

**Memorandum of Understanding between Earlham Foundation and Earlham College  
Richmond, Indiana**

*As Amended 10/10/2025*

WHEREAS Earlham College, a corporation duly organized and existing under the laws of the State of Indiana, and Earlham Foundation, a separate corporation duly organized and existing under the laws of the State of Indiana, desire to clarify their respective rights and responsibilities regarding certain assets used for the exclusive benefit of Earlham College, and

WHEREAS, the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), and classified under Code section 509(a)(3) as a public charity and a Type I supporting organization that is organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the College, it is hereby

RESOLVED that both parties approve the following Memorandum of Understanding and agree to take all necessary measures to put it into effect.

Scope:

This Memorandum of Understanding applies only to the assets (and claims against the assets) of the Pooled Earlham Endowment/Foundation Fund (the “unified investment pool”). It does not apply to any other investment assets held by Earlham College or any other activity that either organization may pursue or deem necessary.

Constitution of the Unified Investment Pool:

The unified investment pool encompasses three categories of funds, or claims against the assets of the pool:

1. **Quasi-endowment** funds that the Earlham College Board of Trustees has designated to be managed as endowment, with the understanding that such funds could be “recalled.”
2. **Restricted True endowment** funds for which donors have specified that the original gift amount be maintained in perpetuity. In some cases, the donors also restricted the use of the income to a specified purpose.
3. **Unrestricted non-Lilly Endowment** funds for which donors have specified that the original gift amount be maintained in perpetuity. The donors have not restricted the use of the income to a specified purpose.
4. The **Lilly Endowment** funds that resulted from the series of generous gifts from Mr. Lilly to the College. While these funds are also true endowment funds, and therefore the original gift amounts must be maintained in perpetuity, the College has the right to redeem the Lilly Endowment funds from the unified investment pool under the conditions stipulated below.

The unified investment pool is unitized, meaning that all funds are represented by a certain number of units in the pool. The total market value of the assets in the pool divided by the total number of units in the pool equals the unit market value. When new funds are added to the pool, they are converted to units using the unit market value as calculated by the College as of the most recent calendar quarter end.

Rights and Responsibilities of the Earlham Foundation:

1. To manage prudently the unified investment pool in support of Earlham College.
2. To hire, maintain, and terminate investment managers, investment consultants, and other financial services providers, at its sole discretion, for the unified investment pool.
3. To hold legal title to all investments in the unified investment pool in its own name and tax ID number; provided, however, that such titling of the quasi-endowment and Lilly Endowment portions of the unified investment pool has been, and will continue to be, for transactional efficiency in managing the pool and has not, and will not, carry with it the ultimate authority to set the spending rate from those portions of the pool, which authority the College at all times has retained (and shall continue to have, as specifically provided in item 5 of the College's rights stated below) .
4. To apply the spending rate and make any special draws as requested by the College on the quasi-endowment and Lilly Endowment portions of the unified investment pool in accordance with the requirements set forth below.
5. To distribute quasi-endowment and Lilly Endowment portions of the unified investment pool to Earlham College when requested by the College with advance notice to the Foundation in accordance with the requirements set forth below. For each such distribution (whether entirely in cash or by transfer of non-cash assets or a combination of cash and non-cash assets), the calculation of the number of units in the unified investment pool redeemed shall be based on the market value per unit as calculated by the College as of the calendar quarter end immediately prior to the distribution date. Similarly, the value of any non-cash assets transferred as part of such a distribution shall be their market value as calculated by the College as of the calendar quarter end immediately prior to the distribution date. The calculation of the market value of the assets thus distributed shall be verified by a certified public accounting firm.
6. To set the spending rate on the **Restricted True Endowment** and **Unrestricted Non-Lilly Endowment** portion of the unified investment pool (other than the Lilly and the Quasi Endowment), giving due consideration to the needs and recommendations of the College and giving the College at least 6 months' advance notice of any decision to change the existing spending rate.
7. To name one member of the Earlham College Audit Committee.
8. To approve the hiring of investment staff to carry out its duties.
9. To fund the costs of operating the investment office from the unitized investment pool,

including wages and benefits of investment staff and travel and office expenses. Expenses may also include an allocation of time of other College staff for administrative support to the Foundation, Foundation legal and accounting fees, and other related expenses.

Rights and Responsibilities of Earlham College:

1. To provide operational and record-keeping services for the Foundation, including keeping records of the College's and the Foundation's respective units of ownership in the unified investment pool and managing the payroll function for any employees of the Foundation, as requested by the Foundation.
2. To keep adequate documentation of all donor restrictions on endowed gifts (or Board mandates for quasi-endowment funds) and to ensure that these funds are properly accounted for and are only used for the specified purposes.
3. To select a certified public accounting firm to conduct an external audit of the Foundation in conjunction with its audit of the College.
4. To include the Foundation in the scope of the College Audit Committee's oversight, which does not impair the Foundation Board's independence or fiduciary duties.
5. To set the spending rate on the quasi-endowment and Lilly Endowment funds giving due consideration to the needs and recommendations of the Foundation and subject to the provisions that:
  - a. it gives the Foundation at least 6 months' advance notice prior to the effective date of any increase in this spending rate, and
  - b. the spending rate may not be increased more than one percent per year without the express consent of the Foundation so that the Foundation can prudently manage the unified investment pool and maintain adequate liquidity.
6. To request and receive redemptions of units representing the quasi-endowment and/or the Lilly Endowment portions of the unified investment pool (i.e., special draws), above and beyond the spending rate, in accordance with the following requirements:
  - a. For redemptions of up to 1% of the total units in those portions of the unified investment pool, the College will give the Foundation 4 months' advance notice.
  - b. For redemptions above 1% of the total units in those portions of the unified investment pool, the College will give the Foundation 12 months' advance notice.

Amendment and Termination of This Memorandum of Understanding:

This Memorandum of Understanding may be amended at any time by mutual written agreement. Either party may terminate this Memorandum of Understanding, with or without cause, with 24 months' advance written notice to the other party. In the event either party gives such notice, the parties during the notice period shall endeavor in good faith to agree on how the three categories of

funds comprising the unified investment pool shall be owned, possessed, and managed after the effective date of termination.

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution passed at a regular meeting of the Board of Trustees, the governing body of Earlham College, held on the 10th day of October 2025, at Richmond, Indiana.

**SIGNED**

Tom Thornburg  
Chair of the Board of Trustees of  
Earlham College

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution passed at a regular meeting of the Board of Directors, the governing body of Earlham Foundation, held on the 10th day of October, 2025, at Richmond, IN.

**SIGNED**

Tania Deng  
President, Earlham Foundation

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