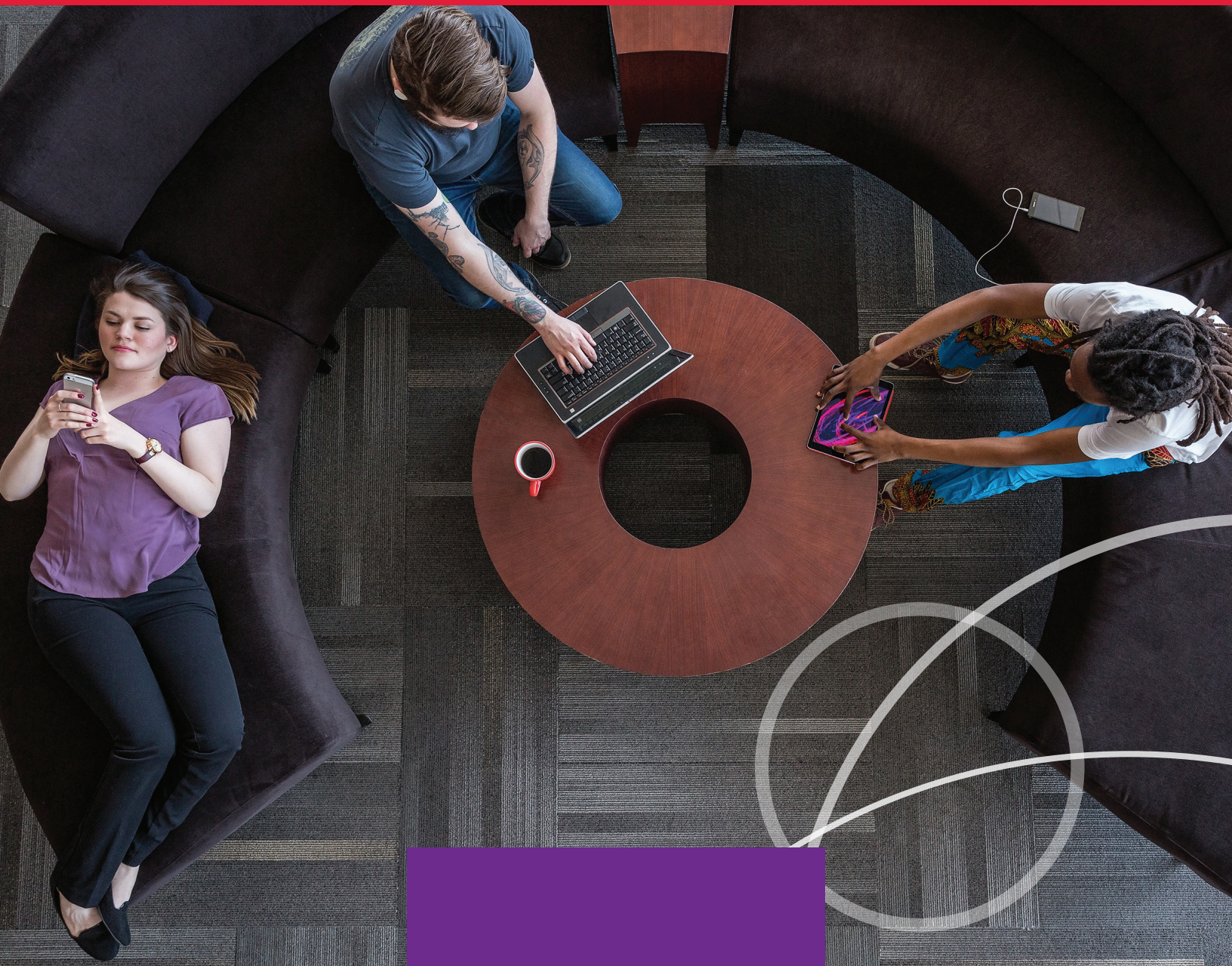




# FINANCIAL STATEMENTS

CANADIAN INTERNET REGISTRATION AUTHORITY

Fiscal year ended March 31, 2017



# CANADIAN INTERNET REGISTRATION AUTHORITY

## Financial Statements

Year ended March 31, 2017

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150 Elgin Street, Suite 1800  
Ottawa ON K2P 2P8  
Canada  
Telephone 613-212-5764  
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## INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Internet Registration Authority

We have audited the accompanying financial statements of the Canadian Internet Registration Authority, which comprise the statement of financial position as at March 31, 2017, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Internet Registration Authority as at March 31, 2017 and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

July 26, 2017

Ottawa, Canada

# CANADIAN INTERNET REGISTRATION AUTHORITY

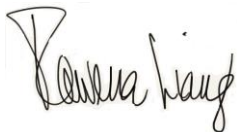
## Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 3,175,297	\$ 2,198,108
Accounts receivable (note 3)	1,749,699	1,555,403
Prepaid expenses	1,582,779	1,646,351
	<u>6,507,775</u>	<u>5,399,862</u>
Restricted investments (note 4)	22,570,624	21,529,640
Capital assets:		
Property and equipment (note 5)	4,338,551	4,236,782
Intangible assets (note 6)	271,925	325,872
	<u>4,610,476</u>	<u>4,562,654</u>
	<u>\$ 33,688,875</u>	<u>\$ 31,492,156</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 3,169,370	\$ 2,331,648
Customer deposits	597,428	615,929
Current portion of deferred revenue	13,745,877	12,616,983
Current portion of lease inducement (note 8)	33,075	33,075
	<u>17,545,750</u>	<u>15,597,635</u>
Deferred revenue	6,833,287	6,847,778
Lease inducement (note 8)	573,300	606,375
Net assets:		
Internally restricted (note 9)	4,126,062	3,877,714
Invested in capital assets (note 9)	4,610,476	4,562,654
	<u>8,736,538</u>	<u>8,440,368</u>
Commitments (note 12)		
Contingencies (note 13)		
Guarantees (note 15)		
Subsequent events (note 18)		
	<u>\$ 33,688,875</u>	<u>\$ 31,492,156</u>

See accompanying notes to financial statements.

On behalf of the Board:



Rowena Liang,  
Chair, CIRA Audit Committee



Susan Mehinagic,  
Chair, CIRA Board of Directors

# CANADIAN INTERNET REGISTRATION AUTHORITY

## Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Registration	\$ 20,860,784	\$ 19,902,833
Certification and application	180,000	200,000
Sponsorship and other revenue	526,886	104,378
	<u>21,567,670</u>	<u>20,207,211</u>
Expenses:		
Salaries and benefits	10,647,724	9,988,025
Computer operations and networking	3,090,201	2,917,632
Amortization of property and equipment	1,598,076	1,639,420
Consulting	1,462,908	1,408,121
Community investment programs	1,373,656	1,326,341
Communications awareness and education	1,332,137	918,434
Office and general administration (note 8)	1,282,947	1,230,667
Travel	583,721	626,182
Staff training and development	398,688	319,500
Industry memberships	257,241	266,074
Amortization of intangible assets	201,047	406,021
	<u>22,228,346</u>	<u>21,046,417</u>
Deficiency of revenue over expenses before the undernoted	(660,676)	(839,206)
Other:		
Investment income, net (note 10)	956,846	291,732
Excess (deficiency) of revenue over expenses	<u>\$ 296,170</u>	<u>\$ (547,474)</u>

See accompanying notes to financial statements.

# CANADIAN INTERNET REGISTRATION AUTHORITY

## Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

	Unrestricted	Internally restricted	Invested in capital assets	2017 Total	2016 Total
Net assets, beginning of year	\$ -	\$ 3,877,714	\$ 4,562,654	\$ 8,440,368	\$ 8,987,842
Excess (deficiency) of revenue over expenses for the year	296,170	-	-	296,170	(547,474)
Net investment in capital assets	(1,846,945)	-	1,846,945	-	-
Amortization of capital assets	1,799,123	-	(1,799,123)	-	-
Interfund transfer	(248,348)	248,348	-	-	-
Net assets, end of year	\$ -	\$ 4,126,062	\$ 4,610,476	\$ 8,736,538	\$ 8,440,368

See accompanying notes to financial statements.

# CANADIAN INTERNET REGISTRATION AUTHORITY

## Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Cash receipts from customers	\$ 22,682,073	\$ 20,919,946
Investment and interest received	748,460	1,040,902
Cash paid to suppliers and employees	(19,565,415)	(20,889,415)
	3,865,118	1,071,433
Investing activities:		
Purchase of property and equipment	(1,699,845)	(2,950,018)
Purchase of intangible assets	(147,100)	(214,508)
Proceeds on sale of restricted investments	17,998,392	1,769,511
Purchases of restricted investments	(19,039,376)	(1,524,298)
	(2,887,929)	(2,919,313)
Net change in cash for the year	977,189	(1,847,880)
Cash, beginning of year	2,198,108	4,045,988
Cash, end of year	\$ 3,175,297	\$ 2,198,108

See accompanying notes to financial statements.



# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements

Year ended March 31, 2017

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## 1. Purpose of the Organization:

The Canadian Internet Registration Authority ("CIRA") is a not-for-profit entity incorporated on December 30, 1998 under the Canada Corporations Act. On October 3, 2012, CIRA received its Certificate of Continuance from Industry Canada to continue under the Canada Not-for-profit Corporations Act as required by the legislation. CIRA is responsible for operating the .CA Internet country code Top Level Domain ("ccTLD") as a key public resource for all Canadians in an innovative, open and efficient manner. CIRA may carry out other Internet-related activities for the Canadian Internet community in a similar manner.

CIRA is registered as a not-for-profit entity under the *Income Tax Act (Canada)* and accordingly is exempt from income taxes.

## 2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook – Accounting. Outlined below are those policies considered particularly significant.

### (a) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Restricted investments are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, CIRA determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount CIRA expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## 2. Significant accounting policies (continued):

### (b) Property and equipment:

Property and equipment are recorded at acquisition cost. Contributed equipment is recorded at the fair market value at the date of the contribution. Amortization is provided on the straight-line method over their estimated useful lives as follows:

Asset	Useful life
Computer hardware	3 years
Office equipment	3 years
Furniture and fixtures	10 years
Leasehold improvements	Shorter of useful life or term of the lease

### (c) Intangible assets:

Intangible assets consist of acquired software and internally generated .CA registry software and are accounted for at cost. Acquired software and internally generated software are amortized on a straight-line basis over their estimated useful lives of 3 and 5 years respectively.

### (d) Customer deposits:

Certain third party Registrars maintain a cash balance with CIRA to fund new and renewed .CA domain name registration fees. CIRA accounts for these deposits as current liabilities. When registration fees are charged, the funds are withdrawn from the deposit account and are recognized as revenue and deferred revenue in accordance with the revenue recognition policy.

### (e) Lease inducement:

The lease inducement received is deferred and amortized on a straight-line basis over the term of the lease. Lease rentals under an operating lease shall be included in the determination of net income over the lease term on a straight-line basis with the difference between actual rent paid recorded as deferred rent within the lease inducement financial statement caption.

### (f) Impairment of long-lived assets:

Long-lived assets comprised of property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In this event, recoverability of assets held and used is measured by reviewing the estimated fair market value of the asset. If the carrying amount of an asset exceeds its estimated fair market value, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As at March 31, 2017, there were no known circumstances that would indicate that the carrying value of long-lived assets may not be recoverable.

# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## 2. Significant accounting policies (continued):

### (g) Revenue recognition:

Registration fees are fixed fees charged for registration and renewal of .CA domain names and are non-refundable five days after execution of the Registrant Agreement.

Registration fee revenue is recognized when pervasive evidence of an arrangement exists, services have been rendered, the fee is fixed or determinable and collection is reasonably assured.

Registration fees are deferred and recognized rateably over the registration term which ranges from 1 to 10 years.

Certification fees are recognized as revenue when the registrar is certified by CIRA.

Application fees are recognized as revenue when received.

Investment income is recognized as revenue when earned.

### (h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets. Actual results could differ from those estimates.

## 3. Accounts receivable:

	2017	2016
Trade receivables	\$ 1,671,461	\$ 1,444,783
Investment and interest receivable	49,452	46,763
Other receivables	28,786	63,857
	<u>\$ 1,749,699</u>	<u>\$ 1,555,403</u>

# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

## 4. Restricted investments:

Investments are restricted by the Board of Directors to fund ongoing and future operations in accordance with the Restricted Investments Policy, as approved by the Board.

	Cost	Fair market value	2017 Unrealized gain	2016 Fair market value
Cash and cash equivalents	\$ –	\$ –	\$ –	\$ 2
Guaranteed investment certificates	750,000	796,125	46,125	1,243,588
PH&N Bond Fund Series O	–	–	–	16,079,295
PH&N Enhanced Total Return Bond Fund O	13,336,057	13,284,518	(51,539)	–
PH&N Short Term Bond and Mortgage Fund O	1,525,541	1,517,567	(7,974)	–
PH&N Canadian Equity Value Fund Series O	3,183,784	3,400,474	216,690	2,124,764
RBC Global Equity Focus O	1,599,260	1,793,518	194,258	2,081,991
RBC QUBE Low Volatility Global Equity Fund O	1,786,434	1,778,422	(8,012)	–
	\$ 22,181,076	\$ 22,570,624	\$ 389,548	\$ 21,529,640

Cost and unrealized gain/(loss) as at and for the period ending March 31, 2016 amounted to \$22,208,620 and \$(678,980) respectively.

Income from investments measured at fair value as recorded on the statement of operations is the net change in the closing unrealized gain balance from the prior year to the current year.

CIRA will invest its restricted investments and any funds in excess of normal daily operating requirements in vehicles that management believes will maximize yield while minimizing exposure to undue risk (note 14). The Board of Directors approves the investment objectives and guidelines of the organization under the Statement of Investment Policy and Procedures (SIPP) and evaluates the results of the investment activities.

Following the limitations and restrictions defined within the SIPP, CIRA may invest in a mixed asset portfolio of pooled funds including Canadian Fixed Income and Mortgages, Canadian and Global Equities under a discretionary investment management mandate. Under a non-discretionary mandate, CIRA may also invest in government-backed securities, Canada Deposit Insurance Corporation (CDIC) secured investments and what management believes are high quality corporate bonds. Fair value is determined primarily by quoted market prices. Cost is determined based on the amortized cost using the effective interest rate method.

# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

## 4. Restricted investments (continued):

The guaranteed investment certificates have an interest rate of 2.10% to 2.55% (2016 - 1.75% to 2.55%) and have maturity dates ranging between 2018 and 2020.

## 5. Property and equipment:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Computer hardware	\$ 11,574,798	\$ 9,489,878	\$ 2,084,920	\$ 1,805,815
Furniture and fixtures	1,428,633	572,967	855,666	875,219
Office equipment	230,757	179,017	51,740	49,936
Leasehold improvements	1,644,542	298,317	1,346,225	1,505,812
	<u>\$ 14,878,730</u>	<u>\$ 10,540,179</u>	<u>\$ 4,338,551</u>	<u>\$ 4,236,782</u>

Cost and accumulated amortization at March 31, 2016 amounted to \$13,178,887 and \$8,942,105, respectively.

## 6. Intangible assets:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Computer software	\$ 3,361,001	\$ 3,089,076	\$ 271,925	\$ 325,872
Finite life .CA registry	1,338,357	1,338,357	–	–
	<u>\$ 4,699,358</u>	<u>\$ 4,427,433</u>	<u>\$ 271,925</u>	<u>\$ 325,872</u>

Cost and accumulated amortization at March 31, 2016 amounted to \$4,552,258 and \$4,226,386, respectively.

## 7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$110,101 (2016 - \$73,794), which includes amounts payable for harmonized sales tax and payroll-related remittances.

# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

## 8. Lease inducement:

Under its current office lease agreement CIRA was paid \$661,500 as a lease inducement; this will be amortized over the term of the lease. Lease inducements recorded as a reduction of rent expense during the year totalled \$33,075 (2016 - \$75,597).

## 9. Net assets:

### (a) Internally restricted net assets:

Internally restricted net assets are accumulated for the purposes as identified by the Board. The level of accumulated funds is reviewed annually by the Board against ongoing and future requirements. Any unrestricted net assets are to be allocated to the internally restricted net assets.

### (b) Invested in capital assets:

The amount invested in capital assets represents that portion of net assets that is not available to the organization for other purposes.

## 10. Investment income, net:

Investment income, net earned and recorded in the statement of operations is calculated as follows:

	2017	2016
Income earned on restricted investments	\$ 733,427	\$ 1,023,261
Change in fair value of restricted investments	205,698	(745,622)
Income earned on cash	17,721	14,093
<b>Total investment income, net</b>	<b>\$ 956,846</b>	<b>\$ 291,732</b>

## 11. Related party transactions:

The financial statements include Directors' fees paid to CIRA's 12 Directors of \$252,505 (2016 - \$230,850). These services were provided in the normal course of business and have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In the normal course of operations, CIRA interacts with Registrars whose principal shareholders, directors or executive members may also be Directors of CIRA. In 2017, CIRA provided services to such Registrars at the normal exchange amount for such registration fees of \$1,904,602 (2016 - \$1,921,742). Included in accounts receivable are balances from these Registrars for \$105,612 (2016 - \$22,951).

Included in accounts payable are amounts owed to executive members and Directors of CIRA for re-imbursement of expenses that total \$8,309 (2016 - \$4,061).



# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## 12. Commitments:

### (a) Operating leases:

CIRA is committed to minimum payments under an operating lease related to the rental of its new premises, as discussed in note 8.

Minimum lease commitments for the successive five fiscal years are as follows:

2018	\$	349,650
2019		349,650
2020		349,650
2021		393,750
2022		415,800
		<hr/>
		\$ 1,858,500

CIRA is also responsible for its share of operating costs, which are estimated by the landlord to be \$304,290 per annum.

## 13. Contingencies:

In the normal course of business it is common for CIRA to be involved in claims regarding domain name registrations. Though the outcome of these claims is uncertain, management believes they will not materially affect the financial position of the organization. As the financial impact cannot currently be estimated, no provision has been made in the accounts for the claims.

## 14. Financial instruments and related risks:

### (a) Fair value of financial instruments:

CIRA's financial instruments consist of cash, accounts receivable, restricted investments, and accounts payable and accrued liabilities. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates fair value as a result of the relatively short-term nature of these instruments. The fair value of restricted investments is determined primarily by quoted market prices.

### (b) Credit risk:

CIRA is subject to credit risk on the value of its accounts receivable and on its investments. The credit risk on the accounts receivable is minimal due to their nature. The SIPP defines the pooled fund asset class portfolio holding percentage benchmarks as follows: Canadian Fixed Income and Mortgages 70% (2016-80%), Canadian Equities 15% (2016-10%) and Global Equities 15% (2016-10%). Under a non-discretionary mandate CIRA limits its investments to government-backed securities, high quality corporate bonds and CDIC secured investments.

# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## 14. Financial instruments and related risks (continued):

### (c) Liquidity risk:

CIRA is subject to minimal liquidity risk. Liquidity risk is the risk that CIRA will not be able to meet its financial obligations as they fall due. CIRA's approach to managing liquidity is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and restricted investments. To minimize these risks, CIRA has invested in liquid fixed income securities, cash equivalents, and equities that if necessary can be sold to generate cash flow.

### (d) Interest rate risk:

CIRA is subject to interest rate risk on its cash and cash equivalents and investments. Cash and cash equivalents and investments earn interest at prevailing market rates which range from 2.10% to 2.55%. Investments in fixed government-backed bonds are exposed to changes in fair values due to fluctuations in market interest rates. Maturity dates on fixed government-backed bonds range from 2018 to 2020.

### (e) Currency risk:

CIRA primarily operates in Canadian dollars and as such is not significantly exposed to currency risk.

## 15. Guarantees:

In the normal course of business, CIRA entered into an insurance agreement that meets the definition of a guarantee.

An indemnity has been provided to all directors and/or officers of CIRA for various items including, but not limited, all costs to settle suits or actions due to their involvement with CIRA, subject to certain restrictions. CIRA has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of CIRA. The maximum amount of any potential future payment cannot be reasonably estimated.

## 16. Capital management:

CIRA defines capital as net assets.

CIRA's objective with respect to internally restricted net assets is to safeguard CIRA's financial position and ensure the capability of operations in the event of unexpected circumstances.

CIRA manages its net assets in a way to meet its objectives to maintain funds for operating purposes and to finance the acquisition of property and equipment and intangible assets as operationally required. The objectives are set by the Board of Directors during its annual corporate plan and budget review.

CIRA is not subject to any externally imposed requirements on capital and there has been no change in capital management practices from the previous year.

# CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## **17. Comparative information:**

Certain prior year comparative information has been reclassified to conform to current year financial statement presentation.

## **18. Subsequent events:**

CIRA has been provided Board approval to continue negotiations towards a Research & Development Partnership Agreement with another world-class ccTLD Registry operator with which CIRA has signed a letter of intent to explore partnership opportunities. The purpose of the Research & Development Partnership Agreement is to jointly further develop the underlying intellectual property associated with the CIRA third generation Fury Registry platform.

Subject to the closing of the transaction and over a minimum term of three years, each party will make various individual and joint contributions to the endeavor in the form of intellectual property, knowledge-transfer, know-how, in-kind contributions of product management, development, IT and administrative staff and cash consideration.