



## Capital Expenditures vs. Operating Expenditures

Capital expenditures are expenses for the purchase, improvement, or maintenance of long-term assets to improve the efficiency or capacity of the library. There are normally two forms of capital expenditures: (1) expenses to maintain current levels of productivity, and (2) expenses that will enable an increase in future growth.

Funds spent on repair or in conducting continuing, normal maintenance on assets is not considered capital expenditure. Repair and maintenance costs are incurred in order to restore the condition of an asset. The proper accounting for these costs is to charge them to a maintenance and repairs expense category in the period incurred.

When these costs either extend the useful life of an existing asset or increase its productive capacity, then they are considered to be capital expenditures. Capital expenditures will normally be in excess of \$5,000. Board approval must be sought to transfer funds from the Capital Reserve to 'reimburse' operations for this expense.

- Long-term assets are usually property, equipment, or infrastructure, and that have a useful life of more than one year.
- Examples of long term assets are those listed on the Library Capital Reserve Fund study, namely, HVAC, roofs, carpet panels, electrical and solar elements, blacktop, furniture and lighting.
- Example 1: repair to an inverter unit – operating expense
- Example 2: replacement of an inverter unit – capital expense
- Example 3: replacement of a few stained carpet panels is an operating expense
- Example 4: replacement of an area of worn carpet panels with new or different flooring material costing more than \$5,000 is a capital expense

Approved by the Lewes Board of Commissioners on 7/26/2022