

FACT SHEET ON ALA'S INDIRECT COSTS

There are some topics within the Association that are controversial and or confusing. None more so than indirect costs - what is and how it is applied.

1. **What is the Indirect Cost Rate¹?** It is the portion, determined by a composite formula, of the commonly shared costs of the ALA organization that is attributed to the specific unit in their annual budget.

2. **What are Indirect Costs?** These are the expenses of maintaining ALA's general administration, human resources, finance/accounting offices, technology services, building maintenance, computers, telephone, supplies, etc. that are incurred as costs of operating the Association's general offices. Expenses incurred for these association operations, with rare exception, are paid from the General Fund.

Example of how expenses are attributed: Financial services by the # of financial transactions processed, staff support by assigned square footage, human resources by #FTE's, communications by membership statistics etc.

3. **Why is the Indirect Cost Rate Important?** The costs for organization-wide services is recognized and divided among the subsidiary units of ALA based on a formula. This method maintains the solvency of ALA's General Fund year round.

4. **How was the Indirect Cost Rate Developed?** It is based on the agreement among all ALA divisions and units which was concluded at the 1989 Annual Conference, after extensive debate and negotiation. This agreement is called the Operating Agreement.

5. **What is the formula used to establish the Indirect Cost Rate?**

The Operating Agreement set forth a comprehensive financial model that allocates all of ALA's direct and indirect expenses. The financial offices have used the model for every budget year since.

6. **When is the Indirect Cost Rate for the unit determined?**

It is reconfigured annually, usually following Midwinter while the ALA budget is being developed. The Finance Department uses the year-end final audited financial statements after their examination and approval by the ALA Executive Board. They also consider internal financial performance reports, which include how close to revenue, how close to expenditure targets, and how targets are changed within each ALA unit.

¹ Also known as the "Composite" rate

HOW IS THE INDIRECT COST RATE APPLIED?

No Indirect cost rate will be applied on revenue from:

- Dues
- Donations
- Interest income
- ALA royalties to a Division
- Travel expenses reimbursed from outside organizations
- Separately ticketed events at conference – tours/meal functions, for instance
- Advertising²

The Indirect cost rate will be applied to non-dues revenue generating activities as follows:

- The Indirect rate will be applied as **100% of the composite rate** on revenue from Division Conferences:
 - Registration fees
 - Exhibit Space
 - Meal Functions³
- The Indirect rate will be applied at **50% of the composite rate** on revenue from Publishing:
 - Sales of materials
 - Subscriptions
 - Advertising⁴
 - Miscellaneous fees (for production and distribution?)

² Except in those publications that are provided to Division members as pa