

TO: ALA Executive Board
Finance & Audit Committee
BARC

FROM: Mary Ghikas – Executive Director
Mark Leon - CFO

RE: Findings of the 2018 Indirect Cost Study for the FY21 Budget

RECOMMENDATION: To

DATE: June 21, 2019

BACKGROUND:

One of the fundamental assumptions of the Operating Agreement, which was established as ALA policy in 1989 and which governs the relationship between ALA and the divisions, is that ALA is one Association, and that the revenues generated by the ALA units will help support the overall mission, strategic goals and operation of the Association. This includes:

- **Basic Infrastructure** – some examples include facilities, utilities, finance, human resources, computer systems, legal services, obligations to ALA retirees.
- **Mission-related programs serving libraries, librarians and the public** – some examples include the Washington Office, Office for intellectual Freedom, Office for Diversity, Literacy and Outreach Services and Development Office.

In the case of the divisions, the mechanism by which this shared responsibility for supporting the association is contained in section C of the operating agreement. Under this section, an **overhead rate** is calculated each year. This overhead is applied to all revenue generated by ALA publishing and ALA conferences and certain revenue generated by the divisions. The method of calculating this overhead rate was established through an operating practice as specified in the operating agreement. The operating practice for the overhead rate calculation dates back to 1989.

Under policy, the computation of this contribution rate is established through an operational practice. Operational practices are “developed by the ALA Executive Director with the ALA Department Heads in consultation with the Division executive directors and appropriate personnel in the department responsible for the activity described”.

The finance department staff has recently completed the 2018 Indirect Cost Study. The results from this study will be applied to the development of the FY 2021 budget. After reviewing the preliminary results with the finance staff, the resulting rate was 27.2%. While the

overall level of the combined direct/indirect costs for the Association were lower than the prior year, components of the formula i.e. the rate, were impacted by higher expenses in IT, which were offset by higher revenue from the joint project between Publishing and AASL.

In view of the pending impact of additional IT investments in the coming years, it is my recommendation that we maintain the current rate of 26.5% for an additional two years for the FY21 and FY22 budgets.