

Liabilities (Obligations)

An obligation is a liability to other arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits (i.e. cash payment or provision of service).

To determine whether the municipality has an obligation, the following questions must be answered:

Does the Municipality have:

- | | Yes | No |
|--|--------------------------|--------------------------|
| • A duty or responsibility to others leaving the municipality little or no choice to avoid; | <input type="checkbox"/> | <input type="checkbox"/> |
| • Settlement of this duty is expected to decrease the available assets of the government on the occurrence of a specified event; | <input type="checkbox"/> | <input type="checkbox"/> |
| • The transaction or event obligating the municipality has already occurred (i.e. the obligating event). | <input type="checkbox"/> | <input type="checkbox"/> |

If the municipality has answered yes to all three questions, a financial obligation exists on behalf of the municipality.

The next question then arises.

Does the municipality have to record the obligation in its financial statement? The obligation must be recorded if the following conditions are met:

- | | Yes | No |
|--|--------------------------|--------------------------|
| Liabilities should be recognized in the financial statements when: | | |
| • There is an appropriate basis of measurement; | <input type="checkbox"/> | <input type="checkbox"/> |
| • A reasonable estimate can be made of the amount involved. | <input type="checkbox"/> | <input type="checkbox"/> |

If the answer to both of these questions is yes, the municipality should record the amount of the obligation in its financial statements.

If the answer to either of these questions was no, the obligation still exists, but rather than record the obligation in the financial statements it must be disclosed in the notes to the financial statements and an explanation provided as to why the obligation was not recorded in the financial statements.