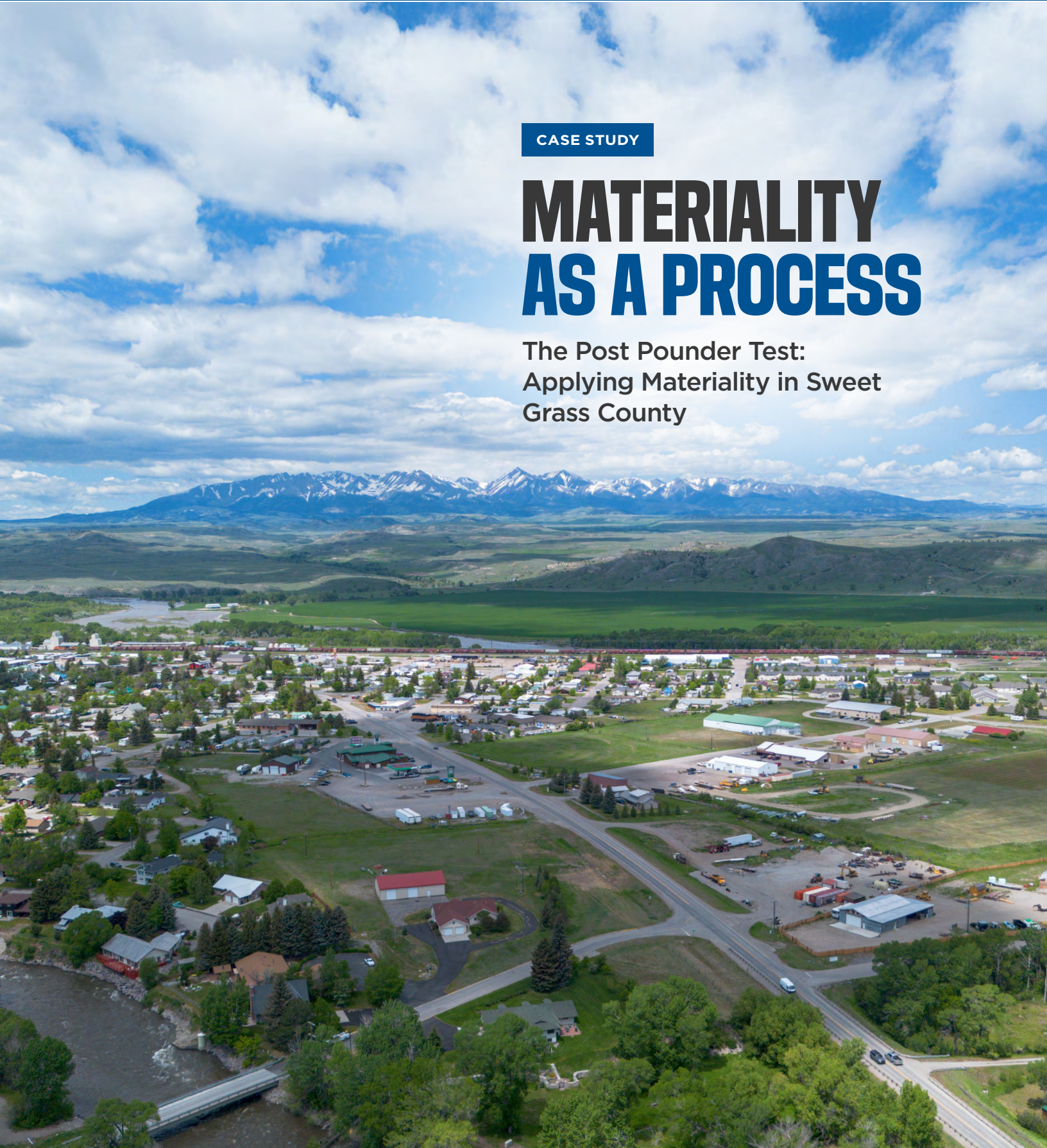




CASE STUDY

MATERIALITY AS A PROCESS

The Post Pounder Test:
Applying Materiality in Sweet
Grass County





ABOUT THE AUTHORS

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CONTRIBUTOR

- **Vicki Uehling**, Finance Officer, Sweet Grass County, Montana

Vicki graduated from Montana State University, Bozeman, Montana, in 1992 with a business degree and returned to school and graduated again in 1995 with a degree in accounting. She sat for the CPA exam that fall and passed. She was elected as the Sweet Grass County Treasurer January 1, 1999 and was appointed as the finance officer July 1, 2006.

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

Generative Artificial Intelligence (AI) tools, primarily ChatGPT4, were used to help develop the report. Primary uses of the AI tools include:

- Development of ideas for the outline of the report
- Generation of text for a few specific purposes. Text generated directly from generative AI is clearly labeled as such in the report where the contribution from AI is material. Examples of immaterial contributions would be suggestions from AI on wording choices, grammar, etc.
- Review of final report and to give suggestions to make language more accessible for the intended audience.

GFOA acknowledges the limitations of AI-generated information, including potential biases and other limitations of generative artificial intelligence. All data, ideas, etc. from ChatGPT4 that were used in the report were independently verified/validated by the author(s) and not taken at face value.

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THE POST POUNDER TEST

RETHINKING MATERIALITY

IN SWEET GRASS COUNTY



When Sweet Grass County bought a \$5,000 post pounder, it was added to the capital asset schedule for depreciation — just like policy required. But finance staff wondered: Why are we spending so much effort tracking items that barely matter to decision-making?

DATA CONFIRMED THE INTUITION

- Capital assets followed the Pareto principle: 20% of assets account for ~75% of total value.
- Small assets, like the post pounder, contributed little to the reported totals.



THE PROBLEM

- A \$5,000 capitalization threshold captured many small assets.
- These assets added little value to the County's financial statements.
- Tracking them consumed staff time without improving decisions.



TESTING THE IDEA

- Staff consulted the auditor and professional networks.
- A proposal was made to raise capitalization thresholds, balancing workload reduction with decision-usefulness.
- The Board of Commissioners agreed: thresholds needed to focus on what matters.



OUTCOME HIGHLIGHTS

- Many low-value assets were removed from the schedule.
- Policies introduced separate thresholds for management tracking vs. accounting capitalization.
- Auditor approved the revised schedule and ongoing workload dropped substantially.

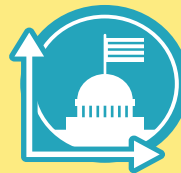
KEY LESSONS



Materiality is a governance judgment — not a fixed number.



Data can guide thresholds — Pareto analysis and historical review help identify low-value items.



Auditors validate, but local context decides — thresholds should fit each government's size, workload, and decision needs.



Decision-usefulness is the final judge — materiality decisions should not negatively impact the ability of user to make decisions.



CASE STUDY

The Post Pounder Test: Applying Materiality in Practice

The final straw was a post pounder.

When Sweet Grass County's road department purchased one for just over \$5,000, it was added to the County's capital asset schedule and set up for depreciation, just as policy required. But the purchase raised a broader question for the County's finance officer, Vicki Uehling: Why are we spending time and precision on assets like this?

Sweet Grass County, in south central Montana, serves fewer than 4,000 residents and had long used a \$5,000 capitalization threshold. Over time, the County saw that the policy captured many small assets that added little to the overall value reported in the financial statements and, more importantly, little to its ability to make sound financial decisions.

Vicki believed the County's capitalization threshold could be raised substantially. The post pounder cemented that intuition. Vicki felt the department was spending more time and effort on it than the asset depreciation schedule was worth. She tried using software to automate the work but found that Excel tracking worked just as well.

In financial reporting, 20% of items often account for 80% of reported value. This means a large number of small items, like the post pounder, add little to the total reported value.

The data supported Vicki's intuition that it was time to rethink materiality. GFOA has shown that many financial reporting data sets, such as capital assets, follow the Pareto Principle. The Pareto Principle is the source of the well-known 80/20 rule. In many cases, 20% of the causes account for 80% of the effect. In financial reporting, 20% of items often account for 80% of reported value. This means a large number of small items, like the post pounder, add little to the total reported value. Removing these items from financial reporting would have little impact on the overall totals.

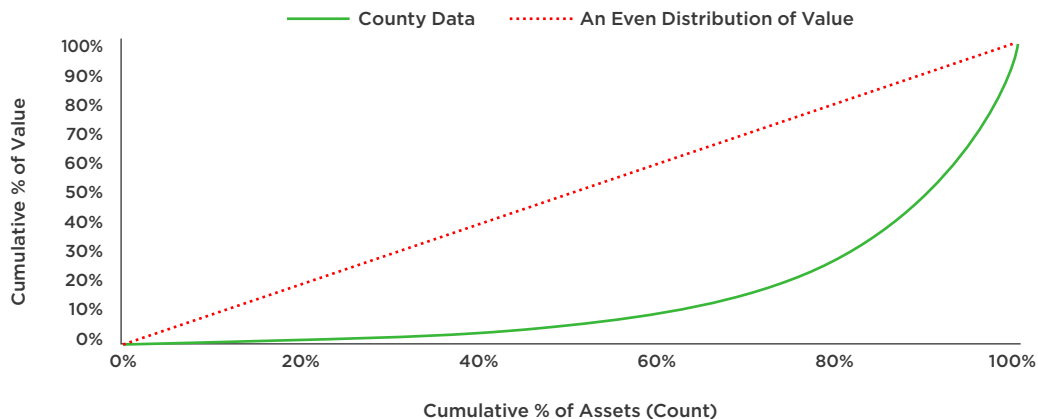


Big Timber, Montana

We looked at Sweet Grass County’s data and found that its capital asset data does approximate the Pareto Principle: 20% of assets account for about 75% of the reported value. This can also be shown with a Lorenz curve (see Exhibit 1). The horizontal axis shows the cumulative share of all items, from smallest to largest, and the vertical axis shows the cumulative share of the total value those items represent. If every item contributed the same amount, the curve would follow the straight, red-dotted line of equality. The more the curve bends below that line, the more uneven the contributions are. This means a small number of items account for most of the total. In other words, a steep Lorenz curve shows strong Pareto behavior: a few large values drive most of the results.

Vicki met with her auditor to discuss raising the threshold. The auditor understood both the challenges a small government faces in maintaining a large asset schedule and that the information was not adding value for County decision-makers. Vicki gathered information from the GFOA website and from other counties to support her case, then presented it to the Board of Commissioners. After a productive conversation, the board agreed to update the accounting policies. County Commissioner JV Moody said: “The cost of equipment has risen dramatically over the last 25 years, so should the capital thresholds. It makes our finance officer’s job a lot easier, and we can still track all of the purchases through our inventory program.”

EXHIBIT 1 | Concentration of Value in a Small Number of Assets in Sweet Grass County



As result, the County revised its capital asset policies and procedures as follows:

- Created different capitalization thresholds for different asset classes (see Exhibit 2).
- Made one exception for the Pioneer Medical Center. Although the County owns the nursing home building and assets, a nonprofit runs the service. The nonprofit prepares an annual tax report in which depreciation is useful. The policy therefore did not change for the medical center. This highlights a key point: when information is decision-useful, it should be provided. When it is not, it may be a candidate for pruning.
- Continued to capitalize federally funded assets costing more than \$10,000 and created procedures to flag those assets.
- Added a new line item for “large purchases” to account for items above \$5,000 but below the capitalization thresholds.
- Removed older assets that did not meet the new thresholds. In total, 225 of 540 assets were removed. As a result, the new schedule was completed and approved more quickly because many small assets had previously led to errors and rework.
- Obtained auditor approval of the revised schedule and included a note in the County’s Annual Financial Report with the restated values.*
- Recognized that tracking assets for management differs from tracking them for accounting and established separate thresholds that are lower than the capitalization thresholds (see Exhibit 2). For example, “walk-away” items are tracked in a separate account and included in the annual inventory, separate from capital asset reporting.

Exhibit 2 shows that the thresholds were raised substantially from the original \$5,000. As a result of the restatement, reported net capital assets for governmental activities decreased from about \$9.9 million to \$8.4 million—a reduction of about 15%. By contrast, the number of assets on the schedule decreased by 40%. In the context of the County’s total governmental assets (approximately \$40.5 million), the adjustment represented roughly 3–4% of total assets. This was not a trivial quantitative change. County officials and the auditor evaluated whether it would reduce the usefulness of the financial statements for governance decisions. They concluded that it would not. Governmental funds already expense capital outlay when purchased. As a result, the change mainly affected the presentation in the government-wide statements rather than the County’s budget reporting.

EXHIBIT 2 | New Sweet Grass County Capitalization Thresholds

Asset	Tracking	Capitalize and Depreciate
Land	\$1	Capitalize only
Land Improvements	\$1	\$100,000
Building and Improvements	\$1	\$100,000
Pioneer Medical Center Assets	\$1	\$5,000
Construction in Progress	\$1	Capitalize only
Machinery and Equipment	\$5,000	\$75,000
Vehicles	\$5,000	\$50,000
Infrastructure	\$5,000	\$250,000
Any Federal Purchases	\$1	\$10,000

*The statement and additional tables illustrating the transition to the new policy can be found in Note 5 on page 33 of Sweet Grass County’s “Financial and Compliance Report” for the fiscal year ended June 30, 2025. It is available at: <https://sgcountymt.gov/government-departments/other-departments/finance-office/audits/>



The County applied the new thresholds retroactively and restated its beginning net position to remove assets that no longer met the policy. The one-time reconciliation required a careful review of the remaining depreciation balances, but it immediately simplified the capital asset schedule and reduced ongoing workload. As Finance Director Vicki Uehling put it: “Was it a lot of work? Would I do it again? Yes, to both questions.”

Soon after the change, the revised policy was tested. A small infrastructure project—a prefabricated modular steel truss bridge—cost \$126,000 and was expensed under the new thresholds. A six-figure expense can feel significant on its own. County finance staff and commissioners paused to apply the revised policy. However, compared with about \$8.4 million in reported net capital assets for governmental activities, the bridge represented about 1.5% of that total. Officials concluded that expensing the bridge was unlikely to change their understanding of the County’s financial position.

The biggest adjustment was psychological rather than technical. Elected officials and staff had to become comfortable applying materiality consistently, even when the dollar amount seemed large. Operating departments were not affected because they track assets for management purposes rather than accounting classification. Meanwhile, the finance department saw a clear reduction in workload and greater confidence in the reported figures. The prior schedule’s many smaller assets had added complexity and increased the risk of error without providing comparable reporting value.

Vicki shared her experience with peers in Montana and found that some were hesitant to raise their thresholds to the levels shown in Exhibit 2, though others were not. The point is not that every government should adopt Sweet Grass County’s thresholds. The point is that thresholds should reflect careful analysis and local conditions. Many governments have a lot of room to adjust their thresholds to reduce work without reducing the decision usefulness of financial reports. GFOA’s [“Materiality as a Process: What Really Counts”](#) explains how to set both a reporting threshold and a precision threshold. The reporting threshold is the level below which items are not reported at all. The precision threshold is higher. Items between the two thresholds are estimated rather than recorded precisely. For example, the line-item Sweet Grass County added for “large purchases” can help estimate the total value of smaller items.

Sweet Grass County’s experience shows that materiality is not a fixed number but a governance judgment—one that can be tested with data, confirmed by auditors, and put into practice when local conditions are carefully considered.



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