Appendix B – Accounting Overview of Deferred Revenues

Deferred revenues are created when cash payments are received from third parties that obligate the City to make an investment or settle an obligation in the future. Cash received from these third parties is deposited in the City's bank accounts and a deferred revenue balance is established as a liability in the City's financial records called "Deferred Revenue" until the obligation is satisfied or as required investments are made.

The City's deferred revenues are accumulated from various advance payments, including amounts received from legislated development payments for growth-related infrastructure, government grants that restrict use of funds for specific programs like transit or housing, and third-party agreements that outline how funds are expected to support future investments or the cost of operating programs. Advance payments can also be received from customers who use City services, such as advance payment for rent of City event spaces or City facilities.

The deferred revenue balances are not reserves; the amounts are liabilities that obligate the City to complete an action committed to a third party for which the monies were received. Deferred revenues are considered liabilities because the amounts must be returned to the third party, if the good, service or investment is not delivered as planned. Deferred revenue liabilities are recognized on the City's Statement of Financial Position.

When these payments are received, they are considered contributions to the deferred revenue balance. When the good, service or investment for which the funds were intended is delivered, they are recognized as earned revenue in the City's Statement of Operations and Accumulated Surplus. It is only when the conditions for use of the funds are met, that the deferred revenue is recognized as earned revenue in the City's financial results.

The timing of earned revenue from deferred revenue balances depends on the type and complexity of performance obligations or stipulations in third party agreements that need to be met. As an example, development charges governed by Provincial legislation make up a significant portion of the City's deferred revenue balance. The amounts paid by developers are recorded as deferred revenue contributions when building permits are issued, but recognition of these amounts into the City's earned revenues is tied to capital infrastructure planning and execution activities that transcend several years. Similarly, deferred revenue contributions from third party agreements may require that the City execute on obligations over a number of fiscal years; earned revenue would only be recognized in the future as the expenditures incurred to execute on those obligations are also recognized.

Certain agreements, contracts or legislation require that interest be allocated to deferred revenue contributions. These interest allocations are recorded as contributions to the individual balances in the fourth quarter of the fiscal year, increasing the value available to be recognized as earned revenue in future years.