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TO: CITIES AND COUNTIES REPORTING ON THE GAAP BASIS OF ACCOUNTING

FROM: Tammy White, CPA
Deputy State Examiner

DATE: July 17, 2023

RE: GAAP Reporting for Opioid Settlement funds

The purpose of this memorandum is to address the proper accounting and reporting of Opioid Settlement funds in GAAP financial statements. Indiana is part of a \$26 billion national settlement with several pharmaceutical companies. All counties and municipalities in Indiana are participating in the settlement and received their first opioid settlement distributions in the fall of 2022.

The Opioid Settlement funds as part of this national settlement are deemed an exchange transaction on the grounds that units of government have accepted the settlement in exchange for not pursuing further litigation against the pharmaceutical companies. The local funds established are classified as special revenue funds. Revenue from exchange transactions generally is recognized when an exchange is affected (GASB Cod. 1600.104). The opioid settlement receivables are presented at net present value, with a note disclosure that includes the discount rate used (GASB Cod. I30.110 and 2300.107.xx). Entities should use an interest rate that is reasonable and appropriate. (For guidance, see GASB Cod. I30.1100, "Determining an Appropriate Interest Rate.")

To illustrate, an entity is projected to receive annual settlement payments in various amounts totaling \$4,256,576 beginning in fall, 2022 and continuing through 2038. In its GAAP financial statements for the year ended December 31, 2022, the entity reports its first distribution of \$856,848 as cash and revenue at the governmental fund level, allocated between the two newly established opioid funds (for counties: Fund 1237-Opioid Restricted and Fund 1238-Opioid Unrestricted; for cities and towns: Fund 2257-Opioid Restricted and Fund 2256-Opioid Unrestricted). Entities should use the intergovernmental revenue category. Fund balance classifications are restricted for the abatement payment (restricted fund) and assigned for the unrestricted fund.

In modified accrual statements, revenues are recognized in the accounting period in which they become available and measurable. Because the settlement balance of \$3,399,728 is not available within the current period or soon enough thereafter, the future payments are a receivable with an offset to deferred inflows—unavailable revenue. For purposes of this illustration, the entity uses a discount rate of 3 percent and computes a receivable at net present value of \$2,639,824. The full accrual statements follow the economic resources measurement focus. Accordingly, the entity recognizes a receivable and revenue of \$2,639,824. The note disclosure includes the rate used and the entity's settlement distribution.

For additional resources regarding the opioid settlement, see the following:

- IC 4-6-15: Indiana statute addressing the opioid litigation and settlement.
- SBOA County Bulletin 432-8 and SBOA Cities/Towns email memorandum September 29, 2022: SBOA guidance about the new opioid funds and fund numbers.
- Indiana Attorney General Opioid Settlement & Litigation webpage ([in.gov/attorneygeneral/about-the-office/complex-litigations/opiois-settlement/](https://www.in.gov/attorneygeneral/about-the-office/complex-litigations/opiois-settlement/)): Provides information about the settlement and annual distribution estimates for Indiana entities in the national settlement with Johnson & Johnson, AmerisourceBergen, Cardinal Health, and McKesson.
- GASB Governmental Accounting Research System (gars.gasb.org): Provides the online codification of GASB pronouncements.