

FINANCIAL STATEMENTS
For
CANADIAN INTERNET REGISTRATION AUTHORITY
For year ended
MARCH 31, 2023

CANADIAN INTERNET REGISTRATION AUTHORITY

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MARCH 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the members of

CANADIAN INTERNET REGISTRATION AUTHORITY

Opinion

We have audited the financial statements of Canadian Internet Registration Authority (the Organization), which comprise the statement of financial position as at March 31, 2023, and the statements of operations, changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2023 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
July 21, 2023.

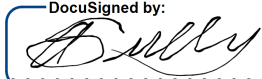
CANADIAN INTERNET REGISTRATION AUTHORITY


STATEMENT OF FINANCIAL POSITION

MARCH 31, 2023

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 4,458,573	\$ 4,289,428
Accounts receivable (notes 3 and 11)	3,112,609	3,504,745
Prepaid expenses	<u>2,196,087</u>	<u>2,486,311</u>
	9,767,269	10,280,484
RESTRICTED INVESTMENTS (note 4)	36,960,706	35,825,631
PROPERTY AND EQUIPMENT (note 5)	1,396,512	1,612,570
INTANGIBLE ASSETS (note 6)	<u>22,707</u>	<u>52,717</u>
	<u>\$ 48,147,194</u>	<u>\$ 47,771,402</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (notes 7 and 11)	\$ 5,098,546	\$ 4,944,499
Customer deposits	548,333	404,694
Current portion of deferred revenue	20,692,388	20,282,406
Current portion of lease inducement (note 8)	<u>99,225</u>	<u>99,225</u>
	26,438,492	25,730,824
DEFERRED REVENUE	7,570,206	7,350,458
LEASE INDUCEMENT (note 8)	<u>132,300</u>	<u>231,525</u>
	<u>34,140,998</u>	<u>33,312,807</u>
NET ASSETS		
Internally restricted (note 9)	12,586,977	12,793,308
Invested in capital assets (note 9)	<u>1,419,219</u>	<u>1,665,287</u>
	<u>14,006,196</u>	<u>14,458,595</u>
	<u>\$ 48,147,194</u>	<u>\$ 47,771,402</u>

Approved by the Board:

DocuSigned by:

 Alourdes Sully, Chair, CIRA FAIR Management Committee
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 Jill Kowalchuk, Chair, CIRA Board of Directors

(See accompanying notes)

CANADIAN INTERNET REGISTRATION AUTHORITY

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2023

	<u>2023</u>	<u>2022</u>
Revenue		
Registration (note 11)	\$ 31,104,847	\$ 29,735,526
DNS, registry and other services	6,296,180	5,497,806
Certification and application	<u>252,130</u>	<u>193,759</u>
	<u>37,653,157</u>	<u>35,427,091</u>
Expenses		
Salaries and benefits	16,169,054	15,421,729
Computer operations and networking	6,976,494	6,159,664
Communications awareness and education	5,272,819	4,166,344
Community investment program	3,118,525	3,112,207
Consulting	2,264,691	1,659,386
Office and general administration (note 8)	1,704,447	1,367,678
Amortization of property and equipment	852,531	1,419,364
Travel	520,338	102,585
Staff training and development	432,923	340,265
Industry memberships	408,195	391,655
Amortization of intangible assets	<u>30,010</u>	<u>71,064</u>
	<u>37,750,027</u>	<u>34,211,941</u>
Excess (deficiency) of revenue over expenses before the undernoted	(96,870)	1,215,150
Other income (loss)		
Investment (note 10)	<u>(355,529)</u>	<u>1,007,690</u>
Net revenue (expense)	<u>\$ (452,399)</u>	<u>\$ 2,222,840</u>

(See accompanying notes)

CANADIAN INTERNET REGISTRATION AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2023

	<u>Unrestricted</u>	<u>Internally restricted</u>	<u>Invested in capital assets</u>	<u>2023</u>	<u>2022</u>
Net assets, beginning of year	\$ -	\$ 12,793,308	\$ 1,665,287	\$ 14,458,595	\$ 12,235,755
Net revenue (expense)	(452,399)	-	-	(452,399)	2,222,840
Net investment in capital assets	(654,434)	-	654,434	-	-
Amortization of capital assets	882,541	-	(882,541)	-	-
Interfund transfer	<u>224,292</u>	<u>(206,331)</u>	<u>(17,961)</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 12,586,977</u>	<u>\$ 1,419,219</u>	<u>\$ 14,006,196</u>	<u>\$ 14,458,595</u>

(See accompanying notes)

CANADIAN INTERNET REGISTRATION AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2023

	<u>2023</u>	<u>2022</u>
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Cash receipts from registrars	\$ 38,872,389	\$ 35,945,309
Interest received	134,083	17,763
Cash paid to suppliers and employees	<u>(36,536,973)</u>	<u>(32,092,618)</u>
	<u>2,469,499</u>	<u>3,870,454</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(654,434)	(197,260)
Purchase of intangible assets	-	(33,988)
Net increase in restricted investments	<u>(1,645,920)</u>	<u>(2,151,528)</u>
	<u>(2,300,354)</u>	<u>(2,382,776)</u>
INCREASE IN CASH	169,145	1,487,678
CASH, BEGINNING OF YEAR	<u>4,289,428</u>	<u>2,801,750</u>
CASH, END OF YEAR	<u>\$ 4,458,573</u>	<u>\$ 4,289,428</u>

(See accompanying notes)

CANADIAN INTERNET REGISTRATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

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

Basis of accounting

These 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.

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.

Domain name system ("DNS"), registry and other service revenue are fixed fees. DNS, registry and other service 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.

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.

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.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. If there is an indicator of impairment, CIRA determines if there is 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 THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

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:

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

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.

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.

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 previously noted.

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, 2023, there were no known circumstances that would indicate that the carrying value of long-lived assets may not be recoverable.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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 revenues and expenses during the reporting period. Management makes estimates when determining the collectibility of its accounts receivable, settlement of accrued liabilities, and the useful life of its property and equipment and intangible assets. Actual results could differ from these estimates.

CANADIAN INTERNET REGISTRATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	<u>2023</u>	<u>2022</u>
Trade receivables	\$ 2,897,246	\$ 3,354,153
Investment and interest receivable	25,650	4,415
Other receivables	<u>189,713</u>	<u>146,177</u>
	<u>\$ 3,112,609</u>	<u>\$ 3,504,745</u>

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, and consist of the following:

	<u>2023</u>		<u>2022</u>	
	<u>Cost</u>	<u>Fair market value</u>	<u>Cost</u>	<u>Fair market value</u>
PH&N Enhanced Total Return Bond Fund O	\$ 22,527,791	\$ 20,178,189	\$ 20,643,045	\$ 19,176,057
PH&N Short Term Bond and Mortgage Fund O	221,550	221,810	795,946	780,276
PH&N Canadian Equity Value Fund Series O	4,673,330	5,716,314	4,030,657	5,600,991
RBC Global Equity Focus O	2,225,570	2,813,701	2,003,395	2,865,717
RBC QUBE Low Volatility Global Equity Fund O	2,549,550	2,817,725	2,643,378	2,894,753
PH&N Conventional Plus Mortgage Fund O	<u>5,416,198</u>	<u>5,212,967</u>	<u>4,624,210</u>	<u>4,507,837</u>
	<u>\$ 37,613,989</u>	<u>\$ 36,960,706</u>	<u>\$ 34,740,631</u>	<u>\$ 35,825,631</u>

Income from investments measured at fair value is included within investment income (note 10) on the statement of operations as 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 CIRA 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 nondiscretionary 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 THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2023

5. PROPERTY AND EQUIPMENT

	2023			2022
	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$ 17,593,866	\$ 16,876,526	\$ 717,340	\$ 667,653
Furniture and fixtures	1,521,432	1,248,793	272,639	363,151
Office equipment	243,222	243,222	-	-
Leasehold improvements	<u>1,782,108</u>	<u>1,375,575</u>	<u>406,533</u>	<u>581,766</u>
	<u>\$ 21,140,628</u>	<u>\$ 19,744,116</u>	<u>\$ 1,396,512</u>	<u>\$ 1,612,570</u>

Cost and accumulated amortization at March 31, 2022, amounts to \$20,486,195 and \$18,873,625 respectively.

6. INTANGIBLE ASSETS

	2023			2022
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	<u>\$ 4,163,979</u>	<u>\$ 4,141,272</u>	<u>\$ 22,707</u>	<u>\$ 52,717</u>

Cost and accumulated amortization at March 31, 2022, amounted to \$4,163,979 and \$4,111,262, respectively.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are government remittances payable of \$214,883 (2022 - \$203,375), which includes amounts payable for harmonized sales tax and payroll-related remittances.

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 totaled \$99,225 (2022 - \$99,225). The remaining inducement will be fully recognized by 2026 in conjunction with the remainder of the lease term, as outlined in note 12.

9. NET ASSETS

CIRA defines capital as internally restricted net assets and is not subject to external restrictions on capital. 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.

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.

Invested in capital assets

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

CANADIAN INTERNET REGISTRATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2023

10. INVESTMENT INCOME

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

	<u>2023</u>	<u>2022</u>
Income earned on restricted investments	\$ 1,151,502	\$ 923,313
Income earned on cash	155,318	19,563
Change in fair value of restricted investments	<u>(1,662,349)</u>	<u>64,814</u>
Total investment income (loss)	<u>\$ (355,529)</u>	<u>\$ 1,007,690</u>

11. RELATED PARTY TRANSACTIONS

The financial statements include Directors' fees paid to CIRA's 12 Directors of \$280,576 (2022 - \$297,541). 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 2023, CIRA provided services to such Registrars at the normal exchange amount for such registration fees of \$nil (2022 - \$21,805). Included in accounts receivable are balances from these Registrars for \$nil (2022 - \$924).

Included in accounts payable are amounts owed to executive members and Directors of CIRA for reimbursement of expenses that total \$nil (2022 - \$4,928).

12. COMMITMENTS

Operating leases:

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

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

2024	\$ 424,116
2025	424,116
2026	141,372

CIRA is also responsible for its share of operating costs, which are estimated by the landlord to be \$362,000 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.

In 2021, CIRA received a formal notice of application with respect to governance matters and the disclosure of various information. CIRA has sought outside legal counsel to defend this action. No claim of damages has been received. As the financial impact cannot currently be estimated, no provision has been made for possible loss in these financial statements.

14 **FINANCIAL INSTRUMENTS AND RELATED RISKS**

CIRA's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. CIRA's cash is deposited with a Canadian chartered bank and its investments are held by a large institutional investment brokerage affiliated with a Canadian chartered bank and as a result management believes the risk of loss on these items to be remote.

CIRA provides credit to its clients in the normal course of operations. CIRA does not believe there are any significant concentrations of credit risk on the accounts receivable due to their nature.

Liquidity risk

Liquidity risk is the risk that CIRA will not be able to meet its financial obligations as they fall due. CIRA manages its liquidity risk through its budget process and by monitoring its cash flow requirements including holding items that can readily be converted to cash.

Market risk

Market risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of Currency risk, Interest rate risk and Other price risk.

Currency risk

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

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. Investments in fixed government-backed bonds are exposed to changes in fair values due to fluctuations in market interest rates.

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

CIRA is exposed to other price risk on its equity fund investments and manages this risk through maintaining its investment portfolio in accordance with its investment policy outlined in note 4.

Changes in risk

There have been no significant changes in CIRA's risk exposures from the prior year.

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.