

Beyond the Deficit: What the Financial Report of the United States Government Reveals About America’s Fiscal Condition

The little-known [Financial Report of the United States Government](#) provides the most comprehensive view of the federal government’s financial position and condition. Produced annually by the U.S. Department of the Treasury in coordination with the Office of Management and Budget, the report presents audited, accrual-based financial statements in accordance with standards issued by the Federal Accounting Standards Advisory Board.

Despite its breadth and technical rigor, the report remains largely unknown and is often overlooked in mainstream fiscal discussions, which continue to emphasize cash-based budget measures. This disconnect raises important considerations for financial professionals, particularly CPAs, in evaluating how federal financial performance is measured and communicated.

Two Frameworks, Two Different Stories

Federal financial results are commonly discussed using the budget deficit, a cash-based measure reflecting the difference between receipts and outlays within a fiscal year. While useful for assessing short-term financing needs, this measure does not capture the full economic cost of government operations.

By contrast, the Financial Report presents net operating cost, defined in the report as the government’s “bottom line,” on an accrual basis. This metric recognizes expenses when incurred, including changes in long-term liabilities. The distinction is not merely technical—it can materially alter the interpretation of federal performance.

For fiscal year 2025, the federal government reported a budget deficit of approximately \$1.8 trillion, compared with a net operating cost of approximately \$2.1 trillion before giving effect to the reversal of illegally collected tariffs. The divergence becomes even more pronounced in certain periods. For example, in fiscal year 2022, the budget deficit was approximately \$1.4 trillion, while net operating cost reached approximately \$4.2 trillion, illustrating how accrual adjustments can significantly expand the measured cost of operations.

From an accounting perspective, these differences are expected. Cash-based reporting emphasizes liquidity and annual funding requirements, whereas accrual-based reporting aligns costs with the periods in which they are incurred. This alignment is consistent with private-sector financial reporting, where accrual-based net income serves as the primary performance metric.

Financial Position and Long-Term Obligations

Beyond operating results, the Financial Report includes a consolidated balance sheet that provides insight into the government's financial position. For fiscal year 2025, total assets were approximately \$6 trillion (excluding Stewardship and Heritage assets), while total liabilities exceeded \$48 trillion, resulting in a \$42 trillion negative net position.

A substantial portion of these liabilities relates to federal employee and veteran benefits, as well as environmental and disposal liabilities. The report also includes extensive disclosures concerning long-term fiscal projections for programs such as Social Security and Medicare. The current present value of the shortfall for these social programs is \$88 trillion.

These long-term projections are among the report's most important features. They provide policymakers, financial professionals, and the public with a broader understanding of the structural fiscal pressures facing the federal government beyond any single fiscal year.

Implications for CPAs and Financial Professionals

For CPAs and other financial professionals, the Financial Report offers a unique opportunity to apply traditional financial analysis concepts to the federal government. Concepts such as accrual accounting, liability recognition, sustainability, internal control, and audit reporting all play central roles within the report.

The Government Accountability Office has continued to issue a disclaimer of opinion on the federal government's consolidated financial statements due to material weaknesses, significant uncertainties, and limitations related primarily to the Department of Defense. These ongoing issues highlight the complexity of federal financial reporting and the importance of continued improvements in financial management and accountability.

Conclusion

The Financial Report of the United States Government provides a broader and more economically comprehensive perspective on the nation's fiscal condition than traditional budget measures alone. While budget deficits remain important indicators of annual financing needs, accrual-based reporting captures the longer-term financial consequences of government operations and policy decisions.

For CPAs, analysts, policymakers, and citizens seeking a deeper understanding of federal finances, the Financial Report remains an important—yet underutilized—resource for evaluating the financial condition and long-term sustainability of the United States government.

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