RETHINKING FINANCIAL REPORTING

FINANCIAL PLANNING

WORKING WITH THE CLOCK, NOT AGAINST IT

A structured financial cycle can move the finance officer from reactive scorekeeper to proactive steward of long-term fiscal health.



RETHINKING FINANCIAL REPORTING

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ABOUT GFOA

The Government Finance Officers Association (GFOA) represents over 33,000 public finance officers throughout the United States and Canada. GFOA's mission is to advance excellence in government finance. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.

ABOUT RETHINKING FINANCIAL REPORTING

Local government is in a time of constrained resources, declining trust, and rapid change. This has prompted GFOA to launch a "rethinking" of several aspects of public finance, including Rethinking Financial Reporting. For example, in a time of decreasing trust in government, we should ask if lengthy, technical financial reports that take significant time to compile, undergo lengthy audit processes, and, as a result, are often published many months in arrears are the most effective way to build trust with government's most important constituency: the public. In a time of declining resources, we should ask if the finance officer's time is well spent producing these reports, if, in fact, these reports are not the best way to provide accountability to the public. Time spent on general purpose external financial reports is time not spent on other forms of decision support and public engagement. Simply put, this time is lost opportunity cost that could otherwise be used to build trust. Rethinking Financial Reporting is a fact-based examination into the costs and benefits of the current model of financial reporting and how we can decrease the former and increase the latter.

USE OF GENERATIVE ARTIFICIAL INTELLIGENCE IN THIS REPORT

This report was developed with the assistance of generative artificial intelligence (AI) tools, used in the following ways:

- **Idea development** — brainstorming and structuring the report outline.
- **Drafting** — generating text for select sections. Where AI's contribution to the final language is material, this is noted in the report. Minor assistance, such as wording or grammar suggestions, is not separately flagged.
- **Editing** — reviewing drafts for clarity and accessibility for the intended audience.
- **Challenge review** — using AI to challenge the report's assumptions, arguments, or conclusions and surface weaknesses before publication.

All facts, data, and ideas sourced from AI tools were independently verified by the author(s) before inclusion; none were taken at face value. GFOA recognizes that generative AI can produce biased, incomplete, or inaccurate output, and applies this same scrutiny regardless of which AI tool was used.

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SUMMARY OF KEY IDEAS | SHAREABLE INFOGRAPHIC

WORKING WITH THE CLOCK NOT AGAINST IT

Public budgeting is often treated as a yearly exercise, but financial decisions unfold across longer time horizons. A stronger budgeting process connects annual decisions to long-term goals and financial condition. **Financial reporting** is often treated as a look backwards, when, really, it is most useful as insight into the future.

The Three Clocks of Public Finance brings together the annual audited financial report with multiyear financial planning and budgeting. The result is unique insight into near and long-term fiscal health.



CLOCK 1: ANNUAL CLOCK

Running the Annual Clock at this stage helps ground upcoming budget decisions in current financial realities.



CLOCK 2: TRAJECTORY CLOCK

Running the Trajectory Clock at this stage helps reveal whether current policies and spending patterns remain viable over future budget cycles.



CLOCK 3: GENERATIONAL CLOCK

Running the Generational Clock at this stage helps ensure long-lived commitments are considered before setting priorities and making investments.

CLOSE THE BOOKS

Financial reporting captures what happened and establishes a shared understanding of current financial condition. Reliable planning begins with reliable information.

RUN THE THREE CLOCKS

Before moving into planning and budgeting, use the data from financial reporting to assemble the Three Clocks.

BUILD A LONG-TERM FINANCIAL PLAN

Use insights from the clocks to project future conditions, test scenarios, and identify emerging risks and tradeoffs.

BUILD A STRATEGIC PLAN

Connect financial capacity to organizational goals and desired outcomes.

DEVELOP THE CAPITAL PLAN

Translate priorities into investments and match commitments to long-term affordability.

PREPARE THE BUDGET

Make decisions about allocating resources for the coming year. The budget becomes the annual expression of longer-term priorities and financial stewardship.

REPEAT AND LEARN

Each budget cycle produces new information. Results are carried forward into the next review and planning cycle.

Consider a finance officer who closes the books on another fiscal year and then immediately turns to next year's budget. The annual comprehensive financial report gets filed. The budget is adopted. And then the cycle repeats. It is a familiar rhythm — and a costly one. When governments treat the annual budget as the beginning and end of financial management, they often overlook problems hiding in plain sight. These can include an eroding pension funded ratio, infrastructure that is aging faster than it is being replaced, or a structural reliance on intergovernmental aid that disappears when policies shift.

The problem is not a lack of data. Local governments produce a great deal of financial information. The problem is sequencing: using the right tools in the right order, with each step informing the next. Getting the sequence right leads to financial management that is strategic rather than reactive.

This paper proposes a financial management cycle to help finance officers and other local government officials follow the right sequence.[1] It is built around the Three Clocks of Public Finance. The Three Clocks framework rests on a simple premise: fiscal health has three dimensions. Each unfolds on a different timescale and requires its own way of measuring it. A finance officer reading only one is navigating with a single clock:



Clock 1, the Annual Clock, asks whether the government is managing the current year well. This is where budget discussions typically focus.



Clock 2, the Trajectory Clock, focuses on the next several budget cycles. It assesses whether the government's financial position is strengthening or weakening, whether reserves are adequate, and whether the community's fiscal capacity is growing or eroding.



Clock 3, the Generational Clock, takes the longest view, examining conditions being handed forward to future officeholders and residents — with infrastructure condition and pension funding as the primary concerns.

No single clock is sufficient on its own. A government can look balanced on the Annual Clock while the Trajectory Clock shows rising long-term liabilities. At the same time, the Generational Clock might reveal a pension fund with only 60 cents in assets for every dollar promised. The full picture requires all three running simultaneously.

The six-step financial management cycle begins with the past, incorporates trends and trajectory, and moves forward to the budget — before beginning again. Each step depends on the one before it. Together, they give the finance officer more than a balanced budget. They provide a foundation for leading the local government toward a strong financial future.

Readers who want more detail on the indicators should consult the companion GFOA report, ***The Three Clocks of Public Finance: A Practical Indicator Set for Local Government Financial Health***.[2] It explains how each measure is calculated, what a desirable result looks like, and how to interpret ambiguous results.



STEP 1

Complete the ACFR and Close the Books

The Annual Comprehensive Financial Report (ACFR) is not just an audit deliverable. It is the foundational document for everything that follows in the financial cycle. A timely, accurate ACFR is a reliable starting point for strategic financial management. The ACFR is distinct among the financial management tools governments produce because it has rigorous *third-party validation*. No other financial management tool undergoes a review comparable to an audit. Governments that allow the ACFR to fall behind — or treat it as just a compliance task — miss an important opportunity to provide context for the rest of the financial management cycle. The point is not merely procedural. Every indicator in Step 2 is drawn from ACFR data, which makes the quality and timeliness of that report a strategic concern rather than a compliance one. A Three Clocks analysis built on a late or unreliable ACFR inherits those weaknesses. The governing body then makes decisions using a financial foundation the finance officer already knows is weak.

The ACFR is the foundational document for everything that follows in the financial cycle.

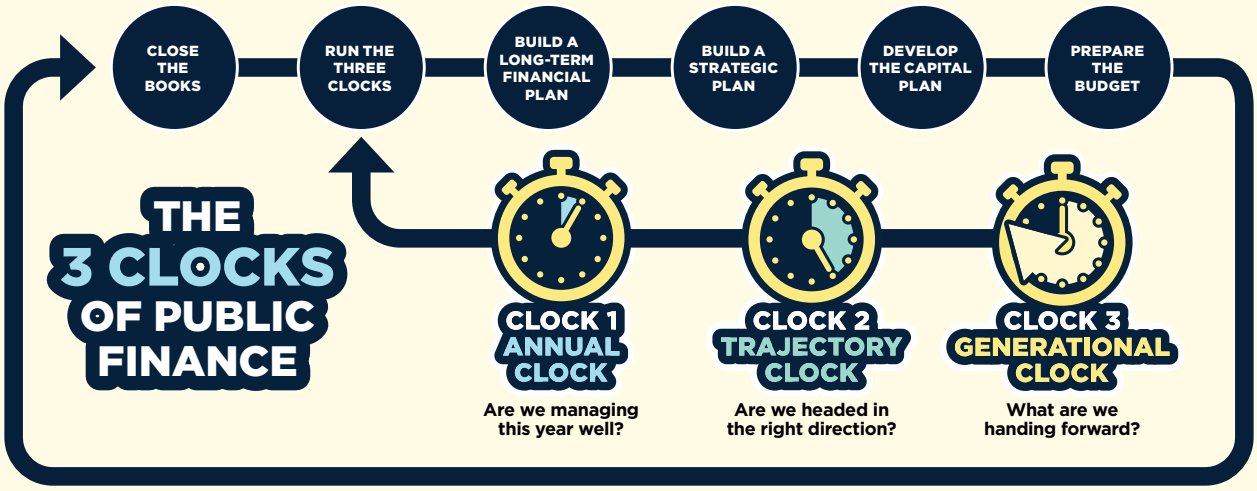


STEP 2

Run the Three Clocks

With help from the National League of Cities and the National Association of Counties, we interviewed elected officials from across the country to identify key questions they have about each clock. With several years of ACFR data, the finance officer can build something far more useful than a single year's perspective on the questions officials have: a multiyear picture of fiscal health organized around time horizons. The *Three Clocks of Public Finance* includes a series of financial indicators aligned to the questions elected officials raised in our interviews. For example, in the Annual Clock, the two key questions elected officials raised were: "Where is the money going?" and "Can we afford our costs?" Ratios like revenues and expenditures per capita provide insight into these questions. The GFOA report ***The Three Clocks of Public Finance: A Practical Indicator Set for Local Government Financial Health*** provides descriptions of indicators across all clocks and elected official questions.

The Three Clocks framework recommends showing indicators as multiyear trends. Running the Three Clocks across three or more years of ACFRs makes trends visible. Individual annual reports cannot provide the same perspective. A finance officer can show the governing body multiyear trends for capital asset condition, net pension liability, or fund balance as a share of revenues. These trends transform financial reporting from a backward-looking exercise into forward-looking insight.





STEP 3

Build or Update a Long-Term Financial Plan

Informed by what the Three Clocks have revealed, the finance officer is ready to build a genuine long-term financial plan. This is more than a revenue forecast; it integrates the time horizons of the Three Clocks with strategies for long-term financial health. The clocks suggest where the government is headed. The long-term plan helps shape that direction.

The distinction matters. Many governments produce multiyear revenue forecasts, which are a useful first step but address only one side of the ledger. A long-term financial plan shows whether commitments remain affordable over the planning horizon and makes the fiscal cost of current decisions visible before they are locked in. Tax cuts that look affordable in year one may produce structural deficits by year three. One-time expenditure reductions may balance the current budget while creating a gap in year four. A long-term financial plan surfaces these dynamics in time to act.

The finance officer's role in this step is not merely technical. A plan requires foresight and leadership to shape the future. The finance officer can frame choices and trade-offs to help decision-makers see their options and choose wisely. For example, scenario planning can be valuable in a volatile environment. It helps decision-makers consider how the future might differ from the past and how government can adapt.



Building or Updating Long-Term Plans

Long-term financial plans, strategic plans, and long-term capital plans do not need to be recreated each year. A solid plan can be updated each year, with changes made only where needed. Every few years, perhaps corresponding with elected officials' terms in office, a more thorough refresh may be warranted.



STEP 4

Develop or Update the Strategic Plan

This step is the one most often skipped or completed out of sequence. Governments frequently develop strategic plans as standalone exercises — such as vision statements, community priorities, and departmental goals — without anchoring them to the fiscal reality revealed by the prior steps. The sequence proposed here will strike some readers as backward. In most governments, strategy is understood to drive finance. The governing body sets priorities, and the finance officer determines how to pay for them. But that order can lead to a predictable problem. A strategic plan adopted without financial grounding can produce commitments that cannot be kept. Expanded services, a new facility, and full pension catch-up contributions might all be promised in the same document. Renegotiating those commitments later can damage the governing body's credibility. Bringing the financial picture into the strategic conversation, rather than treating strategic commitments as settled, is what separates a plan that shapes the future from one that merely describes an aspiration.

Done in sequence, the strategic plan becomes something different. It becomes a set of commitments aligned with known fiscal constraints. If the long-term financial plan shows that the government cannot sustain current service levels without structural adjustment, the strategic plan should reflect that reality, not ignore it. If the Generational Clock reveals a pension funded ratio that is trending toward a fiscal crisis, the strategic plan should include an explicit commitment to addressing it. The details of how to address the issue might remain in the long-term financial plan. The strategic plan does the critical work of putting financial issues higher on the decision-makers' agenda. Long-term financial health is more likely when it is treated as a strategic priority and not an afterthought.

This is where the finance officer's role as a **decision architect** — rather than a scorekeeper — becomes more visible.[3] The finance officer who brings the results of the Three Clocks and the long-term financial plan into the strategic planning process is giving the governing body its best chance of making financially savvy decisions. Governing bodies that make and keep commitments build the institutional credibility that supports difficult decisions in tough times.



STEP 5

Build or Update the Long-Term Capital Plan

Capital planning has direct connections to the Three Clocks and the long-term financial plan. For example, the Three Clocks framework includes the indicator "Capital Asset Condition," which estimates how many years of useful life remain in the government's physical infrastructure at the current rate of depreciation. A steadily declining ratio signals that assets are being consumed faster than they are being replaced. The long-term financial plan shows whether the government has the fiscal capacity to address that gap.

A long-term capital plan developed at this stage in the cycle is grounded in both analysis and fiscal constraints. It can prioritize investments based on condition data and sequence projects within debt capacity and cash flow. It can also avoid the pitfall of building more infrastructure than the government can afford to operate and maintain.

This sequencing also creates accountability. When capital commitments are made after the strategic plan has been established and within the constraints of the long-term financial plan, they represent deliberate choices — not reactive responses to crises or politically expedient additions to the capital program.



STEP 6

Prepare the Budget

The budget, developed last in the cycle, is where the preceding analysis is translated into appropriations and operating decisions. Developed in this sequence, it is no longer the beginning of the financial management process but the practical expression of the Three Clocks methodology.

A budget built on the preceding five steps can be clear about its assumptions and trade-offs. The finance officer can explain why certain expenditures are prioritized and how current-year decisions relate to the long-term financial plan. The officer can also show the debt service implications of proposed capital projects. This is a different kind of budget conversation from the one that occurs when the annual budget is treated as the starting point. GFOA's **Rethinking Budgeting initiative** offers frameworks for making this shift — from incremental, line-item thinking toward budgeting that is connected to strategic priorities and long-term sustainability.[4]

The Three Clocks framework provides a meaningful check on what the budget process sometimes rewards: short-term balance achieved by deferring long-term costs. Unfunded pension contributions, deferred maintenance, and reliance on one-time revenues may satisfy a balanced-budget requirement in year one while creating structural imbalances that the Three Clocks will eventually expose. **GFOA's best practice on fund balance** recommends maintaining an unrestricted general fund balance that reflects the risks a local government faces.[5] The Trajectory Clock shows whether the government is building toward that threshold or drawing down its fund balance.



THE CYCLE REPEATS

Building on What Came Before

Step 6 is not an ending. Once the budget is adopted and the fiscal year begins, the cycle begins again with Step 1: closing the books and completing the ACFR. The continuous nature of this cycle means each year's ACFR adds a data point to the multiyear trend. Each iteration of the Three Clocks reveals whether the trajectory has improved or worsened. Each long-term financial plan is updated with new information. Each strategic commitment is either honored or renegotiated in light of fiscal reality. Each cycle provides information about what worked and what did not. Those lessons increase the chances of success in the next cycle.

The cycle can also be adapted to the size of the government. Smaller governments can combine the long-term financial plan and the strategic plan into a single planning document. They can also run the full Three Clocks analysis every other year while updating only the most volatile indicators annually. What matters is the sequence, not the number of documents.

Over time, a government that uses this cycle consistently builds something difficult to achieve any other way: a shared institutional understanding of its fiscal condition. Elected officials who regularly review the Three Clocks framework do not need to be told that the pension funded ratio has declined for eight years. They have seen the trend themselves. Department heads who have used asset condition data in capital planning already understand the issue of deferred maintenance. That leads to a different conversation than when the issue first appears during a budget crisis.

This cumulative understanding is the Three Clocks framework's most valuable contribution.

CONCLUSION

Thriving and Not Just Surviving in Budget Politics

The GFOA report ***Power, Politics, and Budgeting*** suggests that "power" is the ability to get things done.[6] The finance officer's goal is to help the community reach and maintain a financially healthy trajectory while providing needed public services. The finance officer's sources of power are persuasion and agenda setting. *The Three Clocks of Public Finance* and the six-step financial management cycle support these two sources of power.

First, the Three Clocks framework is built around questions that matter to elected officials. It does not tell them what to think. Instead, the framework asks questions that elected officials themselves raised. It then presents information showing how the government is performing in those areas. Asking questions is a time-honored and persuasive form of communication.*

The financial management cycle sets the agenda. If a finance officer waits until budget preparation (Step 6) to get decision-makers thinking about fiscal condition, the finance officer gives up a source of power. The same is true if the annual comprehensive financial report is presented as a compliance deliverable rather than a management tool.

The finance officer who presents the Three Clocks analysis to the governing body as part of the full planning and budgeting cycle is exercising exactly the kind of leadership the current fiscal environment demands.

Volatility in federal or state policy, increasing cost pressures, the wind-down of American Rescue Plan Act funding, and the long-term burden of unfunded pension obligations are not problems the annual budget process can solve on its own. They require the kind of strategic framing this cycle provides.

The finance officer cannot control the fiscal environment. But using this cycle consistently helps ensure that the governing body is not surprised by a crisis the numbers predicted.

The Six-Step Financial Cycle

1. **Complete the ACFR and Close the Books.** Close the books accurately and on time. Everything that follows depends on reliable financial data.
2. **Run the Three Clocks.** Use three or more years of ACFRs to assess the Annual, Trajectory, and Generational dimensions of fiscal health. Three years is a workable minimum. Five or more years is better.
3. **Build or Update a Long-Term Financial Plan.** Integrate projected revenues, expenditures, debt service, and long-term liability costs. Make the future costs of current decisions visible.
4. **Develop or Update the Strategic Plan.** Anchor strategic commitments to the fiscal constraints revealed by the plan. Ensure what is promised can be kept.
5. **Build or Update the Long-Term Capital Plan.** Sequence capital investments within fiscal constraints, informed by asset condition data from the Three Clocks.
6. **Prepare the Budget.** Translate the preceding analysis into appropriations. The budget should express the cycle's findings, not ignore them.

*A classic example is the "Socratic method," most famously illustrated in Plato's *The Republic*, where structured questioning allows the listener to actively participate in the logic of the discussion. Because listeners arrive at the answer through their own insights, the process is a powerful form of self-persuasion.

Endnotes

[1] This cycle builds on GFOA's *Rethinking Budgeting* initiative and the analytical framework developed in *Understanding Municipal Fiscal Health*. See Government Finance Officers Association. (n.d.). *GFOA's Rethinking Budgeting initiative*. https://www.gfoa.org/rethinking-budgeting; Maher, C. S., Park, S., McDonald, B. D., III, & Deller, S. C. (2023). *Understanding municipal fiscal health: A model for local governments in the USA*. Routledge.

[2] Government Finance Officers Association. *The three clocks of public finance: A practical indicator set for local government financial health*.

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[5] Government Finance Officers Association. (2015, September 30). *Fund balance guidelines for the general fund*. https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund

[6] Kavanagh, S., & Kleine, A. W. (2024, March). *Power, politics, and budgeting*. Government Finance Officers Association. https://www.gfoa.org/materials/power-politics-and-budgeting

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