

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 09-05: EITF 08-3: Accounting by Lessees for Maintenance Deposits

ISSUE NULLIFIED BY SSAP NO. 19 AND SSAP NO. 22

INT 09-05 Dates Discussed

June 13, 2009; September 21, 2009

INT 09-05 References

SSAP No. 19—Furniture, Fixtures, and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee, Depreciation of Property and Amortization of Leasehold Improvements

SSAP No. 20—Nonadmitted Assets

SSAP No. 22—Leases

SSAP No. 29—Prepaid Expenses

INT 09-05 Issue

1. EITF 08-3 clarifies how a lessee shall account for a maintenance deposit under an arrangement accounted for as a lease. Particularly, this guidance addresses the issue when maintenance deposits paid by a lessee under an arrangement accounted for a lease are refunded only if the lessee performs specified maintenance activities. Guidance included within paragraphs 2 and 4 of EITF 08-3 identifies such maintenance arrangements and the accounting issue as follows:

2. Under certain equipment lease agreements, a lessee is legally or contractually responsible for repair and maintenance of the leased asset throughout the lease term. Additionally, certain lease agreements include provisions requiring the lessee to make deposits to the lessor in order to financially protect the lessor in the event the lessee does not properly maintain the leased asset.
4. In some cases, the total cost of cumulative maintenance events over the term of the lease is less than the cumulative deposits, resulting in excess amounts on deposit at the expiration of the lease. In those cases, some lease agreements provide that the lessor is entitled to retain such excess amounts; whereas other agreements specifically provide that, at the expiration of the lease agreement, such excess amounts are returned to the lessee (refundable maintenance deposit). Refundable maintenance deposits are accounted for as a deposit but diversity has developed on the accounting for maintenance deposits that may not be refunded (if the lessee does not perform the specified maintenance activities).

INT 09-05 Discussion

2. Guidance in paragraphs 8 and 9 of EITF 08-3 identifies that maintenance deposits shall be accounted for as a deposit asset. Furthermore, lessees shall continue to evaluate whether it is probable that an amount on deposit will be returned to reimburse the costs of the maintenance activities incurred by the lessee. When an amount on deposit is less than probable of being returned, it shall be recognized as additional expense. When the underlying maintenance is performed, the maintenance costs shall be expensed or capitalized in accordance with the lessee's maintenance accounting policy.

3. Guidance is included within *SSAP No. 20—Nonadmitted Assets* (SSAP No. 20), pursuant to the Statement of Concepts, that specifically defines nonadmitted assets. Pursuant to that guidance, assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or third party interests should not be recognized on the balance sheet. Guidance is also included within *SSAP No. 29—Prepaid Expenses* (SSAP No. 29) that specifies that prepaid expenses shall be reported as nonadmitted assets and charged against unassigned funds. In accordance with the premise established by existing SSAPs and the Statement of Concepts, the Working Group reached a consensus to adopt EITF 08-3 with modification to require reimbursable deposits to be reflected as nonadmitted assets. As such, deposits paid to the lessor, reimbursable when the lessee incurs costs for lease maintenance activities, shall be recorded as nonadmitted assets. When the amount on deposit is less than probable of being returned, the deposit shall be recognized as an additional lease expense.

4. In issuing this consensus, the Working Group confirmed that costs incurred by the lessee for maintenance on the leased item that do not increase the value and enhance the usefulness of the leased asset shall continue to be expensed when incurred pursuant to *SSAP No. 19—Furniture, Fixtures, and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements* (SSAP No. 19).

INT 09-05 Status

5. No further discussion is planned.