

EARLHAM

Office of the President

March 19, 2009

Dear Friends:

Because you care about Earlham's vitality, I am writing to let you know how Earlham is dealing with the financial hurricane raging across the continents. The college and the seminary have long followed prudent financial strategies, but no degree of prudence, past or present, is sufficient in the midst of collapsing financial markets, deep recession and rising unemployment to insulate us from the storm.

In this letter I want to share with you what we believe are the likely consequences of this world storm for Earlham, what steps we are taking, and what you might do to help Earlham pass through this turmoil and emerge with focus and vigor for the future. We are a small college with very little fat to shed. Nevertheless, we will have to adjust to a significant decline in the resources available to us.

How big a decline in resources? That is difficult to say with the financial storm still unfolding, but here is a broad overview organized around the college's major sources of income: draw from endowment, tuition and fees, and your contributions.

This year the college receives about 18% of its income from its endowment. With financial markets down sharply, we know the endowment will provide much less. Because of the way we draw money from the endowment, that step-down will affect us only a little in 2009-10, but much more significantly in the two years that follow. We expect to have at least \$750,000 less from this source in 2010-11 and an additional \$750,000 less in 2011-12. That combined \$1.5+ million decrease amounts to about 5% of our operating budget.

Less clear is what the financial hurricane will do in terms of payments from students and their families. This year, the college derives about 57% of its income from tuition and fees, and another 13% from payments for room and board. We go into this storm in a position of comparative strength. The college is fully enrolled this year (as it has been for the past few) and the applicant pool has nearly doubled over the past decade. We are encouraged by the number of applicants this year and by the interest these applicants have shown in Earlham. And so we are working on the assumption that the college will continue to be fully enrolled for the foreseeable future. But with unemployment rising across the country and many families' net assets battered, there are questions for us (and for most other colleges and universities) about what we can expect next fall in terms of the number of students in the entering first year class, in overall student enrollment and in increased demand for financial aid. [For those interested, I am providing a separate statement on how we are proceeding with financial aid, an important and complex topic in its own right at <http://www.earlham.edu/finaidpolicy>].

Finally, there is the Earlham Fund, which provides about 3% of the operating budget income. As of February 28, gifts to the Earlham Fund were down a little over 6%. On the other hand, the total number of donors was up about 3%, for which we are very grateful. As with admissions and enrollment we are feeling the tremors, but not experiencing major changes — or at least not yet.

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Simply because of the decline in value of our endowment I have asked the college community to begin planning to close a gap of at least \$1.5 million in our operating budget that will almost certainly appear over the next few years. That will be painful. But even though Earlham is a very lean place, I believe we can carry it through while ensuring that Earlham's mission, vitality and excellence are not impaired.

What will we do? To be successful in adjusting to this decline in resources, we will need to draw as fully as we can on Earlham's best practices, including our very participatory mode of governance. We will work to carry through our adjustment in a transparent and respectful manner, in contrast to many other institutions across the country that will feel they have to make difficult decisions in secret and take those affected by surprise.

The Board of Trustees approved a framework budget for 2009-10 at its meeting last month. It provides for no wage or salary increases for next year. That will be difficult, but not as difficult as what lies ahead: we expect our most difficult problems will appear in the two subsequent years, 2010-11 and 2011-12. Over the next few months we will be planning how to cope with those two difficult budget years.

Last week we held a series of discussions to which every single member of the on-campus community was invited: students, faculty and staff. We invited them to consider broad strategies by which we could approach solving this problem. The notes and suggestions from these discussions will be helpful resources.

This week I have appointed a Fiscal Challenge Task Force, composed of students, faculty and staff to work over the next few months to develop a plan for dealing with our fiscal challenge. This Task Force will work in tandem with a special committee of the Board of Trustees.

Prudently, we approach this challenge not as a short-term dip in resources from which we will soon recover, but rather as a long-term step-down in the endowment resources available to us to support the operating budget. In doing its work the Task Force will use our mission — “to provide the highest quality undergraduate education in the liberal arts, including the sciences, shaped by the distinctive perspectives of the Religious Society of Friends (Quakers)” — to guide our priorities. And we will remain deeply committed to the extraordinary quality of our faculty and staff that is the foundation of our excellence.

What can you do? There are a few things we would especially ask of Earlham's best friends in the midst of this storm. Please remember to continue referring promising high school students to Earlham. Please continue to remember Earlham in your charitable giving plans. Now, more than ever, the world needs Earlham graduates. And be assured that Earlham will bring its best self to this challenge. In all seasons we will provide a vital education that sends its graduates out to vocations of accomplishment, service and integrity.

Best regards,

Douglas C. Bennett