

Date: April 10, 2014
To: Keith Michael Fiels
Gregory Calloway
Department Heads
CC: Unit Heads
From: Keith D. Brown
Re: FY 2013 Indirect Cost Study Summary

The following is a summary of the results from FY 2013 Indirect Cost Study. The information generated from the study will be used to determine the ALA composite/indirect cost rate as defined in the ALA Operating Agreement. The resulting rate from this study will be applied to the FY 2016 budget. A description of the basic assumptions and methodology are noted below in Section I. The significant cost variances are explained in Section III.

For the fiscal year ended 8-31-13, the mandated Operating Agreement derived composite (indirect) rate as calculated by the annual indirect cost study is 25.9%. This represents an increase of 0.5 in absolute numerical terms and 2.0% in percentage terms as illustrated below. This rate compares to the study generated total ALA overall composite/indirect rate of 38.7%, the division generated rate of 35.5% and an NEH rate of 24.4%. The NEH rate is a negotiated rate and ALA is requesting 21.0% for the coming year. See exhibits I & II for the formula details and yearly comparisons.

	<u>8/31/13</u>	<u>8/31/12</u>	<u>8/31/11</u>
Composite/Indirect Rate	25.9%	25.4%	24.2%
Numerical Change	0.5	1.2	-1.3
% Change	2.0%	5.0%	-5.1%

The ALA Operating Agreement stipulates that certain ALA revenues from the divisions and publishing will be assessed at a specific percentage of the stated composite rate. As such, division conference revenue and publishing revenue will be assessed the composite/indirect rate at 100% and 50% respectively. This translates into a rate of 25.9% on division conference revenue and 13.0% on publishing related revenue.

I. Methodology and Changes in FY 2013

As with every year each allocation method for each cost center is reviewed. The allocation methods used in the FY 2013 study were consistent with the previous year with the exception of the costs in

Membership Services. Prior years consisted primarily of allocating the total Direct Cost, Indirect Cost, Subscription Equivalents and Small Division Support. This allocation of costs will remain the same. However, what will change is the number of units impacted.

During the review process for Membership Services, it was noted that there was no allocation of costs to Publishing. However, there are a number of publishing related subscriptions i.e. RDA, Guide to Reference, American Libraries, LTR etc., that are processed on their behalf by Membership Services.

II. Basic Direct Costs

The direct costs illustrated in exhibit III are for the individual cost centers i.e. schedules that act as the foundation or first step for the indirect cost study. For FY 2013 direct costs in the study declined by \$599,208 (-4.7%) to \$12.1 million. This compares to total ALA expenses which increased by \$305,767 (0.6%) to \$51.8 million. The most significant declines were in General Business Expense (\$406,522) related to the amortization of intangibles in the Neal-Schuman operation (\$223,753) and Miscellaneous (\$237,008), Subscription Equivalents (\$227,528) and Building Operations (\$146,431).

III. Significant Direct/Indirect Cost Variances by Cost Type and Group Summary

The following represents the allocation of costs of specific cost types (centers) that generate either direct costs only i.e. audit fees, operating supplies etc. or a combination of direct and indirect costs i.e. Human Resources, ITTS etc.. As a result total ALA Direct/Indirect costs for FY13 increased during the year by \$358,232 (2.1%) to \$17.5 million. This compares to an increase in total ALA expenses of \$305,767 (0.6%) to \$51.8 million.

The following represents the changes in the various cost types:

<u>Cost Type</u>	<u>2013</u>	<u>% Total</u>	<u>2012</u>	<u>% Total</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Supplies	\$ 11,131	0.1%	\$ 11,537	0.1%	\$ (406)	-3.5%
Telephone	\$ 39,547	0.2%	\$ 96,303	0.6%	\$ (56,756)	-58.9%
Equip/Main	\$ (1,317)	0.0%	\$ (136,138)	-0.8%	\$ 134,821	99.0%
Human Resources	\$ 788,724	4.5%	\$ 727,331	4.2%	\$ 61,393	8.4%
Building Operations	\$ 1,730,795	9.9%	\$ 1,724,630	10.0%	\$ 6,165	0.4%
Reprographics	\$ 15,015	0.1%	\$ 9,674	0.1%	\$ 5,341	55.2%
Distribution Center	\$ 236,632	1.3%	\$ 228,511	1.3%	\$ 8,120	3.6%
ITTS	\$ 2,649,586	15.1%	\$ 2,596,684	15.1%	\$ 52,902	2.0%
HQ Library/ORS	\$ 643,383	3.7%	\$ 652,694	3.8%	\$ (9,311)	-1.4%
Fiscal Services	\$ 1,944,238	11.1%	\$ 1,782,667	10.4%	\$ 161,570	9.1%
Audit Fees	\$ 88,688	0.5%	\$ 95,071	0.6%	\$ (6,383)	-6.7%
Publishing AED	\$ 151,131	0.9%	\$ 140,037	0.8%	\$ 11,094	7.9%
Production Services	\$ (16,934)	-0.1%	\$ 48,616	0.3%	\$ (65,551)	134.8%
PIO	\$ 661,652	3.8%	\$ 672,031	3.9%	\$ (10,379)	-1.5%
Membership Services	\$ 1,402,230	8.0%	\$ 1,613,636	9.4%	\$ (211,406)	-13.1%

General Administration	<u>\$ 7,197,089</u>	<u>41.0%</u>	<u>\$ 6,920,070</u>	<u>40.3%</u>	<u>\$ 277,019</u>	<u>4.0%</u>
Total	<u>\$ 17,541,587</u>	<u>100.0%</u>	<u>\$ 17,183,355</u>	<u>100.0%</u>	<u>\$ 358,232</u>	<u>2.1%</u>

The following is a more detailed explanation of the most significant year to year changes by “Cost Type”:

- A. **General Administration** – Direct/Indirect costs related to General Administration expenses increased by \$277,019 (4.0%) to \$7.2 million. This is primarily a result of the year to year change in indirect expenses allocated to publishing activity, particularly ALA Editions which includes the first full year of operations for Neal-Schuman publishing. .
- B. **Fiscal Services** – Direct/Indirect costs increased during the year by \$161,570 (9.1%) to \$1.9 million as a result of higher direct costs (\$138,944) related to a full year of a new position (Director of Compliance and Financial Reporting) and full operating capacity in the department.
- C. **Equipment/Maintenance** – Direct costs increased by \$134,921 (99.0%) as costs were more normalized after a credit of (\$136,138) from the prior year. The prior period account adjustment, per the auditors, reflected a reclassification of the associations’ computer equipment from operating leases to capital leases.
- D. **Membership Services** – Direct/Indirect costs declined by \$211,406 (-13.1%) to \$1.4 million primarily as a result of a reduction in the amount of Subscription Equivalents (\$227,528) resulting in lower indirect costs in the Divisions (\$76,098), the Offices/Committees (\$70,870) and Conferences (\$63,275).

The following represents another look at the costs types from the perspective of the groups or areas generating the cost

<u>Group Summary</u>	<u>2013</u>	<u>% Total</u>	<u>2012</u>	<u>% Total</u>	<u>\$ Change</u>	<u>% Change</u>
Support Units	\$ 3,110,775	17.7%	\$ 2,999,545	17.5%	\$ 111,231	3.7%
Offices & Committees	\$ 2,707,377	15.4%	\$ 2,794,580	16.3%	\$ (87,203)	-3.1%
Conferences	\$ 1,598,629	9.1%	\$ 1,577,565	9.2%	\$ 21,064	1.3%
Products & Promotions	\$ 217,820	1.2%	\$ 270,880	1.6%	\$ (53,061)	-19.6%
Publishing	\$ 3,803,759	21.7%	\$ 3,293,042	19.2%	\$ 510,718	15.5%
Divisions	\$ 4,795,243	27.3%	\$ 4,897,159	28.5%	\$ (101,916)	-2.1%
Roundtables	\$ 239,023	1.4%	\$ 360,155	2.1%	\$ (121,132)	-33.6%
Restricted Funds	\$ 991,254	5.7%	\$ 899,700	5.2%	\$ 1,555	10.2%
Related Interest Groups	\$ 77,706	0.4%	\$ 90,729	0.5%	\$ (13,023)	-14.4%
Total	<u>\$ 17,541,587</u>	<u>100.0%</u>	<u>\$ 17,183,355</u>	<u>100.0%</u>	<u>\$ 358,232</u>	<u>2.1%</u>

Below are comments related to the most significant changes in the direct/indirect costs based on reconfiguring the above cost types into group summaries. The major group summary variances were:

- A. **Publishing** – Direct/Indirect costs increased by \$510,718 (15.5%) to \$3.8 million primarily as a result of increased expenses related to a higher allocation of costs in General Administration (\$195,163) and Fiscal Services (\$201,446).

- B. **Support Units** – Direct/Indirect costs increased during the year by \$111,231 (3.7%) to \$3.1 million primarily as a result a higher allocation of costs to Equipment/Maintenance (\$54,753) and Personnel (\$66,468).

- C. **Roundtables** – Direct/Indirect costs declined during the year by \$121,132 (-33.6%) to \$239,023 due to a lower allocation in Fiscal Services (\$94,000) as the number of financial transactions declined significantly during the year.

- D. **Divisions** – Direct/Indirect costs declined by \$101,916 (-2.1%) to \$4.8 million. The most significant changes were reductions in Production Services (\$84,996), Membership Services (\$76,098) and General Administration (\$33,515).

IV. OTHER CONSIDERATIONS

In an effort to fairly allocate direct and indirect costs in the annual study, staff continually reviews and updates the Indirect Cost study model and the methodology used to take into account changes in the revenue sources/types, the cost environment and particularly better allocation methods as they become available. A number of expense areas continue to be examined in order to determine if any changes need to be made so that the most efficient and fair allocation method is used. Areas under review to develop a more equitable allocation method are:

1. ITTS
2. PIO

COMPOSITE RATE*

		Publishing Department				Overall Composite Rate	
		Conferences	Graphics	Publishing	American Libraries		
Fiscal Year 2013							
Indirect Cost	=	\$1,598,629	\$217,820	\$3,438,602	\$365,157	\$5,620,208	=
Revenue		\$8,864,398	\$1,085,234	\$10,893,797	\$891,395	\$21,734,824	= <u>25.9%</u>
Unit Rate		18.0%	20.1%	31.2%	41.0%	25.9%	
Revenue per \$ Indirect Cost		\$5.55	\$4.98	\$3.17	\$2.44	\$3.87	

		Conferences	Graphics	Publishing	American Libraries	Overall Composite Rate	
Fiscal Year 2012							
Indirect Cost	=	\$1,577,565	\$270,880	\$2,754,177	\$538,864	\$5,141,487	=
Revenue		\$7,765,055	\$1,288,498	\$10,357,203	\$806,758	\$20,217,514	= <u>25.4%</u>
Unit Rate		20.3%	21.0%	28.6%	66.8%	25.4%	
Revenue per \$ Indirect Cost		\$4.96	\$5.39	\$3.56	\$3.37	\$4.06	

DIVISION COMPOSITE RATE**

Indirect Cost	=	<u>2012</u> \$4,897,159	=	31.9%	<u>2013</u> \$4,795,243	=	35.5%
Revenue		\$15,337,546			\$13,489,583		
Revenue per \$ Indirect Cost		\$3.13			\$2.81		

TOTAL ALA COMPOSITE RATE***

Indirect Cost	=	<u>2012</u> \$16,192,926	=	37.7%	<u>2013</u> \$16,472,626	=	38.7%
Revenue		\$42,933,963			\$42,563,243		
Revenue per \$ Indirect Cost		\$2.65			\$2.58		

NEH RATE

Previous Rate	=	24.4%	Current Rate	=	0.0%
		2012	2013		

*Indirect Costs Conferences+Graphics+Publishing+Amer.Lib./Revenues 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 (\$28,662,910), Divisions (\$13,489,583), Round Tables (\$410,750).

DIRECT/INDIRECT COST CHANGES

<u>Cost Type</u>	<u>2013</u>	<u>% Total</u>	<u>2012</u>	<u>% Total</u>	<u>\$ Change</u>	<u>% Change</u>
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BASIC DIRECT COSTS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>FY 13 -12</u> <u>\$ Change</u>	<u>FY 13 -12</u> <u>% Change</u>
EXPENSES AREAS					
A. Distribution Center (Net)	\$ 171,463	\$ 165,963	\$ 166,966	\$ 5,500	3.3%
B. Building Operations	\$ 1,561,463	\$ 1,707,894	\$ 1,799,232	\$ (146,431)	-8.6%
C. Human Resources	\$ 679,409	\$ 621,873	\$ 643,362	\$ 57,536	9.3%
D. HQ Library/ORS	\$ 474,457	\$ 491,725	\$ 474,267	\$ (17,268)	-3.5%
E. Production Services (Net)	\$ (39,604)	\$ 27,899	\$ (20,188)	\$ (67,503)	242.0%
F. Reprographics (Net)	\$ (29,145)	\$ (32,944)	\$ (23,447)	\$ 3,799	11.5%
G. Membership Services	\$ 737,679	\$ 740,030	\$ 783,665	\$ (2,351)	-0.3%
H. Small Division Support*	\$ 98,160	\$ 92,487	\$ 80,187	\$ 5,673	6.1%
I. American Subscription Equivalents*	\$ 345,975	\$ 573,503	\$ 617,646	\$ (227,528)	-39.7%
J. Operating Supplies*	\$ 11,131	\$ 11,537	\$ 19,865	\$ (406)	-3.5%
K. Equipment and Maintenance/Lease*	\$ (1,317)	\$ (136,138)	\$ 29,687	\$ 134,821	99.0%
L. Telephone (Net)*	\$ 39,547	\$ 96,303	\$ 16,804	\$ (56,756)	-58.9%
M. Public Information Office	\$ 497,362	\$ 515,730	\$ 496,293	\$ (18,368)	-3.6%
N. Information Tech. & Tele. Services	\$ 2,477,398	\$ 2,441,153	\$ 2,408,887	\$ 36,245	1.5%
O. Fiscal Services	\$ 1,543,060	\$ 1,404,116	\$ 1,422,195	\$ 138,944	9.9%
P. Audit & Bank Fees*	\$ 416,513	\$ 387,134	\$ 491,331	\$ 29,379	7.6%
Q. Communications - AED	\$ 585,484	\$ 508,736	\$ 569,816	\$ 76,748	15.1%
R. Public Programs	\$ 160,028	\$ 163,151	\$ 153,180	\$ (3,123)	-1.9%
S. Post Retirement Benefits*	\$ 329,244	\$ 341,853	\$ 1,330,694	\$ (12,609)	-3.7%
T. General & Administration					
- Council/Administration/Committees	\$ 124,984	\$ 131,853	\$ 130,350	\$ (6,869)	-5.2%
- Executive Board	\$ 304,340	\$ 317,295	\$ 291,100	\$ (12,955)	-4.1%
- Executive Office	\$ 874,078	\$ 892,606	\$ 732,835	\$ (18,528)	-2.1%
- Member Programs & Services - AED	\$ 219,538	\$ 230,606	\$ 204,525	\$ (11,068)	-4.8%
- Staff Support/Office Services	\$ 194,381	\$ 252,828	\$ 419,623	\$ (58,447)	-23.1%
- Legal Fees	\$ 178,535	\$ 185,527	\$ 159,380	\$ (6,992)	-3.8%
- General Business Expense	\$ 98,796	\$ 505,318	\$ (348,640)	\$ (406,522)	80.4%
- Organizational Support*	\$ 91,671	\$ 105,800	\$ 99,003	\$ (14,129)	-13.4%
Total Direct Costs	<u>\$ 12,144,630</u>	<u>\$ 12,743,838</u>	<u>\$ 13,148,618</u>	<u>\$ (599,208)</u>	<u>-4.7%</u>
\$ Change (+/-)	\$ (599,208)	\$ (404,780)	\$ 111,061		
% Change (+/-)	-4.7%	-3.2%	0.9%		
% of Total ALA Expenses	23.4%	24.7%	27.2%		
Total ALA Expenses	<u>\$ 51,831,180</u>	<u>\$ 51,525,413</u>	<u>\$ 48,329,260</u>	<u>\$ 305,767</u>	<u>0.6%</u>

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