Contractual Obligations – Disclosure Requirements

The Public Sector Accounting Board (PSAB) recommends disclosure on the nature of contractual obligations and extent and timing of related expenditures (PS 3390).

This year’s note will be prepared on the same basis as last year. 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 Public Accounts. Contractual obligations between entities in the government reporting entity are not disclosed in the Summary Financial Statements.

Ministries, Crowns and Agencies
Entities with a number of smaller contracts that are similar in nature (such as road and bridge maintenance, capital construction, services agreements, etc.) 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.

Schools, Universities, Colleges, and Hospitals (SUCH) Sector Entities
SUCH Sector entities with a number of smaller contracts that are similar in nature to those of other SUCH sector entities are asked to provide this information for disclosure as well. Contracts with a value of $1 million or more should be reported. Types of contracts may include maintenance, food services, laundry services, capital projects, etc. Staff at OCG will determine if collectively, similar contracts across the SUCH sector meet the $50 million threshold and need to be reported in the Public Accounts note disclosure.

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.

Ongoing Programs
Contractual obligations do not include a government's obligations or government transfers (grants, entitlements, and shared cost arrangements) 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.

Contracts with Capital and Operating Components
Some contracts (such as P3 or ASD agreements) may have a capital component and an operating component. The capital asset acquired to date, operating costs incurred, and any related liabilities will be recognized in the books of the province. The unperformed operating and capital components will be disclosed as contractual obligations if recognition criteria have not been met.
• Please break out these payments into principal, interest and FM/lifecycle amounts.

Other points to remember
• Contractual obligations are reported by year for the remainder of the term of the contract. These amounts must be at face value (NOT present value).
• If a contract or group of contracts that was reported in the prior year falls below the $50 million threshold, continue to report it until advised by OCG to stop.
• Contracts that are ongoing with no set expiry date should be reported based on the amount of notice required to exit the agreement without penalty.
• Only include signed contracts that exist at March 31 of the relevant year end. Contracts that have terminated are not reported, even if they will be renewed in subsequent fiscal years.
• Open purchase orders without issued POs, and open contracts without work on order, should not be reported. If an actual PO has been issued or work ordered, a contractual obligation should be reported for the amounts over the threshold not completed by March 31.
- Contracts in a foreign currency should be translated as at March 31.
- Every ministry is to complete a form even if there is nothing above the threshold to report. Every form needs to be signed off by the CFO.

**OCG Contact Information:**  Mohsen Rana at 778-974-3441 or by e-mail at: Mohsen.Rana@gov.bc.ca

Prepared by the Office of the Comptroller General, Updated Mar., 2017