

BARS Alert – April 8, 2024



Office of the
Washington
State Auditor
Pat McCarthy

Opioid lawsuit settlement – BARS coding, accounting, and reporting

This applies to the following GAAP basis governments

Cities, Counties and Towns that joined Washington State under a resolution with companies that were found responsible for fueling the opioid epidemic.

Purpose of the alert

Since the original BARS Alert, additional settlement agreements have been signed. The information in the original alert (provided below) is still applicable. This alert provides additional information for opioid settlements.

Detailed guidance

BARS Coding: governments should continue to use BARS code 369.40 – Judgments and Settlements to record this revenue.

Additional Information

As of this BARS Alert, SAO is aware of the following opioid settlements:

- National distributor settlement
- Walmart/CVS/Walgreens/Teva/Allergan settlements
- Johnson & Johnson settlement

National distributor settlement

Local governments joined this settlement in 2022. Governments should already be reporting a receivable for this settlement amount as described in the original BARS Alert below.

Governments can find their projected settlement payments at [National Opioids Settlement \(nationalopioidofficialsettlement.com\)](https://nationalopioidofficialsettlement.com), scroll to the bottom of the page to the “Locate State/Territory” drop-down and select Washington State. To find the projected calculations by subdivision, click the link at the bottom of the Payment table:

17	Distributor Projected Payment 17 (July, 2037)	N/A	N/A	\$23,902,764.95
18	Distributor Projected Payment 18 (July, 2038)	N/A	N/A	\$23,902,764.95

A detailed breakdown of the allocations and projected calculations for this State and its Subdivision(s) is available by clicking [here](#)

Since these are projected payments, the expected receivable amount can fluctuate. Governments should review the projected payments each year and adjust the receivable accordingly. Governments should also determine if an allowance for uncollectible accounts should be recorded. The allowance for uncollectible accounts is a contra asset account that would be netted with the receivable for reporting purposes.

If the government determines they should have reported an allowance for uncollectible accounts in the prior year but did not, this would be an error. If this error is material, governments should restate their beginning balances. If the error is not material, governments may use current year accounts to correct the error. For materiality, governments should consider not only the government as a whole, but the specific fund in which this allowance should be reported. Contact your audit team for questions on materiality.

Governments can expect to receive two payments from the distributor settlement in 2024. Payment 4 will be made in July 2024 as scheduled. In addition, two of the three distributor companies opted to make Payment 7 in March

2024. Payment 7 will be at a discounted rate, so governments will receive less than the projected payment. This is an option allowed under the settlement agreement that each company can exercise once every five years. Since the payment is less than originally anticipated, governments will need to adjust the opioid accounts as described below.

Modified accrual basis

The allowance for uncollectible accounts should be recorded when the receivable is first recorded:

Receivable – Opioid Settlement	debit	
Allowance for uncollectible accounts		credit
Deferred inflow – unavailable revenue		credit

If the allowance was not previously recorded, it would be added by reducing (debit) the deferred inflows:

Deferred inflow – unavailable revenue	debit	
Allowance for uncollectible accounts		credit

Note: If this is a material amount, then governments should restate the beginning balances for these two accounts. Although there is no impact on fund balance, it is still a restatement and should be disclosed in the Notes.

If projected payments increase, then increase the receivable and deferred inflow (and consider if the allowance needs to be increased as well):

Receivable – Opioid Settlement	debit	
Allowance for uncollectible accounts		credit
Deferred inflow – unavailable revenue		credit

If management adjusts the estimate for uncollectible accounts to reduce it:

Allowance for uncollectible accounts	debit	
Deferred inflow – unavailable revenue		credit

Note: Management should review estimates annually. To increase the estimate for uncollectible amounts, this JE would just be reversed

If projected payments decrease (and the decrease was not already considered in the allowance for uncollectible accounts):

Deferred inflow – unavailable revenue	debit	
Receivable – Opioid Settlement		credit

A payment for which an allowance was established is received. For example, the receivable for payment 7 is \$100,000, the related allowance is \$10,000 and the total cash received is \$90,000.

Cash	\$90,000
Allowance for uncollectible accounts	\$10,000
Receivable – Opioid Settlement	\$100,000

Revenue would also be recognized when the payment is received (or received in the availability period):

Deferred inflow – unavailable revenue	\$90,000
Revenue	\$90,000

Note: Revenue is recognized net of allowance for uncollectible amounts.

Full accrual basis

The allowance for uncollectible amounts should be recorded when the receivable is first recorded:

Receivable – Opioid Settlement	debit	
Allowance for uncollectible accounts		credit
Revenue		credit

If an allowance was not previously recorded, and management determines it is material and the government will restate beginning balances:

Beginning net position	debit	
Allowance for uncollectible accounts		credit

If an allowance was not previously recorded, and management determines it is not material and the government will make the adjustment through current year accounts:

Revenue	debit	
Allowance for uncollectible accounts		credit

If projected payments increase, then increase the receivable and revenue (and consider if the allowance needs to be increased as well):

Receivable – Opioid Settlement	debit	
Allowance for uncollectible accounts		credit
Revenue		credit

If management adjusts the estimate for uncollectible accounts to reduce it:

Allowance for uncollectible accounts	debit	
Revenue		credit

Note: Management should review estimates annually. To increase the estimate for uncollectible amounts, this JE would just be reversed.

If projected payments decrease (and the decrease was not already considered in the allowance for uncollectible accounts):

Revenue	debit	
Receivable – Opioid Settlement		credit

A payment for which an allowance was established is received. For example, the receivable for payment 7 is \$100,000, the related allowance is \$10,000 and the total cash received is \$90,000.

Cash	\$90,000	
Allowance for uncollectible accounts	\$10,000	
Receivable – Opioid Settlement		\$100,000

Walmart/CVS/Walgreens/Teva/Allergan settlements

The deadline for local governments to join this settlement was April 2023. Since this settlement was finalized in 2023, **governments should report this transaction in their 2023 financial statements** by recognizing a receivable for the settlement amount. See the original BARS Alert below for detailed accounting and journal entries.

However, as of this BARS Alert, the Settlement Administrator, BrownGreer, has not posted payment projections. The initial payment allocation has been determined. Governments can find the initial allocation amounts on AWC’s website in this article: [Johnson & Johnson opioid settlement and settlements update \(wacities.org\)](https://www.wacities.org/johnson-johnson-opioid-settlement-and-settlements-update). Scroll down to the “Five settlements with opioid pharmacies and manufacturers update” and click the link for “proposed settlement allocation.”

At a minimum, governments should report a receivable for the initial payment allocation (and consider whether an allowance for uncollectible amounts needs to be established). Under modified accrual, governments should also recognize a revenue (if payment is received before the availability period) or a deferred inflow (if payment is received after the availability period). Under full accrual, governments should recognize the full payment amount as revenue.

Governments should continue to monitor the settlement and be prepared for when projected payment allocations are released by the Settlement Administrator. As described by GASB Codification 2250—Additional Financial

Reporting Considerations, paragraph .110, this would be considered a recognized subsequent event. For recognized subsequent events, paragraph .110 states, in part:

All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.

If governments receive this information before the financial statements are issued, then the financial statements should reflect the full amount of the settlement transaction. If governments do not receive this information before the financial statements are issued, then governments should add a note disclosure describing the settlement and stating that the full amount of the transaction is not recognized. Governments can add this additional disclosure to existing Notes if applicable (such as in an existing opioid settlement note, or in the [Receivable and Payable Balances](#) if the opioid receivable is included). If there is not an existing note, governments can include this in a separate [Subsequent Event](#).

SAO recommends that governments work with their audit team regarding appropriate disclosures and timing of disclosure or financial statement updates.

Governments will only receive one payment from Walmart, as this satisfies their obligations. The other four companies will continue to make additional payments. These payments will not necessarily all be made on the same date, so governments can expect to receive several payments each year.

Johnson & Johnson settlement

The Attorney General's Office is soliciting eligible cities and counties to join their settlement with Johnson & Johnson. The deadline for cities and counties to join the settlement is May 11, 2024. For more information and instructions on how to sign up see [Johnson & Johnson Opioid Settlement | Washington State](#).

Original BARS Alert – February 7, 2023



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Opioid lawsuit settlement – BARS coding, accounting, and reporting

Who this applies to the following GAAP basis governments

Cities, Counties and Towns that joined Washington State under a resolution with three companies that were found responsible for fueling the opioid epidemic. The local governments that joined the resolution will start receiving payments Dec. 1, 2022, from the settlement administrator.

For information on spending settlement funds

As independent auditors, SAO staff are unable to provide detailed guidance on how to spend these funds. A [press release](#) from the Attorney General's Office lists approved strategies for using the funds, and notes that local governments' spending decisions must be consistent with the state [Opioid and Overdose Response Plan](#). For specific questions about appropriate use of funds, how they will be distributed, or contingency measurement changes; please contact Jeff Rupert, Complex Litigation Division Chief at the Office of the Attorney General, at jeffrey.rupert@atg.wa.gov.

Purpose of the alert

This alert provides information on BARS coding, accounting, and reporting for the opioid settlement.

Detailed guidance

BARS Coding: governments receiving this revenue should use BARS code 369.40 – Judgments and Settlements when recording these funds as revenue into their accounting system. Generally, this resource will be reported as miscellaneous revenues in the financial statements.

GAAP basis accounting and reporting:

Modified accrual basis:

Since the settlement was finalized before the Dec. 31, 2022, fiscal year-end, record a receivable and a deferred inflow – unavailable revenue (if cash hasn't been received) for the expected settlement amount in the appropriate governmental fund. *Note: measurement, contingency and collectability need to be assessed when recording the receivable. At this time, SAO is not aware of any needed adjustments related to contingencies.*

Record the receivable and deferred inflow – unavailable revenue as follows:

Receivable – Opioid Settlement	debit	
Deferred inflow – unavailable revenue		credit

Record payments received before fiscal year-end and future payments as follows:

Cash	debit	
Receivable – Opioid Settlement		credit
Deferred inflow – unavailable revenue	debit	
Revenue (369.40 judgment/settlement)		credit

Record year-end revenue accruals based on your government's policy for the availability period as follows:

Deferred inflow – unavailable revenue	debit	
Revenue (369.40 judgment/settlement)		credit

Your government should report a restricted fund balance for any amount of revenue recorded that remains unspent at fiscal year-end.

Full accrual basis:

Record a receivable and revenue in the governmental activity’s column of the entity-wide statements as follows:

Receivable – Opioid Settlement	debit
Revenue	credit

Note: this revenue would be considered a general revenue, not program revenue.

Classify the restricted asset and restricted net position in the governmental activity’s column of the entity-wide statements.

Report the receivable and unspent cash as a “restricted asset”:

GASB Codification 2200.180 states that restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset.

Report net position as “restricted”:

GASB Codification 2200.712-7 states that restricted net position should represent the reported amount of restricted assets reduced by liabilities related to those assets.

Questions?

If you have questions related the opioid settlement, please contact Jeff Rupert, Complex Litigation Division Chief at the Office of the Attorney General, at jeffrey.rupert@atg.wa.gov.

If you have questions related to the BARS coding, accounting, or reporting please use the [SAO Helpdesk](#).