



Financial Report of the U.S. Government: One of the Best Kept Secrets

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What if one of the most important financial documents in America is also one of the least known?

On March 19, the U.S. Treasury released the Financial Report of the United States Government for Fiscal Year 2025. For CPAs, the document should feel familiar: audited, accrual-based financial statements accompanied by management discussion and analysis (MD&A), notes, required supplementary information and an independent auditor's report.

Yet, despite its scope and significance, the report remains largely unknown and absent from professional discourse, financial analysis and policy makers' conversations. That absence raises a fundamental question: why is the federal government's most complete set of financial statements not central to how it plans and how its financial condition is evaluated? Here are some considerations:

From Constitutional Requirement to Modern Financial Reporting

Federal financial reporting originates from Article I, Section 9, Clause 7 of the U.S. Constitution, which requires publication of a "Statement and Account" of public receipts and expenditures. Historically, this requirement has been fulfilled through cash-based reporting, culminating in the annual budget deficit. However, as federal operations expanded — particularly in the post-World War II era — the limitations of cash-basis reporting became increasingly apparent.

Significant programs running over a fiscal year and long-term commitments were not reflected in measures of annual performance.

The Chief Financial Officers Act of 1990 addressed this gap by requiring audited, accrual-based financial statements for the federal government. The first consolidated audit, issued for fiscal year 1997, resulted in a Disclaimer of Opinion — a result that has continued for 29 years through fiscal year 2025.

The Measurement Disconnect: Deficit vs. Net Operating Cost

Public discussion of federal finances continues to center on the annual budget deficit. From an accounting perspective, this focus is incomplete.

The budget deficit is a cash-based measure, reflecting current-period inflows and outflows. It does not capture:

- Changes in long-term liabilities
- Accruals for earned benefits
- The full cost of government operations

By contrast, the financial report presents net operating cost, an accrual-based measure analogous to net income (or loss) in the private sector. The report explicitly identifies this measure as the government's "bottom line."

For fiscal year 2025:

- Budget deficit: \$1.8 trillion
- Net operating cost: \$2.1 trillion (before the reversal of the tariff income relative to FY 2025 later deemed illegal by the Supreme Court)

A more significant difference occurred in fiscal year 2022:

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

The 200% increase illustrates the impact of accrual accounting in capturing costs and changes in assumptions that are not reflected in cash-based reporting.

For CPAs, the distinction is straightforward: evaluating financial performance without considering accrual-based results would be inconsistent with the concept of generally accepted accounting principles. Yet this distinction is rarely applied in the government's financial discussions.

Financial Position and Long-Term Commitments

The government's consolidated balance sheet further underscores the importance of accrual-based reporting. For fiscal year 2025:

- Total assets: \$6 trillion (exclusive of Stewardship and Heritage assets)
- Total liabilities: \$48 trillion
- Net position: \$(42) trillion

Significant liabilities include federal employee and veteran benefits (\$15 trillion) — a topic rarely discussed in public — as well as publicly held debt and accrued interest. In addition, required supplementary information shows the present value of projected social insurance shortfalls over a 75-year horizon:

- Social Security and Medicare (Parts A, B, and D): \$(88.4) trillion

This is a \$10 trillion increase from the prior year. While these sustainability measures are not recognized as liabilities under federal accounting standards, they provide critical context for assessing long-term fiscal condition.

The report reveals a structural imbalance driven by rising obligations and insufficient revenues over the long term. It includes repeated warnings — dozens of them — about the government being on unsustainable fiscal path. These

are not political opinions. They are audited findings.

Audit Results and Reporting Limitations

The financial statements are audited by the Government Accountability Office (GAO). Despite decades of effort, the GAO continues to issue a disclaimer of opinion on the consolidated financial statements.

The reasons are well documented and persistent:

- Material weaknesses in internal control over financial reporting
- Inability to obtain sufficient, appropriate audit evidence
- Significant limitations related to certain agencies, most notably the U.S. Department of Defense
- Ongoing challenges in accounting for certain assets, liabilities and interagency balances

At the component level, many CFO Act Agencies receive unmodified opinions. However, from a consolidation standpoint, the unresolved deficiencies are significant enough to preclude an overall unmodified opinion. For CPAs, this presents a familiar but uncomfortable reality: the financial statements exist, but their auditability remains constrained by systemic issues.

Conclusion

Thus, the federal government produces audited, accrual-based financial statements in accordance with federal government accounting standards. These statements provide a more complete picture of financial performance and condition than cash-based measures alone.

However, they remain virtually unknown and underutilized in both professional and public discourse. As former Congressman Jim Cooper (D-TN-5) once observed, the Financial Report has been "one of the best kept secrets in America." That observation continues to hold relevance today.

For CPAs, the question is not whether the information is important and available, it is whether others should know.

Michael Doorley, CPA, is the founder of U.S. Debt Forum (usdebtforum.com), which seeks to educate others on the financial position and condition of the U.S. government and to hold elected representatives accountable. He chairs a monthly special interest group on the U.S. national debt and was a former public accounting auditor. He can be reached at mikedoorley@gmail.com