



The Financial Report of the United States Government: Why It Matters to CPAs

 May 21, 2026

BY MICHAEL DOORLEY, CPA
FOUNDER
U.S. DEBT FORUM

When discussions turn to federal finances, the conversation usually focuses on the national debt or the annual budget deficit. These figures dominate headlines, shape political debate, and influence public perception about the nation's fiscal health.

But for CPAs and financial professionals, those numbers tell only part of the story.

Behind the headlines is a far more comprehensive document: ***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), the report provides audited, accrual-based financial statements for the federal government. Much like a corporate annual report, it offers insight into the government's assets, liabilities, operating costs, long-term obligations, and overall financial condition.

For members of the accounting profession, the report is especially significant because it applies many of the same financial reporting concepts used in private-sector accounting—including accrual accounting, liability recognition, internal controls, and sustainability analysis—on the largest scale imaginable.

Looking Beyond the Federal Budget

Most public discussions about federal finances rely on cash-based measures, particularly the annual budget deficit. While useful for understanding borrowing needs and short-term fiscal policy, cash-based reporting does not fully capture the long-term financial impact of government operations.

The Financial Report takes a different approach.

Using accrual accounting principles, the report measures economic activity when obligations are incurred rather than when cash changes hands. This allows the government to recognize future commitments and long-term liabilities in a way that provides a more complete picture of financial reality.

For CPAs, this distinction is familiar. Just as accrual accounting in the private sector provides a clearer representation of an organization's financial condition, accrual-based reporting at the federal level helps illuminate obligations that may not yet require immediate cash payments but still significantly affect the government's financial position.

The Foundation of Federal Financial Accountability

Government financial transparency has constitutional roots. **Article I, Section 9, Clause 7 of the U.S. Constitution** requires that "a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time."

Modern federal financial reporting, however, was significantly strengthened through the **Chief Financial Officers (CFO) Act of 1990**. The legislation established CFO positions at major federal agencies and aimed to improve accountability, consistency, and oversight throughout the federal government.

The CFO Act laid the groundwork for auditable, government-wide financial statements and helped move federal reporting toward more standardized accounting practices.

Budget Deficit vs. Net Operating Cost

One of the report's most important concepts—and one particularly relevant to CPAs—is the distinction between the federal budget deficit and net operating cost.

Budget Deficit

The federal budget deficit is primarily calculated on a cash basis. It reflects the difference between annual receipts and outlays and is commonly used to evaluate borrowing requirements and fiscal policy.

Net Operating Cost

Net operating cost, however, is calculated using accrual accounting principles and is defined in the report as the government's "bottom line." It includes changes in long-term liabilities such as:

- Federal employee pensions
- Veterans' benefits
- Environmental liabilities
- Other future obligations

Because these future commitments are recognized when incurred, net operating cost can differ substantially from the annual budget deficit.

For example:

- In 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 reversal of illegally collected tariffs.
- In fiscal year 2022, the difference was even more dramatic, with a budget deficit of approximately \$1.4 trillion compared to a net operating cost of roughly \$4.2 trillion.

These differences illustrate how accrual accounting captures the broader economic impact of government operations beyond annual cash flows.

Understanding the Federal Balance Sheet

The Financial Report also includes a consolidated federal balance sheet, providing insight into the government's assets and liabilities.

For fiscal year 2025, the federal government reported approximately:

- **\$48 trillion in liabilities**
- **\$6 trillion in assets** (excluding stewardship and heritage assets)

Major liabilities include debt held by the public, pension obligations, veterans' benefits, and other long-term commitments.

The report also addresses projected funding gaps for Social Security and Medicare, including a present value shortfall estimated at approximately \$88 trillion.

These disclosures highlight long-term fiscal challenges driven by:

- Demographic shifts
- Rising healthcare costs
- Increasing interest expenses
- Long-term entitlement obligations

The report repeatedly describes the government's current debt trajectory as "unsustainable," emphasizing the growing importance of long-term financial planning and analysis.

Continuing Audit Challenges

Although the federal government prepares annual consolidated financial statements, the Government Accountability Office (GAO) has consistently issued a disclaimer of opinion on those statements since government-wide audits began for fiscal year 1997.

According to the report, the disclaimer is primarily due to:

- Certain material weaknesses in internal controls
- Other scope limitations within the Department of Defense
- Significant uncertainties affecting portions of the consolidated statements

These challenges demonstrate the immense complexity of producing auditable financial statements for one of the world's largest and most decentralized entities.

For CPAs, the situation reinforces the importance of:

- Effective internal controls
- Enterprise-wide financial systems
- Reliable data governance
- Consistent accounting standards

It also serves as a reminder that governmental financial reporting operates on a scale far beyond most traditional corporate environments.

Why the Report Matters to CPAs

The Financial Report of the United States Government remains one of the most informative—but often underutilized—resources available to accounting professionals.

Whether working in public accounting, government, academia, consulting, or financial analysis, CPAs can gain valuable insight into:

- Large-scale financial management
- Public-sector accounting practices
- Long-term fiscal sustainability
- Complex audit environments
- The application of accrual accounting principles in government

As federal debt and long-term obligations continue to grow, understanding the distinction between cash-based budgeting and accrual-based financial reporting will become increasingly important for both policymakers and the accounting profession.

For CPAs, the report is more than a governmental publication—it is a real-world case study in transparency, accountability, financial management, and the evolving role of accounting in evaluating long-term fiscal health.

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.

[← View All News](#)

[VIEW MY MTCPA MENU >](#)

Montana Society of CPAs

PHYSICAL ADDRESS

317 N Cruse Ave, Suite 202
Helena, MT 59601

MAILING ADDRESS

PO Box 138
Helena, MT 59624

406-442-7301

info@montana.cpa

My MTCPA

CPE + Events

Resources

Advocacy

Future CPAs +

Students

About Us

