



**DUPAGE  
COUNTY**

## FINANCE

630-407-6100

[www.dupageco.org/finance](http://www.dupageco.org/finance)

### MEMORANDUM

**TO:** County Board Members

**FROM:** Mary Catherine Wells, Deputy Chief Financial Officer, Finance Department

**DATE:** February 13, 2024

**RE:** Increase in Capitalization Threshold

**CC:** Nick Kottmeyer, Chief Administrative Officer  
Jeff Martynowicz, Chief Financial Officer  
Stan Spera, Financial Services Administrator, Department of Public Works  
Barbara Reynolds, Deputy Chief, State's Attorney's Office  
Bill White, County Auditor, County Auditor's Office  
Evelyn Peters, Chief Deputy Auditor, County Auditor's Office  
Jennifer Sinn, Deputy Chief Financial Officer, Finance Department  
Geoff Kinczyk, Accounting Manager, Finance Department  
Melanie Koga, Principal Accountant, Finance Department  
Tom Packard, Senior Accountant, Finance Department  
Keith Jorstad, Senior Budget Analyst, Finance Department  
Mike Kiep, Health Department, Budget Manager, Health Department  
Sarah Lobdell, Accounting Manager, Health Department  
Linda Zerwin, Executive Director, Emergency Telephone System Board

---

#### INTRODUCTION

Currently, DuPage County ("County") has a process for tracking capital assets that is time consuming, labor intensive, and difficult to maintain. Based on its current capitalization threshold of \$5,000, most of this time and energy is focused on a large number of small value items. This is the result of a capitalization threshold level of \$5,000 that has been in place for over 30 years. During this 30-year period, the County has made no adjustment for inflation. In total, these small value items are immaterial to the County's overall Balance Sheet, so the time spent on their accounting is unwarranted and inefficient. Given these considerations, Staff recommends increasing the County's capitalization threshold from \$5,000 to \$30,000.

In addition, Staff recommends changing its approach to capitalizing group assets. This change would align the County with recent Government Accounting Standard Board (“GASB”) guidance.<sup>1</sup> Under the recommended new approach, the County would capitalize a group of assets at the aggregate level regardless of individual cost. Staff recommends an aggregate threshold level for group assets of **\$100,000** for the County. If the combined cost of assets (e.g., computer equipment) reaches \$100,000, then the County would capitalize this cost as a group asset. This applies even if each individual item within the group falls below the capitalization limit. Later sections of this memo provide more detailed information on the \$100,000 group asset recommendation.

#### **CAPITALIZATION BACKGROUND AND CURRENT POLICY**

Capitalization refers to the accounting treatment used for capital assets. Capital assets include items like land, buildings, and equipment that are used over the long-term and are not likely to be converted quickly into cash. The accounting treatment entails recording the purchase as an asset instead of recording a period expense. The capital asset is then depreciated based on the purchase price over a set period in regular intervals. This allows the organization to spread the cost of the asset evenly over its estimated useful life and avoid drastic impacts to the Statement of Net Position in the period the asset was purchased.

The County’s capitalization threshold has been \$5,000 since at least 1992. Under this policy, an item is considered a capital asset if its acquisition value is at least \$5,000 and its estimated useful life exceeds one year.

#### **RATIONALE FOR CHANGE**

Due to the current low threshold for capitalization, the County is capitalizing numerous smaller tangible capital-type items. As reflected in the table below, currently the County is capitalizing 2,425 different assets with a value of \$1.2 billion. This includes asset categories of equipment, building, and infrastructure. The process of capitalizing smaller items is time consuming, labor intensive, and difficult to maintain. It is estimated that raising the capitalization threshold to \$30,000 would remove 40% of the County’s current assets. These assets represent less than 1% of the total value of all current capitalized assets as reflected in the second table. Raising the threshold would allow Staff to improve the tracking of these high value assets and focus on more material issues.

This update would also help with prior year consistency of financial reporting. Exactly when the \$5,000 threshold was implemented is uncertain; however, it can be seen in the Annual Comprehensive Financial Report as far back as 1992. With annual inflation increases over such a large period, items that are being considered for capitalization now would never have been considered in previous years. This overstates capital assets relative to the base year (1992).

---

<sup>1</sup> Governmental Accounting Standards Board (GASB), Government Accounting Standards Series Implementation Guide No. 2021-1 Implementation Guidance Update-2021, Section 5.1, page 9.

**DATA**

<b>Current \$5,000 Threshold</b>		
Asset Category	Assets	Value (in millions)
Equipment	1,205	61.2
Building	181	317.3
Infrastructure	1,039	837.1
<b>Total</b>	<b>2,425</b>	<b>1,215.6</b>

<b>Recommended \$30,000 Threshold</b>		
Asset Category	Assets	Value (in millions)
Equipment	464	52.5
Building	152	317.0
Infrastructure	828	835.5
<b>Total</b>	<b>1,444</b>	<b>1,205.0</b>
<b>Change</b>	<b>40.5%</b>	<b>0.9%</b>

**CONSISTENCY**

The \$30,000 level has the advantage for Staff of aligning with the County Board procurement threshold. County-wide there would continue to be one exception to the \$30,000 level, because the Care Center uses a \$2,000 threshold as dictated by the federal Medicaid program.

Currently the Public Works Department has a \$25,000 capitalization threshold. The Finance Department has discussed this issue with the Public Works Department. Both Departments agree that a uniform threshold of \$30,000 across the County is desirable, so Public Works would support changing its threshold in coordination with the Finance Department’s broader county-wide change.

Staff has discussed this change with the DuPage County Health Department (“HD”) and the DuPage County Emergency Telephone System Board (“ETSB”). As “Component Units” they are part of the County’s financial reporting structure. Both are considering this change for their related organizations.

The State’s Attorney’s Office and the Finance Department have reviewed this issue. They found no ordinances requiring amendment. However, Staff does need to update the Budget and Financial Policies, the Expenditure Account Manual, and the General Government Capital Asset Procedures Manual.

**GROUP ASSETS**

In coordination with the increased \$30,000 threshold, Staff has proposed a revised approach to capitalizing group assets to align with Section 5.1 of the 2021 GASB Implementation Guide. The process involves a threshold recommendation, wherein if the combined cost of purchased assets such as equipment reaches \$100,000, the County would proceed to capitalize the entire group, even if the individual unit cost is less than \$30,000.

In practical terms, this means that even if individual items within the group fall below the standard capitalization limit, the cumulative cost becomes the determining factor. When the collective expenditure on these specified assets hits or surpasses the \$100,000 mark, the County recognizes the economic significance of the group and decides to capitalize them. An example of a group asset might be a large computer purchase of 110 computers at a unit cost of \$1,000. Individually, a computer costing \$1,000 would not meet the capitalization threshold; however, as a group the aggregate costs are significant. At the aggregate cost of \$110,000 (i.e., 110 units x \$1,000 per unit = \$110,000), this group asset would exceed the capitalization threshold.

This refined approach ensures a more comprehensive evaluation of the financial impact of acquiring multiple assets as a group, reflecting a nuanced understanding of their combined value. It streamlines the capitalization process by shifting the focus from individual items to the holistic cost assessment of asset groups, in accordance with the guidelines set forth by GASB.

**NEXT STEPS**

For accounting/audit purposes, it would be best to make this change as soon as possible in coordination with the start of FY2024. Staff would hope to have County Board approval by the end of February per the schedule below.

**RECOMMENDED SCHEDULE**

Feb 13, 2024	Memo Presentation
Feb 27, 2024	Review & Approvals

To help with the change, the Finance Department will assign a Senior Accountant to this initiative. This Staff person will work individually with the departments on needed Journal Entries, Budget Transfers, Purchase Orders, and inventory tag changes.