

2006-2007 EBD #4.20
2006-07 BARC Info #8.1

Date: April 2, 2007
To: Keith Michael Fiels
Gregory Calloway
Department Heads
CC: Unit Heads
From: Keith D. Brown
Re: FY 2006 Indirect Cost Study

The following is a summary of the FY 2006 Indirect Cost Study. The description of basic assumptions and methodology are noted in Section III. The basic direct costs are illustrated in Exhibit II. The significant cost variances are explained in Section I.

For the fiscal year ended 8-31-06 the mandated Operating Agreement composite (indirect) rate was 22.6%. This represents an increase of 1.1% in absolute terms and 5.5% in percentage terms – see below. This rate compares favorably to ALA’s overall (total) composite rate of 38.0%, the division rate of 32.0% and the NEH rate of 23.9%. See Exhibit I for formula details and yearly comparisons. For a detailed description of the most significant yearly variances see Section I below.

| | <u>8/31/06</u> | <u>8/31/05</u> | <u>8/31/04</u> |
|-----------------------|----------------|----------------|----------------|
| Composite Rate | 22.6 % | 21.5 % | 21.8% |
| Numerical Change | 1.1 | .3 | 3.0 |
| % Change | 5.5% | -1.4% | 16.0% |

The ALA Operating Agreement stipulates that certain ALA revenues from the divisions and publishing will be assessed a percentage of the composite rate. As such, division conference revenue and publishing revenue will be assessed the composite rate at 100% and 50% respectively. This translates into a rate of 22.6% on division conference revenue and 11.3% on publishing revenue.

I. SIGNIFICANT DIRECT/INDIRECT COST VARIANCES

Direct/Indirect costs during the year increased by \$1.4 million (9.5%) to \$16.5 million. Note that these costs were impacted by an increase in total ALA expenses of \$2.4 million during the year. Below represents the changes in the various cost types:

DIRECT/INDIRECT COST CHANGES

| <u>Cost Type</u> | <u>2006</u> | <u>% Total</u> | <u>2005</u> | <u>% Total</u> | <u>\$ Change</u> | <u>% Change</u> |
|---------------------------|----------------------|----------------|----------------------|----------------|---------------------|-----------------|
| A. Operating Supplies | \$ 29,581 | 0.2% | \$ 49,814 | 0.3% | \$ (20,233) | -40.6% |
| B. Telephone | \$ 70,920 | 0.4% | \$ 45,882 | 0.3% | \$ 25,038 | 54.6% |
| C. Equip/Main | \$ 12,258 | 0.1% | \$ 47,369 | 0.3% | \$ (35,111) | -74.1% |
| D. Human Resources | \$ 698,566 | 4.2% | \$ 699,370 | 4.7% | \$ (804) | -0.1% |
| E. Building Operations | \$ 1,528,546 | 9.3% | \$ 1,087,300 | 7.2% | \$ 441,246 | 40.6% |
| F. Reprographics | \$ 15,115 | 0.1% | \$ 14,825 | 0.1% | \$ 290 | 2.0% |
| G. Distribution Center | \$ 210,203 | 1.3% | \$ 249,102 | 1.7% | \$ (38,900) | -15.6% |
| H. ITTS | \$ 1,973,067 | 12.0% | \$ 1,874,071 | 12.5% | \$ 98,996 | 5.3% |
| I. Library/ORS | \$ 686,988 | 4.2% | \$ 625,069 | 4.2% | \$ 61,919 | 9.9% |
| J. Fiscal Services | \$ 1,519,744 | 9.2% | \$ 1,466,608 | 9.8% | \$ 53,136 | 3.6% |
| K. Audit Fees | \$ 108,328 | 0.7% | \$ 113,918 | 0.8% | \$ (5,590) | -4.9% |
| L. Publishing AED | \$ 45,317 | 0.3% | \$ 87,057 | 0.6% | \$ (41,740) | -47.9% |
| M. Production Services | \$ (56,032) | -0.3% | \$ (25,598) | -0.2% | \$ (30,434) | 118.9% |
| N. PIO | \$ 817,158 | 5.0% | \$ 798,443 | 5.3% | \$ 18,715 | 2.3% |
| O. Membership Services | \$ 1,948,753 | 11.8% | \$ 1,703,884 | 11.3% | \$ 244,869 | 14.4% |
| P. General Administration | \$ 6,840,216 | 41.6% | \$ 6,188,737 | 41.2% | \$ 651,479 | 10.5% |
| Total | \$ 16,448,729 | 100.0% | \$ 15,025,851 | 100.0% | \$ 1,422,878 | 9.5% |

The information above represents the total direct/indirect costs allocated out to all units within ALA and used to determine the overall composite rate. Below are more details on the most significant "Cost Type" changes:

- A. **General Administration** – Direct/Indirect costs related to General Administration increased by \$651,479 (10.5%) to \$6.8 million primarily due to higher health insurance costs (\$324,367) and the continuing rise in postretirement costs (\$188,000).
- B. **Building Operations** – Direct/Indirect costs increased by \$441,246 (40.6%) million due largely to the inclusion of the Washington Office building operations (\$313,219).
- C. **Membership Services** – Direct/Indirect costs increased by \$244,869 (14.4%) to \$1.9 million. The increase was primarily a result of an increase in the American Library Subscription equivalent, which was up by \$169,573 or 40.7%.
- D. **ITTS** - Direct/Indirect costs increased by \$98,996 (5.3%) to \$1.9 million due to the increased use of professional services (\$63,356), equipment rental/lease (\$26,357) and telephone (\$9,536). These costs were slightly offset by a reduction in depreciation (\$70,421).

- E. **Library/ORS** – Direct/Indirect costs increased by \$61,919 (9.9%) to \$686,988 primarily due to the increased use of periodical reference materials (\$19,000) and the Professional Services (\$11,000).
- F. **Fiscal Services** – Direct/Indirect costs increased by \$53,136 (3.6%) to \$1.5 million primarily in ITTS (\$37,927) and Building Operations (\$18,741).

II. DIVISION INDIRECT COST REVIEW

Below is a look at the impact of this year's indirect cost study on the divisions:

| DIVISIONS INDIRECT COSTS | | | | | | | | | |
|--------------------------|-----------------------|---------------|-----------------------|---------------|----------------------|-------------|---------------------|-----------------------|---------------|
| Unit | 2006 | % Total | 2005 | % Total | \$ Change | % Change | Revenue | Indirect Costs | Indirect Rate |
| PLA | \$ 963,371.59 | 20.9% | \$ 634,315.14 | 14.8% | \$ 329,056.45 | 51.9% | \$ 4,095,274 | \$ 963,371.59 | 23.5% |
| ACRL | \$ 874,480.13 | 18.9% | \$ 912,060.90 | 21.3% | \$ (37,580.77) | -4.1% | \$ 2,011,553 | \$ 874,480.13 | 43.5% |
| CHOICE | \$ 469,474.98 | 10.2% | \$ 461,962.23 | 10.8% | \$ 7,512.75 | 1.6% | \$ 2,823,271 | \$ 469,474.98 | 16.6% |
| AASL | \$ 592,219.57 | 12.8% | \$ 570,579.58 | 13.3% | \$ 21,639.99 | 3.8% | \$ 2,216,846 | \$ 592,219.57 | 26.7% |
| ASCLA | \$ 101,919.45 | 2.2% | \$ 83,578.96 | 1.9% | \$ 18,340.49 | 21.9% | \$ 65,222 | \$ 101,919.45 | 156.3% |
| ALCTS | \$ 243,248.05 | 5.3% | \$ 231,223.69 | 5.4% | \$ 12,024.36 | 5.2% | \$ 493,514 | \$ 243,248.05 | 49.3% |
| LAMA | \$ 211,013.61 | 4.6% | \$ 238,827.55 | 5.6% | \$ (27,813.94) | -11.6% | \$ 340,613 | \$ 211,013.61 | 62.0% |
| RUSA | \$ 206,821.44 | 4.5% | \$ 216,345.91 | 5.0% | \$ (9,524.47) | -4.4% | \$ 431,447 | \$ 206,821.44 | 47.9% |
| ALTA | \$ 84,600.52 | 1.8% | \$ 107,788.58 | 2.5% | \$ (23,188.06) | -21.5% | \$ 68,850 | \$ 84,600.52 | 122.9% |
| LITA | \$ 223,141.39 | 4.8% | \$ 240,513.30 | 5.6% | \$ (17,371.91) | -7.2% | \$ 510,402 | \$ 223,141.39 | 43.7% |
| ALSC | \$ 398,897.09 | 8.6% | \$ 375,503.47 | 8.8% | \$ 23,393.62 | 6.2% | \$ 991,881 | \$ 398,897.09 | 40.2% |
| YALSA | \$ 249,766.75 | 5.4% | \$ 214,157.45 | 5.0% | \$ 35,609.30 | 16.6% | \$ 372,572 | \$ 249,766.75 | 67.0% |
| Total | \$4,618,954.56 | 100.0% | \$4,286,856.76 | 100.0% | \$ 332,097.80 | 7.7% | \$14,421,445 | \$4,618,954.56 | 32.0% |

Direct/Indirect costs for the divisions increased during the year by \$332,0998 (7.7%) to \$4.6 million. Based on the revenue generated during the year the resulting rate was 32.0%, which is down from 36.8% last year or 13.0%. Note that general expenses for the divisions increased during the year by \$1.7 million (15.1%) to \$12.8 million, nearly 2X's the increase in indirect costs. As expected the larger divisions accounted for the bulk of the indirect costs incurred by the divisions at 62.8% compared to 60.2% in FY05. PLA accounted for most of the increase due to the fact that this was a conference year. A review of the individual division indirect rates reveals that each of the divisions had a rate that was higher than the overall ALA composite rate of 22.5%.

Below illustrates the amount of overhead incurred and paid by the divisions, as well as, the amount of additional support from the General Fund:

Overhead Incurred, Paid and GF Support

| <u>Unit</u> | <u>Indirect Costs Incurred</u> | <u>Indirect Costs Paid</u> | <u>Small Division Support</u> | <u>General Fund Support</u> |
|--------------|------------------------------------|--------------------------------|-----------------------------------|---------------------------------|
| PLA | \$ 963,371.59 | \$ 690,862 | | \$ 272,510 |
| ACRL | \$ 874,480.13 | \$ 121,683 | | \$ 752,797 |
| CHOICE | \$ 469,474.98 | \$ 311,875 | | \$ 157,600 |
| AASL | \$ 592,219.57 | \$ 348,604 | | \$ 243,616 |
| ASCLA | \$ 101,919.45 | \$ 1,792 | \$ 56,154 | \$ 156,281 |
| ALCTS | \$ 243,248.05 | \$ 33,972 | | \$ 209,276 |
| LAMA | \$ 211,013.61 | \$ 15,796 | | \$ 195,218 |
| RUSA | \$ 206,821.44 | \$ 16,038 | | \$ 190,783 |
| ALTA | \$ 84,600.52 | \$ 164 | \$ 85,961 | \$ 170,398 |
| LITA | \$ 223,141.39 | \$ 37,641 | | \$ 185,500 |
| ALSC | \$ 398,897.09 | \$ 82,364 | | \$ 316,533 |
| YALSA | <u>\$ 249,766.75</u> | <u>\$ 14,658</u> | <u>\$ -</u> | <u>\$ 235,109</u> |
| Total | <u>\$ 4,618,954.56</u> | <u>\$ 1,675,449</u> | <u>\$ 142,115</u> | <u>\$ 3,085,621</u> |

III. BASIC DIRECT COSTS

See Exhibits II below

IV. METHODOLOGY AND CHANGES IN FY 2006

A. The allocation methods used in FY 2006 study were consistent with the previous year.

V. OTHER CONSIDERATIONS

In an effort to fairly allocate indirect costs we continually review and update the Indirect Cost Study and its methodology to take into account changes in the revenue and cost environment or as better allocation methods become available. A number of expense areas were examined last July and August and there were a few issues that were identified as needing more review for possible change. To this end a more critical review will be made in July and August 2006. They are as follows:

1. Conferences
2. Publishing

Finance will be meeting with the units in question and critically analyze the costs that the association is currently encountering and the relevance of the allocation method being used. The allocation method established for use will be considered based on what is mutually fair and equitable.

COMPOSITE RATE*

Fiscal Year 2006

Publishing Department

| | Conferences | Graphics | Publishing | American Libraries | Overall Composite Rate |
|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|---|
| Indirect Cost Revenue | = $\frac{\$1,557,459}{\$8,106,316}$ | + $\frac{\$400,910}{\$1,855,601}$ | + $\frac{\$2,230,663}{\$9,016,038}$ | + $\frac{\$355,501}{\$1,131,745}$ | = $\frac{\$4,544,533}{\$20,109,700}$ = 22.6% |
| Unit Rate | 19.2% | 21.6% | 24.7% | 31.4% | 22.6% |
| Revenue per \$ Indirect Cost | \$5.20 | \$4.63 | \$4.04 | \$3.18 | \$4.43 |

Fiscal Year 2005

| | Conferences | Graphics | Publishing | American Libraries | Overall Composite Rate |
|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|---|
| Indirect Cost Revenue | = $\frac{\$1,556,381}{\$8,018,918}$ | + $\frac{\$370,381}{\$1,949,416}$ | + $\frac{\$2,002,708}{\$8,923,740}$ | + $\frac{\$371,771}{\$1,138,039}$ | = $\frac{\$4,301,241}{\$20,028,113}$ = 21.5% |
| Unit Rate | 19.4% | 19.0% | 22.4% | 32.7% | 21.5% |
| Revenue per \$ Indirect Cost | \$5.15 | \$5.26 | \$4.46 | \$3.06 | \$4.66 |

DIVISION COMPOSITE RATE**

| | | | | |
|-------------------------------------|--------------------------------------|----------------|--------------------------------------|----------------|
| Indirect Cost Revenue | = $\frac{\$4,286,857}{\$11,639,576}$ | = 36.8% | = $\frac{\$4,618,955}{\$14,421,445}$ | = 32.0% |
| Revenue per \$ Indirect Cost | \$2.72 | | \$3.12 | |

TOTAL ALA COMPOSITE RATE***

| | | | | |
|-------------------------------------|---------------------------------------|----------------|---------------------------------------|----------------|
| Indirect Cost Revenue | = $\frac{\$14,408,610}{\$38,556,819}$ | = 37.4% | = $\frac{\$15,712,832}{\$41,485,114}$ | = 37.9% |
| Revenue per \$ Indirect Cost | \$2.68 | | \$2.64 | |

NEH RATE

| | | | |
|----------------------|----------------|---------------------|----------------|
| Previous Rate | = 23.1% | Current Rate | = 23.9% |
| | 2005 | 2006 | |

*Indirect Costs for Conferences+Graphics+Publishing+Amer.Lib./Revenues for Conferences+Graphics+Publishing+Amer.Lib.

**Division Indirect Costs/Division Revenues

***Total ALA Indirect costs (less Restricted Fund and affiliates)/Total ALA Operating Revenues. Total operating revenue is defined as General Fund (\$26,713,644), Divisions (\$14,421,445), Round Tables (\$350,025) and Plant Fund (\$0).

BASIC DIRECT COSTS

Exhibit II

| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>FY 05-06</u> <u>\$ Change</u> | <u>FY 05-06</u> <u>% Change</u> |
|---------------------------------------|----------------------|----------------------|----------------------|-------------------------------------|------------------------------------|
| EXPENSES AREAS | | | | | |
| A. Distribution Center (Net) | \$ 147,003 | \$ 186,824 | \$ 201,890 | \$ (39,821) | -27.1% |
| B. Building Operations | \$ 1,487,362 | \$ 1,069,865 | \$ 1,143,657 | \$ 417,497 | 28.1% |
| C. Human Resources | \$ 595,012 | \$ 587,863 | \$ 584,725 | \$ 7,149 | 1.2% |
| D. Library/ORS | \$ 531,676 | \$ 484,406 | \$ 366,386 | \$ 47,270 | 8.9% |
| E. Production Services (Net) | \$ (198,509) | \$ (25,598) | \$ (54,862) | \$ (172,911) | 87.1% |
| F. Reprographics (Net) | \$ (35,363) | \$ (31,352) | \$ (60,589) | \$ (4,011) | 11.3% |
| G. Membership Services | \$ 881,942 | \$ 848,019 | \$ 1,042,491 | \$ 33,923 | 3.8% |
| H. Small Division Support* | \$ 142,115 | \$ 135,507 | \$ 238,601 | \$ 6,608 | 4.6% |
| I. American Subscription Equivalents* | \$ 586,608 | \$ 417,035 | \$ 600,974 | \$ 169,573 | 28.9% |
| J. Operating Supplies* | \$ 29,581 | \$ 49,814 | \$ 60,542 | \$ (20,233) | -68.4% |
| K. Equipment and Maintenance/Lease* | \$ - | \$ 47,369 | \$ 87,407 | \$ (47,369) | #DIV/0! |
| L. Telephone (Net)* | \$ 70,920 | \$ 45,882 | \$ 57,825 | \$ 25,038 | 35.3% |
| M. Public Information Office | \$ 647,283 | \$ 626,596 | \$ 531,801 | \$ 20,687 | 3.2% |
| N. Information Tech. & Tele. Services | \$ 1,834,861 | \$ 1,779,801 | \$ 2,039,246 | \$ 55,060 | 3.0% |
| O. Fiscal Services | \$ 1,178,587 | \$ 1,177,435 | \$ 1,228,744 | \$ 1,152 | 0.1% |
| P. Audit & Bank Fees* | \$ 219,575 | \$ 478,232 | \$ 408,139 | \$ (258,657) | -117.8% |
| Q. Communications - AED | \$ 233,440 | \$ 349,598 | \$ 262,407 | \$ (116,158) | -49.8% |
| R. Public Programs | \$ 222,448 | \$ 189,654 | \$ 140,269 | \$ 32,794 | 14.7% |
| S. Post Retirement Benefits* | \$ 1,776,000 | \$ 1,588,000 | \$ 1,296,000 | \$ 188,000 | 10.6% |
| T. General & Administration | | | | | |
| - Council/Administration/Committees | \$ 107,063 | \$ 126,251 | \$ 96,962 | \$ (19,188) | -17.9% |
| - Executive Board | \$ 271,756 | \$ 337,608 | \$ 253,019 | \$ (65,852) | -24.2% |
| - Executive Office | \$ 660,533 | \$ 656,325 | \$ 613,348 | \$ 4,208 | 0.6% |
| - Member Programs & Services - AED | \$ 222,448 | \$ 180,617 | \$ 179,915 | \$ 41,831 | 18.8% |
| - Staff Support/Office Services | \$ 561,433 | \$ 530,390 | \$ 498,835 | \$ 31,043 | 5.5% |
| - General Business Expense | \$ 420,707 | \$ 465,875 | \$ 367,713 | \$ (45,168) | -10.7% |
| - Organizational Support* | <u>\$ 248,592</u> | <u>\$ 60,840</u> | <u>\$ 66,350</u> | <u>\$ 187,752</u> | <u>75.5%</u> |
| TOTAL DIRECT COSTS | <u>\$ 12,843,073</u> | <u>\$ 12,362,856</u> | <u>\$ 12,251,795</u> | <u>\$ 480,217</u> | <u>3.7%</u> |
| \$ Change (+/-) | \$ 480,217 | \$ 111,061 | \$ 11,771,578 | \$ 369,156 | 76.9% |
| % Change (+/-) | 3.7% | 0.9% | 7.0% | | |
| % of Total ALA Expenses | 28.3% | 28.7% | 28.4% | | |
| TOTAL ALA COSTS (EXPENSES) | <u>\$ 45,374,631</u> | <u>\$ 43,018,882</u> | <u>\$ 43,126,198</u> | <u>\$ 2,355,749</u> | <u>5.5%</u> |

*A component of General Business Expenses, but separated for illustration purposes.