

*Taken from the PMC Report,  
2002 - 2003 CD # 17.1 of the 2003 AC*

**Item 3.** Based on Council Document #16.1 (Midwinter Meeting 2003), submitted by the ALA Treasurer and the Endowment Trustees, approved by ALA Council, the PMC recommends that Policy 8.5.1 be revised to read:

**Policy 8.5.1 Long-Term Investment Funds: Association's Use/Withdrawal and Repayment**

*Adopted  
by Council  
at the  
2003 MW.*

In the preparation of the ALA annual budget the ALA Executive Director is authorized to include a) interest and dividend income generated annually in the ALA Future Fund or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in the ALA Future Fund less any interest and dividend income transferred to the operating fund. Additionally, the Executive Directors of the Divisions and the liaisons for the Round Tables are authorized to include in the preparation of their annual budgets a) interest and dividend income generated annually or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in the respective unrestricted funds. The 50% five year moving average shall be calculated by averaging the interest, dividends and market gains (realized/unrealized) less bank fees, other investment related expenses and any interest and dividends that have been transferred to the operating budget. This calculation excludes any contributions or withdrawals made over the trailing five-year period, Withdrawals using the net 50% five-year moving average do not require repayment.

**Use of Fund**

Listed below are the primary instances whereby withdrawals from the Long-Term Investment Fund can be made:

**A. Program Support**

The General Fund, Divisions and Round Tables can request funds from their respective Long Term Investment funds to support one-time programs.

**B. Emergencies**

Emergencies will include financial disaster due to a major revenue shortfall, act of God, building catastrophe, major lawsuit, etc.

**C. New Initiatives**

New Initiatives will include projects or programs that are multi-year in nature and deemed important to the future of the Association, Divisions, Round Tables or units.

Withdrawal of the investment funds for uses stated above may be supported by interest and dividends or the 50% moving average. Amounts requested to be withdrawn in excess of the greater of interest and dividends or the 50% moving average will require repayment with interest.

**D. Scholarships & Awards**

**Allowable withdrawals from temporarily restricted and unrestricted Long-Term investment funds designated for named scholarships and awards will be made to the extent necessary to support the award of scholarship according to its stipulations and requirements. If the interest and dividends of a scholarship or award is not adequate, the amount in the temporary restricted and unrestricted investments designated for named scholarships may be used up to the limits of any permanent or donor restrictions.**

**E. Life Membership Funds**

**Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for Life Membership will be made from the Life Membership Fund to the extent necessary to support the annual membership fee for the participants.**

**F. Transfer of Existing Funds**

**It is allowable to make a transfer from an existing unrestricted fund for the establishment of a new and or in support of an existing scholarship fund, program or initiative fund within the Long-Term Investment Fund.**

**Withdrawal/Transfer/Repayment**

**All withdrawals for any purpose referenced in A, B, C and the 50% five year moving average must be approved through the regular budget process.**

**Repayment of any withdrawals from the Long-Term Investment Fund for any of the following events will be required at the prevailing ALA borrowing rate with the term to be recommended by management and approved by the Executive Board.**

- a. Program Support**
- b. Emergencies**
- c. New Initiatives**

**The annual withdrawal of interest or dividends from the Long-Term Investment fund will not require repayment.**

**Item 4. Based on Council Document #20.1 (Midwinter Meeting 2003), submitted by the Committee on Legislation, approved by ALA Council, the PMC recommends:**

**Policy 52.4.1 The Rights of Library Users and the USA Patriot Act**

**The American Library Association opposes any use of governmental power to suppress the free and open exchange of knowledge and information or to intimidate individuals exercising free inquiry. All librarians, library administrators, library governing bodies, and library advocates are encouraged to educate their users, staff, and communities about the process for compliance with the USA Patriot Act and other related measures and about the dangers to individual privacy and the confidentiality of library records resulting from those measures. (See "Current**

To: ALA Council

From: Rick Schwieterman, Senior Endowment Trustee  
Liz Bishoff, ALA Treasurer

Date: January 10, 2003

RE: Revisions to Long-Term Investment Policy 8.5.1

This past fall the Endowment Fund Strategic Growth Task Force<sup>1</sup> met to review all aspects of the ALA Endowment Fund (*now known as the Long-Term Investment Fund*). The primary purpose of the Task Force was to discuss the development of a strategic plan to grow ALA's Long-Term Investment Fund. A critical part of the meetings dealt with an evaluation and review of the current financial policies guiding the use of these investments. A critical part of the analysis was a review of ALA policy 8.5.1. This analysis resulted in an attempt by the Task Force to clarify the use of ALA's long-term investments and establish the appropriate repayment for withdrawals from the investment funds. This analysis was shared and discussed with the Executive Board during their fall board meetings. The outcome of these discussions led to the following recommended modifications to current policy 8.5.1.

#### Purpose of Recommendation

The task force recommendations focused on current policy particularly in light of several withdrawals made from the ALA Future Fund. This is the portion of the Long-Term Investment Fund that the ALA Executive Board can utilize for unrestricted expenditures. Council may recall that in 1997 Policy 8.5.1 was revised from a terminology standpoint based upon changes in the rules issued by the Financial Standards Accounting Board (FASB) as well as reflecting changes in organizational procedure. (Note that a definition of terms is included with this document.)

The current policy recommendations reflected in this document more clearly define the use of investments, withdrawal procedures for budgeting purposes

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<sup>1</sup> The Endowment Fund Task Force is composed of the Endowment Trustees, Sarah Long, John Popko and Jeanne Thorsen

and repayment terms for certain withdrawals. Specifically you will note that provision has been included in the policy revision to provide a means to use investment funds for new initiatives that may span multiple years. Note that the recommended policy is applicable to all Divisions, Round Tables and units, as well as, the ALA Future Fund. The current policy 8.5.1 only specifies the Future Fund. The modifications also establish best practices related to repayment of certain withdrawals, which are critical to the objectives outlined in the companion document "ALA Strategic Investment Growth Plan".

(Current policy is in italics, proposed policies are in bold.)

### **Current Policy 8.5.1**

#### ***8.5.1 Investment Funds: Association's Strategic Priorities/Mission***

*The Executive Director, in preparation of the ALA annual budget, is authorized to include in the proposed budget, in any given year, an amount not to exceed fifty percent (50%) of a five-year moving average of the appreciation of the ALA Future Fund. The ALA Executive Board must authorize all withdrawals from the ALA Future Fund. For emergencies: The Executive Board shall also authorize withdrawals from the ALA Future Fund when the purposes and programs of the Association would otherwise be seriously impaired; such withdrawals to be considered only with specific repayment schedules and interest rates set at the time of the withdrawal. Scholarships/Awards: Allowable withdrawals from temporarily restricted and unrestricted investment funds designated for named scholarships and awards will be made to the extent necessary to support the award or scholarship according to it's stipulations and requirements. If the amount in the temporary restricted and unrestricted investment funds are not adequate, the principle of the fund may be used, up to the limits of any permanent or donor restrictions.*

### **Background**

This policy revision is applicable to the Long-Term Investment Fund activities of the General Fund, Divisions and Round Tables. The policy addresses use, withdrawals and repayment of funds. The adoption of this policy will replace any policies or procedures previously adopted which are in conflict with the spirit, intent and purpose of the policy 8.5.1 as revised. Specifically the revised policy addresses the payback terms and conditions when the principal of the investments are withdrawn. Units of the association may withdraw interest and dividends to support its activities.

Units may withdraw 50% of the five year moving average of the funds appreciation less interest income transferred to the unit, if any. Specific uses and conditions for repayment consist of the following:

**Revised Policy 8.5.1 – Long-Term Investment Funds: Association’s Use/Withdrawal and Repayment**

In the preparation of the ALA annual budget the ALA Executive Director is authorized to include a) interest and dividend income generated annually in the ALA Future Fund or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in the ALA Future Fund less any interest and dividend income transferred to the operating fund. Additionally, the Executive Directors of the Divisions and the liaisons for the Round Tables are authorized to include in the preparation of their annual budgets a) interest and dividend income generated annually or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in their respective unrestricted funds. The 50% five-year moving average shall be calculated by averaging the interest, dividends and market gains (realized/unrealized) less bank fees, other investment related expenses and any interest and dividends that have been transferred to the operating budget. This calculation excludes any contributions or withdrawals made over the trailing five-year period. Withdrawals using the net 50% five-year moving average do not require repayment.

**Use of Fund**

Listed below are the primary instances whereby withdrawals from the Long-Term Investment Fund can be made.

**A. Program Support**

The General Fund, Divisions and Round Tables can request funds from their respective Long Term Investment funds to support one-time programs.

**B. Emergencies**

Emergencies will include financial disaster due to a major revenue shortfall, act of God, building catastrophe, major lawsuit, etc.

### **C. New Initiatives**

New Initiatives will include projects or programs that are multi-year in nature and deemed important to the future of the Association, Divisions, Round Tables or units.

Withdrawal of the investment funds for uses stated above may be supported by interest and dividends or the 50% moving average. Amounts requested to be withdrawn in excess of the greater of interest and dividends or the 50% moving average will require repayment with interest.

### **D. Scholarships & Awards**

Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for named scholarships and awards will be made to the extent necessary to support the award or scholarship according to its stipulations and requirements. If the interest and dividends of a scholarship or award is not adequate, the amount in the temporary restricted and unrestricted investments designated for named scholarships may be used up to the limits of any permanent or donor restrictions.

### **E. Life Membership Funds**

Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for Life Membership, will be made from the Life Membership Fund to the extent necessary to support the annual membership fee for the participants.

### **F. Transfer of Existing Funds**

It is allowable to make a transfer from an existing unrestricted fund for the establishment of a new and or in support of an existing scholarship fund, program or initiative fund within the Long-Term Investment Fund.

**Withdrawal/Transfer/Repayment**

**All withdrawals for any purpose referenced in A, B, C and the 50% five year moving average must be approved through the regular budget process. Prior to expenditure, all budgeted withdrawals must be further approved by the Executive Board.**

**Repayment of any withdrawals from the Long-Term Investment Fund for any of the following events will be required at the prevailing ALA borrowing rate with the term to be recommended by management and approved by the Executive Board.**

- a. Program Support**
- b. Emergencies**
- c. New Initiatives**

**The annual withdrawal of interest or dividends from the Long-Term investment fund will not require repayment.**

## ALA FINANCIAL TERMS GLOSSARY

### SECTION I – ALA ORGANIZATIONAL TERMS

**Not-For-Profit (Tax Exempt) Organization (501 C (3))** – An entity that possesses the following characteristics that distinguish it from a business enterprise: (A) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return (B) operating purposes other than to provide goods or services at a profit, and (C) absence of ownership interests like those of business enterprises. Not-for-profit organizations have those characteristics in varying degrees.

**Endowment Fund** – An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established to provide a permanent endowment, which is to provide a permanent source of income. The principal of a permanent endowment must be maintained permanently i.e., not used up, expended, or otherwise exhausted – and is classified as permanently restricted net assets.

An endowment may also be in the form of a term endowment, which is to provide income for a specified period. The principal of a term endowment must be maintained for a specified term and is classified as temporarily restricted net assets.

An organization's governing board may earmark a portion of its unrestricted net assets as a board-designated endowment (sometimes called funds functioning as endowment or quasi-endowment funds) to be invested to provide income for a long but unspecified period. The principal of a board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets.

**Long Term Investments** – Assets (investments) held for an extended period of time – usually 5 years and longer – in order to meet the needs of an established or anticipated long developing goal.

## SECTION II – FINANCIAL MEASURES

**Total Return** – Refers to the combination of all interest, dividends, capital gains and losses of a fund over the fund's beginning price or value.

**Yield** – Refers to the interest generated for a given period of time of a fund over the current price or value of a fund.

**Capital Gain** - Refers to any profit realized upon the sale of an asset such as a security, mutual fund, portfolio, etc.

**Realized Gain/Loss** – Refers to the gain/loss in the value of a security, fund portfolio, etc., after the sale/liquidation of all or a portion of the same.

**Unrealized Gain/Loss** – Refers to the gain/loss in the value of a security, fund, portfolio, etc., prior to the sale/liquidation of all or a portion of the same.

**Principal** – A base amount of funds used to invest for the purpose of generating income in the form of interest, dividends, value, etc.

**Spending/Operating Account** – An account set up to capture and settle the operating expenses generated by individual Scholarships, Awards and Divisions within the Endowment Fund.

## SECTION III – ACCOUNTING TERMINOLOGY

**Contribution** – An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

**Promise to Give** – A written or oral agreement to contribute cash or other assets to another entity. A promise to give may be either conditional or unconditional.

**Permanent Restriction** – A donor-imposed restriction that stipulates that resources be maintained permanently but permits the organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

**Permanently Restricted Net Assets** – The part of the net assets of a not-for profit organization resulting (A) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (B) from

other asset enhancements and diminishments subject to the same kinds of stipulations, and (C) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

**Restricted Support** – Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets.

**Temporarily Restricted Net Assets** – The part of the net assets of a not-for-profit organization resulting (A) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (B) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (C) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

**Temporarily Restricted** – A donor-imposed restriction that permits the donee organization to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the organization.

**Unrestricted Net Assets** – The part of net assets of a not-for-profit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**Unrestricted Support** – Revenues or gains from contributions that are not restricted by donors. Also refer to **Restricted Support**.

**Policy 8.5.1 Endowment Funds: Withdrawals**

*The Executive Board shall make withdrawals from the Carnegie Endowment Fund only when the need is so great that the purposes and programs of the Association would otherwise be seriously impaired; such withdrawals to be considered only with specific repayment schedules and interest rates set at the time of the withdrawal.*

*In preparation of the ALA annual budget, COPEs is authorized to include as income a withdrawal from the endowment funds of up to six percent (6%) of a five-year average of the market value of the Association's securities less the amounts returned as interest and dividends or up to six percent (6%) of the current market value less the amount returned as interest and dividends.*

**Policy 8.5.1 - Investment Funds**

**Association's Strategic Priorities/Mission**

**The Executive Director, in preparation of the ALA annual budget, is authorized to include in the proposed budget, in any given year, an amount not to exceed fifty percent (50%) of a five-year moving average of the appreciation of the ALA Future Fund. All withdrawals from the ALA Future Fund must be authorized by the ALA Executive Board.**

**For Emergencies**

**The Executive Board shall also authorize withdrawals from the ALA Future Fund when the purposes and programs of the Association would otherwise be seriously impaired; such withdrawals to be considered only with specific repayment schedules and interest rates set at the time of the withdrawal.**

**Scholarships/Awards**

**Allowable withdrawals from temporarily restricted and unrestricted investment funds designated for named scholarships and awards will be made to the extent necessary to support the award or scholarship according to its stipulations and requirements. If the amount in the temporary restricted and unrestricted are not adequate, the (principal) of the fund may be used, up to the limits of any permanent or donor restrictions.**

*Approved by Council  
at 1997  
Middletown*

8.5.1

AMERICAN LIBRARY ASSOCIATION

Item: FINANCES Item Number: 208.1.3.1  
Approved by: ALA Executive Board Page: 1 of 1  
Issue Date: February, 1953 Supersedes: \_\_\_\_\_

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Endowment Fund - withdrawals

The Executive Board shall, in order to conserve the Carnegie Corporation Endowment Fund, pursue a conservative policy in making capital withdrawals and shall make such withdrawals only when the need is so great that the Association's purposes and programs might be seriously impaired through the non-use of capital.

8.5.1

AMERICAN LIBRARY ASSOCIATION

Item: FINANCES Item Number: 208.1.3  
Approved by: ALA Executive Board Page: 1 of 1  
Issue Date: July, 1951 Supersedes: \_\_\_\_\_

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Endowment Fund - withdrawals

VOTED, That the ALA Budget Committee and the ALA Executive Board consider favorably the withdrawal of not more than \$30,000 a year from ALA endowment capital as venture capital to invest in income producing ALA projects and services.

8.5.1

AMERICAN LIBRARY ASSOCIATION

Item: FINANCES Item Number: 208.1.3.2  
Approved by: ALA Executive Board Page: 1 of 1  
Issue Date: October 1974 Supersedes: \_\_\_\_\_

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Endowment funds - withdrawals

VOTED, That based on budgetary requirements, the Executive Director be authorized to withdraw from the Endowment funds up to 6% of a five year average of the market value of the Association's securities less the amounts returned as interest and dividends or up to 6% of the current market value of the Association's securities less the amount returned as interest and dividends.

AMERICAN LIBRARY ASSOCIATION

Item: FINANCES Item Number: 208.1.4  
Approved by: ALA Executive Board Page: 1 of 1  
Issue Date: January, 1959 Supersedes: \_\_\_\_\_

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Endowment Fund - Investments Committee

VOTED, That the President, the President-Elect, the Treasurer, and the Executive Director constitute a committee to make further recommendations to the Board for action as soon as possible (to more effectively discharge Executive Board responsibility with respect to Endowment Funds).

VOTED, That the present Executive Board Committee on Investments be expanded to include the officers of the Association...and that this committee work with the endowment Trustees, and further approved by consensus that both the policy and operating procedure (to insure a proper working relationship between the Trustees and the Board in the future) be developed by the Endowment Trustees and the Committee on Investments subject to confirmation by the Executive Board.

8.5.2

AMERICAN LIBRARY ASSOCIATION

Item: FINANCES Item Number: 208.1.5.1

Approved by: Executive Board Page: 1 of 1

Issue Date: October, 1975 Supersedes: \_\_\_\_\_

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Endowment Funds - combining

VOTED, That the ALA Executive Board approves the change in management of the Sarah C. N. Bogle Endowment Fund, Melville Dewey Medal Fund, Oberley Memorial Fund, Herbert Putnam Honor Fund, and J. L. Whitney Fund, from the Frist National Bank Trust Officers to the ALA Endowment Trustees; and further,  
That the Executive Board authorizes the Executive Director, Controller and Assistant Controller to sign checks on the account and have access to the safety deposit box held by the American Library Association at the National Boulevard Bank of Chicago.

AMERICAN LIBRARY ASSOCIATION

Item: FINANCES Item Number: 208.1.5  
Approved by: ALA Executive Board Page: 1 of 1  
Issue Date: November, 1965 Supersedes: \_\_\_\_\_

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Endowment Fund - combining

VOTED, That the Executive Director be empowered to combine various small endowment funds should this be possible upon advice of legal counsel.