

Capital vs. Operating Expenses

Q & A

Q 1. Under Equipment, why does NRH only accept a riding lawn mower and snow blower as capital at a minimum of \$1,000?

A 1. In any organization's activities, capital costs must be material. Typically, most organizations require a minimum capital expense of \$5,000. For small organizations like housing providers, NRH is allowing a minimum of \$1,000 (before HST) for equipment expenses. Anything less than \$1,000 is considered to be operating.

Q 2. What is considered an interior door?

A 2. Any interior door in the unit – for example, a bedroom door, a closet door, or a bathroom door.

Q 3. According to the Major Building Components list, windows are considered capital. Is it considered capital if one pane of glass only is replaced?

A 3. If a pane of glass is the only item that needs to be replaced, the expense is considered operating. The only time a window is considered to be a capital expense is when the window frame is broken and the full window needs to be replaced.

Q 4. With respect to roofing, what is the difference between a repair and a replacement?

A 4. Roofs can be made up of different separate roofs with different slopes. If a provider has one complete separate roof section redone, they are replacing an entire separate roof and it is considered a capital expense. If a section of a separate roof is redone, it is considered a repair item and is considered an operating expense.

Q 5. Why is painting not considered a capital repair item, when it was allowed as a capital item in previous years?

A 5. Painting has never been allowed as a capital expense. We acknowledge that in the past some housing providers have reported a unit restoration expense under capital, which may have included painting.

We have removed unit restoration from the major building component list. Housing providers will have to report individual expenses when they do a unit restoration. Separate invoicing for capital items will be required when providers undertake a unit restoration.

Q 6. Why does NRH allow tap replacement as a capital item only if it is in bulk?

A 6. A proper capital replacement plan should include bulk replacement of minor capital items at the end of their useful life. For example, if a provider has included a bulk replacement of taps spread out over a couple of years, we will allow that expense as a capital item. However, the provider must follow their plan and replace the number of taps as indicated in their capital plan.

When one tap is replaced because of damage, it is considered an operating expense. Typically this type of repair results from damage and it is expected that the cost of replacing the tap will be charged back to the household. In this case, the replacement of one tap is not considered capital.

However, if on move out, the tap is replaced (because of convenience) and the provider's capital replacement plan includes the replacement of 15 taps in the current fiscal year, then the tap can be considered a capital item, as long as a total of 15 taps are replaced in the current year as per the provider's capital plan.

Q 7. If we use the same contractor to do all the work in a vacant unit how do we breakdown the capital and operating expenses?

A 7. The capital work and operating work should be invoiced separately, which may require you to do separate work orders.

For example: If you have a vacant unit that will require several different repairs and the same contractor is doing the whole job, the breakdown should be as follows:

- removal of debris -- **operating**
- new flooring -- **capital**
- new kitchen cupboards – **capital IF** it is on your 5 year capital plan
- all painting -- **operating**
- new bathroom taps – **capital IF** it is on your 5 year capital plan --- if not --- and you have to replace them during this vacancy because they are damaged - it is an **operating** expense and should be charged back to the tenant/member.