

## 4100 Contractual Obligations

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### A. Overview

A contractual obligation exists when a legally binding contract or agreement has been signed with an individual or organization outside of the General Revenue Fund (GRF) that will result in the obligation becoming a liability in the future, when the terms of the contract or agreement are met.

### B. Accountability

Ministries are responsible for tracking and managing contracts and agreements throughout the year in order to maintain sufficient information in their records to meet year-end reporting requirements.

### C. Procedures

All material contractual obligations at the end of the fiscal year are disclosed in the notes to the Summary Financial Statements. Disclosing a government's contractual obligations is useful because it provides information about the nature and extent to which a government's resources are already committed to meet its obligations.

The contractual obligations procedures are based on guidance outlined in the Public Sector Accounting Handbook section PS3390 Contractual Obligations. Refer to PS3390 Contractual Obligations for further guidance.

#### C1. Throughout the Year

To ensure the completeness and accuracy of reported contractual obligations, ministries should, among other things:

- communicate regularly with program staff to determine if any new contracts or agreements have been signed and to assess the nature, duration, and value of those contracts or agreements;
- search for potential contractual obligations by periodically reviewing and following up on media releases and Orders-in-Council; and
- maintain an up-to-date list of signed contracts and agreements, including any relevant details for the future tracking of contractual obligations.

#### C2. Quarter end

Given that no disclosure is included within the quarter-end financial information, no specific procedures are required at quarter end.

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### C. Procedures (*continued*)

#### C3. Year end

Contractual obligation disclosure should include, but is not limited to, the following:

- contractual obligations that involve a high degree of speculative risk;
- contractual obligations to make expenditures that are abnormal in relation to the financial position or usual business operations; and
- contractual obligations that will govern the level of a certain type of expenditure for a considerable period into the future.

Agreements that represent usual business operations and set out pay rates or fee for service rates should not be reported as contractual obligations. Examples of these types of contractual obligations include collective bargaining agreements and fee agreements with professionals such as doctors.

A multi-year transfer agreement may result in a contractual obligation if the agreement includes clear requirements for future years' authorization and /or has eligibility criteria. A multi-year transfer agreement that requires further authorization by the ministry prior to making the transfer payment and recording the expense would result in a contractual obligation.

A multi-year transfer agreement where the Government has given up its discretion to make the transfer, but the transfer agreement requires the recipient to do something before they are eligible for the transfer would result in a contractual obligation. A transfer agreement to reimburse all or a percentage of eligible costs, commonly referred to as a cost shared agreement, is the most common type of multi-year transfer that would result in a contractual obligation. Once the agreement is signed, the government has given up its discretion to make the transfer. However, there is no transfers expense until the recipient meets the eligibility criteria (incurs the eligible costs). Therefore, there is a contractual obligation for the reimbursement of the eligible costs that have not yet been incurred by the recipient. It is possible that other types of multi-year transfer agreements may have eligibility criteria to be met in the future.

In both of these situations the government is contractually obligated to provide the transfer and disclosure of the remaining years' funding is required. Refer to [Appendix E - Government Transfers Application Guidance](#) for further guidance.

Contractual obligations do not include amounts already recorded as liabilities at March 31.

Contractual obligations do not include amounts relating to unsigned contracts or agreements. Contracts that are in the process of being negotiated are also not included.

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### C. Procedures (*continued*)

#### C3. Year end (*continued*)

Contractual obligations also do not include a ministry's obligations related to ongoing programs such as health, welfare and education where no formal contract or agreement exists. In these cases, a government does not have a contractual obligation to others and maintains complete discretion as to whether to change the level or quality of its programs. For example, a government has discretion to maintain program funding but is not contractually obligated to do so. However, once a government enters into a contract or agreement, a contractual obligation exists and a certain degree of discretion to avoid the obligation is lost.

Ministries are annually required to report contractual obligations to the Provincial Comptroller's Office as outlined in [Appendix A - General Revenue Fund Year-end Procedures and Schedules](#).

### D. Definition

**Contractual obligations** arise when a legally binding contract or agreement has been signed with an individual or organization outside of the GRF that will result in the obligation becoming a liability in the future, when the terms of the contract or agreement are met.

### E. References

[Appendix A - General Revenue Fund Year-end Procedures and Schedules](#)

[Appendix E - Government Transfers Application Guidance](#)

*Public Sector Accounting Handbook*  
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*Other Links*

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