

## Contractual Obligations – Disclosure Requirements

Effective September 30, 2004

The Public Sector Accounting Board (PSAB) recently issued guidance on the disclosure of contractual obligations that is effective for fiscal years beginning after September 1, 2004. The new guideline (section 3390) recommends disclosure on the nature of contractual obligations and extent and timing of related expenditures.

In the past, the province only disclosed significant capital commitments with a value of more than \$50 million, with no reporting of the timing of anticipated expenditures related to commitments. There is still a requirement to report on commitments; however, where government has entered into contracts more disclosure is required.

Contractual obligations with a value of \$50 million or more that relate to future operations in the entire government reporting entity, with details about timing of payments by sector, will be disclosed in the notes to the 2005/06 and future Public Accounts.

Contractual obligations are:

- Obligations of a government to others that will become liabilities in the future when the terms of those contracts or agreements are met;
- Distinct from liabilities as there has been no past transaction or event obligating the government to a future sacrifice of economic benefits at the financial statement date. Until a transaction or event occurs under a contract, a government does not have a liability. Disclosure of information about contractual obligations relates to the unperformed portion of those contracts;
- Distinct from contingent liabilities, as there is no uncertainty related to the contractual obligation's existence.

Contractual obligations do not include a government's obligations related to ongoing programs such as health, welfare and education. In these cases, a government does not have a contractual obligation to others and maintains complete discretion as to changing the level or quality of its programs and to delivery of these programs. Once a government enters into a contract or agreement, however, a contractual obligation exists and a certain degree of discretion to avoid the obligation is lost.

Certain contractual obligations for capital projects may be capital lease obligations. Capital lease obligations are reported as assets and liabilities, and the liabilities are included in the debt disclosure note. Some contractual obligations may have a capital lease component and an operating component. The capital lease obligation will be reported as a liability, and the operating component will be disclosed as a contractual obligation if recognition criteria have not been met.

Contractual obligations between entities in the government reporting entity do not need to be disclosed in the summary financial statements.

Entities with a number of smaller contracts that are similar in nature and collectively represent an amount of \$50 million or more are asked to provide this information for disclosure as well. Contracts with a value of \$100,000 or more should be included in the grouping.