



Creating an Excellent Popular Financial Report

By Keith R. Herrmann

A jurisdiction's popular report can make it more attractive to interested parties, including new businesses and citizens. At its best, the popular report can be more useful to citizens than either the budget or CAFR.

Although the popular financial report is not a required document, it does meet an important need, presenting the highlights of the budget and CAFR in a user-friendly format that simplifies complex data. Most local governments are required to produce a budget document and a comprehensive annual financial report (CAFR). These documents provide important data to select audiences, which may include participants (such as citizens, taxpayers, or pension plan participants), legislative or oversight bodies, and credit analysts and other regulators, but they can be lengthy and complex, making it difficult for citizens to find and interpret the data they seek. To further enhance transparency, many state and local governments also produce a popular annual financial report, which is, ideally, logical, easy to understand, and short enough to maintain user interest.

A jurisdiction's popular report can make it more attractive to interested parties, including new businesses and citizens. If it is organized and presented well, the popular report can become a key means of communication and help to create a favorable identity for the jurisdiction. At its best, the popular report can be more useful to citizens than either the budget or CAFR. As the Government Finance Officers Association (GFOA) website

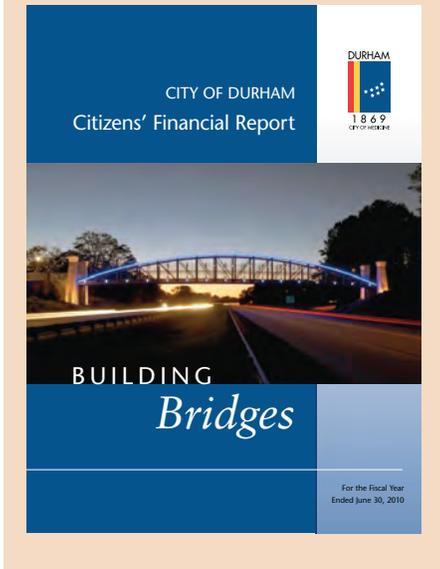
says, "The popular annual financial report can play an important role in making financial information accessible to ordinary citizens and other interested parties who may be challenged by more detailed traditional financial reports." The GFOA established the Popular Annual Financial Reporting (PAFR) Awards program in 1991 to encourage and assist state and local governments in extracting information from their CAFRs to produce high-quality popular annual financial reports that are specifically designed to be readily accessible and easily understandable to the general public and other interested parties who don't have a background in public finance. (More information about the PAFR awards program is available on the GFOA's website at www.gfoa.org.)

10 TIPS

Many governments do not produce a PAFR, or their efforts are run of the mill. That doesn't have to be the case, however. The ten tips below can help in producing a highly effective popular report.¹

Have a Theme. The theme should be stated on the cover of the report, and it should be designed to draw readers into the report and demand readership. Do not give your report a generic title such as "Popular Annual Financial Report." Instead, develop a

Exhibit 1: The City of Durham's Popular Report



well-conceived theme statement with a discernible point of view.

As an example, Exhibit 1 shows the cover of the popular annual financial report the City of Durham, North Carolina, produced for the fiscal year ended June 30, 2010. The theme, “Building Bridges,” is woven throughout the report, which provides the following explanation: “The theme of this year’s annual report is Building Bridges...The sight of a bridge begins to capture the imagination as to what is possible when divides are closed and pathways are created. This is why the bridge is also a symbol of our other projects that expand interactions, bring people together, and help to make connections.” Throughout the report, a bridge icon is placed next to each project that is metaphorically building bridges — expanding interactions, bringing people together, or helping to make connections. (Durham’s report is

available on the city’s website at www.durhamnc.gov/departments/finance/citizens_fin_report.cfm.)

Lead with a Letter and a Photograph. Like the letter to shareholders in a corporate annual report or the letter of transmittal that accompanies the CAFR, the popular report letter contains the highlights of the year. It can introduce the theme and explain why it is important. Management should also assume responsibility in the letter, alongside the auditors, for the financials. The letter can also include any necessary disclosures and explain in sufficient (but not excessive) detail any disparity between the financial data presented and those same data reported on a GAAP basis (e.g., elimination of certain component units and funds). Exhibit 2 shows a letter from the Durham city manager, including a photo to further enhance the city’s message. This is a technique corporate

America has used for many years, dating back to the 1950s, when General Electric did a study indicating that recipients remembered letters better when they included the “writer’s” photo.

Use Clear Prose. Avoid jargon and technical language that might not be immediately understandable to those without a financial or accounting background. Adopt a layperson’s perspective and never use a long word when a short one will do. Every attempt should be made to “degovernmentalize” the language (although the word “degovernmentalize” is itself an example of the type of word that should be avoided). In the end, the most important consideration is the clarity of the message.

Make the Layout Open and Inviting. Among other things, the report’s typography should be easy to read and appealing to readers. On the inside pages, consider design elements such as quotes from the text, boldface lead-ins, action subheads, and bulleted paragraphs. Exhibit 3 shows an example of a format that attempts to solicit readership on every page.

Make Good Use of Charts and Graphs. Graphics help users better understand the financial data the report presents. “Good design is clear thinking made visible,” according to Edward Tufte, a Yale University statistician who is known as a pioneer in the field of data visualization. Good charts and graphs are intriguing and pique the viewer’s curiosity. They encourage people to want to know more about the subject.

All graphs should be clear and fully explained. When possible, use graphs

Exhibit 2: A Letter from the Durham City Manager



Exhibit 3: Durham by the Numbers



to depict trend data, and always consider providing multiple years of data rather than just one. Exhibit 4 shows Durham’s statement of net assets in graph form. It contains five years of data; the Securities and Exchange Commission requires five-year data in corporate reports. Also, if available, include benchmarking data versus peer groups to provide context. Providing appropriate information on trends, including comparative data, helps users understand financial data in their proper context.

Use Photos. Images should provide a visual representation of the jurisdiction and should enhance rather than detract from the report’s appeal. Avoid including stock photos culled from the worst of the crop. It is also a good idea to include a photo of the board so readers can connect names with faces.

Include Only Relevant and Meaningful Information. Focus on

what is really important. Transparency does not mean including pointless detail; the report should refer users who want additional detail to the CAFR. When considering what to include, answer the question, “Why does it matter?” This helps in providing context and explaining the story behind the data.

For example, an explanation of fund balance is needed if the report includes a chart depicting percentage of budget maintained as fund balance. The report should also answer the “Why does it matter?” question by including statements such as the following: There is no single number in governmental accounting and financial reporting that attracts more interest than fund balance. Maintaining an adequate fund balance is important because it provides a financial “safety net” in the event of emergencies, economic downturns, or other unforeseen circumstances. Maintaining fund balance is a major factor bond rating agencies consider when evaluating the jurisdiction’s creditworthiness.

Know your Material and Adopt an Educational and Informative Tone.

This is an opportunity for the jurisdiction to portray itself. Aim to fully inform readers, and use a variety of techniques to get the point across. Use narrative to explain financial data and highlight significant items. The message can be further enhanced by including items such as a special section, a glossary of terms, or a mission statement.

Avoid Feel-Good Posturing. If there’s a problem, don’t ignore the issue — tackle it directly. Be forthright in the face of adversity. All units of gov-

ernment suffer a crisis at some point, and the popular report allows the jurisdiction to demonstrate how it handled the situation. For example, the City of Durham includes a concise, straightforward disclosure acknowledging the more-than-material nature of intergovernmental financial dependency and alerts the reader to the potential for change. Durham’s report contains the following disclosure:

Interdependence with Other Entities.

The city depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the city is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. It is also subject to changes in investment earnings

Exhibit 4: Using Graphics to Present Durham’s Statement of Net Assets



and asset values associated with U.S. treasury securities because of actions by foreign governments and other holders of publicly held U.S. treasury securities.

Understand the Value of Producing the Popular Report. The value of producing a popular report lies as much in the process of creating the report as in the consumption of its product. Preparing a report leads to a deeper understanding of the jurisdiction and its environment, and it forces staff to formulate and evaluate material that would not otherwise exist. It can unleash large amounts of creativity, which is so often suppressed by routine and the need for responding to crisis.

CONCLUSIONS

There is no comprehensive playbook that provides all the guidance neces-

sary to produce an effective report. Sometimes a bad report is easier to recognize than a good one. A bad report maximizes the potential for misinterpreting the information presented and contains inconsistent data and statements that are misleading. An excellent report is honest, attractive, informative, and focused. It may also include other special factors; for example, using recycled paper for a printed report.

For jurisdictions that have not yet produced a popular annual financial report, the best advice is to start somewhere and then evolve year to year. There is no need to break new ground each time out. Once the process is underway, solicit feedback to learn what residents liked and disliked, and make changes accordingly. Strive for an awareness of the best tools available. Following the ten tips included in

this article will get you started on the right path. ■

Note

1. The elements that make a good popular report in the public sector are similar to what makes a good annual report in the private sector. Many of the tips contained in this article are based on Sid Cato's standards for the annual report to shareholders. The criteria, first promulgated in 1984, are available at www.sidcato.com.

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