

STATE OF OKLAHOMA
OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES
GAAP CONVERSION MANUAL

X. MISCELLANEOUS CONVERSION PACKAGE

June 2023

I. PURPOSE AND OBJECTIVES

This conversion package is designed to gather the miscellaneous information not in OMES records or requested in the other packages at the close of business on June 30.

II. AGENCY ACTION REQUIRED

- A. Carefully read the key terms in Part III.
- B. The Miscellaneous Summary form (summary) should reflect amounts as of close of business on June 30.
- C. Round all dollar amounts to the nearest whole dollar.
- D. All working papers are subject to audit by the State Auditor & Inspector (SA&I). The agency is required to keep a copy of the completed summary form and all associated working papers for three years after the completion of the SA&I audit.
- E. The person who completes and signs the summary form should keep a copy. OMES will contact this person if there are any questions.
- F. If needed, call your agency's financial reporting analyst for guidance.
- G. Return the completed summary form to your OMES financial reporting analyst by e-mail no **later than the due date shown on the form**. **If you can return it earlier, please do so.**

III. KEY TERMS

- A. Advance Refunding/Defeasance exists when bonds are issued to refinance an outstanding bond issue before the date the outstanding bond becomes due. Proceeds of the advance refunding bonds are deposited in a trust or with a fiduciary and are used to redeem the underlying bonds at their maturity and pay interest on the bonds.
- B. Availability Payment Arrangement exists where an operator is compensated by the government entity for services that may include designing, constructing, financing, maintaining, or operating an underlying capital asset for a period of time in an exchange or exchange-like transaction.
- C. Authorized, Unissued Debt is debt that has been legally authorized but not issued and that can be issued and sold without further authorization.
- D. Asset Retirement Obligation – Liabilities which arise upon the retirement of a long-term asset, such as environmental remediation.
- E. Conduit Debt Obligations is debt obligation that meets all of the following characteristics:
 - * At least three parties are involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
 - * The issuer and the third-party obligor are not within the same financial reporting entity.
 - * The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
 - * The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

- * The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).
- F. Guaranteed Debt is debt or obligation of another party for which the state agrees to pay the debt service costs as a third party. The guarantee may not be conditioned or contingent in any way upon an attempt to collect from the obligor or upon an attempt to realize on any property pledged as collateral for the debt.
- G. Infrastructure assets are long-lived assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings should not be considered infrastructure assets except for those that are an ancillary part of a network of infrastructure assets.
- H. Inventory - Inventories are assets that have a short useful life, usually less than one year. Land, buildings, improvements, construction in progress, infrastructure, and machinery and equipment are fixed assets and not inventory. (See Capital Assets Conversion Package.)

The two classifications of inventory are:

- * Inventory of Materials and Supplies represents the dollar value of materials and supplies on hand at June 30 that will be used or consumed in the normal course of operations.
 - * Inventory of Goods for Resale or Distribution represents the dollar value of goods on hand at June 30 that are being held by the agency for resale or distribution to the public or to other agencies rather than held for consumption in the normal course of operations.
- I. Liability is an obligation resulting from past transactions (or occurrences) that will (or is likely to) result in future payments and/or reductions in revenue.
- J. Litigation includes past, current, and future disputes or legal contests carried out and resolved through the judicial process. In everyday language, litigation and lawsuits mean nearly the same thing. Only litigation NOT handled by the Attorney General's office or reported to OMES in the Litigation Summaries (Forms N-1, N-2, and N-3), is included in this conversion package.

The types of litigation included in this package are:

1. Litigation by others against the state that at June 30 will or may result in claims against the state's current or future resources. This includes lawsuits against the state, one or more of its agencies, or one or more of its officials; and that at June 30, are:
 - * Settled but not yet paid.
 - * In-progress.
 - * Threatened.
 2. Litigation of the state against others that will result in a gain to the state. This includes lawsuits that, at June 30, are:
 - * Settled but not yet collected, and
 - * In-progress.
- K. Moral Obligation Debt is debt that is not backed by the full faith and credit of the issuer, but state law permits the issuer or other government entity to recognize a moral, rather than a legal, obligation to provide a means of payment of the debt.
- L. Prepaid Expenses are items that have been paid for or are included in accounts payable as expenditures, but your agency has not yet received full benefit from the expenditure. Prepaid expenses include prepaid postage, prepaid rent, prepaid insurance, prepaid interest, etc.
- M. Public-Private and Public-Public Partnerships (PPP) are arrangements where a government entity (transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a non-financial asset, such as infrastructure or other capital asset, for a period of time in

an exchange or exchange-like transaction.

Some PPP meet the definition of a service-concession arrangement:

- * Operator collects and is compensated by fees from third parties
- * Transferor determines which and how services operator provides, and the rate charged
- * Transferor is entitled to significant residual interest in the underlying PPP asset at the end of the arrangement

- N. Questioned Costs are those costs that have been questioned by an audit of a federal program. Generally, the criteria for reporting questioned costs relate to unallowable costs, undocumented costs, unapproved costs, and unreasonable costs.
- O. Related Party Transactions are transactions conducted with other parties with which an agency or key decision maker has a close association.
- P. Reference Rate is an interest rate benchmark used to set other interest rates. The most common reference rate benchmarks are federal funds rate, LIBOR, the prime rate, and the rate on benchmark U.S. Treasury securities.
- Q. Sinking Fund is a fund established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest, also called a debt service fund.
- R. Subsequent Events are events or transactions that both:
- * Occur or become known after June 30 but before the state issues its audited ACFR, and
 - * Has a material effect on the financial statements and/or the auditor's report.

Examples include:

- * Changes in lawsuits previously reported
- * New lawsuits
- * Buildings destroyed by fire
- * Significant questioned costs (federal)

- S. Pollution Remediation Obligations are the estimated outlays to remedy the current or potential detrimental effects of existing pollution. This *excludes* prevention and control activities with respect to current operations, future pollution remediation activities required upon retirement of an asset, landfill closure and post closure care. Estimated outlays are recorded as a liability or capitalized.

IV. SPECIFIC INSTRUCTIONS

A. Completing the Miscellaneous Summary Form

1. Enter the agency ACFR code, name, and funds/accounts to be included on the summary.
2. Provide the name, title, phone number and date for each person who completes and approves this summary form. The finance officer or executive director should approve the form before sending it to OMES. Keep a copy of the form. When submitting via email it should come from the address of the approving officer. This will act as an implicit electronic signature verifying the form has been reviewed and approved for validity, accuracy, and completeness.
3. Complete all 37 questions.

If a question is not applicable to your agency, indicate this with “No”.

If your response to any question requires additional space; please complete your response on additional document and attach it to the summary form.

4. Question 23, Pollution Remediation Obligations: Agencies are required to report estimated pollution remediation obligations to the Financial Reporting Unit. The liabilities to be reported *exclude* pollution prevention and control activities which are part of the normal current operations of an agency, the retirement of an agency asset, or landfill closure and monitoring.

Pollution remediation obligations include activities such as site assessments and cleanup expenses. The obligations are reported as liabilities or capitalized. The occurrence of any of the five specified obligating events below can trigger the reporting requirement.

1. Agency is compelled to take pollution remediation action because of an imminent endangerment.
2. Agency violates a pollution prevention related permit or license.
3. Agency is named, or expects to be named, by a regulator as a responsible or potentially responsible party for sharing pollution remediation costs.
4. Agency is named, or expects to be named, in a lawsuit to compel participation in pollution remediation.
5. Agency commences or legally obligates itself to commence pollution remediation.

If you answered Yes on Question 23, complete lines 23a – 23f.

Note: If there are multiple remediation sites, a spreadsheet should be prepared that captures all of the information related to Question 23 and attached to Package X.

- 23a. Enter a number from 1 – 5 which identifies the type of obligating event listed above.
- 23b. Enter a brief description of the nature and source of the obligation. For example, “Compelled to remove asbestos because it presented an imminent threat to employee’s health in building X, Oklahoma City, OK.”
- 23c. Provide the actual amount spent on pollution remediation during the current fiscal year for all pollution remediation projects identified and started in prior fiscal years.

Future pollution remediation costs should be estimated using the expected cash flow technique (example follows) and the liability reported to the Financial Reporting Unit. The estimated costs should be divided into current estimated obligations (due within 1 year) and long term estimated obligations. Although some costs may be subject to capitalization, most costs will not qualify and should be accrued as a liability.

Remediation costs should be capitalized if the costs are incurred (1) to prepare property for sale in anticipation of a sale, (2) prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated, (3) to perform pollution remediation that restores a pollution-caused decline in service utility that impaired the asset, or (4) to acquire property, plant, and equipment that have a future alternative use other than remediation efforts.

Example: Obligating Event – An agency discovers a problem in a building under renovation. The floor and ceiling tiles are made of asbestos and must be removed because the asbestos is friable. Consequently, the agency is compelled to take immediate action because of imminent endangerment and gets several estimates for the cost of remediation. The actual work will begin next fiscal year.

Measure the liability as the sum of probability-weighted amounts in a range of possible estimated amounts – the estimated mean or average. Consider all expectations about possible cash flows to determine the range of possible liabilities.

1. Estimate the probability the liability will be the maximum or minimum amount.
2. Average the possibilities by weight.

Estimates received are \$150,000, \$180,000, and \$250,000.

Probability for the low estimate is 25%, the middle estimate is 50%, and the high estimate is 25%.

The calculated liability amount would be:

$$(\$150,000 \times 25\%) + (\$180,000 \times 50\%) + (\$250,000 \times 25\%) = \$190,000$$

- 23d. Provide a description of the assumptions used for the estimate. For example, “The amount of the estimate is the weighted average costs derived from three construction bids.”
- 23e. A description of the potential for change in the assumptions. For example, “The amount of the estimated costs could change when one bid has been accepted and remediation begins next fiscal year.”
- 23f. Estimated amounts that could potentially be recovered from other responsible parties. For example, if prior owners of the property were held responsible for the pollution, enter the amount that could reasonably be recovered from them or the amount that could be reimbursed by other tenants or agencies.
5. Question 26. Please report any written tax abatement agreements your agency has entered into. A tax abatement is defined as: A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.
6. Question 29. Please report any asset retirement obligations (AROs) your agency may have. An ARO is a legally enforced liability associated with the retirement of a tangible capital asset. Examples include laws, regulations, or court judgements pertaining to the decommissioning of nuclear reactors, removal, and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines.
7. Question 30. Please report any direct borrowing (a loan agreement with any financial institutions), direct placements (debt security issued directly to an investor) or lines of credit your agency has. For purposes of this question debt is defined as a liability that arises from a contractual obligation. It excludes most leases except those considered financial purchases and accounts payable.
8. Question 33. Please report any financing agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form in the near future, prompting amendments or replacement of financial instruments to replace LIBOR with other reference rates.

B. Working Papers

The agency should keep any documents that support data on the summary form. For example, agencies should thoroughly document:

- * The source(s) of data for each amount.
- * Procedures used to gather the data.
- * Methods or judgments used to arrive at estimations.