



State Association of County Auditors

September 25, 2012

Director of Research and Technical Activities
Project No. 19-18
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: Exposure Draft: Accounting and Financial Reporting for Nonexchange Financial
Guarantee Transactions

I appreciate the opportunity to respond to the above referenced exposure draft in my capacity as Chair to the Accounting Standards Committee of the California State Association of County Auditors (CalSACA). CalSACA represents the views of fifty-eight counties ranging from small rural counties to those comparable to states in terms of population, scope of services provided, and geographic size. We have reviewed and considered the exposure draft and have identified a few concerns that we wanted to bring to your attention.

In general, CalSACA supports and agrees that the proposed standard will result in improved accounting and financial reporting. However, we support the alternative view for liability recognition and do not support the proposed measurement that results in the overstatement of a reporting entity's nonexchange financial guarantee liability.

The following paragraphs address our specific concerns and suggestions in more detail.

Scope and Applicability

We concur with the scope and applicability as stated in paragraphs 4 through 6. We recommend the Governmental Accounting Standards Board (Board) consider providing additional guidance for determining a "third-party" entity. There may be situations where a large, complex government, who is the primary government, could have within its reporting entity the "three separate entities" discussed in paragraphs 23 and 25 and could result in unnecessary confusion for the financial statement users.

Recognition and Measurement

We find the guidance helpful and appropriate to assess the likelihood the government will make a payment in relation to the guarantee. While the phrase "more likely than not" provides a basis for determining when to recognize a liability, it introduces additional terminology that may not be necessary given the terminology "reasonable" already exists; both of which will require professional judgment in assessing probability.

CalSACA agrees with the alternate view expressed in paragraphs 53 and 54 of the exposure draft that financial guarantees do not warrant blazing a new trail for recognition of a subclass of contingent liabilities. Existing contingent liability recognition requirements in paragraphs 100 – 105 of Statement 62 combined with the disclosures required in paragraph 13 and 14 will provide the necessary information for users to make informed decisions while avoiding confusion and unnecessary complexity in the standards.

Expenses/Expenditures Associated with Financial Guarantees

The Proposed Statement could be improved by providing additional discussion and information for purposes of classifying the expenses/expenditures associated with the government providing the guarantee. Appendix C provides limited guidance which indicates that these costs are debt service related. However, principal payments would not be an appropriate expense for the financial statements prepared using the economic resources measurement focus.

For the government providing the guarantee, we suggest that the guarantees be considered as subsidies or assistance payments to the other government on a separate line item, which would not obscure the true Debt Service costs of the government making the guarantee.

Disclosures

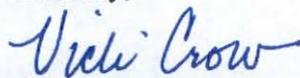
We believe the note disclosures are informative and appropriate. As discussed below, CalSACA suggests the Board consider additional disclosure instead of “doubling up” financial guarantee liabilities for the reporting entity.

Appendix B, Intra-Entity Recognition and Measurement

Paragraphs 43 and 44 identify the Board’s intent to “double up” the financial guarantee liability in the reporting entity’s financial statements. We are perplexed with a proposal that establishes purposeful overstatement and do not believe the Board has sufficiently justified a departure from conservatism. Therefore, we suggest that the Board revisit intra-entity recognition measurement and consider developing guidance that prevents a “doubling up” of the liability amount coupled with appropriate disclosure to identify the defaulting and guaranteeing entities.

Thank you for the opportunity to provide the GASB our comments. If you have any questions, please contact me at (559) 600-3496.

Sincerely,



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Chair, Accounting Standards Committee
California State Association of County Auditors