



Rural Provider Access and Affordability Stimulus Grant Program

This document clarifies capital expenditures with definitions, specificity regarding this grant program & examples

Definition

Capital expenditures, often referred to as CapEx, are long-term investments that are tangible and have a useful life expectancy of one year or more and a per unit cost of \$5,000 or more. The IRS has estimates for the lifespan of assets that may be used as a basis to determine useful life and to determine depreciation of the asset over time. Any investment with a useful life expectancy of under a year would not qualify as a capital expenditure.

Capital expenditures are generally recorded as capitalized costs on business financials.

- These costs typically are not expensed in the period they were incurred but are recognized over a period of time via depreciation or amortization.
- Per the Office of State Controller's guidance [capital expenditure category](#) capital expenditure costs equal or exceed the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000.

Types of Capital Expenditures

- Buildings to be used for office space, manufacturing of goods, storage of inventory, or other purposes.
- Land to be used for further development.
- Equipment and machinery - investing in advanced machinery, equipment or tools to streamline processes, increase productivity, or meet customer demands.
- Furniture to be used to furnish an office building to make the space usable by staff and customers.
- Vehicles to be used to transport goods, pick up clients, or used by staff for business purposes.

- Computers or servers to be used to support the operational aspects of a company including the logistics, reporting, and communication of operations.
- Software and licenses
 - It is important to note the difference between information technology systems being purchased and owned versus licensing agreements. Licensing agreements allow a party to use the property of the owner of the IT system, generally for a fee. For example, licensing agreements are purchased for online platforms such as Zoom, WebEx, Adobe, and DocuSign. The licensing agreement allows using those systems, but does not provide ownership rights. As a result, licensing agreements would *not* be considered a capital expenditure/asset.

Are Electronic Medical Records Capital Expenditures?

Several projects for this grant are for electronic medical record systems. To determine if this expenditure is a capital expenditure, consider the following: is the expenditure for ownership or are you purchasing a licensing agreement for the system? A licensing agreement allows using those systems, but does not provide ownership rights. As a result, licensing agreements would not be considered a capital expenditure/asset.

Examples of Capital Expenditures Compared to Operating Expenditures

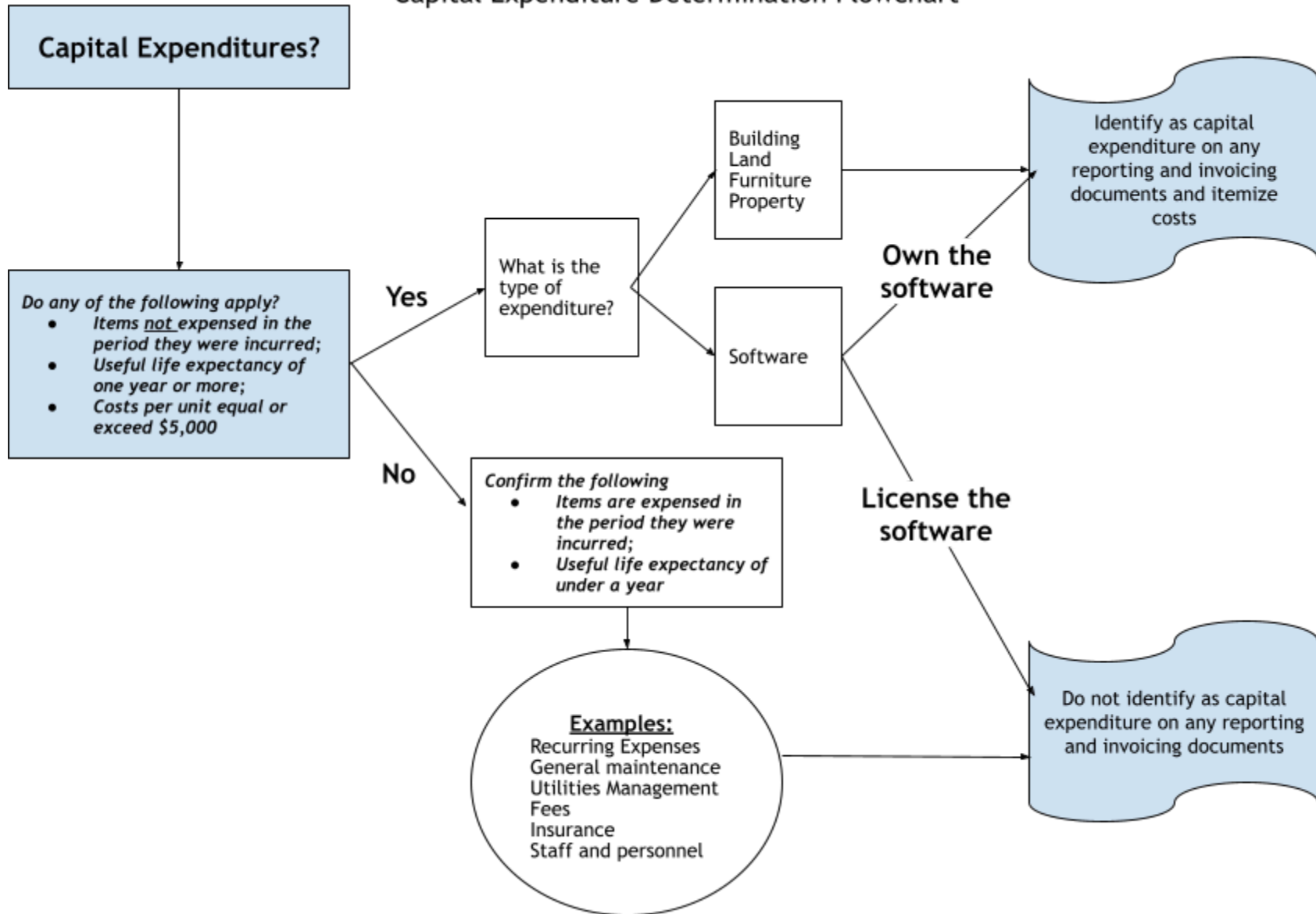
- When a company acquires a vehicle to add to its fleet, the purchase is often capitalized and treated as a Capital Expenditure. The cost of the vehicle is depreciated over its useful life, and the acquisition is initially recorded to the company's balance sheet.
- This is treated differently than Operating Expenses such as the cost to fill up the vehicle's gas tank. The tank of gas has a much shorter useful life to the company, so it is expensed immediately and treated as OpEx.

Non-capital expenditures include expensed amounts typically found in the operating budget such as general maintenance, utilities, management fees, and insurance. These types of expenditures are also called period expenses because they generally benefit periods on a monthly basis or less than a year.

Other Resources

- [5 Characteristics Of Capital Medical Equipment](#)

Capital Expenditure Determination Flowchart



This document is general information only and should not be used solely to determine what is and is not capital expenditures. It is best to consult with your Controller/Accounting Department to make any final determination.