

# Why Don't Municipal Governments Produce Popular Annual Financial Reports? A Preliminary Study with Evidence from Texas

**James E. Groff**, Ph.D., CMA, Professor, Department of Accounting, University of Texas at San Antonio, James.groff@utsa.edu

**Marshall K. Pitman**, Ph.D., CPA, CMA, Professor, Department of Accounting, University of Texas at San Antonio, Marshall.pitman@utsa.edu

**Wayne Tervo**, Ph.D., CPA\*, Associate Professor, Bauernfeind College of Business, Murray State University, wtervo@murraystate.edu \* Corresponding author

## Abstract

Although governments have been encouraged to present their financial information in a form that would be more easily understood and useful to their constituents, governments have not embraced the use of the Popular Annual Financial Report (PAFR). A survey of the financial personnel of 178 Texas municipalities was conducted to determine the reasons why the vast majority of the municipalities do not prepare a PAFR. Responses were received from 61 municipalities of which only 11 prepared a PAFR. Analysis of the reasons for preparing or not preparing the PAFR are presented in detail.

## Introduction

In its Concept Statement 1 (GASB, 1987), the Governmental Accounting Standards Board (GASB) recognized three primary constituencies for governmental financial reporting: the citizenry, legislative, and oversight bodies. The GASB, which concerns itself with financial reporting, focuses on financial disclosures which are almost universally included as part of Comprehensive Annual Financial Reports (CAFR). Though not required by the GASB, the CAFR has become the primary tool for reporting governmental financial performance and status to constituencies.

As legal entities established by the legislatures of the various states, governmental bodies are universally required to engage in budgeting exercises which result in legally binding budgets. Budgetary controls become the primary tools of governmental managers and oversight bodies. The one constituency that is least served by the established financial reporting and control models is the citizenry.

The "Blue Book" (NCGA 1968) provided many useful examples providing some uniformity in the presentation of the CAFR although it did not present a complete CAFR. In the 1970s, the CAFR became the national standard for government financial accounting reporting (Gauthier 2001). The CAFR includes financial statements in conformity with generally accepted accounting principles (GAAP) as well as other reports, discussions, and statistical data. As such, these reports may be quite lengthy (often in hundreds of pages). The CAFR has an audience that is highly literate in accounting and finance as well as willing to study the report in detail (Carpenter and Sharp 1992, 35). Montondon and Marsh note, "The Comprehensive Annual Financial Reports (CAFRs) provide too much in-depth information and are often too complicated for many citizens to read and understand;..." (2005, 53). As such, the CAFR may be overwhelming and unreadable (Sharp et al. 1998, 35), and, accordingly, neither understandable nor useful to the largest component of a government entity's stakeholders, it citizens. In fact, a recent article asked "Are Comprehensive Annual Financial Reports Useless?" (Walters, 2013).

Budgets are certainly more scrutinized than are CAFRs by a government's stakeholders, particularly its constituents. Usually there is a formal process involving a series of highly publicized events including public hearings, publications of summaries, and finally a formal vote of approval associated with the budgeting process. The formal adoption of the budget imposes legal obligations on the governmental managers and the budgets are widely distributed and, usually, easily accessed on the entities' websites (Groff and Pitman 2004, 22). However, budgets are also highly detailed, generally follow a formal pre-established format and involve significant technical language that makes understanding difficult. So, like CAFRs, budgets are difficult to interpret for the typical citizen of a governmental unity.

### **More Citizen Friendly Financial Reporting**

Because these two major mechanisms for communication of financial information to constituencies are both difficult for citizens to read and comprehend, there has been a movement to encourage what has been called "citizen-centric" financial reporting. Citizen-centric financial reporting can be described as reports prepared to disclose financial information to a population that lacks sophisticated accounting and financial understanding in a manner that is easily accessible and readily understandable. Characteristics include a lack of formal structure and technical jargon with the presentation more likely to be in pictures or graphs than in numerical tables or statements. The specific focus of these reports is on how budgets or financial performance impacts individual citizens and constituent groups. A wide variety of reports may fall into this category including popular annual financial reports (PAFR), budget-in brief, state-of-the-government reports, and budgetary summaries among others (see Yusuf and Jordan, 2015).

Two organizations that have been particularly strong supporters of citizen-centric reports are the Association of Government Accountants (AGA) and the Government Finance Officers Association (GFOA), both of which sponsor awards for quality citizen-centric financial reporting.

Since 1945 the GFOA has encouraged the preparation of high quality financial reports for governments in the United States through its Certificate of Achievement for Excellence in Financial Reporting Program<sup>1</sup>. This program evaluates the quality of government financial reports that are prepared in the CAFR format. In 1991, the GFOA began encouraging governments to supplement their CAFRs with "popular" reports by establishing its Popular Annual Financial Reporting Awards Program<sup>2</sup> for preparing top-quality PAFRs (GFOA 2008). These PAFRs are designed to be useful to constituents by providing less detail and more of an overview of the government's financial activities and condition. The movement toward developing more user friendly financial reporting to citizens was given further impetus by the 1992 GASB research report supporting PAFRs for citizens. (see Carpenter and Sharp 1992). More recently, in 2006, the AGA has established its Citizen-Centric Initiative to encourage governments to "improve transparency and accountability" (AGA, 2015).

However, even with such emphasis on citizen-centric reporting, relatively few governmental units actually prepare such reports. An indication of how few governments actually produce these statements is given by the relative numbers of governments participating in the GFOA'S CAFR and PAFR reporting competitions. In the fiscal year 2006 3,569 U.S. governments received the GFOA's CAFR achievement award; while only 156 governments received the

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<sup>1</sup>For Canadian governments there is the Canadian Award for Financial Reporting Awards Program by the GFOA.

<sup>2</sup>This award program is available for governments in the United States and Canada.

GFOA’s PAFR achievement award. That is only 4.4% of the governments that earned the GFOA’s award for their CAFRs. As indicated in Table 1, for fiscal year 2013, 4,110 U.S. governments received the GFOA’s achievement award for their CAFRs while 294 governments were awarded GFOA’s achievement award for their PAFRs. While that is more than an 88% increase in the number of PAFR achievement awards, it still represents only 7.2% of the governments whose CAFRs received awards.

**Table 1. Number of CAFR and PAFR Awards by Type of Government for Fiscal Year 2013**

Type of Government	CAFR		PAFR	
	Number	%	Number	%
Municipalities	1,997	48.6	135	45.9
Counties	514	12.5	65	22.1
States	45	1.1	5	1.7
School Districts	542	13.2	19	6.5
Other	1,012	24.6	70	23.8
Total	4,110	100.0	294	100.0

Source: [www.gfoa.org](http://www.gfoa.org)

This reinforces the observation that there seems to be little voluntary reporting, at least as measured by participation in the GFOA’s PAFR program, in citizen-centric reporting (Harris, McKenzie and Renfro, 2008). This certainly raises the question one recent article asked “It isn’t hard so why aren’t more jurisdictions doing it?” (Funkhouser, 2013).

Since citizen-centric reports of any kind are not mandatory, but budgetary and general purpose financial statements such as CAFRs are, government administrators simply believe that citizen-centric reports are not useful to the citizenry. This certainly would be true if citizens do not use financial data for decision making. In a recent laboratory study, Yusuf and Jordan (2012) found evidence that statements that are straight forward and understandable by the average person would be useful to citizens. In a study of election data from Spanish cities, Brusca and Montesinos (2006) found that citizens use financial performance data in making voting decisions. A survey conducted by Yusuf and Jordan (2013) indicates that public administrators believe there is value to providing citizens with financial information in formats that are different from the mandated reports. However, in their survey they included a wide variety of possible reports that focused on budgetary information or financial performance of individual project feedback. The question remains, why do public entities not produce systematic, citizen-centric reports of government financial performance for their citizens?

### Popular Annual Financial Reports

While the CAFR has been the standard mechanism for public entity financial reporting for most of the last fifty years, the problems citizens have with using it as a tool for decision making have been well documented. To overcome the CAFR's lack of understandability and usefulness by citizens, some entities began presenting supplemental financial reports in a more user friendly and readable form called Reports to Citizens (RTC) or Popular Annual Financial Reports (PAFR). As previously stated, in 1991 the GFOA began encouraging governments to supplement their CAFRs with “popular” reports by establishing its Popular Annual Financial Reporting Awards Program for preparing top-quality PAFRs (GFOA 2008). These PAFRs are designed to be useful to constituents by providing less detail and more of an overview, of the government’s financial activities and condition. The movement toward developing more user friendly financial reporting to citizens was given further impetus by the 1992 GASB research report supporting PAFRs for citizens (see Carpenter and Sharp 1992).

This paper focuses on the question of why municipal governments (in particular those in Texas) do or do not prepare and distribute PAFRs to their citizens. The focus of this research is on the PAFR because of its long established and widely accepted status as a form of citizen-centric financial reporting and because of its specific focus on the results of financial reporting of the entire government. The PAFR can be thought of as a reformulation of the CAFR to address the well-known issues with the CAFR. While other forms of citizen-centric reports may address the budget or specific aspects of the government performance, only the PAFR attempts to present a comprehensive view of the status and performance of the public entity to its citizens.

According to the Bureau of the Census (2013), there are 38,910 general-purpose and 51,146 special-purpose government entities. In total there are more than ninety thousand public bodies operating in hundreds of different jurisdictions under different legal regimes. To attempt to control for the different reporting requirements between governmental types, we have chosen in this preliminary study to focus specifically on municipalities. Municipalities are general purpose governments, they all have the same responsibilities to their constituents and they all operate under legal structures imposed on them by the states in which they are incorporated.

Of course, there are fifty different state governments that impose their own legal requirements on the municipalities within their borders. Therefore, we chose to focus only on Texas municipalities. Of the municipalities that were included in Table 1, Texas accounted for approximately 10% of the CAFRs and approximately 12% of PAFRs. Accordingly, it was felt that Texas would be representative of the municipalities participating in the GFOA's achievement programs.

## **METHODOLOGY AND RESULTS**

The purpose of the PAFR is to provide financial data in a form that is not confusing or discouraging to those unfamiliar with accounting and financial reporting for a government or municipality. Our research attempts to ascertain the perception of the preparers of these types of governmental reports, whether they believe the reports provide value to the municipality, how long they have been preparing, etc. We believe this information will be of value to preparers, users and legislative bodies in the continued attempts to make governmental financial data more usable and understandable. The subjects (financial administrators) were obtained from the Texas GFOA's website or the individual municipality's websites. E-mail addresses were ascertained and a link to the surveymonkey.com research instrument was sent to each identified person. The entire research instrument is included in the Appendix.

The instrument was sent to 178 individuals, with 61 total respondents resulting a 34.3% response rate. If an e-mail was returned as undeliverable, an attempt was made to contact an alternative appropriate financial administrator. The first section of the survey included demographic responses (population, general fund budget and number of accounting employees). Fifty-one of the 61 respondents (84%) were from municipalities between 10,000 and 200,000 people with 50 of the 61 respondents (82%) having general fund revenues between \$10 million and \$100 million, and 93% of the respondents had an accounting department of less than 25 employees (excluding internal audit). Accordingly, it is felt that the responding municipalities are representative of Texas and the nation. A summary of the responses to the instrument follows.

**Table 2. Descriptive Statistics**

Total Responses = 61						
Population	<= 10,000	>10,000 but < 50,000	>50,000 but <100,000	>100,000 but < 200,000	>200,000 but < 1,000,000	> 1,000,000
Responses (%)	5 (8.2%)	30 (49.18%)	11 (18.03%)	10 (16.39%)	5 (8.2%)	0 (0%)
General Fund Revenue	<= \$5 mil	>\$10 mil but < \$50 mil	>\$10 mil but < \$50 mil	>\$50 mil but < \$100 mil	>\$100 mil	
Responses (%)	0 (0%)	8 (13.1%)	31 (50.82%)	11 (18.03%)	11 (18.03%)	
# of accounting employees (excluding internal audit)	<=5	>5 but <10	>10 but <25	>25 but < 50	>50	
Responses (%)	28 (45.9%)	19 (31.15%)	10 (16.39%)	4 (6.56%)	0 (0%)	

The instrument then asked, “In addition to preparing the CAFR, do you prepare a PAFR?” Only 11 of the 61 respondents (or 18%) stated that they prepare the PAFR (82% do not prepare the report). This result is higher than the rate of participation of 6.8% nationally and 8.3% for Texas indicating a higher degree of familiarity with the GFOA’s PAFR program.

A review/discussion of those who do not prepare the PAFR is presented next, followed by those who do prepare the PAFR.

### Those Who Do Not Prepare the PAFR

Most of the respondents stated they did not prepare a PAFR (82% or 50 of the 61 respondents). The following is a discussion of the results of questions asked to this particular group of municipality respondents.

The first question asked why these municipalities have chosen not to prepare the PAFR for their constituencies. Forty-nine of the 50 respondents who stated they did not prepare the PAFR replied to this question. Respondents were asked to select all that apply, so total is larger than 49. The most common responses “does not have adequate personnel resources” (34 total responses, 69%) and “does not have monetary resources” (12, 24%) to prepare and distribute the report. Tied for third were “citizens have no interest” and “does not provide enough information to make it useful to our citizens” (7, 14%). These responses (in Table 3) show that the municipalities are concerned with both resources and the perceived usefulness of the reports to its citizenry. Respondents were then asked to rank the potential reasons they do not prepare the PAFR if more than one reason was given. “Personnel resources” and “monetary resources” and “citizens have no interest” were the top 3 reasons ranked. The full results of this ranking are given in Table 4.

**Table 3. Why doesn't your municipality prepare the PAFR?**

Statement	Responses (%)
The city does not have the personnel resources to prepare a Popular Report	34 (69.39%)
The city does not have the monetary resources to prepare and distribute a Popular Report	12 (24.49%)
Our citizens have no interest in reviewing a Popular Report	7 (14.29%)
The Popular Report does not provide enough information to make it useful to our citizens	7 (14.29%)
<b>Other Comments</b>	
The information is already provided in the Annual Report, budget documents and website	3 (6.1%)
We are a fast growing community and have had other "growing pains" issues to address.	1 (2.0%)
Restructuring of Finance Department	1 (2.0%)
I am new here and not sure of the reason	1 (2.0%)
Timing of submission and other priorities getting in way.	1 (2.0%)
Not interested in public input	1 (2.0%)

**Table 4. Why don't you prepare the PAFR (Ranking)?**

Ranking	1	2	3	4	N/A	Total	Score
Reason Stated	% (#)	% (#)	% (#)	% (#)	% (#)	#	
The city does not have the personnel resources to prepare a Popular Report	65.52% 19	17.24% 5	0.00% 0	3.45% 1	13.79% 4	29	4.68
Our citizens have no interest in reviewing a Popular Report	15.00% 3	30.00% 6	10.00% 2	0.00% 0	45.00% 9	20	4.09
The city does not have the monetary resources to prepare and distribute a Popular Report	14.29% 3	33.33% 7	9.52% 2	0.00% 0	42.86% 9	21	4.08
The Popular Report does not provide enough information to make it useful to our citizens	5.88% 1	11.76% 1	11.76% 2	11.76% 2	58.82% 10	17	3.29
Other	15.79% 3	15.79% 3	0.00% 0	5.26% 1	63.16% 12	19	4.14

After answering why they did not prepare the PAFR, respondents were asked if they were considering doing so in the future and why. Forty-eight responded and 20 (or 42%) stated they were considering doing so in the future while 28 (or 58%) stated they did not plan on doing so. These results do not bode well for the continued growth of Popular Reporting. Of the 20



respondents stating they were considering preparing a PAFR in the future, 19 answered the question “why they were considering doing so”. The most common response was the PAFR is easier for citizens to understand than the CAFR (with 17 responses, or 89%), followed by we want to participate in the GFOA’s Popular Report Award program (8, 42%) and, the PAFR distinguishes our city from other comparable cities that do not prepare one (7, 37%). The respondents then ranked the reasons they were considering preparing the PAFR, if they listed more than one reason in the prior question. Results were similar as shown in Tables 5 and 6.

**Table 5. Why are you considering preparing a PAFR?**

Statement	Responses (%)
The Popular Report is easier for the citizens to understand than the CAFR	17 (89.47%)
We want to participate in the GFOA’s Popular Report Award program	8 (42.11%)
The Popular Report distinguishes our city from other comparable cities that do not prepare one	7 (36.84%)
Once the CAFR is prepared, there is little or no cost to prepare the Popular Report	2 (10.53%)

**Table 6. Why are you considering preparing the PAFR (Ranking)?**

Ranking	1	2	3	4	5	N/A	Total	
Reason Stated	%	%	%	%	%	%	#	Score
	#	#	#	#	#	#	#	
The Popular Report is easier for the citizens to understand than the CAFR	57.14%	21.43%	0.00%	0.00%	7.14%	14.29%	14	4.42
	8	3	0	0	1	2		
We want to participate in the GFOA’s Popular Report Award program	25.00%	16.67%	25.00%	0.00%	0.00%	33.33%	12	4.00
	3	2	3	0	0	4		
The Popular Report distinguishes our city from other comparable cities that do not prepare one	8.33%	41.67%	16.67%	0.00%	0.00%	33.33%	12	3.88
	1	5	2	0	0	4		
Once the CAFR is prepared, there is little or no cost to prepare the Popular Report	11.11%	0.00%	11.11%	11.11%	0.00%	66.67%	9	3.33
	1	0	1	1	0	6		
Other	0.00%	0.00%	0.00%	12.50%	0.00%	87.50%	8	2.00
	0	0	0	1	0	7		

The next question asked how those who were considering preparing the PAFR in the future would distribute it to their citizens. The most common response was present on the City’s website (19 responses, or 95%) followed by citizens could pick up copy at City Offices (9, 45%), and send a paper copy to each resident either separately or in other communications (2, 10%). Table 7 provides all responses to this item.

**Table 7. How would you distribute your PAFR?**

Statement	Responses (%)
Present it on the City’s website	19 (95%)
Citizens could pick up paper copy at City Offices	9 (45%)
Send a paper copy to each resident either separately or in other communications	2 (10%)
Printed copy included in a special edition of the local paper	1 (5%)
Email to citizens	1 (5%)
Use for Economic Development promotions	1 (5%)

The next section of the instrument asked respondents (those not preparing the PAFR) to rate their agreement/disagreement with fifteen statements regarding PAFRs. These statements were asked in an attempt to ascertain a better understanding of why they did not (and later in the manuscript, why they did) municipalities participate in the PAFR process. The statements were broken into three main topics: 1) Preparation of the PAFR, 2) benefits associated, and; 3) PAFR award process. Some broad conclusions attained were: It was found that of those that do not prepare a PAFR, 30% reviewed other municipalities PAFRs on-line, 24% reviewed award winning PAFRs on-line, 0% agreed that their constituents asked for the PAFR, 63% were neutral on if more conformity should be required in the report, and; only 15% agree the reports should be required. This low percentage could be due to the finding that 0% agreed with the statement that their constituents asked for the PAFR. Responses were also attained as to the benefits of Popular Reporting: 57% believe that PAFRs add value to regular financial statements; 43% believe they increase awareness; and 24% believe they increase usage. No respondents believe that PAFRs provide a cost savings to the municipality and, not surprisingly, only 24% believe the benefits of the reporting are worth the costs. Lastly, 50% of the respondents know of someone who has won a GFOA award while 10% have actually been judges in the process. The full results of the responses to these items are listed in Table 8.

**Table 8. Non-Preparers’ perceptions of PAFRs**

	Strongly Agree % #	Agree % #	Neutral % #	Disagree % #	Strongly Disagree % #	Total	Weighted Average
You review other municipalities Popular Reports posted on-line	2.17% 1	28.26% 13	23.91% 11	28.26% 13	17.39% 8	46	3.30
You review award winning Popular Reports on-line	0.00% 0	23.91% 11	23.91% 11	32.61% 15	19.57% 9	46	3.48
You have been a reviewer/judge for Popular Report awards?	0.00% 0	0.00% 0	13.04% 6	41.30% 19	45.65% 21	46	4.33
Your constituents ask for the Popular Report?	0.00% 0	0.00% 0	17.39% 8	36.96% 17	45.65% 21	46	4.28



**Table 8. Non-Preparers' perceptions of PAFRs**

There should be more conformity required in the Popular Report?	2.17% 1	13.04% 6	63.04% 29	15.22% 7	6.52% 3	46	3.11
Popular Reports add value to the regular financial statements?	6.52% 3	50.00% 23	32.61% 15	4.35% 2	6.52% 3	46	2.54
Municipalities should be required to make Popular Reports available to constituents?	0.00% 0	8.70% 4	13.04% 6	36.96% 17	41.30% 19	46	4.11
Your state "encourages" these Popular Reports?	0.00% 0	15.22% 7	56.52% 26	19.57% 9	8.70% 4	46	3.22
Popular Report increases awareness	6.82% 3	36.36% 16	34.09% 15	18.18% 8	4.55% 2	44	2.77
Popular Report increases usage	2.17% 1	21.74% 10	47.83% 22	21.74% 10	6.52% 3	46	3.09
Popular Report allows for application of analytical tools	2.17% 1	23.91% 11	52.17% 24	19.57% 9	2.17% 1	46	2.96
Popular Report helps avoid disclosure redundancy	0.00% 0	6.52% 3	56.52% 26	26.09% 12	10.87% 5	46	3.41
Popular Report provides a cost savings to the municipality	0.00% 0	0.00% 0	32.61% 15	47.83% 22	19.57% 9	46	3.87
I believe benefits of Popular Report outweigh the costs.	0.00% 0	23.91% 11	47.83% 22	17.39% 8	10.87% 5	46	3.15
I have (or I know someone who has) won a GFOA award.	30.43% 14	19.57% 9	21.74% 10	19.57% 9	8.70% 4	46	2.57

### Those Who Prepare the PAFR

The results of the municipalities who prepare a PAFR disclosed the following information. When asked how long they had prepared the PAFR, 73% (of the 11 responses) stated they had prepared the statement for less than five years, with 27% having prepared for between five and ten years. No respondent had prepared for more than 10 years. This result is surprising given the fact that the GFOA has been encouraging them since the early 1990's. The respondents were then asked how they distribute (Table 9) and why they prepare (Table 10) the PAFR. The most popular answers were present on City's website (100%) and easier to understand than the CAFR (91%). Interestingly, 7 respondents (64%) wanted to participate in the GFOA's Popular Report Award program. This percentage could be due to the perception that the GFOA award is important to the municipality. Full results are presented in Tables 9 and 10 (respondents were

asked to list all reasons, so total is greater than 11): Respondents were then asked to rank the potential reasons they prepare the PAFR if more than one reason was given. “Easier for Citizens to understand” and “distinguishes our city from comparable cities that do not prepare one” and “there is little or no cost to prepare” were the top 3 reasons ranked. The full results of this ranking are given in Table 11.

**Table 9. How do you distribute the PAFR?**

Statement	Responses (%)
Present it on the City’s website	11 (100%)
Citizens can pick up paper copy at City Offices	5 (45.5%)
Hard copies are available in the Library	1 (9%)
There is a link in City online newsletter	1 (9%)

**Table 10. Why do you prepare the PAFR?**

Statement	Responses (%)
The Popular Report is easier for the citizens to understand than the CAFR	10 (90.91%)
We want to participate in the GFOA’s Popular Report Award program	7 (63.64%)
The Popular Report distinguishes our city from other comparable cities that do not prepare one	5 (45.45%)
Once the CAFR is prepared, there is little or no cost to prepare the Popular Report	4 (36.36%)
OTHER: The PAFR provides additional financial transparency for the city.	1 (9.1%)
OTHER: Our Mayor loves this report	1 (9.1%)

**Table 11. Why do you prepare the PAFR (Ranking)?**

Ranking	1	2	3	4	5	N/A	Total	Score
Reason Stated	%	%	%	%	%	%	#	#
	#	#	#	#	#	#	#	#
The Popular Report is easier for the citizens to understand than the CAFR	66.67% 6	0.00% 0	0.00% 0	11.11% 1	0.00% 0	22.22% 2	9	4.57
Once the CAFR is prepared, there is little or no cost to prepare the Popular Report	11.11% 1	11.11% 1	22.22% 2	0.00% 0	0.00% 0	55.56% 5	9	3.75
The Popular Report distinguishes our city from other comparable cities that do not prepare one	12.50% 1	50.00% 4	0.00% 0	0.00% 0	0.00% 0	37.50% 3	8	4.20
We want to participate in the GFOA’s Popular Report Award program	0.00% 0	25.00% 2	37.50% 3	0.00% 0	0.00% 0	25.00% 2	8	3.17
OTHER: Our Mayor loves this report	0.00% 0	14.29% 1	0.00% 0	0.00% 0	0.00% 0	87.50% 7	8	4.00

**Table 11. Why do you prepare the PAFR (Ranking)?**

OTHER: The PAFR provides additional financial transparency for the city.	0.00%	0.00%	0.00%	0.00%	14.29	87.50%		1.00
	0	0	0	0	1	7	8	

The next section of the instrument asked respondents (PAFR preparers) to rate their agreement/disagreement with fifteen statements regarding PAFRs. These statements were asked in an attempt to ascertain a better understanding of why municipalities participate in the Popular Reporting process. As done previously in the manuscript, the statements were broken into three main topics: 1) Preparation of the PAFR, 2) benefits associated, and; 3) PAFR award process. Some broad conclusions attained in regards to preparation were: It was found that of those that prepare a PAFR, 82% compared their reports to others posted on-line (or award winners); 74% referenced best practices website in an attempt to make changes or improve the process; 0% agreed that their constituents asked for the PAFR; 60% were neutral on if more conformity should be required in the report, and; only 18% agree the reports should be required. This low percentage could be due to the finding that 0% agreed with the statement that their constituents asked for the PAFR (though 64% were neutral on the statement). Responses were also attained as to the benefits of the PAFR: 64% believe that PAFRs add value to regular financial statements; 82% believe they increase awareness; and 36% believe they increase usage. No respondents believe that PAFRs provide a cost savings to the municipality but 64% believe the benefits of the reporting have been worth the costs. Lastly, 100% of the respondents know of someone who has won a GFOA award while 10% have actually been judges in the process. The full results of the PAFR preparers' responses to the individual statements are listed in Table 12.

**Table 12. Preparers' perceptions of PAFRs**

	Strongly Agree % #	Agree % #	Neutral % #	Disagree % #	Strongly Disagree % #	Total	Weighted Average
You compare your Popular Report to others posted on-line or award winners?	18.18% 2	63.64% 7	18.18% 2	0.00% 0	0.00% 0	11	2.00
You have been a reviewer/judge for Popular Report awards?	10.00% 1	0.00% 0	20.00% 2	20.00% 2	50.00% 5	10	4.00
You reference the best practices Popular Report website to make potential changes or improvements?	18.18% 2	54.55% 6	9.09% 1	18.18% 2	0.00% 0	11	2.27
Your constituents ask for the Popular Report?	0.00% 0	0.00% 0	63.64% 7	27.27% 3	9.09% 1	11	3.45
There should be	10.00% 1	0.00% 0	60.00% 6	20.00% 2	10.00% 1	10	3.20

**Table 12. Preparers' perceptions of PAFRs**

more conformity required in the report?	1	0	6	2	1	10	
Popular Reports add value to the regular financial statements?	36.36% 4	27.27% 3	18.18% 2	9.09% 1	9.09% 1	11	2.27
Municipalities should be required to make Popular Reports available to constituents?	0.00% 0	18.18% 2	36.36% 4	27.27% 3	18.18% 2	11	3.45
Your state "encourages" these Popular Reports?	0.00% 0	18.18% 2	54.55% 6	9.09% 1	18.18% 2	11	3.27
Popular Report increases awareness	27.27% 3	54.55% 6	18.18% 2	0.00% 0	0.00% 0	11	1.91
Popular Report increases usage	9.09% 1	27.27% 3	54.55% 6	9.09% 1	0.00% 0	11	2.64
Popular Report allows for application of analytical tools	0.00% 0	27.27% 3	45.45% 5	9.09% 1	18.18% 2	11	3.18
Popular Report helps avoid disclosure redundancy	9.09% 1	9.09% 1	45.45% 5	18.18% 2	18.18% 2	11	3.27
Popular Report provides a cost savings to the municipality	0.00% 0	0.00% 0	27.27% 3	54.55% 6	18.18% 2	11	3.91
I believe that the benefits of Popular Reports have been worth the costs?	36.36% 4	27.27% 3	27.27% 3	9.09% 1	0.00% 0	11	2.09
I have (or I know someone who has) won a GFOA award?	54.55% 6	45.45% 5	0.00% 0	0.00% 0	0.00% 0	11	1.45

Respondents were then asked who their audience and objective (and other comments) for popular reporting. See Table 13 for responses. Lastly, all respondents were availed the opportunity to provide any comments they wished to provide about PAFRs. A summary of the responses is given in Table 14.

**Table 13. Audience/Objectives of popular reporting?**

<b>Statement</b>
To provide an easy to read, condensed version of the City's financial position while worded and displayed in such a way a non-financial person can better understand and comprehend the message. This assists us in our continued commitment to our citizens and the residents we serve in ensuring we are transparent and accountable for the receipt and use of their public funds.
To provide fiscal information about our city in a creative way
Citizens, to increase awareness of our city's financial position (numerous times)
Our council and city staff really appreciate the condensed "cliff's notes" version of our financial statements each year. Very positive comments and we plan to continue even if we did not participate in the GFOA Award Program.
Providing the PAFR online has helped us to win the financial transparency award from the state of Texas

**Table 14. Additional PAFR Comments**

<b>Statement</b>
I think the popular report is a great idea, but it should not be required. Municipalities may have other ways to communicate financial and other information to the public. And, smaller entities may not have the staff or means to put together an annual financial program. I think the GFOA program is a great program, but should remain optional.
I think the PAFR is easier to read for citizens and I like the format of those I have seen. My goal is to prepare the PAFR for the citizens and the following year prepare for the submission to GFOA. It would be helpful to have a template in which information could be added for those of us that do not have staff to set up and prepare. This template could be a fee service.
Last year we were on a path to public a PAFR. The timing ended up being about the time we were presenting budgets. There were so many reconciling differences between how costs were reported for budgeting vs PAFR that we felt it would only create confusion to issue the PAFR. We ultimately dropped it. I feel a well presented budget is the best financial communication tool for most citizens.
Do see value of popular reports. CAFR is best as hard to simplify a complex organization!
While the CAFR and PAFR are meaningful documents to readers of financial statements, they are not particularly meaningful to the general public. Most Cities' budget and budget reporting are much more meaningful and common sense documents to citizens. Combine that with the fact that the CAFR and PAFR appear to the public to report information differently that budgeting by fund. We know that they are reconcilable, but you only get so much time to provide meaningful information to the public.
Our council and city staff really appreciate the condensed "cliff's notes" version of our financial statements each year. Very positive comments and we plan to continue even if we did not participate in the GFOA Award Program.

## **CONCLUSIONS AND LIMITATIONS**

The purpose of the PAFR is to provide financial data in a form that is not confusing or discouraging to those unfamiliar with accounting and financial reporting for a government or municipality. Our research attempts to ascertain the perception of the preparers of these types of governmental reports. We believe this information will be of value to preparers, users and legislative bodies in the continued attempts to make governmental financial data more usable and understandable.

We surveyed financial administrators of municipalities in Texas to ascertain their perceptions about PAFRs and find that few complete the PAFR (18%), and if they do, they have not been preparing the report for long (73% have prepared for 5 years or less). The main reasons they prepare is because they believe it is easier for citizens to understand compared to the CAFR and to participate in the GFOA's Popular Report Award program (all have either won or know someone who has won the award). Unfortunately, 82% of the municipalities responding choose not to prepare a PAFR. When asked why not, the most common responses were personnel and

monetary resources. Also concerning is that only 42% have considered preparing this type of report in the future, even though this group also believes that it is easier for citizens to understand than the CAFR. This is only helpful to constituents if they are interested in such reporting, and our findings show that they are not. Of the 61 total responses, 0% stated that they agree (or strongly agree) that their constituents ask for the PAFR. This finding could help explain the lack of participation in the GFOA “encouraged” reports.

As in most research papers, this paper has some limitations. First, the survey results are from only one state—Texas. As such Texas may not be representative of majority of the states. Second, while the response rate is greater than 30%, the actual number of respondents, 61, is relatively low. Additionally, the number of respondents whose government had been awarded a PAFR achievement award, 11, is extremely low to project to the population. Third, the paper only examines the respondents of municipalities; other forms of governments (e.g., counties, school districts, retirement funds, etc.) may have other reasons for preparing or not preparing a PAFR. As such, a survey should be administered to municipalities in several other states to determine the validity of results reported above. Additional opportunities for research in the future might include administering a similar survey to other forms of governments or a larger pool of municipalities. Lastly, a survey of those leaders who are responsible for oversight/implementation of governmental accounting and reporting procedures could be undertaken to identify the expectation gap between those setting the PAFR procedures and those that are responsible to doing the reporting. It appears that all involved agree that the PAFR is a valuable tool for citizens. Unfortunately, for the reasons discussed in this manuscript, the PAFR’s perceived value does not mean that it will be prepared by the municipalities.

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## APPENDIX

### Questionnaire Municipalities' Popular Reports

#### PART I.

Questions for classification purposes only:

Population:

- Less than or equal to 10,000
- More than 10,000 but less than 50,000
- More than 50,000 but less than 100,000
- More than 100,000 but less than 200,000
- More than 200,000 but less than 1,000,000
- More than 1,000,000

General Fund Revenue Budget:

- Less than or equal to \$5,000,000
- More than \$5,000,000 but less than \$10,000,000
- More than \$10,000,000 but less than \$50,000,000
- More than \$50,000,000 but less than \$100,000,000
- More than \$100,000,000

Number of Accounting Employees (excluding internal audit, if applicable):

- Less than or equal to 5
- More than 5 but less than 10
- More than 10 but less than 25
- More than 25 but less than 50
- More than 50

Zip Code \_ \_ \_ \_ \_

PART II: In addition to preparing the Comprehensive Annual Financial Report (CAFR), do you prepare a Popular Annual Financial Report (PAFR)?

- No, go to Questions about why not prepare PAFR
- Yes – then answer the following:

How long have you been preparing a popular report?

- 5 or less years
- More than 5 years but less than 10 years
- More than 10 years but less than 15 years
- More than 15 years

Why do you prepare a Popular Report? (Select all that apply)

- The PAFR is easier for the citizens to understand than the CAFR
- Once the CAFR is prepared, there is little or no cost to prepare the PAFR
- The PAFR distinguishes our city from other comparable cities that do not prepare one
- We want to participate in the GFOA's PAFR Award program
- Other \_\_\_\_\_

If selected more than one, please rank:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

How do you distribute your PAFR? (Select all that apply)

- Send a paper copy to each resident either separately or in other communications.
- Citizens can pick up paper copy at City Hall
- Present it on the City's website
- Other \_\_\_\_\_

	Strongly <u>Agree</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	Strongly <u>Disagree</u>	<u>NA</u>
	1	2	3	4	5	NA
You compare your popular report to others posted on-line or award winners?	1	2	3	4	5	NA
You have been a reviewer/judge for PAFR awards?	1	2	3	4	5	NA
You reference the best practices PAFR website to make potential changes or improvements?	1	2	3	4	5	NA
Your constituents ask for the Popular Report?	1	2	3	4	5	NA
There should be more conformity required in the report?	1	2	3	4	5	NA
Popular Reports add value to the regular financial statements?	1	2	3	4	5	NA
Municipalities should be required to make PAFR available to constituents?	1	2	3	4	5	NA
Your state "encourages" these reports (PAFR)?	1	2	3	4	5	NA

If yes:

Who is your audience and objective? Type response

Where and how is your report available? Type response

Do you believe (answer on Likert scale):

	Strongly <u>Agree</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	Strongly <u>Disagree</u>	<u>NA</u>
1) PAFR increases awareness	1	2	3	4	5	NA
2) PAFR increases usage	1	2	3	4	5	NA
3) PAFR allows for application of analytical tools	1	2	3	4	5	NA
4) PAFR Helps avoid disclosure Redundancy	1	2	3	4	5	NA
5) PAFR provides a cost savings to the municipality	1	2	3	4	5	NA
6) I believe that the benefits of PAFR have been worth the costs?	1	2	3	4	5	NA
7) I have (or I know someone who has) won a GFOA award?	1	2	3	4	5	NA

**Please write any additional comments you wish to provide.**

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If you would like a copy of preliminary results, please enter e-mail address:

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PART II: In addition to preparing the Comprehensive Annual Financial Report (CAFR), do you prepare a Popular Annual Financial Report (PAFR)?

No, go to Questions about why not prepare PAFR

Why doesn't your municipality prepare a Popular Report? (Select all that apply)

- The city does not have the monetary resources to prepare and distribute a PAFR
- The city does not have the personnel resources to prepare a PAFR
- Our citizens have no interest in reviewing a PAFR
- The PAFR does not provide enough information to make it useful to our citizens
- Other \_\_\_\_\_

If selected more than one, please rank:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

Has your municipality considered preparing PAFR?

- Yes
- No

If yes:

Why did you consider preparing a Popular Report? (Select all that apply)

- The PAFR is easier for the citizens to understand than the CAFR
- Once the CAFR is prepared, there is little or no cost to prepare the PAFR
- The PAFR distinguishes our city from other comparable cities that do not prepare one
- We want to participate in the GFOA's PAFR Award program
- Other \_\_\_\_\_

How would you distribute your PAFR? (Select all that apply)

- Send a paper copy to each resident either separately or in other communications.
- Citizens can pick up paper copy at City Hall
- Present it on the City's website
- Other \_\_\_\_\_

	Strongly <u>Agree</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	Strongly <u>Disagree</u>	<u>NA</u>
	1	2	3	4	5	NA
You review other municipalities popular reports posted on-line						
You review award winning PAFR on-line	1	2	3	4	5	NA
You have been a reviewer/judge for PAFR awards?	1	2	3	4	5	NA
Your constituents ask for the Popular Report?	1	2	3	4	5	NA

There should be more conformity required in the report?	1	2	3	4	5	NA
Popular Reports add value to the regular financial statements?	1	2	3	4	5	NA
Municipalities should be required to make PAFR available to constituents?	1	2	3	4	5	NA
Your state “encourages” these reports (PAFR)?	1	2	3	4	5	NA

Do you believe (answer on Likert scale):

	Strongly <u>Agree</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	Strongly <u>Disagree</u>	<u>NA</u>
1) PAFR increases awareness	1	2	3	4	5	NA
2) PAFR increases usage	1	2	3	4	5	NA
3) PAFR allows for application of analytical tools	1	2	3	4	5	NA
4) PAFR Helps avoid disclosure Redundancy	1	2	3	4	5	NA
5) PAFR provides a cost savings to the municipality	1	2	3	4	5	NA
6) I believe that the benefits of PAFR outweigh the costs?	1	2	3	4	5	NA
7) I have (or I know someone who has) on a GFOA award?	1	2	3	4	5	NA

**Please write any additional comments you wish to provide.**

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If you would like a copy of preliminary results, please enter e-mail address:

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