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February 25, 2004

Mr. David R. Bean, Director of Research  
Project No. 25-12T  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Governmental Accounting Standards Board's (GASB) Proposed Technical Bulletin (TB) ***Tobacco Settlement Recognition and Financial Reporting Entity Issues***.

The FMSB, composed of 20 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

We commend the Board for addressing this issue. Significant dollar amounts are involved in these settlements, and clear and transparent reporting should result in fewer problems down the road. We agree with the general thrust of the proposed TB that a Tobacco Settlement Authority (TSA) should be a component unit and that revenues should not be recognized until the tobacco is sold. However, we are concerned that too much flexibility is allowed in many respects.

First, the TB indicates that blending of a TSA would be the proper approach in most cases. We support the blending approach and the Board's continued monitoring of the usage of discrete presentation. If reporting inconsistencies are not resolved by the comments in this TB, we suggest the Board consider a proposed Statement that requires blending unless a government can provide clear justification that discrete presentation is appropriate.

Second, if blended, which fund type would be used for the TSA? The TB does not say. It does say that the transactions are exchange transactions, and the word "authority" implies business-type activities, or enterprise funds. However, these resources will be intended for general government use, so we suggest a governmental fund would be appropriate and recommend a debt service fund. Monitoring of settling government



financial reports will determine if significant classification inconsistencies exist among preparers. If so, we request the Board revisit this issue to determine if more specific guidance is necessary.

Third, will these entities be issuing separate financial reports? If so, we suggest that you refer preparers to paragraph 1.01 of the *Audits of State and Local Governments*, which requires that these entities report as governments even though they are legally private sector entities (as their boards are appointed by government officials). Also, if these transactions are deemed governmental (as we suggest), you could suggest that the TSA's could report as governments engaged in only one governmental activity.

Fourth, we suggest that you provide more (or clearer) guidance for reporting, perhaps in an appendix. Guidance could be given separately for reporting by the TSA (if appropriate), the governmental fund statements of the primary government, and the government-wide statements of the primary government. Examples could be given for (1) the sale of the bonds, (2) the shipment of the tobacco, (3) the receipt of the funds by the TSA, and (4) the payment of bonds and interest by the TSA. We believe more consistent reporting would result if you did this.

Fifth, we have a technical comment. In three instances (paragraphs 3, 7, and 11), the proposed TB uses the general term "a government," instead of the more specific terms ("settling government" or "primary government"). To reduce the possibility of misinterpretation, consider adding the modifier "settling" in these three instances.

Again, the FMSB appreciates the opportunity to provide comments on this proposed TB. Should have any questions, or desire further details on the FMSB's position, please contact me at [MurrayC@michigan.gov](mailto:MurrayC@michigan.gov) or (517) 334-8050 or the GASB facilitator, Dr. John Engstrom, CPA, CGFM, at [jengstrom@niu.edu](mailto:jengstrom@niu.edu) or (815) 753-6097.

Sincerely,



Craig Murray, CPA, Chair  
AGA Financial Management Standards Board

c: Jullin Renthrope, CGFM, CPA  
AGA National President