



How to Create 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 residents. At its best, the popular report can be more useful to residents than either the budget or CAFR.

The popular financial report plays an important role in making information accessible to residents. An excellent report is honest, attractive, informative, and focused. This article contains 10 tips (plus a bonus) that can help your jurisdiction better communicate with residents. The article also describes the approach taken by the City of Durham, North Carolina, and the reception the 2018 report has received from the public.

Although the popular financial report is not a required document, it is considered a best practice, and it meets an important need: presenting the highlights of the budget and financial statements in a user-friendly format that simplifies complex data. Most local governments are required to produce a budget document and annual financial statements or reports. These documents provide important information to select audiences, which may include participants (such as residents, taxpayers, or pension plan members), legislative or oversight bodies, and credit analysts and other regulators. For those without an accounting background, these documents can be very complex, making it difficult for residents to find and interpret the data they seek. To further enhance transparency, many state and local governments also produce a popular annual financial report (PAFR), which is, ideally, logical, easy to understand, and short enough to maintain user interest.

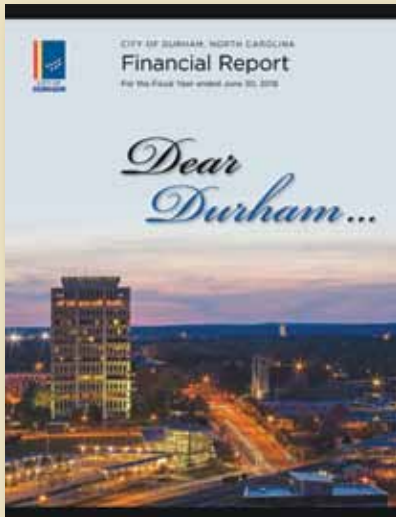
A jurisdiction's PAFR can make it more attractive to interested parties, including new businesses and residents. If it is organized and presented well, the PAFR can become a key means of communication and help create a favorable brand for the jurisdiction. At its best, the PAFR can be more useful to residents than either the budget or comprehensive annual financial report (CAFR). GFOA established its PAFR Awards program in 1991 to encourage and assist state and local governments in extracting information from their CAFRs to produce high-quality PAFRs, which are designed to inform residents of financial and other significant activity in a simplified, easy-to-read manner. They are deliberately made short and concise. (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 if they do, their efforts are lackluster. That doesn't have to be the case. These 10 tips can help in producing an excellent popular financial report.

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 to demand readership. Do not give your report a generic title such as "Popular Annual Financial Report." Instead, develop a well-conceived theme statement with a discernible point of view.

Exhibit 1: Cover of Durham's PAFR for the Fiscal Year Ended June 30, 2018



As an example, Exhibit 1 shows the cover of the PAFR that the City of Durham, North Carolina, produced for the fiscal year ended June 30, 2018. The theme, “Dear Durham,” is woven throughout the report, which provides the following explanation: “The theme for this year is Dear Durham... We asked residents and local organizations to add their voices to the *Financial Report* by writing letters addressed to Durham and telling us what they like (and dislike!) about life in the Bull City. The correspondence in this report has been reproduced with the permission of the authors... Community engagement makes Durham a much better place.” Throughout the report, a cancellation mark usually applied to a postage stamp is placed next to each letter addressed to Durham. (Durham’s report is available on the city’s website at durhamnc.gov/470/Durham-Financial-Report.)

Lead with a Letter and a Photograph. Like the letter to share-

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holders in a corporate annual report or the letter of transmittal that accompanies the CAFR, the PAFR 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 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. Corporate America has used this technique 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. Durham puts the letter near the front of the report. On the back cover, we typically solicit comments about the report and provide contact information about how to submit feedback.

Use Clear Prose. Avoid technical language and jargon that may not be immediately understandable to those who don’t have a financial or account-

ing background. Adopt a layperson’s perspective and never use a long word when a short one will do. Every attempt should be made to “de-governmentalize” the language (although the word “de-governmentalize” is itself an example of the type of word that should be avoided). You have an obligation to communicate clearly to all members of the public, and you make a valuable contribution if you use words that readers outside of the Finance Department can understand. Durham uses the analogy of the process a person uses to manage his or her own personal affairs to introduce how the city manages its finances. The most important consideration is the clarity of the message.

Exhibit 2: Letter from the Durham City Manager



There are free online algorithms and readability calculators that will help determine the grade level reading proficiency required to read text. The average person reads at a 7th or 8th grade reading level, so if you can get the text to a 5th or 6th grade level, most people should be able to read it. Consider run-

ning PAFR text through an algorithm like this to find out.

Make the Layout Open and Inviting. 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. Attempt to solicit readership on every page. Even a relatively dry list of data can be made visually appealing. Exhibit 3 shows a page called “Durham by the Numbers” that contains key facts and statistics about the city. This page is also printed separately and serves as a one-page infographic that is distributed as a stand-alone handout.



Make Good Use of Charts and Graphs. Graphics help readers better understand the financial data the report presents. “Good design is clear thinking made visible,” according to Edward Tufte, a Yale University statistician known as a pioneer in the

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field of data visualization. Good charts and graphs are intriguing and pique a 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 to depict trend data, and always consider providing multiple years of data rather than just one. See Exhibit 4 for an example; this page from Durham’s report has a table and two charts. Also, if available, include benchmarking data versus peer groups to provide context. Providing appropriate information on past trends, including comparative data, helps readers 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. If you use stock photos, make sure the images aren’t dull and clichéd, and that they’re representative of your residents. 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. Digest the data for readers and transform it into key takeaways. 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 numbers.



For example, an explanation of fund balance is needed if the report includes a chart depicting the 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 attention 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. Fund balance maintenance is also a major factor that bond rating agencies consider when evaluating the city’s credit worthiness.”

Know Your Material and Adopt an Educational and Informative Tone.

This is an opportunity for your jurisdiction to represent itself. Aim to fully inform readers, and use a variety of quantitative and qualitative techniques to get the point across. Use narrative to explain financial data and highlight significant items. The message can be further enhanced by including special sections, a glossary of terms, or a mission statement. Durham includes our mission statement up front, on the same page with the manager's letter.

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 government suffer a crisis at some point, and the PAFR allows the jurisdiction to demonstrate how it proactively handled the situation.

Understand the Value of Producing a PAFR. The value of producing a PAFR lies as much in the process of creating the report as in the consumption of its product. Preparing the 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 to respond to crisis.

INCREASING AWARENESS

Consider this a bonus tip: Finance Departments should be very intentional about measuring how many people are reading the PAFR. Why go through the trouble of preparing a report if, when after all is said and done, few people read it? Sometimes the popular report is not very popular. Durham rec-

Exhibit 5: Local Celebrity Wool E. Bull Reading the PAFR



ognized that awareness was an issue and searched for better ways to help ensure that people are hearing what it has to say. The growing importance of social media provides new avenues for communication.

Similar to prior years, the 2018 PAFR was published on the city's website. It was distributed as an insert with the local newspaper the day before Thanksgiving, as well as being made available at distribution points including City Hall, parks and rec centers, library branches, the Visitors Bureau, and the Chamber of Commerce. The PAFR was also submitted to GFOA for the Award for Outstanding Achievement in Popular Annual Financial Reporting.

This year Durham also launched an additional engagement campaign to encourage employees to read the 2018 report. The campaign involved social media aspects, and it was publicized through *City Week*, the city's weekly e-newsletter, as well as other internal

communication tools. The social media component of the campaign involved employees posting photos to Instagram and using the hashtag #DearDurham.

We encouraged residents and local celebrities to take selfies with the report. Exhibit 5 shows Wool E. Bull, the mascot for the local minor league baseball team, the Durham Bulls, at his desk reading the report. We distributed personalized candy M&M's to financial

Exhibit 6: Personalized M&M's Distributed to PAFR Readers Who Posted Photos



report readers who posted photos and shared all the photos received with the Public Affairs Department for further promotion. Exhibit 6 shows the candy with the print reading #DearDurham. The M&Ms are red, yellow, and blue, which are the colors of Durham’s flag.

In one of the “Dear Durham” letters published in the report, the writer mentioned having ordered a specific breakfast from a local restaurant. The meal she mentioned was temporarily renamed the “Dear Durham” breakfast, and each time a customer ordered that meal and snapped a photo with the report, and posted it online, the meal was paid for by the Finance Department. This took a partnership with the management of the restaurant, and it was an opportunity to share the report both internally and externally. Exhibit 7 shows the flyer with the contest rules. By imposing limits on how many people could win the free meal each day, we stayed under budget while generating favorable publicity — an important part of the overall effort to increase awareness.

CONCLUSIONS

There is no comprehensive playbook that provides all the guidance necessary to produce an excellent 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 or 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.

Exhibit 7: “Dear Durham” Breakfast Contest Rules



For jurisdictions that have not yet produced a PAFR, the best advice is to start somewhere and then evolve from 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 that are available. Following the 10 tips included in this article will get you started on the right path. ■

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