



Finding the Balance

Rethinking Materiality in Government Accounting

There is no formal standard for defining materiality in local government accounting and financial reporting. So, local governments must use their own judgment to decide what is considered material. In accounting and auditing, something is considered material if knowing about it would affect the judgment of a reasonable person who is using the financial statements.¹

Judgments about what is material can significantly affect how much work is needed to complete financial reports. These judgments also affect the accountability that financial reporting provides to its audience.

There are important tensions at play here, with different risk exposures on each side. On one hand, a government could make *cautious* judgments on materiality. This errs on the side of

caution by including additional details in the financial report. The cautious approach is more likely to recognize as material some things that *would not* sway the judgment of most reasonable users of financial statements. This increases the risk of “*false positives*”—or treating something as material that would not affect the judgment of most reasonable users.

On the other hand, a government could aim to be more *selective* when judging materiality. This means prioritizing including in financial reports *only* items that *would* sway the judgment of most reasonable users of financial statements. However, this approach raises the risk of failing to recognize something that would sway most reasonable users. It increases the risk of “*false negatives*”—or not treating something as material when it *would* affect the users’ judgment.

On the September 16, 2024, episode of the *Public Money Pod* podcast, Joel Black, chair of the Governmental

Accounting Standards Board (GASB), explained that when GASB looks at the costs and benefits of new accounting standards, it assumes the standards will not be applied to items that aren’t material. Black added that if local governments apply the standard to non-material items, they are changing the cost-benefit calculation. This article argues that local governments have adopted a more cautious balance of risk than GASB expects. But that doesn’t mean local finance officers are being unreasonable. Their approach is explained by the risks they face, the responsibilities of external auditors, and the inability of individual finance officers to easily negotiate higher materiality thresholds with auditors.

So, local governments need a more systematic approach to consistently adopt a balance of risk that is closer to what GASB assumes in setting standards. We suggest that a discussion among the finance officer *community* (including



In a time of decreasing trust in government, we should ask if lengthy, technical financial reports published many months in arrears are the most effective way to build trust with government’s most important constituency: citizens. In a time of declining resources, we should ask if the finance officer’s time is well spent producing these reports. Rethinking Financial Reporting is a fact-based examination of the costs and benefits of the current model of financial reporting and how it can be improved. Learn more at gfoa.org/rethinking-financial-reporting.

GASB and auditors) is needed for a systematic solution. This article offers ideas for how a community-defined balance of risk might be created.

Even if a community discussion allows local governments to take a more selective approach to materiality, it may still not bring compliance costs in line with GASB's assumptions. This is especially true if GASB assumes an even more selective approach—one that doesn't require ongoing monitoring of items seen as immaterial. In practice, governments tend to be cautious. For this reason, this article also argues that GASB should assume a level of risk that matches what governments actually use. We recognize and applaud that GASB has already taken steps in this direction.

The rest of this article is broken into three sections:

- **The asymmetric consequences of materiality risk.** We discuss the consequences of false negatives for local governments and auditors—and why that encourages a cautious approach to materiality.
- **Finding the way forward.** We address how the profession might work toward a different balance of risk given the consequences it faces.
- **A community forum to discuss materiality: a proposal.** We propose creating a “community forum” to lead discussions about materiality. The forum should involve local government finance professionals, independent auditors, and GASB. The goal is to help all involved find a better balance of risk.

The asymmetric consequences of materiality risk

It's important to think about the *balance of risk* between false positives and false negatives because each one leads to different consequences.

False positives result from being overly cautious. The main consequence is more work for finance staff and higher costs for accounting and financial reporting. This also includes “opportunity costs”—that is, the work finance staff can't do because they are spending time on immaterial accounting issues.

Many GFOA members are concerned about the time spent on financial reporting, especially when complying with new GASB pronouncements.² In the podcast mentioned earlier, Joel Black said the exception for non-material items is “not used nearly enough.” This suggests that local governments often do more work to meet GASB standards than GASB expects.

Another obvious consequence of false positives is delay in producing financial statements. The value of information in financial statements decays over time. The longer it takes to produce them, the less valuable they become.³

A final, and less obvious, consequence is that financial statements are becoming more complex. When they include too much information, it can hide what really matters.

For example, consider subscription-based information technology arrangements (SBITAs). The goal of reporting for software subscriptions is to give users a better idea of a local

government's fixed costs and long-term obligations. Long-term subscriptions of costly, critical software—like ERP systems—are basically fixed costs. But this insight could be lost if the reported numbers also include other software contracts that wouldn't affect the judgment of a reasonable user of the financial statements.

False negatives occur when items that should be considered material are omitted from the financial report. The biggest consequence is clear: *inaccurate financial reports*. This goes against the basic goal of financial *accountability*.

The worst-case scenario is getting an adverse opinion⁴ from the auditor. Of course, a government might face less severe outcomes.⁵ Still, even having to explain the auditor-proposed adjustments at a public meeting can be stressful. Finance officers often seek to avoid these situations.

How, then, can we strike the right balance of risk? As governments continue to struggle with finance department staffing,⁶ the workload caused by a cautious approach to materiality may not be sustainable.

However, governments can't risk losing public trust. That could happen if governments use a materiality approach that leads to too many false negatives.

Finding the right *balance of risk* between false positives and false negatives helps minimize the consequences of each.

We begin with the idea that local governments usually take a cautious approach to materiality, which often leads to false positives. One reason is that the consequences of false positives and false negatives are *asymmetric*. In other words, the consequences of each are not equally serious.

Judgments about what is material can significantly affect how much work is needed to complete financial reports. These judgments also affect the accountability that financial reporting provides to its audience.



Do local governments tend to be cautious?

To test the idea that most local governments are cautious, we randomly selected some that have been participants of the GFOA Certificate of Achievement for Excellence in Financial Reporting (COA) Program for many years. We reviewed their 2023 and 2013 ACFRs to find their capitalization thresholds. We found that **more than 70% of the thresholds had not been updated in at least 10 years.**⁷ Similarly, GFOA has not updated its guidance on capitalization thresholds in almost 20 years. This means that, over time, GFOA's recommendation and these governments policies have effectively reduced their thresholds. As inflation rises, the real dollar value of those unchanged thresholds drops. When adjusted for inflation, the thresholds have lost between 30% and 60% of their value, depending on the inflation measure used.⁸ In any case, the drop is meaningful. Long-term *declines* in the *real dollar* thresholds used for capitalization show a cautious approach to judging materiality.

For example, think about the risk of deciding when to leave for the airport. If you get there too early, you waste time waiting and miss out on other things. If you get there too late, you miss your flight.

With the ACFR, being overly cautious can lead the local government to spend more time than needed preparing the report. But going too far the other way could be much worse. This could be as serious as getting an adverse opinion. That could lead to a credit downgrade, reduced access to grants, and a loss of public trust.

Local governments aren't the only ones that take a cautious approach to materiality. External auditors also play a key role in what is treated as material in a government's financial statements. Auditors are required by professional standards to report all "passed adjustments" to audit committees or governing boards. These are exceptions to Generally Accepted Accounting Principles (GAAP) found during the audit but allowed to go un-fixed because they were deemed individually and collectively immaterial. So, auditors may have little to gain from a more selective approach to materiality. But the risk of a false negative is still high.

Finding the way forward

Asymmetric consequences are not a reason to give up on finding a better balance of risk. There may be ways to

improve the balance without increasing exposure to the most undesirable consequences.

Let's return to the airport analogy. Applying for TSA PreCheck® under the U.S. government's trusted traveler program helps travelers get through security faster. That allows them to arrive at the airport later without increasing the risk of missing their flight. In other words, the need for a cautious travel plan has been reduced without increasing the risk of missing your flight.

To explore the possibilities for financial reporting, let's consider the forces in favor of the status quo. Our discussions with finance professionals⁹ point to three major themes:

- Finance professionals' desire for highly accurate, detailed reports that serve government accountability.
- Real or perceived pressure from external auditors to use lower materiality thresholds than governments might otherwise choose. Not following the auditor's preference could cause issues—possibly even an adverse opinion. As noted earlier, auditors have good reasons to favor caution. Still, it's the preparer's responsibility to make and justify their materiality judgments. Auditors consider the effects of those judgments when forming an opinion on the resulting financial statements.

- Practical limitations on how much time and effort would be saved by using higher materiality thresholds.

So, how might we move toward a new balance of risk while respecting these forces?

First, let's look at what "accountability" means in public finance. To promote accountability is to *ensure understandable, accessible, timely, and accurate reporting of financial information to the public and oversight bodies.*¹⁰ You will notice that "accurate" is just one part of the definition. Understandability, accessibility, and timeliness matter just as much. Why is that?

Finance professionals provide information so users can make decisions. An elected official might decide whether to support a tax or spending proposal based on the government's financial position. A member of the public might decide whether to trust the local government as a good steward of public funds. A grantor might consider continued or future funding. A bondholder or buy-side analyst may influence the government's cost of borrowing.

If decision-makers can't access the information, understand it, or get it in time, they can't use it. In those cases, its value to the decision-maker is effectively zero.¹¹ So, to support informed decision-making, information must not only be accurate but also understandable, accessible, and timely.



Governments often default to an overcautious stance of materiality. The result: longer reports, heavier workloads, and slower issuance that erodes the usefulness of the data.

Could a less cautious balance of risk still support accuracy while improving understandability, accessibility, and timeliness? By definition, leaving out immaterial items shouldn't reduce accuracy. But it could help improve the other three parts of accountability.

Timeliness, for example, could improve with a more selective approach. Reducing the workload associated with reporting means finance professionals can finish reports faster. Leaving out immaterial items also reduces extra details and complexity, which makes the reports easier to understand.

Adopting a broader view of accountability is a good first step toward a new balance of risk.

Now let's consider the preferences and needs of external auditors. In the September episode of the *Public Money Pod*, Joel Black acknowledged that

"auditors are going to push back" when governments attempt to adopt a less cautious standard of materiality. In his view, "governments need to prove items are not material."

We agree that individual conversations between independent auditors and local governments may not be enough to find a new balance of risk. The asymmetric consequences on both sides still favor a cautious approach.

In the next section, we suggest that instead of each government handling materiality on its own with its auditors, finance officers, auditors and GASB should work together. With help from GFOA, they could set up a forum to discuss materiality concerns. This would provide a permission structure for finance officers and auditors to consider and possibly adopt a different balance of risk.

For a tangible example, let's take capitalization thresholds. We discussed earlier that many governments do not update these thresholds regularly. This results in a de facto decrease in the value of the threshold.

This is not a small issue for local governments. For example, one city government with a population of 100,000 raised its capitalization threshold from \$5,000 to \$10,000. This was its first increase in over 20 years. As a result, the city removed 343 capital assets from its books, worth a total of \$2 million. But compared to the city's \$1.25 billion in total capital assets, this is a relative drop in the bucket at 0.16%. In terms of workload, that's 343 fewer assets for the finance department to track.¹² These assets no longer need to be audited, retired or replaced in the accounting system or reported in financial statements. Since the city had one accountant dedicated to capital assets, this change saved the city significant time. It also saved time for departments that tag and inventory the equipment. A discussion among the public finance community about regularly reviewing thresholds—and how to set the right level—could help prevent wasted effort when old thresholds become obsolete.

Before moving on to our proposal for a forum, let's address our third force: practical limitations on the time and effort that could be saved by higher thresholds for materiality. In many cases, if a government were to debate materiality standards with their auditors, the numbers at issue will already have been calculated. For example, for pension liabilities, the actuarial studies will have been completed, and so on. At that point, most of the time, energy, and money for the reporting has already occurred. This means any savings achieved by using a more selective approach to materiality would be marginal.

Furthermore, auditors usually use a low dollar threshold for items that can be ignored. That threshold is much lower than the amounts they deem to be immaterial. Items that are too large to be completely ignored—but not large enough to be individually material for financial



Does a lack of public sector accounting experience affect materiality judgments?

Local governments often struggle to find staff with experience in public sector accounting.¹³ As a result, they may rely on accountants who lack the skills to make sound decisions about materiality. The same is true for external audit firms, which may also use staff with limited experience in public sector accounting. This makes it harder to depend on individual judgment when trying to balance risk in materiality decisions. There's no sign the staffing shortage will get better soon—and it may even get worse.¹⁴ All of this shows why governments need a better approach to materiality.

reporting—must still be tracked. This “middle zone” is not trivial.

For example, one large county was told to track any transaction worth at least 0.2% of the materiality threshold for either the operating statement or the balance sheet—whichever amount was smaller.

This means that something deemed immaterial—such as photocopier leases—may nonetheless have to be measured each year. Auditors must confirm that the collective value of all such items remains immaterial for that year. In those cases, there is little or no cost savings from deeming items immaterial.

Still, there's an opportunity. Clearer guidance on materiality could help local governments adjust how they think about financial information during the year. It could also make year-end discussions with their external auditor about materiality easier. While this won't solve the second problem—minimum thresholds for tracking items at all—it would address the first problem of applying more selective materiality standards after data has already been processed.

Let's now move on to our proposal for a community forum to catalyze a conversation on the balance of risk.

A community forum to discuss materiality: a proposal

STEP 1

Identify topics for which greater clarity on materiality would be most helpful.

There are many parts of accounting where clearer guidance on materiality would be

helpful. This includes both general ideas about materiality and specific reporting issues. Here are some examples of topics that could benefit from more clarity:

- **Definition of and responsibility for materiality.** What does materiality mean in financial reporting? What are the responsibilities of preparers and their independent auditors?
- **How to think about new standards implementation.** How can governments decide if applying a new standard is material or not? This includes doing early, high-level evaluations to spot items that aren't material and avoid spending time on unnecessary detailed analysis.
- **Cumulative effects of materiality decisions.** How should governments track the total impact of items they decide are not material? This supports the preparer's assertion that the financial statements are materially correct for each reporting unit and are in conformity with GAAP. It also recognizes the auditor's role in making that judgment for each audit opinion unit.
- **Debt, pension, compensated absences.** The high profile and potential importance of these items call for better information on materiality.
- **Claims and judgments.** With claims and judgments liability, local governments are dealing with a highly uncertain number. Hence, auditors may have different standards for what they deem material. A conversation could

center around how to provide more predictability to local governments in how to prepare this information and would give users of the financial statements more consistency over time and between governments.

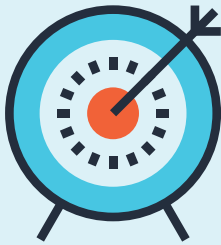
- **Capitalization thresholds.** Earlier, we showed that most governments do not update their capitalization thresholds regularly. As a result, they face increasing workloads to track assets of decreasing value, since the real dollar value of the threshold declines over time. A community discussion could help in selecting a threshold that covers material assets and in keeping that threshold updated.

STEP 2

For a given topic, identify who is the primary user of financial statements and why they would have an interest in this topic.

The concept of materiality is based on the judgments of users. Therefore, to provide useful information on materiality, we must consider who the users are and what concerns they have.

The main users of local government financial statements are investors in municipal debt. But other groups—like elected officials and the public—also rely on high-quality financial information to understand their government's financial condition and performance. These audiences may care more about some topics than others. This should affect how governments



Precision vs. accuracy

Precision and accuracy are not the same. The distinction has big implications for financial reporting. A number is accurate if it helps the user of financial statements achieve their goals. A number becomes more precise as it becomes more exact. For example, \$3,452,349.19 is more precise than \$3.5 million. But \$3.5 million may be just as accurate if the decision-maker can achieve their objective with just the two digits. This means that rougher calculations may suffice for reporting standards in some situations, thereby creating larger time savings. A permission structure—enabled by a community approach—is essential for identifying where and under what circumstances less precise estimates can suffice for financial reporting requirements.

assess materiality. For topics of great interest, it may be better to apply a lower tolerance for the risk of false negatives—that is, failing to report something that would be important to users.

After identifying who is interested in the information, the next step is understanding why they care. Consider the example of a school district that leases a local pool or ice rink for popular high school sports teams. The cost of these leases may not be quantitatively material—perhaps they fall below a threshold that would generally require leases to be reported in the financial statements. However, these facilities support programs that are highly visible to the community. Voters may want to know how much these programs cost—especially if the sports are seen as “nice to have” rather than essential. In this case, even though the lease cost is small, its connection to community decision-making makes it qualitatively material. Reporting the lease helps people—especially the public and voters—better understand how resources are being used and whether they align with community priorities.

Understanding why someone cares about a topic helps us decide what information is material—not just in terms of dollars, but also in terms of meaning. This helps governments find the right balance between the cost of reporting and the benefit to users.

STEP 3

Identify risks that may be posed by changing the balance of risk for materiality for the topic in question.

Foremost, this step relates to the risks that can arise from a more *selective* approach to materiality.

For example, choosing to ignore smaller software subscriptions in reporting might reduce the scrutiny applied to those arrangements. In the past, that scrutiny may have caused the local government to question whether the subscriptions were really needed—or scrutiny may reveal other issues, like a high risk of vendor lock-in.¹⁵

Using a more selective approach can bring other risks or unintended consequences. Local governments must stay aware of the total impact of items deemed individually immaterial. When taken together, these items could still be material at the reporting or opinion unit level.

The perspective of independent auditors is essential at this stage, since they bear some of the risk when a more selective materiality threshold is used. For instance, auditors may hesitate to share more than general information about their materiality thresholds and determinations with clients, as doing so could weaken the integrity of the audit.

GASB’s involvement is also important. Its guidance on how to apply materiality to new pronouncements gives auditors the support they need to advise their clients accordingly.

STEP 4

Define what information on materiality would be most helpful for the topic in question.

Materiality includes both quantitative and qualitative aspects. In some cases, there may be a role for quantified rules of thumb. One analogy is the quantitative “rules of thumb” used to decide if a fund qualifies as a major fund. These are often referred to as the “10% Test” and the “5% Test”:

- **10% Test:** One element of the fund—like its assets, liabilities, revenues, or expenses—must be at least 10% of the total for that same part across all funds of its kind. This means 10% of all governmental funds or 10% of all enterprise funds, depending on the fund type.
- **5% Test:** The same element that met the 10% test must also be at least 5% of the combined total for all governmental and enterprise funds for that element.

If a given fund meets both the 10% and 5% thresholds for the same element, it is classified as a major fund.

As another example, auditors often use a percentage of total assets, liabilities, revenues, or another financial item to make a preliminary estimate of materiality. But it’s important to remember that these “rules of thumb” are not the same as “hard-and-fast” rules.

In fact, the Securities and Exchange Commission (SEC) states that “exclusive

reliance on certain quantitative benchmarks to assess materiality in preparing financial statements and performing audits of those financial statements is inappropriate; misstatements are not immaterial simply because they fall beneath a numerical threshold.”¹⁶

Preparers could benefit from additional rules of thumb to help judge materiality. For example, a community discussion might be used to explore opportunities for GASB to define materiality in its statements by establishing thresholds, similar to the major fund test. This step will benefit from examining the potential from analogues. Has a similar question been solved in another industry? Has one local government found a solution that could be scaled up to all local governments?

STEP 5

Engage the community to evaluate if the information is helpful.

In this step, the goal is to create a feedback loop within the community.

For example, GFOA could do a flash survey of its members and auditors to

see if the information coming out of the forum for a given topic would result in:

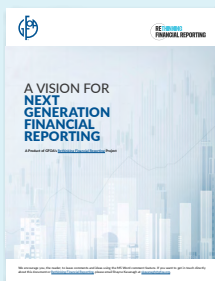
- A change in what they are reporting.
- A significant reduction in the effort required to report on the topic.

We may find that determining whether a transaction is material requires a lot of work, while reporting it is a relatively minor cost. For example, software subscriptions must be reviewed to decide whether they should be reported. A change in materiality standards will not change this. Now imagine that the permission structure created through a community discussion opens a new possibility. Instead of conducting a comprehensive review of all software subscriptions, the conversation leads to an approach for estimating the size of the relevant obligations. In some cases, the estimate itself may be sufficient for the report. For instance, if the estimated amount is relatively small, it is highly unlikely to change any decision a user of the financial report might make. Hence, spending more time and money to reach greater precision would be a waste.

To take another example, let's consider GASB Statement No. 101, *Compensated Absences*, and reporting on accrued leave. The most precise—and most costly—estimate might come from hiring an actuary. But what if a government began by calculating the maximum possible liability, assuming all accumulated leave would be used or paid out? For governments without generous leave policies, that total might not be material. In that case, the subset of leave that is more likely than not to be paid or settled would also be immaterial.

That said, we must recognize that local government financial reporting practices have never been known for their agility. Local governments will need to integrate the information produced by a community discussion into their own financial reporting. We will need to show patience with a community-driven approach. The adoption and use of the information—and its impact on local government reporting practices—could take years to play out.

Users care whether information changes a decision, not whether it's calculated to the penny. Embracing “decision-useful” accuracy can unlock simpler estimates and faster reporting without sacrificing reliability.



How does the audience for financial statements want to consume information?

In most cases, elected officials and the public have little appetite for detailed financial reports. However, they still want to know if their local government is on the right financial track. So, in addition to defining materiality standards, the profession needs to consider how information can be shared in ways that are understandable and accessible. GFOA's Next Gen Financial Reporting is exploring this very question.

➔ Learn more and contribute at gfoa.org/next-gen-financial-reporting.



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Where to next?

GFOA's call to action is twofold.

First, GFOA should team up with other key stakeholders to explore creating a community forum to discuss materiality concerns in local government accounting and financial reporting. This effort should use the five-step process outlined in this article. The goal is to provide useful information that meets the two-point test described in Step 5:

1. Will it change what local governments report?
2. Will it reduce the effort required to report?

Second, the community should recognize that the cautious balance of risk most local governments follow is, in many ways, a desirable “feature” of public finance—not a “bug” to be fixed. While a community-defined balance of risk could help shift the balance

away from over-caution, it should stop well short of becoming overly selective. Local governments and their auditors face asymmetric consequences from materiality-related false negatives. It is unlikely that local governments, acting individually, will be able to shift this balance on their own. Therefore, we salute GASB's efforts to revise its assumptions on the balance of risk that local governments adopt and to update the cost-benefit calculations of its pronouncements accordingly. We also encourage GASB to expand and accelerate these efforts. 

This article was adapted from a report by the GFOA Rethinking Financial Reporting Team. For a complete listing of individual contributors and other credits, visit [gfoa.org/materials/finding-the-balance-rethinking-materiality](https://www.gfoa.org/materials/finding-the-balance-rethinking-materiality).

¹ This article addresses how to determine materiality in the context of financial statements and auditing standards. Materiality is a term widely used within a number of areas, including accounting, securities disclosure, and contract law. How materiality is defined within each area is different and needs to be understood within the context of the law or

standards of those areas. Using the guidance of materiality within one area to understand materiality in another area will result in inaccurate applications and conclusions.

² You can see results from member surveys GFOA has conducted on this issue in the GFOA report: *Why GFOA is Rethinking Financial Reporting*. <https://www.gfoa.org/rethinking-financial-reporting>

³ The concept of “information decay” in financial markets suggests that the value of information decreases over time. There have even been attempts to quantify the rate of decay. For example, see: Geertsema, P. G., & Lu, H. (2022). *Measuring information decay in financial markets*. <https://ssrn.com/abstract=3965171> or <http://dx.doi.org/10.2139/ssrn.3965171>

⁴ A modified opinion is one that is either a qualified opinion, an adverse opinion, or a disclaimer of opinion. (American Institute of Certified Public Accountants [AICPA], 2024, AU-C §705.06). American Institute of Certified Public Accountants. (2024). *Professional standards, U.S. auditing standards (AU-C), Section 705: Modifications to the opinion in the independent auditor's report*. AICPA.

⁵ For example, if an auditor proposes an adjustment, which the government makes, the auditor could issue an unmodified opinion on the financial statements but issue a material weakness finding in the internal control report. If the auditor proposes an adjustment that the government declines to make, the auditor might modify their opinion on the financial statements but not issue an adverse opinion overall.

⁶ You can read more about long-term challenges to staffing the finance department in the GFOA report: *Meeting Demand for State and Local Public Finance Jobs*. <https://www.gfoa.org/meeting-demand-public-finance>

⁷ Given the number of local governments we selected, there is about a 99.9% chance that true population measure is greater than 50%, providing strong support for the position that most local governments tend toward cautious judgments.

⁸ Local governments purchase a basket of goods that is quite different from those included in the Consumer Price Index (CPI). To better capture the cost pressures they face, we used two alternative inflation indices:

Northern Illinois University, Center for Governmental Studies. (2025). Illinois Municipal Price Index (MPI). Retrieved February 1, 2025, from <https://www.cgs.niu.edu/resources/municipal-pricing.shtml>

U.S. Bureau of Economic Analysis. (2025). *State and local consumption expenditures & gross investment (SLCE)*. Federal Reserve Bank of St. Louis. Retrieved February 1, 2025, from <https://fred.stlouisfed.org/series/SLCE>

⁹ These discussions took place with members of GFOA's Rethinking Financial Reporting Team, which include finance officers from across the United States.

¹⁰ The definition of public finance principles is taken from the GFOA report: *First Principles of Public Finance*. <https://www.gfoa.org/materials/first-principles-of-public-finance>

¹¹ This is a slight paraphrasing of an idea expressed by American economist Richard Zeckhauser who is known for his extensive contributions to decision theory. Though Zeckhauser has popularized this pithy phrase, the intellectual pedigree of the underlying idea stretches back to the mid-20th-century foundations of statistical decision theory.

¹² The asset is still tracked by the operating department for management purposes. The finance department no longer tracks for financial reporting purposes.

¹³ You can read more about long-term challenges to staffing the finance department in the GFOA report: *Meeting Demand for State and Local Public Finance Jobs*. <https://www.gfoa.org/meeting-demand-public-finance>

¹⁴ According to the American Institute of Certified Public Accountants (AICPA), the number of accounting degrees at the bachelor's and master's levels has been stagnating or declining since 2014–2015. See: The Association of International Certified Professional Accountants. (2022). *2021 trends: A report on accounting education, the CPA exam and public accounting firms' hiring of recent graduates*.

¹⁵ This is when there are practical, but not necessarily contractual, barriers to parting ways with a software provider. A leading example is when the software provider owns data in the software that the local government has become reliant on.

¹⁶ For more on the SEC's guidance on materiality, see: U.S. Securities and Exchange Commission. (1999). *SAB No. 99: Materiality*. https://www.sec.gov/interps/account/sab99.htm?utm_source=chatgpt.com