

Financial Statements of

**CANADIAN INTERNET
REGISTRATION AUTHORITY**

Year ended March 31, 2020

CANADIAN INTERNET REGISTRATION AUTHORITY

Table of Contents

Year ended March 31, 2020

	Page
Independent Auditors' Report	
Financial Statements:	
Statement of Financial Position	1
Statement of Operations	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Internet Registration Authority

Opinion

We have audited the financial statements of Canadian Internet Registration Authority (the Entity), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and the notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”)

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its results of 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 responsibility under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.



Responsibility of Management 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 Entity'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 Entity or to cease operations or has no realistic alternative but to do so.

Auditors' 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 auditors' 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 the 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 risk 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, internal 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 purposes of expressing an opinion on the effectiveness of the Entity's internal control.



Page 3

- 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 the events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

July 24, 2020

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Financial Position

Year ended March 31, 2020, with comparative information for 2019

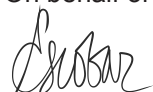
	2020	2019
Assets		
Current assets:		
Cash	\$ 2,983,349	\$ 3,509,637
Accounts receivable (notes 3 and 11)	2,461,875	2,233,861
Prepaid expenses	2,762,515	2,900,965
	8,207,739	8,644,463
Restricted investments (note 4)	26,172,063	26,176,442
Capital assets:		
Property and equipment (note 5)	4,101,271	4,150,290
Intangible assets (note 6)	262,384	448,350
	4,363,655	4,598,640
	<u>\$ 38,743,457</u>	<u>\$ 39,419,545</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (notes 7 and 11)	\$ 3,759,562	\$ 3,649,530
Customer deposits	724,793	781,711
Current portion of deferred revenue	16,767,404	16,619,241
Current portion of lease inducement (note 8)	77,175	33,075
	21,328,934	21,083,557
Deferred revenue	6,666,820	6,744,701
Lease inducement (note 8)	429,975	507,150
Net assets:		
Internally restricted (note 9)	5,954,073	6,485,497
Invested in capital assets (note 9)	4,363,655	4,598,640
	10,317,728	11,084,137
Commitments (note 12)		
Contingencies and subsequent events (note 13)		
Guarantees (note 15)		
	<u>\$ 38,743,457</u>	<u>\$ 39,419,545</u>

See accompanying notes to financial statements.

On behalf of the Board:



Andrew Escobar,
Chair, CIRA FAIR Committee



Helen McDonald,
Chair, CIRA Board of Directors

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Operations

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Registration (note 11)	\$ 26,340,650	\$ 25,291,094
DNS, registry and other service revenue	1,906,564	1,235,105
Certification and application	124,440	131,000
	<u>28,371,654</u>	<u>26,657,199</u>
Expenses:		
Salaries and benefits	13,520,668	12,295,599
Computer operations and networking	4,638,170	3,902,605
Communications awareness and education	2,386,447	2,174,889
Amortization of property and equipment	1,904,276	1,566,002
Community investment programs	1,784,230	1,827,171
Consulting	1,589,384	1,703,228
Office and general administration (note 8)	1,484,446	1,376,187
Travel	586,019	621,629
Staff training and development	438,869	455,949
Industry memberships	394,803	299,375
Amortization of intangible assets	276,375	259,327
	<u>29,003,687</u>	<u>26,481,961</u>
Excess (deficiency) of revenue over expenses before the undernoted	(632,033)	175,238
Other:		
Investment income (loss), net (note 10)	(134,376)	1,622,091
Excess (deficiency) of revenue over expenses	<u>\$ (766,409)</u>	<u>\$ 1,797,329</u>

See accompanying notes to financial statements.

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Changes in Net Assets

Year ended March 31, 2020, with comparative information for 2019

	Unrestricted	Internally restricted	Invested in capital assets	2020 Total	2019 Total
Net assets, beginning of year	\$ –	\$ 6,485,497	\$ 4,598,640	\$ 11,084,137	\$ 9,286,808
Excess (deficiency) of revenue over expenses	(766,409)	–	–	(766,409)	1,797,329
Net investment in capital assets	(1,945,666)	–	1,945,666	–	–
Amortization of capital assets	2,180,651	–	(2,180,651)	–	–
Interfund transfer	531,424	(531,424)	–	–	–
Net assets, end of year	\$ –	\$ 5,954,073	\$ 4,363,655	\$ 10,317,728	\$ 11,084,137

See accompanying notes to financial statements.

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Cash receipts from customers	\$ 28,441,936	\$ 27,714,377
Investment and interest received	956,851	761,106
Cash paid to suppliers and employees	(27,983,788)	(24,917,325)
	1,414,999	3,558,158
Investing activities:		
Purchase of property and equipment	(1,855,257)	(1,685,963)
Purchase of intangible assets	(90,409)	(348,792)
Proceeds on sale of restricted investments	8,328,633	1,389,993
Purchases of restricted investments	(8,324,254)	(3,650,550)
	(1,941,287)	(4,295,312)
Net change in cash for the year	(526,288)	(737,154)
Cash, beginning of year	3,509,637	4,246,791
Cash, end of year	\$ 2,983,349	\$ 3,509,637

See accompanying notes to financial statements.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements

Year ended March 31, 2020

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 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, 2020

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 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.

(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, 2020, 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, 2020

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.

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.

(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:

	2020	2019
Trade receivables	\$ 2,445,702	\$ 2,102,807
Investment and interest receivable	3,725	88,044
Other receivables	12,448	43,010
	<u>\$ 2,461,875</u>	<u>\$ 2,233,861</u>

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2020

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	2020 Unrealized gain (loss)	2019 Fair market value
Guaranteed investment certificates	\$ –	\$ –	\$ –	\$ 731,359
PH&N Enhanced Total Return Bond Fund	13,101,162	13,295,887	194,725	15,486,213
PH&N Short Term Bond and Mortgage Fund	1,011,349	1,009,226	(2,123)	40,766
PH&N Canadian Equity Value Fund Series	4,784,601	4,256,028	(528,573)	4,043,560
PH&N Mortgage Pension Trust	–	–	–	1,666,650
RBC Global Equity Focus	2,029,002	2,329,209	300,207	2,122,189
RBC QUBE Low Volatility Global Equity Fund	2,302,726	2,235,445	(67,281)	2,085,705
PH&N Strategic Mortgage Fund	3,130,412	3,046,268	(84,144)	–
	<u>\$ 26,359,252</u>	<u>\$ 26,172,063</u>	<u>\$ (187,189)</u>	<u>\$ 26,176,442</u>

Cost and unrealized gain as at and for the period ending March 31, 2019, amounted to \$25,028,863 and \$1,147,579, 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 and 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, 2020

5. Property and equipment:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Computer hardware	\$ 16,293,813	\$ 13,685,040	\$ 2,608,773	\$ 2,376,469
Furniture and fixtures	1,507,220	927,093	580,127	676,525
Office equipment	243,223	238,574	4,649	12,110
Leasehold improvements	1,732,460	824,738	907,722	1,085,186
	\$ 19,776,716	\$ 15,675,445	\$ 4,101,271	\$ 4,150,290

Cost and accumulated amortization at March 31, 2019, amounted to \$17,921,459 and \$13,771,169, respectively.

6. Intangible assets:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Computer software	\$ 4,110,349	\$ 3,847,965	\$ 262,384	\$ 448,350

Cost and accumulated amortization at March 31, 2019, amounted to \$5,358,297 and \$4,909,947, respectively. During the year, CIRA ceased to use \$1,338,357 in fully amortized assets (2019 - \$Nil).

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$209,611 (2019 - \$35,190), 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 totalled \$33,075 (2019 - \$33,075).

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2020

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 (loss), net:

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

	2020	2019
Income earned on restricted investments	\$ 817,113	\$ 696,772
Income earned on cash	55,419	84,225
Change in fair value of restricted investments	(1,006,908)	841,094
Total investment income (loss), net	\$ (134,376)	\$ 1,622,091

11. Related party transactions:

The financial statements include Directors' fees paid to CIRA's 12 Directors of \$269,082 (2019 - \$249,665). 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 2020, CIRA provided services to such Registrars at the normal exchange amount for such registration fees of \$1,875,949 (2019 - \$1,960,720). Included in accounts receivable are balances from these Registrars for \$113,561 (2019 - \$118,609).

Included in accounts payable are amounts owed to executive members and Directors of CIRA for re-imbursement of expenses that total \$566 (2019 - \$3,379).

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2020

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 five fiscal years and thereafter are as follows:

2021	\$	401,625
2022		424,116
2023		424,116
2024		424,116
2025		424,116
Thereafter		141,372
	\$	<u>2,239,461</u>

CIRA is also responsible for its share of operating costs, which are estimated by the landlord to be \$369,174 per annum.

13. Contingencies and subsequent events:

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.

Subsequent to year end, 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 in the accounts for any 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.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2020

14. Financial instruments and related risks (continued):

(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% (2019 - 70%), Canadian Equities 15% (2019 - 15%) and Global Equities 15% (2019 - 15%). Under a non-discretionary mandate CIRA limits its investments to government-backed securities, high quality corporate bonds and CDIC secured investments.

(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.

(e) Currency risk:

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

There has been no change to CIRA's risk exposures from 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 to, 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.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2020

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.

17. Impact of COVID-19 Pandemic:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, CIRA has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- Experienced temporary declines in the fair value of investments and investment income;
- Closure of their offices from March 13, 2020 to the date of the auditors' report based on public health recommendations;
- Mandatory working from home requirements for those able to do so.

The ultimate duration and magnitude of the COVID-19 pandemic's impact on the CIRA's operations and financial position is not known at this time. These impacts could include a decline in future cash flows, changes to the value of assets and liabilities, and the use of accumulated net assets to sustain operations. An estimate of the financial effect of the pandemic on CIRA is not practicable at this time.