



Management Discussion and Analysis Year ended March 31, 2020

The Management Discussion and Analysis contextualizes the audited financial statements for the membership and other stakeholders. 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

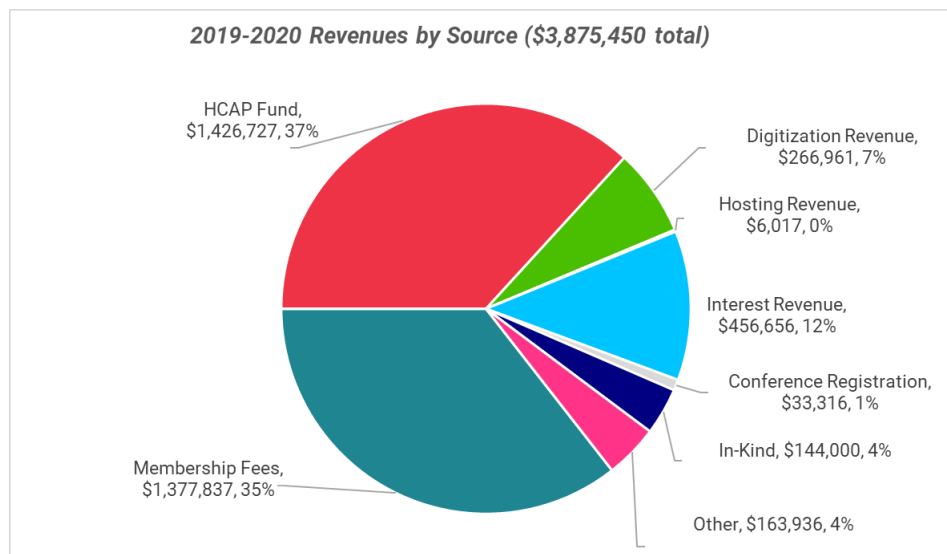
CRKN continues to fund operations internally by relying on past accumulated surpluses, monitoring cash flows, and by subsidizing its operating activities with interest and other revenues where appropriate. CRKN recorded its sixth straight operating surplus during the year ended March 31, 2020, and has finished better than budgeted every year for the past decade.

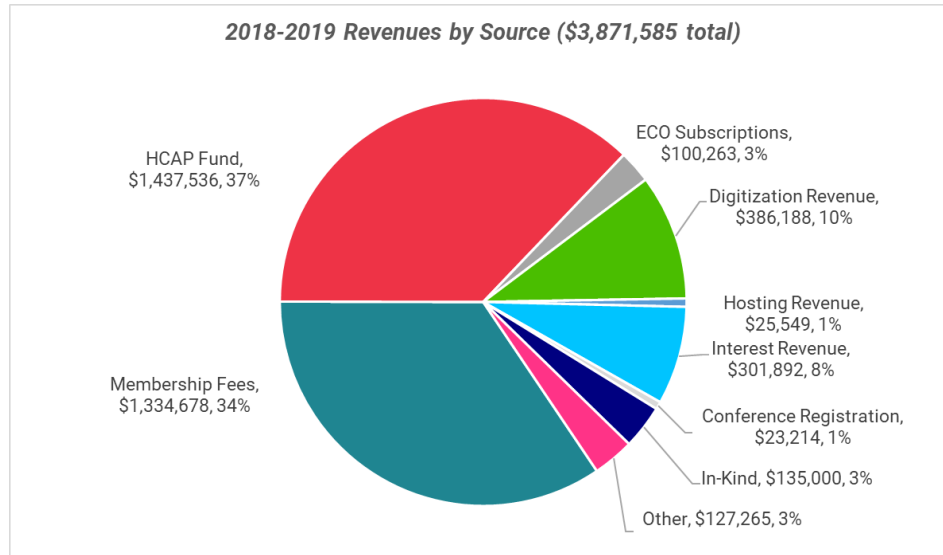
CRKN's multi-year financial objectives continue to include controlling costs and drawing down accumulated surpluses, reducing reliance on investment income, and balancing size and scope of activities with the appropriate revenue sources to fund ongoing operations.

Although the CRKN Board of Directors had approved a planned deficit of \$291,000 for the 2019-2020 fiscal year, during the year, the organization was able to leverage one-time cost savings, investment income, and other revenue to achieve a surplus of over \$193,000.

Revenues and Resourcing

CRKN membership fees and the Heritage Content Access and Preservation (HCAP) fund are CRKN's primary sources of operating revenues. 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.

During the year, more robust than expected interest rates and other revenues offset weaker than anticipated demand for digitization services. Total revenues were \$97,000 better than budgeted. Interest revenue alone was \$176,000 ahead of the estimated amount as a result of higher than expected interest rates and average daily cash balances. As interest rates fluctuate dramatically, management continues to budget cautiously and aims to reduce reliance on unpredictable interest revenue. (The rate of interest afforded CRKN dropped from 2.50% at the beginning to 1.00% by the end of March 2020).

CRKN continues to recognize in-kind contributions from Library and Archives Canada for office space at 395 Wellington in Ottawa, as part of its revenues in its internal statements. Beginning in 2019-2020, this is also shown in CRKN's audited financial statements.

Expenses and Expenditures

Savings and timing differences in most expense categories, particularly salary costs and professional fees, meant that CRKN spent \$387,000 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 its member community, and payroll expenses remain the most significant component of CRKN's annual budget. CRKN budgets its payroll costs by position and with the assumption of 100% staff availability. During the year, savings in salary costs (\$115,000) resulted both from the Executive Director's self-funded deferred leave, and from unfilled staff positions during the year.

Staff budgeted for a variety of external contractors and professionals during the year to develop and implement the strategic plan, contribute to a rebranding of the organization, support information security, and provide legal, HR, and IT support. There were no unbudgeted consultants used during the year. CRKN spent \$78,000 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, and its highest governance costs remain the travel, accommodation, and venue costs for meetings of its committees and task groups. CRKN does not provide any honoraria or compensation to any Board or Committee members beyond the reimbursement of

travel expenses. Staff proactively budgets for known and anticipated meetings; however, due to some reduction in meetings, governance costs were \$24,000 less than planned during the year.

CRKN realized savings in administrative costs (including paid and in-kind rent, amortization, and conference and engagement expenses in most categories compared to budget. Notable exceptions included amortization (due to year-end upgrades to servers to support the preservation network) and telecommunication expenses (due to internet and VOIP upgrades undertaken during the year). In total, CRKN's administration costs were \$169,000 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 \$133M CAD at an average exchange rate of 1.3436 (compared to \$129M CAD at 1.3255 in 2018-2019). The increase in license revenue can be attributed to the increased cost of licenses, increased participation (up 3.05%), and the weakness in the CAD (up 1.37%) compared to the 2018-2019 fiscal year.

Heritage Activities

CRKN's Heritage Activities are funded by the member-supported Heritage Content Preservation and Access fund (which members agreed at the 2018 CRKN business meeting to support until December 2021) 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 \$98,000 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 were \$10,000, as anticipated in the budget.

Surpluses and Reserves

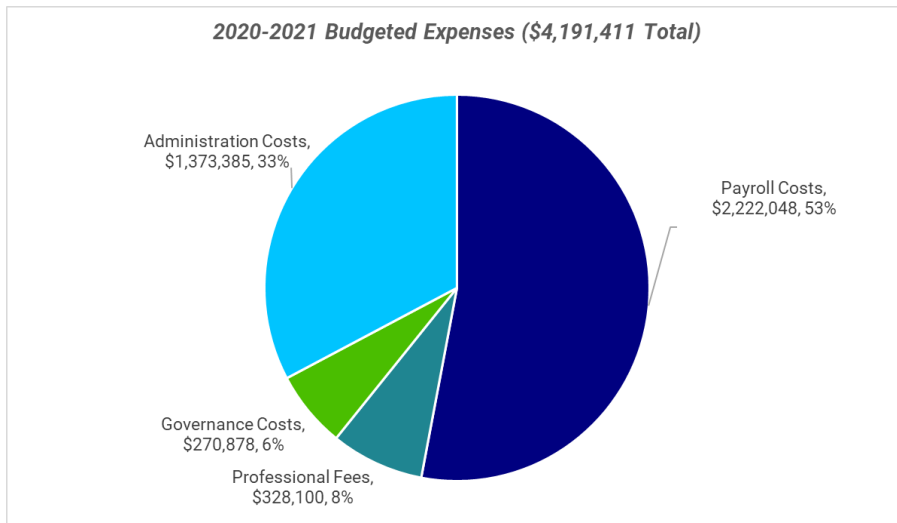
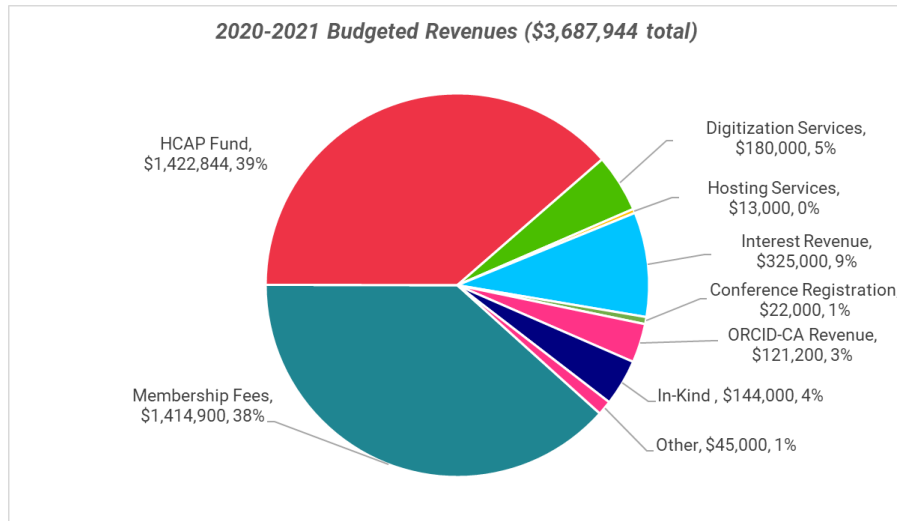
CRKN has realized a series of surpluses totaling nearly \$1.6M over the past three years. On March 31, 2020, CRKN's balance of net assets (the total of those accumulated surpluses) was over \$3.4M. Following the Net Asset Policy, CRKN restricts 40% of the approved operating budget to provide for outstanding operational obligations in the event of the wrap-up of the organization. After accounting for capital assets, this leaves nearly \$1.5M 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 confidence to support deficit budgets to reinvest in the organization's capacity in alignment with its approved strategic plan.

Financial Outlook

In March 2020, the FAC agreed with management's assessment of the need to reinvest in the organization to advance the objectives in the 2019-2024 Strategic Plan and recommended a deficit budget of \$506,000 for the Board's approval for the FY2020-2021 year. The budget, including multi-year projections to ensure that the approach was sustainable and achievable within CRKN's Net Assets Policy framework and with existing unrestricted net asset levels. The budget, as approved, noted that the need to extend the HCAP fund beyond December 2021 meant that multi-year projections were more speculative than in past years.

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 October 2020. The situation has curtailed staff conference attendance, with many events canceled outright, postponed, or transitioned to virtual participation.



While CRKN is avoiding conference expenses and governance costs, management expects shortfalls in interest revenue and to digitization revenue. Management currently anticipates that cost savings will more than offset revenue shortfalls for the first nine months of the 2020-2021 fiscal year.

Outlook for Content Licensing

Staff is monitoring budget effects on member campuses, and the attendant impact on member participation in CRKN licenses. CRKN will renegotiate three of its most significant license agreements (Elsevier, Sage, Wiley-Blackwell) during the year, and the Content Strategy Committee hopes to achieve substantial cost reduction and improved open access options. CRKN is anticipating that members will face hard choices in renewing agreements for 2021 and beyond, and may well use opt-out clauses to end their participation in existing contracts early.

Recent weakness and volatility in the CAD to USD exchange rate will likely continue to exacerbate the effects of rising costs at the same time as member budgets are under increasing pressure. CRKN 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 that will define the Canadiana collection scope, digitization priorities, and principles that underpin third-party client work will be available in the fall of 2020. The report may make recommendations regarding increased digitization capacity.

CRKN continues to accelerate its adoption of open source tools to support the development of its 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 investments outside of what is budgeted for 2020-2021; 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. The operation of the Trustworthy Digital

Repository requires regular audits, and the Preservation and Access Committee is discussing future investments in auditing capability in Canada.

With the support of the Finance and Audit Committee and Preservation and Access Committee, management will be proposing a multi-year extension of the HCAP fund for the consideration of members at the 2020 Meeting of the Members. The Board has directed that CRKN undertake extensive consultation before a discussion with members at the meeting.