

PSAB/Asset Management

NEWSLETTER NO. 31

SEGMENTATION

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This newsletter will digress from tangible capital asset accounting to look at another major accounting change that municipalities must implement in 2008. Segmentation, or the requirement to provide financial reporting for organizational segments, will be required in your 2008 financial statements. This means that you should be collecting financial data on a segmented basis, as of the beginning of this year.

Public Sector Accounting Handbook Section PS 2700

This Section is entitled “Segment Disclosures”, presents the Guidelines for segmented reporting. A key paragraph is PS 2700.34, the final one: “*This Section applies to fiscal years beginning on or after April 1, 2007. Earlier adoption is encouraged.*” Since the first fiscal year for Ontario municipalities after that date begins on January 1, 2008, the Section will apply to this year’s financial statements for the first time. That in turn means that you should be accounting on a segmented basis as you read this newsletter.

The rationale for segmentation is provided in PS 2700.03:

“Consolidated financial statements provide aggregated information about government and serve as a means by which a government demonstrates its accountability for the financial affairs and resources entrusted to it. Generally, however, the activities of a government are so broad and encompass so wide a range of different activities that it is valuable to disclose selected disaggregated financial information about particular segments of a government in the consolidated financial statements.”

For example, readers of your financial statements may want to know how the hard services that you provide compare with the soft services, or how much does your municipality spend on general and administrative activities, or to maintain Council. A government is typically like a conglomerate corporation, with a disparate set of business interests and activities. There is increasing interest in how the individual components are performing.

Defining your segments (PS 2700.07)

*“For the purposes of this Section, a **segment** is a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of this Section as set out in paragraph PS 2700.05.”*

PS 2700.05 sets out the objectives of segmented reporting, which are to:

- (a) help users of the financial statements identify the resources allocated to support the major activities of the government;*
- (b) help users of the financial statements make more informed judgments about the government reporting entity and about its major activities;*
- (c) help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;*
- (d) enhance the transparency of financial reporting; and*
- (e) help users of the financial statements better understand the performance of the segments and the government reporting entity.*

Paragraphs PS 2700.08 to .14 deal with the identification of appropriate segments. First and foremost, your municipality can and will decide what those segments will be. This will be a matter of exercising professional judgment (PS 2700.08).

You are already doing this for the Ontario Financial Information Return, with its nine functional areas, and programs broken out for each. That would be one way to go. (See the [proposed 2009 FIR](#) modified to reflect TCA accounting).

Perhaps your management and accountability structure groups activities in another way to try to achieve operational synergies. That would give you an appropriate set of segments, especially if that reflects how you budget and report to Council and to the community at large. Or units may be obviously different, such as transit and police, or waste disposal and the activities of “general government.”

This will be your call. PS 2700.09 provides seven factors to consider:

- 1. the objectives of disclosing financial information by segment (PS 2700.05);*
- 2. the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;*
- 3. the qualitative characteristics of financial reporting;*
- 4. the homogeneous nature of the activities, service delivery, or recipients of the services;*
- 5. whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;*
- 6. whether discrete financial information is reported and available; and*
- 7. the nature of the relationship between the government and its organizations (within the reporting entity).*

What does this mean in terms of the financial statements?

“Segment information should be prepared in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government.” (PS 2700.22)

In short, segmented statements will likely resemble the current consolidated statements, but exploded to show the same line items of information for each segment that is currently included in the consolidated

statements. For segmented reporting, you may choose to include more detail than you do for your consolidated statements. The key point to remember is that both consolidated and segmented statements are to be prepared on the same accounting basis.

The same will be true for next year, when you start to report on amortization expense, and when you begin reporting tangible capital assets in your statements. The Handbook encourages you to report TCAs on a segmented basis too.(PS 2700.27)

This additional information will be presented as separate schedules, or as notes. In addition, you will also be required to disclose the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments (PS 2700.26(a)). Disclosure of other segment information that may be useful to users of the financial statements is encouraged (PS 2700.27). Examples would be disclosure of receivables and liabilities by segment, tangible capital assets by segment, or any other significant elements of the financial statements, by segment.

What will this look like?

You will prepare whatever is appropriate for your own municipality. However, to give you some idea of what the end product may look like, let's refer to the first set of Canadian municipal financial statements to be issued using the new accounting standards re segmented disclosures and reporting tangible capital assets.

The City of Winnipeg presented its [2006 financial statements](#) on a segmented basis, using full accrual accounting, which included reporting its tangible capital assets. These were signed off with an unqualified audit opinion, indicating that they meet the standards laid down by the Handbook.

On pages 43 and 44, read Note 21 – Segmented Information. This shows how the City identified its segments, and documented them. You will be providing this type of information in the notes to your own statements for the segments that you identify. Pages 48 and 49 show the Consolidated Schedule of Segment Disclosure. It contains data for eight segments, plus eliminations, and the consolidated totals for each line item, for both 2006 and for 2005.

On page 22, note the reporting of tangible capital assets on the Consolidated Statement of Financial Position. On page 25, note the disclosure of amortization expense on the Statement of Cash Flows. Pages 29 and 30 have notes on the accounting for tangible capital assets.

This should provide some insight as to how you will be reporting. While you will be reporting for segments for the first time, the data you require should be readily available, as this is similar to what you have been required to prepare for the annual Ontario Financial Information Return.

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Our next newsletter will take a look at the use of benchmarks and standards and standard costs, and how these can assist you in identifying and valuing tangible capital assets.

For more information and resources regarding tangible capital asset management, go to [PSAB/Asset Management](#) or contact:

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NOTE: This Newsletter is published to assist you with your implementation of tangible capital asset accounting and with related matters. The Public Sector Accounting Handbook is the only authoritative primary source on matters relating to GAAP, and you should consult with your auditor to resolve specific issues that you may have.