A **capital expenditure** is an outlay of cash for a project that is expected to produce a benefit to the organization over a period of time greater than one year, helping to maintain or improve an infrastructure asset.

In the context of a church or a not-for-profit organization, it is important to identify costs that are considered to be **capital** expenditures as opposed to those that are **operating** expenditures. Capital expenditures include direct costs related to procuring, constructing, or renovating a facility. They can also include indirect costs associated with these activities such as:

- legal and professional fees related to the project
- costs for temporary services or utilities
- engineering or construction management costs
- cost of furniture and equipment for the facility
- landscaping costs, including parking areas and sidewalks.

Accountants will be familiar with the rules regarding capital expenditures and can help a finance team to determine which specific costs apply in each case.

Properly identifying capital expenditures can be crucial in helping organizations to manage its overall finances. Church of Christ Development Company Ltd. (CCDC) can help by providing long-term and low-cost capital project financing.

When planning to finance a capital project, it is important to identify the length of time the project will provide a benefit to the organization and then set the amortization period to match this. In this way, the project is "capitalized" over its useful life. While many groups make use of the full amortization period to repay a loan, some like to speed this up with a Stewardship Campaign. To accommodate, all CCDC loans have an "open" repayment structure that means additional payments may be made at any time without penalty, including full repayment of the loan.

While accelerated repayment can be a great opportunity for some churches to reduce the overall cost of financing a capital project, it may not be the best situation for all groups. It is important to look for the balance that works in each particular case. A group should consider its overall financing needs and ensure it coordinates both capital and operating budgets. While the excitement of a capital project may provide a catalyst to donors to give, it may also impact the amount they can give to the general fund. It is important to ensure that the organization can continue to finance its day-to-day operations out of the general donations it receives.

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Stewardship Campaigns

If a Stewardship Campaign is run to support a capital expenditure, it is a good idea to keep those designated funds, also known as *restricted funds*, separate from operating capital. This can be very helpful for managing repayment of the loan and will provide an easy way for an organization to be accountable to its donors.

At CCDC, our loans are designed to help groups finance capital projects by providing low-interest loans structured to specific needs. If a group is paying more to borrow operating capital through a line of credit than it would pay to finance a capital project, it may be helpful to have the finance team reassess how expenditures are being allocated. Finding the right balance between long-term and short-term debt repayment can go a long way to reducing overall borrowing costs and to providing certainty and stability in managing an operating budget.

For More Information

If your congregation would like more information on this topic or any of our services, please contact us at **780-406-1045** or by e-mail at **info@churchdevelopment.ca**.

Other articles in our *Building Ministry* series:

- *Church Signs*
- *Improving Building Accessibility*
- *Trustees*

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