

## Endowments – One Perspective

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There are many ideas as to what is “wrong” with Adventist education.<sup>1</sup> Some blame parents, pastors, expenses, marketing and we could come up with many more reasons. It may be a combination of all of the above. However, one thing is sure. If we want the church and its school to be successful each member and each entity must study and do their best to make sure that every aspect of life is as close to God’s plan as possible. We can’t do as I heard one professor say when questioned about a “rightness” of a tactic he was recommending, “If it works, it must be ok.” Short term gain does not assure long term success.

Of course to know if a school is successful we must be able to define success. A school can be “successful” on many levels. Many would say that large enrollments indicate a successful school. The treasurer might say that operating in the black is the true indicator of success. The teachers might say that high test scores indicate a successful school. The pastor might also be said that a high percentage of students continuing to attend the Seventh-day Adventist church mark success. In the end it might be said that we won’t know how successful a school has been until we see how many make it to heaven.

We can learn a lesson from Israel. In the book, *Prophets and Kings*, we are told that “God’s favor toward Israel had always been conditional on their obedience.”<sup>2</sup> In the days when Uzziah was king of Judah there was outward prosperity, which “...however, was not accompanied by a corresponding revival of spiritual power. The temple services were continued as in former years, and multitudes assembled to worship the living God; but pride and formality

gradually took the place of humility and sincerity.”<sup>3</sup> While it seemed that everything looked right the kingdom was losing its power and effectiveness.

It may be that the same thing is happening in the Adventist church. As the church loses spiritual power (Laodicea) and the blessing of God, do we seek to maintain appearance by turning to secular methods of making things work? And measure success by numbers and the bottom line.

As Adventist schools seek to shore up poor finances caused by declining support many talk of trying to build endowments which will produce a steady income independent of general church support. I think we need to take a look at the practice of establishing endowments. First of all there are concerns that can arise over the affect that large donations and endowments can have on mission. If one administration accepts large donations with conditions attached the institution and all future administrations must live with the conditions even if they don't agree with them.

Loren Mead, founder of the Alban Institute and church consultant who believes that endowments can be beneficial, gives some pros and cons on endowments. I find it interesting that one of the cons he lists is that “Endowments can hide clergy incompetence.”<sup>4</sup> That could be extrapolated to say leadership is incompetent. Among the pros he lists that may be the reason endowments are created is that “Endowments sometimes preserve the possibility of ministry.”<sup>5</sup> That is they carry the institution through a down time. The downside of that, he says, is that “The temptation is to use the endowment simply for selfish survival of an institution without a mission.”<sup>6</sup> I am sure that people establishing endowments don't seriously consider this possibility. Closely related to this is that “Endowments may help us through our current

decline.”<sup>7</sup> The current decline may not actually have the possibility of recovery if the institution has lost its mission. It just prolongs the dying agony.

I find some thoughts in his conclusion very telling. “Most of the endowments I know of are used with appalling lack of imagination. Many are held in secrecy, almost in “protective custody...”<sup>8</sup> Even though he tends to be for them, his article is telling in that so many things have to work right for them to be truly beneficial.

The building of endowments reminds me of the story found in Luke 12<sup>9</sup> about a certain rich man who had an abundant harvest and wondered what to do. He decided he should build a bigger barn to store his harvest. He then felt he would have enough laid up for many years. He thought he could take life easy.

But God said his soul would be required that night. I believe living on endowments makes us feel we are secure and that we have to depend less on God for our existence, because we have the money in the bank (Luke 12:16-20).

Most are probably familiar with the story of George Müller<sup>10</sup> who developed a series of orphanages that were dependent solely on donations. But the miraculous thing was that he never asked for donations! And he never had much to put in the bank. God supplied as needed. There is a modern day counterpart, some would say, to that story being lived out now through Gospel Ministries International led by David Gates.<sup>11</sup>

Are Adventist education financial problems related to a lack of faith? Didn't God say, **“When I sent you without purse, and scrip, and shoes, lacked ye any thing?” And they said, “Nothing”** (Luke 22:35). Did God give the Adventist church an educational ministry? Certainly! Does he promise to fulfill all of our needs? Are there conditions for us as we work to do the ministry given to us? Can we let students and employees who don't appear to represent

traditional Adventism represent us to the world and teach our children and expect that conservative parents will send their children to our schools? But I digress, that could be the subject of another paper but I think it may have a bearing on enrollment.

Another thought on the spiritual side of this topic is that many endowments are named endowments. People are encouraged to give what amounts to vanity reasons. If you give \$X you can have something named after you. We see building on many campuses with names of prominent people. It is actually amusing, I think, to see that I could have had my name put on a stairwell if I had given the appropriate amount of money. But in Matthew 6:3-4<sup>12</sup> we find that Jesus said, “But when thou doest alms, let not thy left hand know what thy right hand doeth: That thine alms may be in secret: and thy Father which seeth in secret himself shall reward thee openly.” The secular world revels in letting the world know how much they have given, just the opposite of what God’s word calls for.

Let us take a look at the financial side of endowments. Let us say that we have \$X million to put in the bank so we could depend on the interest. How long would it do the job that the financial consultants that have been hired think it would? Fifty years, 100 years, 5 years, 10 years? How long until the Lord comes? Fifty years, 100 years, 5 years, 10 years? The truth is we don’t know!

It is interesting as I looked at articles on endowments that the articles written before 2007 were much more positive about them than after the “financial meltdown.” A 2007 article about critical endowment issues says, “An endowment not only is a symbol of prestige but also brings financial stability to an institution. ... Income from an endowment diversifies institutional revenue streams. An endowment offers a hedge against the volatility of other revenue sources and supplies a steady stream of income to support the college or university.”<sup>13</sup> It has a table that

shows that 10-year historical returns of from 7.4% to 11.4% depending on the size of the endowment.

College and university endowments up until the early 1990s invested primarily in equities and fixed-income assets. But in the search for higher yields, many moved to riskier investments including hedge funds.<sup>14</sup>

The fact is that the average return on university endowments in 2009 as reported in the *Chronicle of Higher Education* was less than -18%.<sup>15</sup> That means the nearly 1/5<sup>th</sup> of the money that was in the endowment no longer exists. What if that money had instead been spent on scholarships as it came in? How many more students would have been able to receive an affordable education?

A 2010 article in the *Chronicle* points out that endowments go down much faster than they come back up.<sup>16</sup> A drop of 25% followed by a gain of 25% doesn't bring you back to where you were. It would take about a 33% increase to bring the endowment back to full value. If the principle of the endowment must be protected that means that when the school needs the money the most, and it has been invested for growth, it is least available.<sup>17</sup> So is the endowment really doing what it was established for?

Are the generous, wealthy people that are willing to help us build the endowment the only generous people that are going to come along? In coming years will there not be more? If we could increase the number of students going through our system would that not possibly increase the number of successful people who could donate to the system? Is it possible that increasing our enrollment would increase the number of satisfied graduates who in turn would send their children to Adventist schools? So is there the need to take the money and put it in the bank? Can we not take their donations and put it all to work now for Adventist education? Hiring

staff, sponsoring students, building buildings? Can we not depend on God to continue to impress the wealthy (and not so wealthy) of our church and the world to continue to give?

Given the average disbursement from endowments of about 5% of principal, it takes about \$20,000 in the bank to create each \$1000 in scholarship money.<sup>18</sup> But if \$20,000 endowment just went away because of bad investments: 3.6 scholarships of \$1000 went away because the money was in the bank instead of educating students.

In reality probably few members could afford to donate \$20,000 to set up an endowed scholarship fund, but if approached properly there are probably a number of people who could afford to donate \$1000 per year which is at present more than equivalent to a \$20,000 scholarship endowment.

You might find it hard to believe, but in a drawer in my house I have somewhat over \$150 trillion dollars. On each note it says the government of Zimbabwe promises to pay the bearer on



demand the face amount. At some point this money would buy houses and cars and food. But at this point I pass them out to others when I want to “impress” them with my wealth.

A few years ago a close acquaintance of mine worked in a foreign country. The inflationary rate, I was told, was around 1600% (my memory is a bit fuzzy on the exact amount). This was in a country that 5 years earlier if someone had looked at the economy they would have said it had problems but was somewhat stable. But due to political conditions the economy went

to pieces. People stood in line just because they hoped that when they got to the front of the line it would be for something they needed to survive. The division committee couldn't raise the salaries of workers fast enough to keep up with inflation. For many months their salary in US equivalent was less than \$15 per month. After wasting much time standing in lines, the acquaintance decided that they would only stand in short lines. God more than supplied their needs. God is not limited by human methods and thinking.

What would an endowment have been worth in that economy? Could it be that the economy in the US is on the brink of such a calamity? In fact some are actually predicting Zimbabwe type inflation will happen in this country.<sup>19</sup> It has happened before in seemingly stable countries. If all this money that God has allowed faithful stewards to raise is put in the banks to give us assurance of a steady income, what happens if the economy crashes?

We are told, "Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal; But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal" (Matthew 6:19-20). I believe that at this time in history money that is put into endowments is being bundled up to be thrown into the fires of hell. James 5:3 says, "Your gold and silver is cankered; and the rust of them shall be a witness against you,... Ye have heaped treasure together for the last days." Let people donate money and build what needs to be built, put the rest of the money into scholarships. Spread the money collected out to be disbursed over a 4-year period if needed for budgeting purposes. Give scholarships. The increased enrollment will allow the hiring of faculty as needed to carry on the program. Let's go on in faith that God will supply our needs if follow His plans as we prepare students to carry on His work. We say that the Lord

is coming soon. Do we believe it? If so, we need to act like it and educate as many people as we can with education that will prepare them for eternity.

<sup>1</sup>Shane Anderson, "Are We Killing Adventist Education? How to Protect One of the Church's Most Valuable Resources," *Adventist Review* 186, no. 34 (October 15, 200): 16-19, <http://www.adventistreview.org/article.php?id=2890>. (accessed September 17, 2010). Shane Anderson, *How to Kill Adventist Education: And How to Give It a Fighting Chance!* (Hagerstown, MD: Review and Herald Publishing Assn., 2009).

<sup>2</sup>Ellen G. White, *Prophets and Kings* (Mountain View, Calif.: Pacific Press Publishing Assn., 1917), 293; reprint 2009.

<sup>3</sup>*Ibid.*, 303-304.

<sup>4</sup>Loren B. Mead, *Endowed congregations: Pros and Cons* (Bethesda, MD: The Alban Institute, 2001), 7, <http://www.midwestdiocese.org/endowments.html> (accessed September 17, 2010).

<sup>5</sup>*Ibid.*, 9.

<sup>6</sup>*Ibid.*

<sup>7</sup>*Ibid.*

<sup>8</sup>*Ibid.*, 11.

<sup>9</sup>*King James Bible* (Nashville, Tenn.: Holman Bible Publishers, 1973).

<sup>10</sup>J. Gilchrist Lawson, "George Muller" *Deeper Experiences of Famous Christians: Gleaned from Their Biographies, Autobiographies, and Writings* (Anderson, Ind.: Warner Press, 1911): 190-203, <http://www.wholesomewords.org/biography/bmuller2.html> (accessed September 17, 2010).

<sup>11</sup>Gospel Ministries International, <http://gospelministry.org/cms/> (accessed September 17, 2010).

<sup>12</sup> *Ibid.*

<sup>13</sup>Lucie Lapovsky, "Critical Endowment Policy Issues," *New Directions for Higher Education* 140 (Winter, 2007): 99.

<sup>14</sup>*Ibid.*, 103-104; Kent John Chabotar, "What About the Rest of Us? Small Colleges in Financial Crisis," *Change* 42, no. 4 (2010): 6-13.

<sup>15</sup>Goldie Blumenstyk, "Average Return on Endowment Investments Is Worst in Almost 40 Years," *Chronicle of Higher Education* 56, no. 20 (January 28, 2010), <http://chronicle.com/article/Average-Return-on-Endowment/63762/> (accessed September 17, 2010)

<sup>16</sup>Sandy Baum, Michael S. McPherson, and Morton Owen Schapiro, "The Endowment Roller Coaster: Colleges Must Manage the Ups and Downs," *Chronicle of Higher Education* 56, no. 36 (2010): A25-A26.

<sup>17</sup>Steven J. Riekens, "Is the Law Causing Charities to Drown Because Their Endowment Funds are Now 'Under Water'?" *Creighton Law Review* 43, no. 2 (February, 2010): 529-541.

<sup>18</sup>Sandy Baum, Michael S. McPherson, and Morton Owen Schapiro, "The Endowment Roller Coaster: Colleges Must Manage the Ups and Downs," *Chronicle of Higher Education* 56, no. 36 (2010): A25-A26.

<sup>19</sup>Chen Shivin and Bernard Lo, "U.S. Inflation to Approach Zimbabwe Level, Faber Says (Update2)," *Bloomberg Report* May 27, 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aIeLg1djbBps> (accessed September 17, 2010).