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Georgia Department
of Audits & Accounts

DATE: March 2023

TO: Participating Georgia Local Governments

FROM: Georgia Department of Audits and Accounts

SUBJECT: Local Financial Reporting Guidance on Opioid Settlement Funds

The Georgia Department of Audits and Accounts (DOAA) is providing the following guidance related to the national opioid settlement payments to assist participating Georgia counties and municipalities with evaluating the impact on financial reporting.

Summary of Participating Local Governments' Share of Opioid Settlement Payments

The State of Georgia reached a \$636,000,000 agreement with three distributors and a major manufacturer of opioids. Approximately \$517,000,000 will come from the National Distributors' Settlement over the course of 18 years. An additional \$118,000,000 will come from the Janssen/J&J Settlement over the next nine years.

The Office of the Governor has established the Office of Health Strategy and Coordination (OHSC) to "break down the silos between government agencies, health care providers, and health care consumers and to promote health care policies that increase access and quality." The OHSC operates as a division of the Governor's Office of Planning and Budget and has been advising the Governor on settlement issues.

The settlement allocates 25% (\$159,000,000) of the total funds to local governments (LG). This money will be allocated among LG that signed on as litigating subdivisions to the settlement agreements and who are thereby eligible to receive funds directly.

The State will receive 75% (\$477,000,000) of the funding. The Georgia Opioid Crisis Abatement Trust Fund has been established to house and administer these funds. Forty percent of these funds, or approximately \$191,000,000, will be distributed to eleven regions of the State. These are regions representing geographical divisions of the State and have been established to oversee appropriate use of the funds. For the State of Georgia, the regions consist of six regions as defined by the Georgia Department of Behavioral Health and Developmental Disabilities (DBHDD) and five Qualifying Block Grantees (Cobb County, DeKalb County, Fulton County, Gwinnett County, and the City of Atlanta). The funds will be disbursed directly by the Trustee, who is appointed by the Governor. The Trustee will consult with the Government Participation Mechanism (GPM) on all disbursements to ensure that the funds are spent as the settlement prescribes. Regional Advisory Councils (RAC) will consult with the GPM to ensure appropriate spending of the funds.

All funds disbursed by either the LG or the Trust Fund must adhere to Approved Purposes as described in the Memo of Understanding (MOU).



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Condensed Summary of Approved Purposes

Summaries of the Core Strategies and Approved Uses are included below. For a detailed list of approved uses see the National Opioid Settlement, Schedule B, Page 119, "Approved Uses", [Final Distributor Settlement Agreement 3.25.22 Final.pdf \(nationalopioidsettlement.com\)](#)

CORE STRATEGIES FOR OPIOID EXPENDITURES

- Naloxone or other FDA Approved Drug to Reverse Opioid Overdoses
- Medication-Assisted Treatment Distribution and Other Opioid-Related Treatment
- Pregnant & Postpartum Women
- Expanding Treatment for Neonatal Abstinence Syndrome
- Expansion of Warm Hand-Off Programs and Recovery Services
- Treatment for Incarcerated Population
- Prevention Programs
- Expanding Syringe Service Programs
- Evidence-Based Data Collection and Research Analyzing the Effectiveness of the Abatement Strategies within the State

APPROVED PURPOSES

Approved uses per the MOU include these:

Treatment:

- Treatment of Opioid Use Disorder (OUD)
- Support people in treatment and recovery
- Connect people who need help to the help they need
- Address the needs of criminal justice-involved persons
- Address the needs of pregnant or parenting women

Prevention:

- Prevent over-prescribing and ensure appropriate prescribing and dispensing of opioids
- Prevent misuse of opioids
- Prevent overdose deaths and other harms

Other Strategies:

- First responders
- Leadership planning and coordination
- Training
- Research



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Accounting for Opioid Settlement Transactions

The DOAA recommends that funds received as a result of the National Distributor Settlement and the Janssen/J&J Settlement be treated as a Special Revenue Fund (SRF). The Governmental Accounting Standards Board (GASB) defines Special Revenue Fund thusly, *"105 Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects."*¹ The funds under discussion here meet both criteria in that they are received from specific sources and their use is restricted by legal agreement for specific purposes which are not debt service or capital projects.

Support for this position is contained in implementation guide codified at GASB 1300 Fund Accounting, *"1300.704-9 Q—In order to satisfy the criteria for reporting as a special revenue fund, are restricted or committed revenues required to constitute a substantial portion of the revenues in the fund?"*

A—The requirement is that restricted or committed revenues should comprise a substantial portion of the inflows of the fund. Inflows of the fund would include transfers or assigned revenues in addition to restricted or committed revenues."

It is important to point out that, while DOAA recommends the use of a SRF, it is not required. Please refer to GASB 1300 Fund Accounting, Implementation Guide Question 704-7, *"Q—Are governments required to use special revenue funds to report restricted or committed revenue sources? A—No. Special revenue funds are not required, except to report the general fund of a blended component unit."* While a SRF is not specifically required, we feel that reporting in a SRF will provide greater transparency of the use of these funds to the readers of the financial statements.

Please note that State law requires each Georgia local government to adopt and use the Uniform Chart of Accounts for Local Governments in Georgia. The reporting of funds should be consistent with the fund type specified in the Uniform Chart of Accounts. Please note there is a pending amendment to the Uniform Chart of Accounts to specify the use of a Special Revenue Fund.

DOAA recently participated in a meeting with other states and members of the Governmental Accounting Standards Board (GASB) to discuss the financial reporting of the opioid settlement funds. GASB staff referred us to [GASB Technical Bulletin 2004-1](#), guidance issued previously regarding tobacco settlement agreements, which are comparable to the opioid settlement agreements. In the technical bulletin, GASB advises that the settlement agreements are exchange transactions. The state and local governments are receiving the settlement funds in exchange for the release of future litigation being brought upon the distributors and manufacturers. Accordingly, a receivable for the full settlement amount should be recognized when the settlement agreement has been reached. Revenue recognition will differ based on whether the activity is reported in governmental funds (modified accrual) or government-wide funds (full accrual).

For local governments that entered into settlement agreements prior to June 30, 2022. The exchange transaction has occurred and should be reported in FY22. Any funds received in FY22 or considered "available"

¹ GASB 1300 Fund Accounting, Paragraph 105



at 6/30/22 should be reported as revenue on the modified accrual basis on the fund level. "Available" as defined in the accounting policies of each participating local government.

Suggested accounting entries are:

	DEBIT	CREDIT
GOVERNMENTAL FUNDS (MODIFIED ACCRUAL BASIS)		
ACCOUNTS RECEIVABLE		
	REVENUE	\$ = "Available" Revenues
ACCOUNTS RECEIVABLE		
	DEFERRED INFLOWS OF RESOURCES	\$ = Long Term Revenue Payments
GOVERNMENT WIDE (FULL ACCRUAL BASIS)		
ACCOUNTS RECEIVABLE		
	REVENUE	\$ = Long Term Revenue Payments

Restricted Classification

The Georgia MOU restricts the uses of the settlement payments for participating local governments. Therefore, since the opioid payments have purpose restrictions, unexpended portions of opioid settlement payments should be classified as Restricted Fund Balance/Net Position for financial reporting purposes.

Revenue Classification

As noted above, settlement payments are restricted and should therefore be reported as program revenue. Since direct settlement payments do not meet the definition of an operating or capital grant, they should be classified as Program Revenue – Charges for Service on the Government-Wide Statement of Activities and Fines and Forfeitures – Other on the Fund Financial Statements.

This guidance relates to the 25% local portion of the settlement payments to participating local governments. Any amounts issued from the trust at the State’s discretion could be considered intergovernmental revenues. The revenues are still restricted and reported as Operating Grants.



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Management's Responsibilities

This guidance is intended to help promote consistency in financial reporting across participating Georgia local governments. Management at each local government have the responsibility for making financial reporting decisions related to opioid settlement payments. Local governments are encouraged to consult with their external auditors/CPA firms about any financial reporting impact.

Management at each participating local government will likely consider the aspect of materiality since each will receive different allocated amounts. The GASB states that while all standards apply to all state and local governments, they may not need to be applied or implemented for every transaction if the effect if doing so would be immaterial. A level of materiality is not specifically defined in GASB standards but is based on management applying professional judgment when evaluating the local government's own facts and circumstances and the impact on its own financial statements.

Uniform Chart of Accounts for Local Governments in Georgia

As mentioned earlier, state law, specifically the provisions of O.C.G.A. §36-81-3 (e) require the adoption and use of the Uniform Chart of Accounts for Local Governments in Georgia. The reporting of funds should be consistent with the Uniform Chart of Accounts.

Special revenue fund classification - Fund 200: Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Questions

This white paper is not intended to be a complete treatment of this topic matter. Ongoing exchanges of information will take place as the situation matures.

If you have questions or points of discussion, please contact us at locgov@audits.ga.gov.