



FINANCIAL STATEMENTS OF
CANADIAN INTERNET REGISTRATION AUTHORITY

Year ended March 31, 2012

Financial Statements of

**CANADIAN INTERNET
REGISTRATION AUTHORITY**

Year ended March 31, 2012

CANADIAN INTERNET REGISTRATION AUTHORITY

Financial Statements

Year ended March 31, 2012

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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, 2012, 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 generally accepted accounting principles, 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, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

July 25, 2012

Ottawa, Canada

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Financial Position

March 31, 2012, with comparative information for 2011

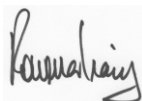
	2012	2011
Assets		
Current assets:		
Cash	\$ 1,658,598	\$ 3,683,312
Accounts receivable	217,150	263,807
Prepaid expenses	741,299	356,907
	<u>2,617,047</u>	<u>4,304,026</u>
Restricted investments (note 4)	19,506,901	16,482,240
Capital assets:		
Property and equipment (note 5)	2,087,287	1,582,411
Intangible assets (note 6)	1,506,143	1,539,867
	<u>3,593,430</u>	<u>3,122,278</u>
	<u>\$ 25,717,378</u>	<u>\$ 23,908,544</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,936,482	\$ 1,906,808
Customer deposits	852,617	765,020
Current portion of deferred revenue	9,746,645	8,692,908
Current portion of lease inducement (note 7)	40,160	35,454
	<u>12,575,904</u>	<u>11,400,190</u>
Deferred revenue	5,103,889	4,496,186
Lease inducement (note 7)	214,189	224,542
Net assets:		
Internally restricted (note 8)	4,229,966	4,665,348
Invested in capital assets (note 8)	3,593,430	3,122,278
	<u>7,823,396</u>	<u>7,787,626</u>
Commitments (note 10)		
Contingencies (note 11)		
Guarantees (note 13)		
	<u>\$ 25,717,378</u>	<u>\$ 23,908,544</u>

See accompanying notes to financial statements.

On behalf of the Board:



Rowena Liang,
Chair, CIRA Audit Committee



Paul Andersen, P. Eng.,
Chair, CIRA Board of Directors

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Operations

Year ended March 31, 2012, with comparative information for 2011

	2012	2011
Revenues:		
Registration	\$ 15,015,394	\$ 12,815,009
Interest and other revenue	392,218	261,880
Certification and application	213,000	222,000
	<u>15,620,612</u>	<u>13,298,889</u>
Expenses:		
Salaries and benefits	5,964,543	4,778,122
Consulting	3,039,609	1,621,145
Computer operations and networking	1,451,079	1,260,768
Communication awareness and education	955,077	879,233
Office and general administration	940,246	1,014,538
Community investment programs	794,925	482,858
Depreciation of property and equipment	762,753	712,031
Staff training and development	590,592	199,039
Amortization of intangible assets	516,587	338,646
Travel	489,570	417,117
Memberships	168,329	147,516
Corporate relations	75,682	120,076
	<u>15,748,992</u>	<u>11,971,089</u>
Excess (deficiency) of revenues over expenses for the year	\$ (128,380)	\$ 1,327,800

See accompanying notes to financial statements.

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative information for 2011

	Unrestricted	Internally restricted	Invested in capital assets	Total 2012	Total 2011
Net assets, beginning of year	\$ –	\$ 4,665,348	\$ 3,122,278	\$ 7,787,626	\$ 6,469,278
Excess (deficiency) of revenues over expenses for the year	(128,380)	–	–	(128,380)	1,327,800
Net investment in capital assets	(1,750,492)	–	1,750,492	–	–
Unrealized gains (losses) on restricted investments	–	164,150	–	164,150	(9,452)
Depreciation and amortization of capital assets	1,279,340	–	(1,279,340)	–	–
Interfund transfer (note 8)	599,532	(599,532)	–	–	–
Net assets, end of year	\$ –	\$ 4,229,966	\$ 3,593,430	\$ 7,823,396	\$ 7,787,626

See accompanying notes to financial statements.

CANADIAN INTERNET REGISTRATION AUTHORITY

Statement of Cash Flows

Year ended March 31, 2012, with comparative information for 2011

	2012	2011
Cash provided by (used for):		
Operating activities:		
Cash receipts from registrars	\$ 16,889,834	\$ 15,213,914
Interest received	361,199	244,035
Cash paid to suppliers and employees	(14,664,744)	(10,660,296)
	2,586,289	4,797,653
Investing activities:		
Purchase of property and equipment	(1,267,629)	(704,698)
Purchase of intangible software	(482,863)	(255,399)
Internal development of intangible assets	–	(609,239)
Net increase in restricted investments	(2,860,511)	(1,700,424)
	(4,611,003)	(3,269,760)
Net change in cash for the year	(2,024,714)	1,527,893
Cash, beginning of year	3,683,312	2,155,419
Cash, end of year	\$ 1,658,598	\$ 3,683,312

See accompanying notes to financial statements.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements

Year ended March 31, 2012

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 Business Corporations Act. 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 accounting policies of CIRA are in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and their basis of application are consistent with those of the previous year. Outlined below are those policies considered particularly significant.

(a) Financial instruments:

CIRA has classified its financial instruments as follows:

Asset/liability	Category
Cash	Held-for-trading
Accounts receivable	Loans and receivables
Restricted investments	Available-for-sale
Accounts payable and accrued liabilities	Other liabilities

(i) Held-for-trading:

These financial assets are measured at fair value, with changes in their fair value recognized in the statement of operations in the current period.

(ii) Available-for-sale:

These financial assets are measured on the statement of financial position at fair value with changes in fair value initially recorded directly in the statement of changes in net assets until the financial asset is sold or impaired, at which time the amounts are recognized in the statement of operations.

(iii) Loans and receivables:

These financial assets are initially measured at fair value and thereafter are measured at amortized cost using the effective interest rate method, less any impairment.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iv) Other liabilities:

These financial liabilities are recorded at amortized cost using the effective interest rate method.

CIRA has elected to continue to apply the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, in these financial statements instead of Sections 3862 and 3863 (which replaced Section 3861 with revisions and enhancements to disclosure requirements), as permitted for not-for-profit organizations in these standards.

(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. Depreciation 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	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:

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) Deferred lease inducement:

The lease inducement received is deferred and amortized on a straight-line basis over the term of the lease.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Significant accounting policies (continued):

(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, 2012, there were no known circumstances that would indicate that the carrying value of long-lived assets may not be recoverable.

(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. Typically, payment for registration fees is received upon registration of a domain name.

Registration fees are deferred and recognized ratably 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.

(h) Use of estimates:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant management estimates include useful lives of property and equipment, intangible assets, and impairment assessments. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are reported in earnings in the period they become known.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

3. Future accounting changes:

In late 2010, the CICA issued a new accounting framework applicable to Canadian not-for-profit organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations may adopt either International Financial Reporting Standards (“IFRS”) or Canadian GAAP for not-for-profit organizations.

CIRA continues to evaluate the impact of the accounting frameworks that will be adopted for its fiscal year ending March 31, 2013.

4. Restricted investments:

Investments are restricted by the Board of Directors to fund future operations. The balance of the restricted amount is determined in reference to the balances of deferred revenue and operating expenses as at the end of the 2011 fiscal year.

	2012			2011		
	Cost	Fair market value	Unrealized gain (loss)	Cost	Fair market value	Unrealized gain (loss)
Cash and cash equivalents	\$ 1,202,048	\$ 1,202,048	\$ —	\$ 133,103	\$ 133,103	\$ —
Guaranteed investment certificates	1,400,000	1,401,490	1,490	1,300,000	1,300,000	—
Fixed income	16,774,108	16,903,363	129,255	15,082,542	15,049,137	(33,405)
Total	\$ 19,376,156	\$ 19,506,901	\$ 130,745	\$ 16,515,645	\$ 16,482,240	\$ (33,405)

CIRA will invest its restricted investments and any funds in excess of normal daily operating requirements in vehicles that will maximize yield while minimizing exposure to undue risk (note 12). The Board of Directors approves the investment objectives and guidelines of the organization and evaluates the results of the investment activities.

CIRA may invest in government-backed securities and CDIC secured investments. 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, 2012

5. Property and equipment:

The cost of property and equipment held by CIRA is as follows:

	Cost	Accumulated depreciation	2012 Net book value	2011 Net book value
Computer hardware	\$ 5,301,268	\$ 4,046,878	\$ 1,254,390	\$ 926,352
Furniture and fixtures	465,146	246,168	218,978	181,372
Office equipment	120,161	97,846	22,315	13,848
Leasehold improvements	1,030,933	439,329	591,604	460,839
	<u>\$ 6,917,508</u>	<u>\$ 4,830,221</u>	<u>\$ 2,087,287</u>	<u>\$ 1,582,411</u>

Cost and accumulated depreciation of property and equipment at March 31, 2011 amounted to \$5,649,879 and \$4,067,468 respectively.

6. Intangible assets:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Computer software	\$ 2,331,737	\$ 1,784,750	\$ 546,987	\$ 313,040
Finite life .CA registry	1,338,357	379,201	959,156	1,226,827
	<u>\$ 3,670,094</u>	<u>\$ 2,163,951</u>	<u>\$ 1,506,143</u>	<u>\$ 1,539,867</u>

Cost and accumulated amortization of intangible assets at March 31, 2011 amounted to \$3,187,231 and \$1,647,364 respectively.

7. Lease inducement:

In 2012, CIRA became entitled to a \$34,513 lease inducement for office space which is being amortized on a straight-line method over the 88 month term of the lease. Prior to 2012, CIRA received \$354,540 as a lease inducement for office space which is being amortized on a straight-line method over the 10 year term of the lease. The lease inducements recorded as a reduction of rent expense during the year totalled \$40,160 (2011 - \$35,454) and will be fully amortized in the 2019 fiscal year.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

8. Net assets:

(a) Internally restricted net assets:

Internally restricted net assets are equal to one year's operating expenses as calculated at the end of each fiscal year. Any unrestricted net assets are to be allocated to the internally restricted net assets until such time as the internally restricted net asset amount has been achieved. The March 31, 2012 financial statements reflect a transfer to the unrestricted net assets from the internally restricted net assets of \$599,532.

(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.

9. Related party transactions:

The financial statements include Directors fees' paid to CIRA's 12 Directors of \$128,400 (2011 - \$124,850). 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 2012, CIRA provided services to such a Registrar at the normal exchange amount for such registration fees of \$292,312 (2011 - \$274,169).

10. Commitments:

(a) Operating leases:

CIRA is committed to minimum payments under an operating lease related to the rental of premises, which commenced August 1, 2008 and expires July 31, 2018. The lease was amended on March 31, 2011 to include additional office space. A portion of the newly acquired space expires in May 2014. Minimum commitments for successive years are as follows:

2013	\$ 257,598
2014	277,088
2015	265,787
2016	261,700
2017 to 2019	610,634
	<hr/>
	\$ 1,672,807

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

10. Commitments (continued):

(a) Operating leases (continued):

CIRA is also responsible for its share of operating costs, which are estimated by the landlord to be \$300,388 per annum.

(b) Marketing agency of record:

CIRA is committed to a 3 year contract to purchase up to \$3,000,000 (\$1,000,000 per year) of marketing and communications services from our agency of record, commencing August 2010 and expiring August 2013. As at March 31, 2012, CIRA has \$878,690 remaining under contract.

(c) BIND 10:

CIRA is a patron sponsor to the Internet Services Consortium ("ISC") initiative to develop BIND 10 open-source software for deployment on DNS servers. In February 2009, CIRA committed to a \$1,000,000 sponsorship (\$200,000/annum for 5 successive years). Commitments for successive fiscal years are as follows:

2013	\$ 200,000
2014	200,000
	<hr/>
	\$ 400,000

(d) Equipment lease:

CIRA is committed to lease photocopier equipment with an option to renew at the end of the lease, which was renewed September 2010 and expires February 2016. Minimum commitments under this lease for successive fiscal years are as follows:

2013	\$ 10,876
2014	10,876
2015	10,876
2016	10,876
	<hr/>
	\$ 43,504

11. 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.

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

12. Financial instruments:

(a) Fair value of financial instruments:

CIRA's financial instruments consist of cash, accounts receivable, restricted investments, 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. Restricted investment's fair value 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 investment policy limits CIRA to investments in government-backed securities and CDIC secured investments, which significantly lowers credit risk.

(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 and cash equivalents that if necessary can be sold to generate cash flow. Additionally, long-term investments have been laddered in manner that will allow for sufficient liquidity in subsequent periods, to meet long-term obligations as they become due.

(d) Interest rate risk:

CIRA is subjected 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 1% to 6%. 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 2012 to 2016.

(e) Currency risk:

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

CANADIAN INTERNET REGISTRATION AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

13. 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.

14. 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 (note 8).

CIRA manages its unrestricted net asset in a way to meet its objectives to maintain funds for operating purposes and to finance the acquisition of capital assets as operationally required. The objectives are set by the Board of Directors during its annual strategic plan 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.

15. Comparative figures:

Certain 2011 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2012.



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