal of illegally collected tariffs

The difference was even more dramatic in fiscal year 2022:

- Budget deficit: \$1.4 trillion
- Net operating cost: \$4.2 trillion

For CPAs, the distinction is significant. In private-sector reporting, evaluating financial performance without considering accrued liabilities would provide an incomplete picture of economic reality. Yet discussions of federal finances focus almost exclusively on cash-based measures.

### **The Federal Balance Sheet and Long-Term Sustainability**

The report's consolidated balance sheet provides additional insight into the government's long-term fiscal position.

For fiscal year 2025, the federal government reported:

- Total assets of \$6 trillion (exclusive of Stewardship and Heritage Assets)
- Total liabilities of \$48 trillion
- Negative net position of \$42 trillion

Among the largest liabilities are publicly held debt and accrued interest. And federal employee pensions, and veterans' benefits of \$15 trillion.

The report includes the present value shortfall for Social Security and Medicare over a 75-year horizon of \$88 trillion, an increase of \$10 trillion from the prior year. Although these projections are not recorded as

liabilities under federal accounting standards, they provide important context regarding long-term fiscal sustainability.

Throughout the report, the government repeatedly warns that current fiscal policies are "unsustainable." These warnings are not political commentary. They are formal disclosures contained within audited financial statements.

### **Continuing Audit Challenges**

Since fiscal year 1997, the GAO has consistently issued disclaimers of opinion.

The reasons include material weaknesses in internal controls over financial reporting, scope limitations including at the Department of Defense, insufficient audit evidence, and ongoing challenges involving accounting systems and interagency balances.

Importantly, many individual federal agencies do receive unmodified opinions. However, the scale and complexity of consolidating the entire federal government continue to present substantial reporting challenges.

### **Why This Matters to CPAs**

Arguably, the Financial Report remains one of the most comprehensive yet underutilized financial documents in America. It provides a broader and more complete perspective on the government's financial condition

than cash-based budget measures alone.

For CPAs, the report serves as a real-world case study in accrual accounting, long-term liability recognition, financial transparency, internal controls, and audit complexity. It also demonstrates the importance of understanding the difference between cash-based budgeting and accrual-based financial reporting when evaluating financial sustainability.

The accounting profession has long emphasized transparency, comparability, and informed decision-making. The AICPA has supported efforts to increase awareness of federal financial reporting, including bipartisan legislation such as the Fiscal State of the Nation Act, which would require annual presentations to Congress of the government's audited financial statements.

CPAs are positioned to explain the distinctions between budget deficits, net operating costs, liabilities, and long-term obligations in a way that is objective and understandable to the public. The information exists. The question may simply be why more people—including CPAs—are not paying attention to it.

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