



## Management Discussion and Analysis Year ended March 31, 2021

The Management Discussion and Analysis contextualizes the audited financial statements for members and financial services providers where appropriate. Both the Finance and Audit Committee (FAC) and the CRKN Board of Directors have reviewed the audited financial statements and notes, the associated summary financial statements, and this document, and have authorized their distribution to members.

### Financial Results

CRKN continues to fund operations internally with membership and member-provided HCAP fees, relying on past accumulated surpluses, monitoring cash flows, and by subsidizing its operating activities with interest and other revenues where appropriate. CRKN recorded its seventh straight operating surplus during the year ended March 31, 2021 and has finished better than budgeted every year for the past decade.

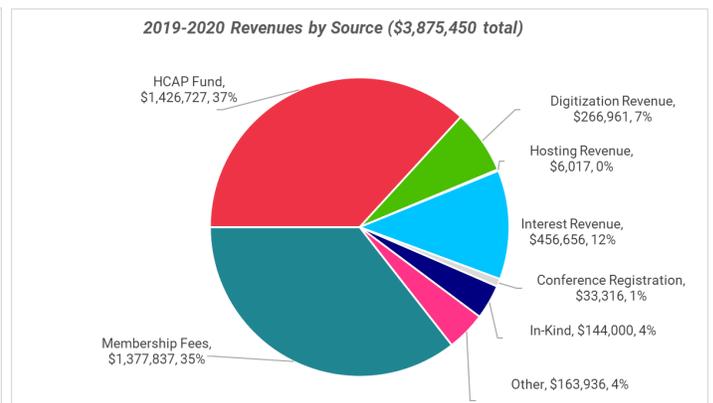
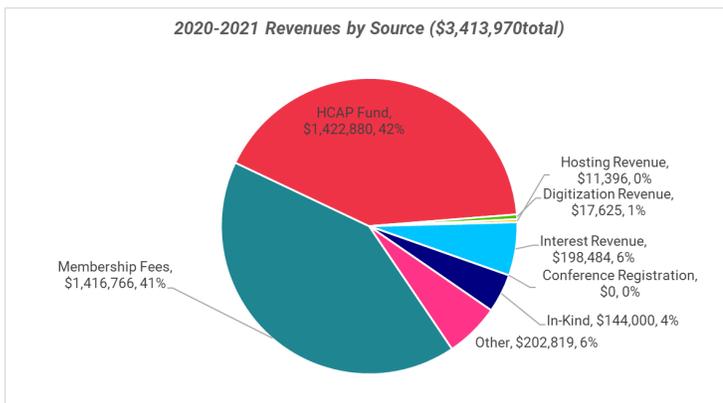
CRKN's multi-year financial objectives continue to include controlling costs and drawing down accumulated surpluses, reducing reliance on investment income, and balancing size and scope of activities with the appropriate revenue sources to fund ongoing operations.

Although the CRKN Board of Directors had approved a planned deficit of \$506,000 for the 2020-2021 fiscal year, the organization was able to leverage one-time cost savings, investment income, and other revenue to achieve a surplus of over \$67,000. During the year, weakness in interest and external client revenues were more than offset by savings in staff travel and conference attendance and board and committee governance costs due to pandemic restrictions.

### Revenues and Resourcing

Once again, CRKN membership fees and the Heritage Content Access and Preservation (HCAP) fee are CRKN's primary sources of operating revenues, and these amounts are in line with past years. Additional revenue sources include external fee-for-service digitization, preservation, and access activities, interest revenue, in-kind contributions for facilities, CRKN conference registrations, and other revenues (grants, foreign exchange service fees). CRKN realizes ORCID-CA consortia fees on a cost-recovery basis. While these revenue sources are varied, they primarily originate from CRKN members.

The following charts describe CRKN's revenue sources for the current and past fiscal years.



CRKN encountered weaker than expected interest rates and due to pandemic restrictions, was unable to leverage digitization services for revenue generation. Total revenues in FY2020-2021 were \$273,973 less than budgeted, and \$126,516 of that was a shortfall in interest revenue, alone. While CRKN management has worked to reduce its reliance on unpredictable interest revenue, the rate of interest afforded CRKN held at 1.00% for the entire fiscal year.

CRKN continues to recognize in-kind contributions from Library and Archives Canada for office space at 395 Wellington in Ottawa, as part of its operating revenues in internal statements.

## **Expenses and Expenditures**

Savings and timing differences in most expense categories, particularly salary costs and professional fees, meant that CRKN spent \$847,953 less than budgeted during the year. Each month the finance team compares actual results to budget and maintains and adjusts year-end forecasts for the review of the FAC.

CRKN employs a diverse team of librarians, developers, technicians, and other professionals to meet the evolving needs of the member community, and payroll expenses remain the most significant component of CRKN's annual budget. Management budgets payroll costs by position and with the assumption of 100% staff availability. During the year, CRKN overspent its salary budget by less than 1% (\$11,202). The additional spend was due to an increase in banked holiday time as a result of the pandemic.

Staff budgeted for a variety of external contractors and professionals during the year to develop and implement the strategic plan, contribute to records management work, support information security, and provide legal, HR, and IT support. There were no unbudgeted consultants used during the year. CRKN spent \$133,574 less than budgeted during the year for contractor and professional fees.

CRKN is governed by a twelve-person Board, four standing committees and associated task groups. The bulk of budgeted governance costs are in travel expenses. Due to the effects of the pandemic, CRKN did not incur any travel, accommodation, and venue costs for meetings of the board, committees and task groups. Staff proactively budgeted for known and anticipated meetings, and did not adjust the budget once the effects of the pandemic became clearer at the start of the fiscal year.

CRKN realized savings in administrative costs in most categories compared to budget, including for paid and in-kind rent, amortization, conference and engagement expenses. Notable exceptions included courier and delivery, costs of memberships in other organizations (especially Unsub) and bad debts expense. In total, CRKN's administration costs were \$459,145 less than budgeted.

## **Content Licensing**

CRKN conducts its content licensing activities on a cost-recovery basis. Licensing revenues (and member licensing costs) reached a record of \$143M CAD. CRKN billed nearly \$100M in USD-denominated licenses during the year at an average CAD/USD exchange rate of 1.2784 (compared to 1.3436 in 2019-2020). The increase in license revenue can be attributed to increased participation in licenses, the lagging effect of a slowly strengthening CAD compared to the 2019-2020 fiscal year, and the increased cost of licenses, (mitigated in Q4 by the successful negotiation for a significant cost reduction for the Elsevier license).

## **Heritage Activities**

CRKN's Heritage Activities are funded by the member-supported Heritage Content Preservation and Access fees (which were extended by a vote of the membership for an additional three years to December 2024) and by external clients on a fee-for-service basis. CRKN uses short-term digitization technician contracts to increase digitization capacity to match demand. While anticipated revenues for CRKN's digitization activities were \$162,375 less than budgeted, management was

able to reduce costs by not renewing digitization technician contracts during the year. Preservation and hosting revenue during the year was \$11,396, short of the \$13,000 as anticipated in the budget.

### Surpluses and Reserves

CRKN has realized a series of surpluses totaling over \$1.6M over the past four years. On March 31, 2021, CRKN’s balance of net assets (the total of those accumulated surpluses) was over \$3.4M. Following the Net Asset Policy, CRKN restricts 40% of the approved operating budget to provide for outstanding operational obligations in the event of the wrap-up of the organization. After accounting for capital assets, this leaves nearly \$1.6M in unrestricted net assets to address budget shortfalls and contingencies in future years.

CRKN’s financial reserves and management practices provide the FAC and the Board with the flexibility and confidence to support deficit budgets to reinvest in the organization’s capacity in alignment with its approved strategic plan.

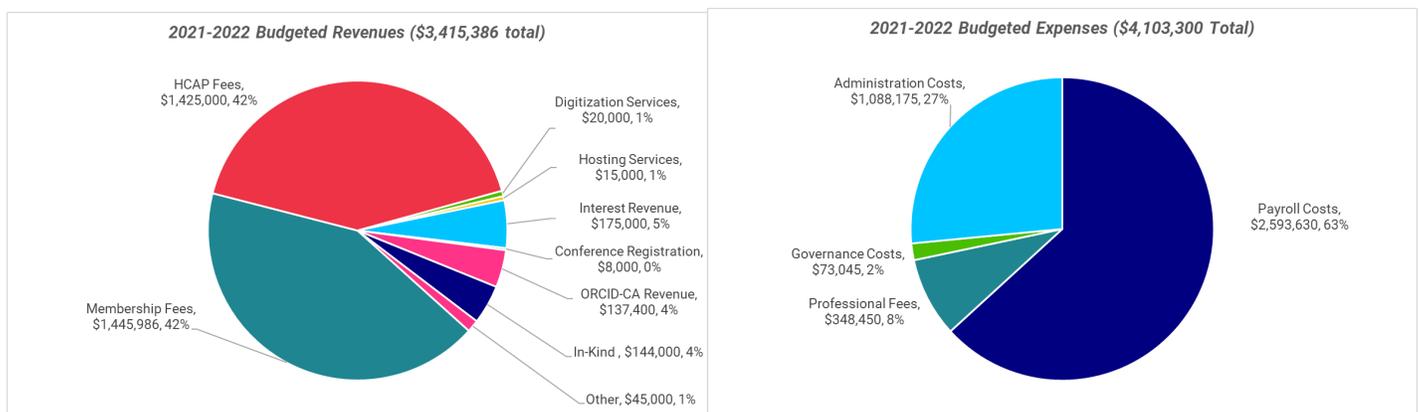
### Financial Outlook

In response to the COVID-19 pandemic and government suggestions, management closed the CRKN offices on March 16, 2020 and asked staff to work from home. Board and Committee in-person meetings and the CRKN Conference have been transitioned from in-person to virtual meetings until at least January 2021. The situation has curtailed staff conference attendance, with many events canceled outright, postponed, or transitioned to virtual participation.

In March 2021, the FAC agreed with management’s assessment of the need to again invest in the organization to advance the objectives in the 2019-2024 Strategic Plan and recommended a deficit budget of \$687,000 for the Board’s approval for the FY2021-2022 year. The budget included estimates for both COVID and post-COVID revenues and expenditures, which fed into multi-year projections evaluated against CRKN’s Net Assets Policy framework and with existing unrestricted net asset levels. The budget and multi-year model as approved highlighted the need to extend or replace the HCAP fee beyond December 2024 which meant that multi-year projections are more speculative than in the past.

Management is committed to investigating additional sources of revenue to support CRKN’s long-term sustainability during the year.

Here are CRKN’s budgeted revenues and expenditures for FY2021-2022, supporting it approved \$687,000 deficit:



Based on last years’ experience, management anticipates minimal conference expenses and governance costs for the first nine months of the 2021-2022 fiscal year, with a gradual return to travel-related expenses beginning in January 2022.

### Outlook for Content Licensing

Staff is monitoring budget effects on member campuses, and the attendant impact on member participation in CRKN licenses. The licensing team will renegotiate two of CRKN's most significant license agreements (Taylor & Francis and SpringerLink) during the year, with negotiation objectives of substantial cost reduction and improved open access options.

Thankfully, recent strength in the CAD/USD exchange rate may translate to future savings for members, while FX volatility will continue to produce variability in members' collection budgets. The finance team will continue to use forward contracts and offer additional foreign exchange services, including limited USD invoicing, to provide licensed content to members on a 100% cost-recovery basis.

### ***Outlook for Canadian Heritage Activities***

While COVID-19 restrictions have disrupted CRKN's digitization activities, management anticipates a safe return to work, at a reduced capacity, for digitization staff shortly. The Heritage Content Priorities Task Group (HCPTG) report is now completed providing recommendations about expanding the scope of the Canadiana collections, digitization priorities, and principles that underpin third-party client work. CRKN has contracted with a consultant to provide a market assessment of heritage services.

CRKN continues to accelerate the adoption of open-source tools to support the development of the Canadiana preservation and access platforms, with the support of the Platform Technical Task Group under the guidance of the Preservation and Access Committee. The platform technical roadmap does not anticipate any significant capital investments outside of what is budgeted for 2021-2022; however, two significant projects throughout the year, the rights management project, and the integration of user-focused tools may have budgetary impacts in the future. CRKN has also formed an Audit Group, to conduct an audit of the Trustworthy Digital Repository.

Management is investigating the possibility of obtaining additional grant funding to diversity support for CRKN's heritage programs and further accelerate development.