

NONPROFIT BOARD EFFECTIVENESS, FUNDING SOURCE,
AND FINANCIAL VULNERABILITY

by

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ABSTRACT

Nonprofit organizations rely heavily on their governing board of directors to provide leadership, strategic guidance, and financial oversight. The nonprofit community continues to grow, and the services provided by these organizations have become a critical part of our society, providing a wide variety of services targeting a diverse population. In this context, how the role of the board of directors impacts the financial position of the nonprofit organization is of great interest to both the academic community and the practitioner.

This study examined three areas of interest: board effectiveness, funding source, and financial vulnerability. First, the association between board effectiveness and financial vulnerability was tested. Second, specific board behaviors associated with strategic planning and stakeholder management were tested to determine if they were greater predictors of financial vulnerability. Finally, the role of funding source (specifically privately funded organizations) as a moderating variable for board effectiveness and financial vulnerability was explored.

The sample was composed of 112 participants, consisting of board member/executive director survey responses and financial information for the participating organizations. The sample was drawn from six counties in the Central Florida area. Data were collected from a series of mailings, and surveys were distributed at nonprofit lecture series. The Financial Vulnerability Index (FVI) was used as a measure of the financial condition of the nonprofit organization and represented the dependent variable in this study. The Board Self-Assessment Questionnaire (BSAQ) was used to assess board effectiveness and represented the independent

variable in this study. Primary funding source was identified as a moderating variable, while board size, age of the organization, CEO tenure, service area, United Way affiliation, national affiliation were included as control variables.

Board effectiveness as measured by the BSAQ was a significant predictor of financial vulnerability as measured by the FVI. The strategic and stakeholder behaviors associated with board effectiveness were not found to be significant predictors of financial vulnerability, beyond other behaviors associated with board effectiveness. Funding source was shown to moderate the observed relationship between board effectiveness and financial vulnerability, as the association between effectiveness and financial condition was significant in privately funded nonprofit organizations (no such significance was identified in government funded or commercially funded organizations).

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CHAPTER ONE

INTRODUCTION

To meet the growing needs of the social service community, nonprofit organizations must learn to adapt to the pressures of their ever-changing environment. These nonprofit organizations face greater competition for public funding and pressure to expand services and reduce costs, all while increasing funding opportunities for the organization.

Nonprofit organizations have evolved to become a critical component of the current U.S. social and economic structure. According to *The Chronicle of Philanthropy* (“Heavier Load,” 2001), the number of nonprofit organizations increased from 489,882 in 1990 to 819,008 in 2000. This change represented a 67% increase in the number of nonprofit organizations in the United States over a ten-year period. In 1999, Florida alone reported in excess of 51,000 nonprofit organizations, holding assets exceeding \$63 billion (Philanthropy & Nonprofit Leadership Center, 2002). This increasing growth and reliance on services provided by the nonprofit organization places a greater importance on the need to understand the influences on nonprofit organizational efficiency and effectiveness.

Nonprofit organizations provide services not typically available from the public or for-profit sectors. A majority of the nonprofit organizations in the U.S. are public charities focused on a specific social concern (National Center for Charitable Statistics, 2004). Although independent, this so-called “third” sector relies heavily on support from the public sector through

tax dollars and private support in the form of contributions and grants to provide these critical social services (Crittenden, 2000).

According to Kearns (1994), the dramatic increase in the size and influence of nonprofit organizations has led to an increased level of accountability from a broad spectrum of stakeholders (government agencies, private donors, the media, clients of the organizations, and the public at-large). This concept of increased accountability has elevated the overall importance of a nonprofit organization's governing board of directors.

Depending on the organization and the specific service area, the role of the nonprofit board of directors can be broad and often difficult to define. However, the literature provides some level of consensus with respect to boards' roles in providing strategic guidance, fiscal oversight, and resource allocation for the nonprofit organizations they serve (Goldshmid, 1998; Herman & Renz, 2000; Holland & Jackson, 1998). Although other responsibilities may emerge in specific organizations, these three responsibilities encompass the majority of the mandated and implied roles of the nonprofit board member.

Herman and Renz (2000) defined the function of the nonprofit board of directors: "Boards continue to be called on for governance and leadership; responsibilities. Included among those responsibilities are decisions about organizational missions, programs, financing, and the performance of its own work" (p.148). Although this definition expands to include self-evaluation as a key responsibility of the group, the core competencies of strategic planning, fiscal oversight, and resource management are present.

In a study of nonprofit organization leadership characteristics, Heimovics, Herman, and Jurkiewics (1993) referred to board members as "boundary spanners" for the organization, referring to the board's ability to leverage its members' external networks on behalf of the

nonprofit organization. This leverage is generally used to expand the nonprofit organization's ability to access new revenue sources and assist it in gaining influence with critical decision makers on behalf of the organization. Board members are formally mandated to govern and manage the organization (2002 FL STATUTE Chapter 617.0801) in an effective manner. As Heimovics et al. pointed out, their role in terms of fundraising and resource allocation is often only implied.

The modern nonprofit organization has become accountable in a much more public manner. Kearns (1994) stated that these agencies must secure and maintain their revenue sources while simultaneously operating effectively and efficiently. The nonprofit organization's struggle to find a balance between operational effectiveness (delivering mandated services) and organizational efficiency (balancing revenues and expenses) is a major focus of the board of directors. This focus ultimately will determine the financial position of the organization and, in turn, its ability to continue to meet the demands of the organization's service area in an effective manner.

Understanding the role boards play in terms of organizational effectiveness and efficiency will allow for a more complete understanding of the influences affecting modern nonprofit organizations. The board of directors is asked to provide strategic guidance and fiscal oversight, the implication being that the board will assist the organization to operate more effectively and efficiently. The present research attempts to frame the organization's ability to operate in an effective and efficient manner in the context of the organization's financial position. The relationship between board effectiveness and the financial position of the nonprofit organization is important, as this is one indicator of sound fiscal oversight and long-term

strategic planning. The research of these efforts is key in order to understand and develop those board behaviors that have the greatest impact on the organization.

Statement and Significance of the Problem

Increased competition to provide services, combined with limited and finite resources, has forced nonprofit organizations to find ways to increase efficiency without compromising effectiveness (Callen, Klein, & Tinkelman, 2003). Charged with the oversight of the organization, traditionally the board of directors is responsible for managing this difficult process. Maintaining a singular focus on delivery of service (effectiveness) can place the nonprofit organization in a weakened financial position, as new resources for the organization may not be thoroughly cultivated. Conversely, altering the strategic focus of an organization in order to meet short-term financial goals can pull the organization away from its area of focus. According to Brooks (2000a), organizations funded primarily by the government are often structured to optimize this support, placing the organization in a “resource trap” whereby the organization can seek funding from only a limited number of sources. The board of directors is placed in the position of attempting to balance efficiency measures with the effective delivery of the services outlined by the focus of the nonprofit organization.

An analysis of the financial position of the nonprofit organization provides the researcher with an indication of the organization’s ability to respond to the ever-changing social, political, and financial pressures influencing the nonprofit sector (Greenlee & Trussel, 2000; Hager, 2001; Trussel, 2002). A broad financial assessment provides both an indication of the current state of organizational efficiency and the nonprofit organization’s long-term ability to provide social services effectively.

Board members as a whole are charged with the public trust in guiding these nonprofit organizations in an effective manner (Kearns, 1994). Understanding how especially effective governing boards impact the financial position of the nonprofit organizations they serve is important to not only the organizations but also the public and private funding agencies that support these nonprofit organizations.

The expanded role and expectations of the modern nonprofit board of directors continues to be a strong area for academic research. Exploring the impact that a board of directors has on a nonprofit organization's financial position will assist organizations in making board development a priority in order to position their respective organizations for success in a resource-competitive environment.

The impact a board of directors has on an organization must be examined within the context of the nonprofit organization's primary resource stream. According to Miller-Millesen (2003), the resource environment of the nonprofit is a key predictor of observed board behaviors. The author stated that the role of the board of directors in making strategic and financial planning decisions would seem to be highly dependant on the nature of the existing funding structure supporting the nonprofit organization.

Specific funding sources have been shown to align themselves with specific board behaviors (Crittenden & Crittenden, 2000; Gronjberg, 1991; Siciliano, 1997; Stone, Hager, & Griffin, 2001). It is these specific board behaviors that were observed in the present research to evaluate their impact on the overall financial position of the organization.

Previous research has independently examined effective board characteristics of nonprofit organizations and specific organizational traits based on funding characteristics (Heimovics et al., 1993; Herman & Renz, 2000; Miller-Millesen, 2003; Provan, 1980). By

examining the role the board of directors has on the financial position or relative vulnerability of the organization when moderated through the organization's primary funding source, board members, executives, and funding agencies alike will be empowered to make a more educated decision on the manner in which to build and maintain those board efforts that support the specific needs of their funding environment, in order to operate more efficiently and effectively.

Theoretical Framework

Resource dependency theory ties directly to the organizational funding environment and can be used to explore the relationship between board effectiveness, funding source, and financial vulnerability. Simply stated, resource dependency theory provides an explanation for the observation of nonprofit organizational behaviors that appear as a direct response to limited and finite resources. Miller-Millesen (2003) suggested that resource dependency theory is the primary theoretical approach used by the academic community in understanding the role and impact of boards of directors. The author stated that the resource-dependence approach positions the board to alleviate environmental uncertainty and provide access to needed resources.

Nonprofit organizations typically do not generate revenue for operational costs as private or public firms do. These organizations rely on funding from various providers in order to operate. Froelich (1999) observed that nonprofit organizations rely on a variety of funding structures (fund-raising, grants, etc.) to accomplish their organizational goals. It is the impact that this inherent resource reliance has on the organization that forms the basis of resource dependence theory.

Resource dependence theory works to explain the manner in which organizations respond when they are resource dependent, as most if not all nonprofit organizations are. According to

Froelich (1999), resource dependence theory maintains that organizational survival is predicated on the ability to acquire and maintain resource structures.

Getz (2001) formulated a concise understanding of resource dependency theory, stating that “resource dependence theory suggests that one organization’s or institution’s dependence on another for essential resources affects the relationship between the organizations in predictable ways” (p. 313). Getz maintained that this relationship places constraints on the organization’s behavior and its ability to operate.

Resource dependency theory posits that organizations respond to a resource dependent environment by formulating specific organizational structures and strategies; these measures either support the existing resource environment or seek to lessen the influences of a primary funding source through diversification. It is to these “predictable ways” referenced by Getz that the participants react in this relationship that allow for an understanding of how resource dependencies influence organizational structure, including board composition and behavior.

Recent literature has linked resource dependence theory to the manner in which nonprofit organizations structure themselves. For example, a privately funded organization is structured and focused on acquiring and maintaining contributions, while an organization that is primarily funded by government sources is structured to fulfill the obligations of the public grant or contract and to renew it in a timely fashion (Brooks, 2000b; Heimovics et al., 1993; Stone et al., 2001).

Froelich (1999) warned that being resource dependent on one primary source can dilute the core mission of the nonprofit organization if the missions of the provider and recipient are not aligned. The author’s implication here was that nonprofit organizations should strive for a diverse revenue stream, rather than relying solely on one or two funding sources. Understanding

the resource-dependent environment that nonprofit organizations operate within can facilitate more effective strategic planning and resource diversification on the part of the organization (Crittenden, 2000; Froelich, 1999).

Resource dependency theory provides a framework from which to better understand the influences that may impact a nonprofit organization and the board of directors' ability to provide effective oversight. This theory provides the conceptual link between board effectiveness, financial vulnerability, and the funding environment of the nonprofit organization. A nonprofit organization in a resource-dependent environment must organize all of its efforts in response to the needs and expectations of the primary resource providers. The literature indicates that privately funded nonprofit organizations tend to rely more heavily on their boards of directors, establishing a strong basis for the inclusion of funding sources in this study. Through strategic planning, fiscal oversight, and resource management, the board of directors can provide specific guidance to the nonprofit organization designed to lessen the presence and potentially negative influences of resource dependency.

Research Questions

This research relies on the framework outlined by resource dependency theory (organizations develop structure to support resource management) to investigate the relationship between nonprofit board effectiveness and organizational financial vulnerability. The following research questions are addressed:

1. What impact does nonprofit board effectiveness have on the organizations' financial position?

2. Do specific board behaviors associated with strategic planning and stakeholder management have a greater impact on the nonprofit organization's financial vulnerability over those behaviors associated with mission, knowledge building, group development, and process?
3. Is the relationship between board effectiveness and financial vulnerability stronger in those organizations receiving a majority of their funding from private sources, rather than those receiving majority funding from public or commercial sources?

CHAPTER TWO

LITERATURE REVIEW

This research study examines the extent to which board effectiveness impacts the overall financial position (financial vulnerability) of the nonprofit organization, as moderated by the funding characteristics (private, public, or commercial) of the organization. In an effort to provide a foundation and a broad context, this literature review examines the role and impact of nonprofit boards of directors, resource dependence theory, and the influence of primary funding sources on the organization, board effectiveness measures, assessing the financial vulnerability of the firm, and assessing the influence of specific control variables (board size, age of the organization, CEO tenure, service area focus, United Way affiliation, and national affiliation) associated with the research.

Role and Impact of the Board of Directors

This section provides an overview of the current literature available regarding the role and impact of the board of directors on the nonprofit organization and the extent to which effective boards make a difference in the ability of the nonprofit organization to function effectively and efficiently.

The board of directors typically focuses on the governance issues of the organization, resource management, strategic planning, and fiscal oversight in the interest of protecting the public interest (Goldschmid, 1998; Heracleous & Luh, 2002; Herman & Renz, 2000). *The*

Jossey-Bass Handbook of Nonprofit Leadership and Management (Herman, 1994) outlined nine board responsibilities that encompass the general focus of the board of directors:

1. To determine the organization's mission and purpose.
2. To select and support the chief executive.
3. To review the executive's performance.
4. To plan for the future.
5. To approve and monitor the organization's programs and services.
6. To provide sound financial management.
7. To enlist financial resources.
8. To advance the organization's public image.
9. To strengthen its own effectiveness as a board (p.121).

These nine board responsibilities provide a basis for the typical function of the modern nonprofit board of directors. The extent to which each of these responsibilities is present often is determined by the specific needs of the organization (Bradshaw, Murray, & Wolpin, 1992). How these responsibilities individually and cumulatively impact the organization is the subject of much discussion in the literature.

The literature regarding the impact that a board of directors has on a nonprofit organization is varied in scope. Although a majority of the research indicates that the board of directors does have a positive impact on the organization, the significance of this impact continues to be a point of discussion. Previous studies have attempted to identify specific board characteristics deemed appropriate and link them to a proxy measure of organizational effectiveness, such as an expert opinion or a single ratio variable representing financial efficiency (Callen et al., 2003; Crittenden, 2000; Herman & Renz, 2000).

Bradshaw et al. (1992) observed a significant relationship between board structure and processes associated with strategic planning and the performance of the nonprofit organization. Their study revealed a strong association between board focus on planning and the financial position of the nonprofit organization. Bradshaw et al. were able to link board behaviors associated with strategic planning to the organization's avoidance of financial deficits. This study provides support for the examination of the relationship between board effectiveness and the financial position of the nonprofit organization, especially when specific board behaviors associated with effectiveness can be identified as strong indicators of organizational success, such as engagement level and strategic planning.

Additional literature has explored the relationship between formal board practices, such as strategic planning, and the financial position of the nonprofit organization (Stone, Bigelow, & Crittenden, 1999). The research supports the assertion that specific board behaviors are an important predictor of financial performance (Crittenden, 2000; Gronbjerg, 1991; Jackson & Holland, 1998).

Crittenden (2000) made the connection between those board behaviors associated with planning and the financial performance of the organization. Crittenden posited that lack of strategic planning with respect to the organization and its funding sources would lead to lower financial performance. This finding supports the inclusion of strategic planning behaviors as a key variable in predicting financial performance.

Additional studies have explored leadership behaviors associated with organization performance. Heimovics et al. (1993) examined the leadership styles of executive directors overseeing nonprofit organizations deemed especially effective. This study worked to correlate specific leadership characteristics of nonprofit executives working for especially effective

organizations. Heimovics et al. found that nonprofit organizations were influenced by changes in their external funding environments and sought to gain guidance and stability in this area from their leadership.

It is of specific interest how this study used resource dependence theory to frame the manner in which nonprofit leaders are directly motivated by accessing resources for their nonprofit organizations. Heimovics et al. (1993) contended that those leaders overseeing exceptionally effective organizations employed a “political-frame” leadership style. This political approach assumed the CEO is and should be focused on the external aspects (resource management and board engagement) of the organization. This study supported the use of the resource dependency theory and the notion that engaging the board to promote specific behaviors will positively impact organizational performance. Heimovics et al. reported that the political frame is defined by the presence of conflict associated with identifying and allocating limited financial resources.

Heimovics et al. (1993) added that more effective leaders had adopted a “board-centered” style of leadership in response to the need to navigate in a resource dependent environment. This study successfully identified a positive correlation between outward-focused leaders and effective nonprofit organizations. This study cited the board as another tool at the disposal of the CEO for successful management of the nonprofit organization.

Callen et al. (2003) demonstrated a strong association between the composition of the board of the directors and the efficiency of the nonprofit organization. Their study found a significant association between the presence of major donors on the board and key indicators of organizational efficiency. This association provides insight into how board composition and

structure impact the organization, creating a better understanding for why the success of a privately funded organization may be more sensitive to the effectiveness of its board of directors.

Provan (1980) supported the notion that board composition impacts the organization with his research on board power and organizational effectiveness. The study found a strong association between the presence of powerful board members (defined by member prestige and group size) and the ability of the organization to expand revenue sources. This research supports the concept that the structure and effectiveness of the board has a direct impact on the financial position of the nonprofit organization.

Understanding the impact board effectiveness has on a nonprofit organization is addressed again in a study by Herman and Renz (2000). This study found a significant relationship between specific board practices and effective nonprofit organizations. Although the authors did not explore the causal nature of this relationship, their study provides additional support in the examination of how boards impact the nonprofit organization.

Most sources in the literature agreed on the role of the nonprofit board of directors as it pertains to its members' governance and leadership responsibilities. There appears to be a strong body of research supporting the notion that the board plays a key role in the ability of the nonprofit organization to operate both efficiently and effectively. The literature additionally provides support for the use of specific board behaviors, such as strategic planning and resource management, as indicators of overall effectiveness. There is an opportunity to expand the research in this area by exploring in more detail the significance to which these board practices and behaviors impact the financial position of the organization.

Resource Dependence Theory and Funding Source

The use of resource dependence theory as a basis for understanding the relationship between board behaviors and the financial position of the nonprofit organization is logical, in that this theory proposes that predictable behaviors result from the relationship formed between a resource provider and a resource dependent entity (Pfeffer & Salancik, 2003). As nonprofit organizations are most clearly resource dependent on their primary sources of funding, resource dependency theory would explain that the manner in which and extent to which these organizations work to adapt to the needs of their primary funding sources would be dictated by the relative importance of the resource stream to the organization. This adaptive process influences the organizations' structure, planning, and mission-related work.

The influence of specific resource structures forms the basis for using the primary funding source of the organization as a moderating variable of other predicted relationships with regard to governance and financial outcomes. Simply stated, by separating organizations into categories by their primary or major funding sources, the relationship between board effectiveness and financial vulnerability is hypothesized to be easier to isolate in terms of statistical significance. Crittenden (2000) stated that government funding, private contributions, and private-sector payments encompass the major funding structures observed in the nonprofit sector.

The literature supports the use of funding source as a moderating variable of the relationship between board effectiveness and the financial vulnerability of the organization (Callen et al., 2003; Crittenden, 2000; Hodge & Piccolo, 2005). Resource dependence theory, as supported by the literature, provides the framework to show that when viewed in the context of

funding source, specific board behaviors will impact the financial vulnerability of the organization.

The impact of a primary funding source on a nonprofit organization is tied closely to the resource dependence theory. Researchers posit that depending on the type of funding it receives, an organization may function in very different ways. Froelich (1999) stated that organizations seek to moderate the influence of resource dependency in the following ways: complying with the demands of primary funding sources, limiting resource influence by adopting balancing strategies, and finally avoiding demands altogether through aggressive resource diversification.

Brooks (2000b) developed three theories that explain the impact of an agency's funding source on the organization. The study suggested that specific levels of public support can attract private support, referred to as "crowding in." Public dollars will attract outside support up to a certain point, at which time public involvement will actually begin to hinder, or "crowd out," additional private support for the nonprofit organization. The author also developed the theory of the "subsidy trap," where nonprofits that are publicly supported are actually kept in a position that restricts their ability to maximize financial support from other areas.

The concepts of "crowding in," "crowding out," and the "subsidy trap" point out the need to consider the opportunity costs (what resources are being given up when a particular resource stream is adopted) for those nonprofit organizations that choose to rely heavily on public or indirect private support (United Way, America's Charities, etc). These concepts support the notion that nonprofit funding sources play an important role in evaluating the impact of the board on the organization.

Stone et al. (2001) outlined the specific observed differences in organizational structure depending on nonprofit resource affiliation. This research examined the structural characteristics

of organizations with primary funding from the United Way or a public agency. They identified significant differences in board size and structure depending on the primary resource provider for the organization. It is the structural differences in these organizations that positions “primary funding source” as an attractive moderating variable of the relationship between board effectiveness and nonprofit financial vulnerability.

Primary funding sources for nonprofit organizations offer an interesting variable for study in that the board structure may differ, depending on the resource structure of the organization. This structure may, in turn, impact the overall effectiveness of the board and ultimately impact the financial position of the organization.

Financial Vulnerability

This section examines the available literature on assessing the financial position of the nonprofit organization and the impact that financial position plays on the organization’s ability to function effectively and efficiently. Understanding the financial position of the nonprofit organization is a key element in attempting to measure the impact that a board of directors can have on an organization.

Although the literature provides additional qualitative measures for performance (mission accomplishment, public perception, etc.), financial position remains a leading evaluation measure, because the results offer a clear understanding of the state of the nonprofit organization. In addition, financial measures are quantitative in nature and the findings may be generalized across organizations (Callen et al., 2003; Tassie, Murray, & Cutt, 1998).

Crittenden (2000) argued that although there exists little or no consensus on performance measurement, some level of financial measure should be adopted to maintain a healthy

organization. Rojas (2000) cited the long-term viability of the organization and the efficient use of private contributions as a function of assessing financial performance as a proxy for organizational effectiveness. Assessing the financial position of the nonprofit organization provides insight into aspects of long-term survival and overall efficiency. Monitoring the nonprofit organization's financial position is both a defined role of the board of directors (Goldschmid, 1998), a critical means by which to ensure long-term success, and a key process for organizational improvement.

Berman (1998) included efficiency measurement as one aspect in determining organizational effectiveness. Efficiency measures traditionally examine outputs to inputs; this ratio is the basis for most financial assessment.

The literature recognizes that financial performance is perhaps the only quantitative measure of nonprofit effectiveness that can be generalized over a large sample (Craycraft, 1999; Crittenden, 2000; Froelich, Knoepfle, & Pollak, 2000). The for-profit sector has provided several financial measures that can be used to assess the position of the firm (Crittenden, 2000), and specific ratios have been established to provide insight into nonprofit performance.

The Jossey-Bass Handbook of Nonprofit Leadership and Management (Herman, 1994) provided a breakdown of traditional ratios used in assessing the financial position of the nonprofit organization.

- Profit Margin = Net income / Revenue
- Return on assets = Net income / Total assets
- Return on equity = Net income / Total equity
- Debt/equity = Total liabilities / Equity

In addition to the above referenced tools, Callen et al. (2003) provided additional financial measurements that are typically used in assessing the performance of nonprofit organizations. These measures include program expense ratio, administrative expenses ratio, and fundraising expense ratio. These measurements are defined and calculated as follows:

- Program expenses ratio = program expenses / total expenses
- Administrative expenses ratio = administrative expenses / total expenses
- Fundraising expenses ratio = fundraising expenses / total expenses

The literature warns that although these ratios provide insight into focused assessment of specific aspects of the organization, the ratios do not provide a broad picture of the financial state of the nonprofit organization. For example many organizations rely on administrative cost ratios to evaluate organizational efficiency, whereby this ratio shows that a nonprofit organization is attempting to minimize administrative costs and maximize costs associated with service delivery. However, this ratio fails to address the need for organizations to maintain financial reserves to ensure long-term stability (Tuckman & Chang, 1991).

Trussel, Greenlee, and Brady (2002) pointed out that when attempting to evaluate the financial condition of a nonprofit organization, auditors are faced with three challenges not generally present when examining a for-profit firm. First, nonprofits maximize service rather than profit; second, financial benchmarks rarely take into account the focus area of the nonprofit organization; and finally these financial assessments cannot account for the impact of a financial “shock” caused by the loss of a major funding source.

Recent studies have identified the inherent weakness in using a single financial ratio in assessing the nonprofit organization. Many researchers have attempted to use aggregate assessment tools that broaden the scope of nonprofit financial analysis (Craycraft, 1999; Hager,

2001; Jackson & Holland, 1998; Trussel et al., 2002; Tuckman & Chang, 1991). These composite indicators offer a more robust indicator of financial position.

In an assessment of the Tuckman and Chang model, Hager (2001) offered a profile of several financial categories that frame the broad-based approach: “In contrast to a financially vulnerable nonprofit, Tuckman and Chang (1991) describe a financially flexible nonprofit as one with access to equity balances, many revenue sources, high administration costs, and high operating margins” (p.377).

Hager (2001) examined the Tuckman and Chang model (FVI) in assessing financial vulnerability and found that to a varying degree the four components (equity balance, revenue concentration, administration costs, and operating margin) of the financial vulnerability model explain the demise or longevity of a nonprofit organization. Tuckman and Chang (1991) included organizational size and industry type in their original study; however Hager chose to focus on only the four financial characteristics in his study.

1. Equity balance = Liabilities - Assets
2. Revenue concentration = Proportion of funding received from various sources of income.
3. Administration costs = Administrative costs / total costs.
4. Operating margin = (Revenues – expenses)/ total revenues.

Several researchers (Greenlee & Trussel, 2000; Hager, 2001; Trussel, 2002; Tuckman & Chang, 1991) compiled extensive data on the statistical significance of the FVI to predict the solvency of the nonprofit organization. Their research used the FVI not only to reduce several financial categories into a single index, but also to allow for benchmarking based on six distinct nonprofit service areas (culture, education, human services, public benefit, health, and other).

The literature provides broad support for the use of financial measures of the organization as a means to evaluate operational efficiency and long-term viability. Examples of public and nonprofit evaluation measures are present in much of the literature discussing organizational effectiveness. Financial measures provide the researcher with quantitative measures of key indicators of the financial position of the organization and insight into the organization's ability to operate over the long-term. The literature warns against the reliance of single-ratio measures of financial position, indicating a preference for composite measures of financial performance (Hager, 2001).

Board Effectiveness Measures

This section profiles the use, extent, and type of board effectiveness measures present in nonprofit literature. Board effectiveness measures are rarely the sole topic of discussion in a majority of the available literature; however these measures are the cornerstone to any research discussion of the role and impact that a board has on the nonprofit organization. Successfully reviewing the available information on board effectiveness measures will strengthen the direction of the research focused on board effectiveness, funding source, and financial vulnerability employed in this study.

Jackson and Holland (1998) clearly made the case for why measurement of board effectiveness is critical to the function of the board. The authors posited that in order to successfully fulfill their role as board members they needed to assess their performance in this role.

The literature regarding board effectiveness measures tends to rely heavily on evaluating specific traits, behaviors, and characteristics associated with effective boards. This information is then linked to the nonprofit organization or used in a comparative context.

Holland (2002) conducted a study that identified six sets of practices that fostered board accountability:

1. Setting clear expectations and standards for the group.
2. Actively using policies regarding conflicts of interest.
3. Identifying and staying focused on priorities.
4. Maintaining strong two-way communications directly with constituency groups.
5. Conducting assessments of meetings and board performance.
6. Experimenting intentionally with new approaches to their work.

Bradshaw et al. (1992) relied on a list of process characteristics to evaluate board effectiveness. The board characteristics were derived from the literature and reduced to Likert-scale measures. Strategic planning was identified and significantly linked to general satisfaction of board performance.

Herman and Renz (2000) used a similar process to identify specific board practices used by effective nonprofit organizations. A strong relationship between effective organizations and board use of the practices outlined in the study was revealed. Board self-evaluation, written expectations about giving, and engaging the CEO in board development were all identified as key practices shared by effective nonprofit organizations.

Provan (1980) used two subjective measures of board effectiveness: board prestige (percent listed in a social register and percent living in high income areas) and a board linkage scale (links to other social service organizations and links with the United Way board).

Using a listing of individual qualities associated with effectiveness, Michael, Schwartz, and Cravcenco (2000) reported that board members identified the following qualities as valid indicators of individual trustee effectiveness: level of knowledge, influence, quality of relationship, and level of involvement in management functions. Although the prescriptive nature of these studies provides a sound context for identifying key behaviors and traits shared by effective organizations, they are limited in their explanatory power.

Additional studies attempted to use more in-depth methods to not only evaluate the relative effectiveness of the board but provide specific plans to improve the board's ability to operate more effectively. These studies provide insight into the "real world" applications of effectiveness measures.

In a test of board effectiveness improvement measures, Kovner, Ritvo, and Holland (1997) conducted an assessment of board effectiveness within a healthcare system. Their comprehensive assessment resulted in significant changes to the structure of the board, including a reduction in the number of members, term limits, election of new board chairs, implementation of a consent agenda, and reorganization of the committee structure. The study identified the use of retreats, time management, and CEO facilitation as key factors in implementing changes in board structure and behavior.

Jackson and Holland (1998) developed and tested the Board Self Assessment Questionnaire (BSAQ) to research board effectiveness within nonprofit organizations. This tool is attractive to the research community because it segments board behavior into distinct categories or factors and is designed to be self administered.

In a comprehensive analysis (Jackson & Holland, 1998) of their effectiveness measure, the authors identified several areas critical to an effective board. These areas include contextual,

educational, interpersonal, analytical, political, and strategic qualities. The authors described these areas as follows:

Contextual: The board understands and takes into account the culture, norms, and values of the organization it governs.

Educational: The board takes the necessary steps to ensure that members are well informed about the organization and the professions working there as well as the board's own roles, responsibilities, and performance.

Interpersonal: The board nurtures the development of its members as a group, attends to the board's collective welfare, and fosters a sense of cohesiveness.

Analytical: The board recognizes complexities and subtleties in the issues it faces, and it draws on the multiple perspectives to dissect complex problems and to synthesize appropriate responses.

Political: The board accepts as one of its primary responsibilities the need to develop and maintain healthy relationships among all key constituencies.

Strategic: The board envisions and shapes institutional direction and helps to ensure a strategic approach to the organization's future. (p. 160)

The composite nature of this assessment tool adds substantial depth to its explanatory power. Moreover, the six sub-dimensions address critical board competencies that seem to align well when attempting to predict the financial performance of the organization. Jackson and Holland (1998) revealed a significant association between the BSAQ and their self-developed composite financial measure, the Composite Organizational Indicator (COI). The comprehensive research study conducted by these authors not only works to validate their effectiveness model, it confirms the interrelation between the financial performance of an organization and the relative

involvement and oversight from the board. The COI relies on a simple calculated score from total revenues, annual operating funds, financial reserves, non-financial resources, and academic emphasis of the budget. However, this composite variable fails to weight the individual sub-dimensions and does not take into account the size of the organization. Brown (2005) attempted to link the BSAQ to financial performance using a similar ratio-based approach and was able to find a significant relationship in only one of the six sub-dimensions (strategic). The limited scope of these financial indicators provides guidance into areas in which future research may provide insight into a relationship between board effectiveness and financial performance.

Scissons (2002) discussed the importance of board and CEO evaluation and provided a detailed overview of the inherent weakness associated with a variety of the effectiveness measurement tools.

- Unpegged rating scales involve the use of rating scales focused on specific aspects of performance. The author noted that they are highly subjective to the rater's interpretation of the measurement scale and that without legitimate benchmarks the scores and their variability become difficult to interpret.
- 360E reviews rate the performance of an employee from a multi-dimensional perspective, relying on responses from direct reports, subordinates, peers, and external stakeholders to build a broad picture of performance. The author observed that raters may respond to job aspects of the person being evaluated in which they have little or no understanding or input. The scores often compile information into mean scores that fail to take into account the weighting of specific responsibilities.

- Self-assessment allows for respondents to assess their own performance within a specific context. This measure tends to rely on an extremely limited perspective and is open to bias.
- Process vs. outcome measurement addresses the information that is acquired during the evaluation process. Process measurement tends to focus on specific characteristics of effectiveness and measure their relative presence and degree of use, while outcome measurements focus on specific outcomes that relate to effective performance.

Scissons (2002) recommended using a logical mix of these measurement tools and encouraged self assessment measures to use the responses from the board in conjunction with that of the CEO, identifying discrepancies in the responses between board members and the CEO and using them as points the organization may focus on for improvement.

The literature provides several key examples of board assessment tools. Self-assessment measures may offer some inherent weaknesses; however they tend to be favored due to their ease of implementation and relative reliability. Gill, Flynn, and Reissing (2005) explored the use of a self-assessment checklist as a measure for board effectiveness. Their findings support the use of self-assessment in observing board behavior, as the checklist observed in the study was shown to be both consistent and reliable in nature. Heracleous and Luh (2002) posited that self-assessment as the only means of board assessment may be less accurate than a combination of assessment techniques, but the authors reported that in spite of this limitation self-assessment remains extremely accurate in that it places the respondent (board member) in a much less defensive posture and increases the likelihood for a candid response.

Jackson and Holland (1998) recognized that self assessment measures of board effectiveness may yield limited or inaccurate results, largely due to the fact that boards have

inconsistent expectations of trustee performance and boards do not tend to seek or provide feedback on performance. In designing their effectiveness measure (BSAQ), the authors prepared a tool that measures behaviors that characterize the actions of strong boards rather than a prescriptive listing of specific board processes.

The literature offers a broad overview on the manner in which board effectiveness may be measured and the possible limitations associated with specific measures. The research regarding nonprofit board effectiveness has generally focused on prescriptive evaluations of the presence or absence of specific board behaviors. There appears to be an opportunity to strengthen the research in this area by expanding the scope of the board evaluation to include some outcome measurement as a part of a broad assessment. The BSAQ designed by Jackson and Holland (1998) appears ideally positioned to be an excellent board-effectiveness tool in that it measures a wide array of board characteristics and can be linked to specific financial measures for organizational performance.

Control Variables

The current literature has introduced variables of interest that are important to acknowledge in the implementation of the study. The size of the board, age of the organization, CEO tenure, service area, fundraising structures (including association with the United Way), and presence of a national affiliation have been identified as variables that may impact the overall interpretation of results when researching the impact that board effectiveness has on financial vulnerability when moderated by organizational funding source.

Board Size

The relative size of the board supporting the organization is of interest in that it may be an indication of the stability of the organization. An organization with a larger board generally will be structured in such a way as to successfully manage this larger group. The organization will also be afforded more intellectual resources than a board with fewer members (Bradshaw et al., 1992; Callen et al., 2003; Crittenden, 2000; Provan, 1980; Stone et al., 2001).

Age of the Organization

The relative age of the organization is an important consideration since young organizations face obstacles that older, more established nonprofit organizations do not have to endure. For example, solidifying resource streams for younger organizations may prove to be the single focus of the organization (often at the expense of service delivery). Attracting the most qualified members for a board of directors may also be difficult for relatively young nonprofit organizations, in that prospective board members may be hesitant to join the board of a younger, less well-established organization (Bradshaw et al., 1992; Crittenden, 2000; Zahara & Pearce, 1989).

CEO Tenure

CEO tenure is a good control variable for this research study, because it may explain both the structure and effectiveness of the board and the financial position of the organization. Depending on the tenure of the CEO, the organization may be in a transition period attempting to address critical developmental issues, such as board involvement, the financial position of the

organization, or both (Crittenden & Crittenden, 2000; Heimovics et al., 1993; Zahara & Pearce, 1989).

Organization's Service Focus

The service focus of the organization should be considered when exploring board effectiveness, due to the specific differences between nonprofit organizations, which depend on the service area on which they focus. Access to resources, public partnerships, and volunteer involvement are all impacted, depending on the service area of the organization (Bradshaw et al., 1992; Brooks, 1999; Crittenden & Crittenden, 2000; Greenlee & Trussel, 2000; Trussel et al., 2002).

United Way Affiliation

Indirect private support, through federated funding sources like the United Way of America, may have an impact on both board structure and financial position. The United Way of America mandates specific criteria in order to receive funding. These criteria include financial reporting guidelines, administrative cost spending limits, and specific board structures. The presence of United Way funding may influence the relationship between board effectiveness and financial position (Bradley, Jansen, & Silverman, 2003; Callen et al., 2003; Cordes, Twombly, & Saunders, 1999; Goldschmid, 1998; Hager, Rooney, & Pollak, 2002; Heart of Florida, 2003; Herman & Renz, 1999; Stone et al., 2001).

National Affiliation

Finally, similar to United Way support, examining those nonprofits with the presence of a national affiliation is of interest in that the national organization may provide specific guidelines for the organization to follow with respect to board structure, financial reporting, and resource management. The national affiliation may impact the nature of the relationship between board effectiveness and financial position (Callen et al., 2003; Cordes et al., 1999; Hager et al., 2002; Siciliano, 1997).

Each of these control variables is important to fully understand the nature of the relationship between board effectiveness, primary funding source, and financial position. By fully examining the strength of the role these control variables play in the relationship, the research should be able to identify and isolate the specific impact that board effectiveness has on the financial position of the nonprofit organization and to what extent funding source plays a role.

Hypotheses

Based on the theoretical applications discussed in the literature and in the research questions, the following hypotheses—null and alternative—are tested in this study:

1. The financial position of the nonprofit organization is affected by the governing behaviors of the board of directors.

H₀: Board effectiveness when measured as a composite variable using the Board Self Assessment Questionnaire (BSAQ) exhibits no significant relationship with nonprofit financial vulnerability, as measured by the Financial Vulnerability Index (FVI).

H_a: Board effectiveness when measured as a composite variable using the BSAQ has a significant negative relationship with the nonprofit organization's financial vulnerability, as measured by the FVI.

2. Specific board behaviors associated with planning and stakeholder management will influence the strength of the relationship between board effectiveness and organizational financial vulnerability.

H₀: There is no significant difference in the explanatory power of the six composite variables that form the BSAQ.

H_a: The political and strategic sub-dimensions associated with the BSAQ are the most significant predictors of nonprofit financial vulnerability; these aspects explain more of the variation in financial vulnerability than the other dimensions of the BSAQ.

3. The major funding source of a nonprofit organization influences the relationship between board effectiveness and financial vulnerability.

H₀: The relationship between board effectiveness and financial vulnerability will be no different in those organizations where private funding is the primary source than in organizations receiving majority funding from public or commercial sources.

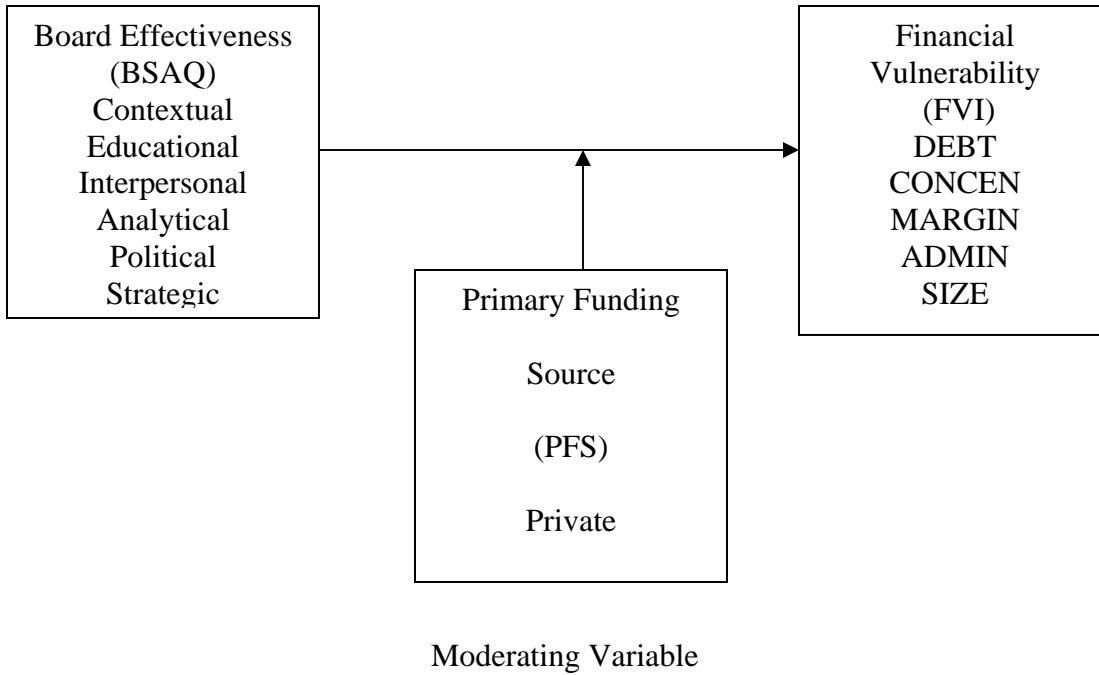
H_a: The relationship between board effectiveness and financial vulnerability will be stronger in those organizations where private funding is the primary source than in organizations receiving majority funding from public or commercial sources.

Exploratory Model

This research model addresses each of the stated hypotheses listed above. The complexity of this model can be reduced to the flowchart shown in Figure 1. Simply stated, this research describes the relationship between board effectiveness and the organizations' financial position, in the context of funding source. For the purposes of this study, the term financial vulnerability will be used when referring to assessments of the organization's financial position.

Independent Variable

Dependent Variable



Control Variables

- Board Size (SIZE)
- Age of Nonprofit Organization (AGE)
- CEO Tenure (TENURE)
- Service Area (SA)
- United Way Affiliation (UW)
- National Affiliation (NA)

Figure 1: Model Flowchart

The hypothesized relationship between board effectiveness and financial vulnerability will be strengthened when viewed in the context of the primary funding source of the nonprofit

organization. The framework provided by resource dependence theory provides insight into the expected influence that funding source may play in the exploratory model. Although previous research involving boards has attempted to link some limited measure of effectiveness to the observed behaviors of the board, this research model provides new insight by examining the relationship between board effectiveness and financial vulnerability in the context of the nonprofit organization's funding environment.

Although the literature suggests that a nonprofit board of directors can influence the performance of an organization, there appears to be little or no research linking a multi-dimensional assessment of board effectiveness to a composite measure of the financial performance of the organization, when moderated through the primary funding source of the organization.

Specifically, this research relies on the inclusion of three variables that add depth to the understanding of board effectiveness on nonprofit financial vulnerability.

- Board Self Assessment Questionnaire (BSAQ)
- Financial Vulnerability Index (FVI)
- Primary funding source as a moderating variable.

Each of these variables has been used in research exploring specific aspects of the nonprofit organization. The present study examines specific aspects of each variable to better understand the impact that board effectiveness has on nonprofit financial vulnerability when viewed in the context of organizational funding source.

CHAPTER THREE

RESEARCH METHODOLOGY

The present research employs a relational/predictive model to more fully understand the extent to which nonprofit board effectiveness and funding source influences the organization's financial position. Using descriptive and quantitative data collected by means of a survey of the governing leadership in the organizations of interest and by linking this information to demographic and financial information provided for the organization, the researcher investigated whether a statistically significant relationship exists between board effectiveness and organization funding source.

The study focused specifically on the interaction between board effectiveness and the financial vulnerability index in the context of primary funding source, while controlling for specific external factors such as size of the board, age of the organization, CEO tenure, service area, United Way affiliation, and national affiliation.

Financial Vulnerability

In this research, an assessment of the financial condition of the nonprofit organization represented the dependent variable and was demonstrated through a composite indicator of financial vulnerability known as the Financial Vulnerability Index (FVI) (Tuckman & Chang, 1991). The FVI, a measure of economic health, presents an opportunity to strengthen the

research in this area, in that it takes into account a broad range of financial indicators and provides a measure for predicting long-term economic performance.

The FVI provides a numerical measure of the relative financial vulnerability experienced by the nonprofit organization. Organizations that score high on the measure are considered vulnerable and less able to recover from a disruption in revenue stability. Vulnerable organizations are less likely to maintain long-term effectiveness in meeting stated goals and objectives. The FVI relies on financial information readily available from the IRS Form 990.

The use of the financial vulnerability model as a dependent variable is attractive, because all of the financial measures required to compute the Tuckman and Chang (FVI) index are available on the IRS Form 990 (Trussel, 2002). The IRS Form 990 (Appendixes D and E) is a federal tax document that must be prepared annually in order to maintain tax-exempt status. Froelich et al. (2000) stated that while the IRS 990 return, prepared by nonprofits with over \$25,000 total revenues, provides valuable information, it also carries with it some limitations: data entry errors, sample limitations, and, most critical, concerns about the completeness and accuracy of the information collected. Their research found that in spite of these limitations, IRS 990 information is a reliable source of financial information for use when assessing nonprofit organizations.

The following list outlines the key components of the FVI calculation and how this information is derived from the IRS 990 form (Fernald, 2000); the specific calculations have been addressed previously and are available in Appendix F.

1. Equity balance (DEBT)
 - a. Liabilities: line 66
 - b. Assets: line 59

2. Revenue concentration (CONCEN)
 - a. Private funding: line 1a
 - b. Government funding: line 1c
 - c. Commercial(program) funding: line 2
 - d. Indirect private funding: line 1b
3. Administration costs (ADMIN)
 - a. Administrative expenses: line 14
 - b. Total expenses: line 12
4. Operating margin (MARGIN)
 - a. Revenues: line 12
 - b. Expenses: line 17
5. Size of the organization (SIZE)
 - a. Total assets: line 59

FVI Prediction Equation

$$FVI = 1/(1+e^{-Z}),$$

where

$$Z = 0.7754 + 0.9272 \text{ DEBT} + 0.1496 \text{ CONCEN} - 2.8419 \text{ MARGIN} + 0.1206 \text{ ADMIN} \\ - 0.1665 \text{ SIZE},$$

and $e = 2.718$

The formula illustrates that the FVI is a composite measure of relative financial position, calculated through the principles of regression analysis. The regression formula includes the respective coefficients for each variable group, weighting the individual influence of each respective variable and providing a single index value to evaluate the financial health of the nonprofit organization (Trussel et al., 2002). The higher the FVI score, the greater the chance the nonprofit organization will experience financial instability or ultimately failure.

According to Trussel et al. (2002), the following decision rule can be used to interpret the FVI scores. This decision rule provides a guidepost in interpreting the results from this study.

FVI Decision Rule

- If the FVI is $> .20$ the nonprofit organization is financially vulnerable.
- If the FVI is $< .10$ the nonprofit organization is not financially vulnerable.
- If the FVI is between $.10$ and $.20$ the result is deemed inconclusive.

The use of IRS-990 information in compiling the Financial Vulnerability Index is based on objective interpretation of standardized financial records, providing the researcher with a sound financial assessment tool when examining a broad group of nonprofit organizations. Note however that the FVI is not designed to be used as the sole assessment tool for financial position and the scores and their subsequent ranges may be influenced by external factors (industry type, capital investment, etc.).

Board Effectiveness

The primary independent variable for this research is a measure of board effectiveness of the nonprofit organizations included in the study. The Board Self-Assessment Questionnaire

(BSAQ), designed by Jackson and Holland (1998), was employed to calculate the relative effectiveness of the board of directors. In developing the BSAQ, the authors created a model to evaluate board effectiveness that is both a reliable and a valid measure of board performance. This tool has shown several characteristics that make it attractive to the research community, including the design of the questions, the distinct board behavior assessed, and the self-assessment nature of the survey.

The BSAQ examines six specific characteristics of an effective board member and provides an assessment for each individual characteristic. These sub-dimensions include contextual, educational, interpersonal, analytical, political, and strategic qualities. The information collected by the BSAQ is of interest for two specific reasons:

1. This survey has been rigorously tested in assessing board effectiveness.
2. Composed of six distinct sub-dimensions, the BSAQ provides a better opportunity to reveal an association between effectiveness and financial performance.

In testing for reliability, the authors assessed the BSAQ for validity, inter-rater agreement, equivalency, and sensitivity (Jackson & Holland, 1998). Factor analysis revealed that the six dimensions of the BSAQ were adequately representing a single factor (board effectiveness). Each test of reliability revealed the BSAQ to be a reliable test of board member performance. Additionally, Jackson and Holland's research provides published means for the specific sub-dimensions and the overall BSAQ that were useful in interpreting results from the study (see Table 1).

Table 1

BSAQ Published Averages for Scale Sub-dimensions (N = 200 Nonprofit Organizations)

Dimension	1	2	3	4	5	6	BSAQ
Average score	.69	.54	.64	.62	.65	.66	.63

Dimensions: 1 = Contextual. 2 = Educational. 3 = Interpersonal. 4 = Analytical. 5 = Political. 6 = Strategic.

Source: Dr. Thomas P. Holland (Appendix C)

Funding Source

The primary funding source of the nonprofit organization was posited as a moderating variable in this study. Participants of this study were separated into groups depending on the category that best described their primary funding source. These categories included private funding, public funding, and commercial funding.

Private funding refers to those organizations that receive a majority of their funding from private donors (individual, corporate, and foundation support). Public funding refers to those nonprofit organizations that receive a majority of their funding from the public sector (governmental entities). Commercial funding refers to those organizations that receive primary funding from commercial activity (contract fees and commercial revenues). A fourth category — either mixed-funding, for those organizations that did not appear to have a primary funding source, or “other” category for funding deemed to come from an altogether different source— was originally contemplated, but it turned out not to be needed, since only three of the responders fell into a fourth category, and as this other revenue was based on investment returns, these responders were assigned to the commercial category.

The following is a broad definition of the moderator variable as it was employed in this study:

In general terms, a moderator is a qualitative [Descriptor] (e.g., sex, race, class) or quantitative (e.g., level of reward) variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable. Specifically within a correlation analysis, a moderator is a third variable that affects the zero-order correlation between two other variables. (Baron & Kenny, 1986, p. 1174)

Resource dependency theory posits that funding source acts as a logical moderator variable, in that the literature supports the notion that specific funding characteristics of the nonprofit organization influence certain of the board characteristics, including composition and strategic focus. By moderating the relationship between board effectiveness and financial vulnerability with funding source, the research design was expected to be strengthened, in that the influence of the primary funding source on the relationship would be more clearly revealed for interpretation.

External Factors

External factors in this research design represented the control variables of interest. These control variables were identified from the literature as having potential influence on the research design. The variables included board size, age of the organization, CEO tenure, service area, United Way affiliation, and national organization affiliation.

These specific control variables were identified in the literature and were determined through the data collection in the research design. Questions 2–7 on the survey collected information regarding the control variables. Board size and age of the organization were treated as continuous variables. Board size was collected from the respondent, while age of the organization was collected from the published financial information. Organization age was

included in the Form 990 data collection. If the founding date was not provided, filing date (the date the organization filed for tax-exempt status) could be used as a proxy for organizational age.

Service area was identified by the respondent and included in the data as a categorical variable. It should be noted that the survey collected seven categorical responses describing the type of service being delivered by the nonprofit organization. For statistical analysis the seven categories were reduced to four categories, focusing on Social Service, Healthcare, Education, and Other. The reduction of the categories provided greater statistical power when analyzing the groups.

United Way affiliation and national affiliation were entered as a dichotomous variable. For example, Question 3 reads, “Is your nonprofit organization currently affiliated with the United Way of America? Yes/No.” By including all of these specific control variables in the study, and taking into account any effect they might have, the research regarding board effectiveness and financial performance was strengthened.

Population and Sample

The population of interest for this research was the Executive Director, board chairs, executive committee members, and members at-large of tax-exempt nonprofit organizations servicing the Central Florida community. This group was selected from a State of Florida list of all of the 501(c)(3) nonprofit organizations in the state. The research focused on the 12,526 registered organizations providing services in the counties of Brevard (3,368), Flagler (12), Orange (5,976), Osceola (393), Seminole (3,018), and Volusia (2,755). Due to reporting requirements from the IRS, many religious organizations and smaller nonprofits were omitted from this study. Only those organizations with revenue in excess of \$25,000 are required to file

with the IRS (Fernald, 2000). Filing an IRS 990 is not required for religious organizations and those not meeting the above-stated revenue threshold.

A sample of 1,488 nonprofit organizations was identified for inclusion in this study. The survey was mailed to all organizations affiliated with the United Way and America's Charities in the six-county region and to a random sample from the State of Florida database of nonprofit organizations in the Central Florida area. The survey was addressed to the organization, and a cover letter solicited the participation of the director or a member of the board (Board Chair, executive committee member, or at-large member of the board).

Procedures

Data collection for the research project was conducted in two stages: First, the board self-assessment questionnaire (BSAQ) developed by Jackson and Holland (1998) was administered to the sample. Second, financial information from the three most recent years of IRS 990 forms was collected for each organization that responded to the survey.

Upon receiving approval from the Internal Review Board (IRB) at UCF (Appendix G), the researcher administered the BSAQ to the sample over a four-month period, beginning in May 2005. The distribution of the questionnaire followed Dillman's (2000) recommendations. The BSAQ was mailed to each participant in a standard envelope that included instructions for the survey, a return envelope with paid postage, and a personalized thank-you note for the respondent's participation. Additional surveys were distributed at a series of lectures held at the Rollins College Philanthropy and Nonprofit Leadership Center during the same time period.

A month after the survey was distributed, emails were sent to the heads of the United Way agencies, and targeted reminders were mailed out. These mailings targeted affiliated

members of Central Florida United Way organizations. Since email reminders can often bolster the response rate, the local United Way affiliates were encouraged to participate by their local United Way agency. This approach was intended to reduce the number of follow-up mailings required and increase participation in the study.

The financial information for tax-exempt nonprofit organizations is public and was accessed through two methods. The website www.Guidestar.org provides IRS 990 forms online in PDF format. This online method accounted for a substantial number of nonprofit organizations and was the primary source for financial information. When information was unavailable using Guidestar, the organizations were asked to provide the information. Nonprofit organizations are mandated by law to provide their IRS 990 forms, and all who were asked complied with this request. The information provided in the IRS forms allowed for the calculation of the nonprofit organizations' overall financial vulnerability, ascertaining their primary funding source, and obtaining the dates the organizations were founded.

Potential participants for the study were identified from three distinct sources: 1) Tax-exempt organizations registered with the State of Florida, 2) United Way–affiliated nonprofit organizations in the Central Florida region, and 3) participants in nonprofit seminars held at Rollins College. The target group for the survey was the nonprofit organization's Executive Director, the Board Chair, member of the executive committee, or a member of the board at-large.

The collection of the financial information took place through accessing the three most recent years of IRS Form 990 information for each of the respondents in the sample. The appropriate IRS Form 990 information was coded and placed into a table in order to calculate the scores needed for the FVI and to determine the organization's primary funding source. The

standardized nature of this IRS data and the use of three years' worth of compiled financial information made generalizing the results less prone to error (Froelich et al., 2000).

Instrumentation and Data Collection

The instrumentation for this analysis required the administration of the Board Self Assessment Questionnaire (BSAQ) in order to calculate and index organizational board effectiveness. The BSAQ has been evaluated for validity and reliability in assessing the relative effectiveness of an organization's board of directors (Brown, 2005; Jackson & Holland, 1998). The survey consists of 65 questions that evaluate six core competencies of the board of directors. These competencies are in the contextual, educational, interpersonal, analytical, political, and strategic areas. Additional questions were added to the BSAQ to collect specific demographic and control variable information.

The survey consisted of a series of statements that describe a variety of possible board actions, and respondents were asked to provide the answer that best illustrated their organizational experience. The survey used a Likert-scale-style format for coding answers (strongly agree, agree, disagree, and strongly disagree).

To assess the financial position of the organization, the Tuckman and Chang Financial Vulnerability model was used (Tuckman & Chang, 1991). This model has been successfully proven to be reliable and valid in predicting the financial vulnerability of nonprofit organizations (Hager, 2001; Hodge & Piccolo, 2005; Trussel, 2002). The model used the three most recent years of IRS 990 information (within the range of filing years 2000 to 2004) to calculate the Financial Vulnerability Index for each of the survey respondents. Using a three-year average of the financial indicators reduced the impact of any outliers in the data collection. If an

organization had an extremely good or an extremely poor year, the three-year average reduced the impact that this extreme value would have on the study. In addition, the Index authors defined vulnerable organizations in terms of three consecutive years of declining financial performance.

The Financial Vulnerability Index (FVI) consists of five key indicators that were integrated into a composite formula to provide a numerical representation of organizational financial vulnerability. The indicators include debt ratio (DEBT), revenue concentration (CONCEN), surplus margin (MARGIN), administrative cost ratio (ADMIN), and organizational asset size (SIZE). It should be noted that none of these sub-dimensions would have been appropriate as control variables, in that they are related to the composite FVI score.

An inverse relationship between BSAQ and FVI was predicted: as board effectiveness increased, it was hypothesized that the FVI score would decrease.

Data Analysis

In order to determine the nature of the relationship between board effectiveness and the relative financial vulnerability of a nonprofit organization, the survey information was calculated and then linked to the organization's financial information collected from the IRS 990 forms. In order to determine if funding source moderates the relationship between the BSAQ and the FVI, the primary funding source of the organizations was calculated, using the Form 990 data to provide information on revenue sources by area. The organizations were then assigned to one of three categories representing the primary funding source variable: private funding, governmental funding, or commercial funding (PRIV, GOVT, or COMM). The initial demographic results

from the respondents were included in order to test the specific control variables identified for the study and to illustrate the response rate and other key demographic data points.

To address the three hypotheses outlined in this study, the researcher examined the extent to which the board effectiveness measure predicted the FVI. The data were collected, entered into an Excel worksheet, and transferred for statistical calculation into the SPSS software program. Zero-order correlations were used to determine the relationship between the BSAQ and the FVI, including the six sub-dimensions of the BSAQ. Other statistical analyses were applied to the data to examine the impact that the individual sub-dimensions of the BSAQ have on the relationship with the FVI and to provide insight into the role that the specific control variables play within the relationship.

Two-step regression analysis was used to assess the extent to which board effectiveness explained variance in financial vulnerability. Specific control variables were entered into the regression analysis in Step 1, and the BSAQ was entered in Step 2. This method provided insight into the extent to which BSAQ predicted FVI beyond stable characteristics of the board.

To test the impact of primary funding source (PFS), the individual correlation between BSAQ and FVI for each funding group (PRIV, GOVT, and COMM) was also analyzed to test for significance. This Z-score comparison of correlations is similar to a *t* test, whereby correlations are compared for significance (Quiñones, Ford, & Teachout, 1995). Additionally, each sub-dimension of the BSAQ was introduced into the regression formula in order to provide specific insight into the influence each specific factor has on the dependent variable.

Cronbach's Alpha was calculated to determine the observed reliability of the BSAQ. The reliability testing provided detailed analysis of each specific sub-dimension and the overall BSAQ in reporting information on board effectiveness. The observed Alpha scores assisted in

better understanding the reliability of the sub-dimensions and the overall BSAQ in assessing board effectiveness.

A *t* test was used to examine whether statistical differences exist between executive director and board member respondents and between United Way affiliated organizations in terms of FVI and BSAQ scores. Similarly, a *t*-test analysis tested for non-response bias in those survey respondents who represented organizations where no financial data could be collected. Both of these tests were conducted to ensure that the study was free of response bias.

In consideration of the literature on this topic and the research questions outlined, the following models served as the basis for the research.

Correlation Model

Primary relationship of interest

FVI – BSAQ – context – education – interpersonal- analytical – political – strategic

Control variable relationship of interest

FVI – BSAQ – NA – UW – AGE – SA – SIZE

Primary Funding Source

PRIV: FVI – BSAQ

GOVT: FVI – BSAQ

COMM: FVI – BSAQ

ANOVA

Primary Funding Source (FVI)

PRIV – GOVT – COMM

Primary Funding Source (BSAQ)

PRIV – GOVT - COMM

Regression Formula

Step 1

$$FVI = a + b_1(AGE) + b_2(SIZE) + e$$

Step 2

$$FVI = a + b_1(AGE) + b_2(SIZE) + b_3(BSAQ) + e$$

Where:

- FVI = Financial vulnerability index
- BSAQ = Board effectiveness score
- Context = Contextual sub-dimension
- Education = Educational sub-dimension
- Interpersonal = Interpersonal sub-dimension
- Analytical = Analytical sub-dimension
- Political = Political sub-dimension
- Strategic = Strategic sub-dimension
- PFS = Primary funding source (PRIV, GOVT, and COMM)
- SIZE = Size of the board membership
- AGE = Age of the nonprofit organization
- UW = United Way affiliation
- SA = Service area of organization
- TENURE = CEO tenure with organization
- NA = National affiliation
- E = ERROR

Response Rate and Determination of the Final Sample

This section provides an overview of the response rate encountered while conducting the study and illustrates the steps taken to create the final sample for the study. The data collection relied on three distinct mailings, targeting the above-mentioned population of interest, and surveys distributed at a series of nonprofit seminars held at Rollins College in Winter Park, Florida. Survey response rates distributed at the lecture series were anticipated to be higher, as they were distributed at the beginning of the lecture and collected at the end of the presentation.

Of the 1,488 survey packets (cover letter, BSAQ, and return envelope) distributed, 159 (10.7%) were returned. Of those, 112 (7.5%) were included in the final study. Table 2 provides detail on response rates and the progression in building the final sample.

Table 2

Response Rate Information

Response level	Number of responders
Initial response	159
Completed BSAQ	157
BSAQ and FVI	116
Included in main study	112

The limitations to inclusion in the final study included the following:

- No IRS 990 information due to lack of revenue thresholds (organizations with less than \$25,000 in revenue are not required to file a 990)
- No IRS 990 due to religious affiliation (religious organizations are not required to file a 990)
- No organization name provided on the completed survey, limiting the ability to acquire the appropriate financial information (4 surveys)
- Survey not completed but returned (2 surveys)
- FVI score was in an extreme region and removed as an outlier (3 organizations removed)

Decisions regarding the definition of a nonprofit organization were important in the choice of nonprofit organizations in the Central Florida community. Local social-service agencies (Habitat for Humanity, Meals on Wheels, etc.) are typically the types of organizations that are associated with nonprofit organizations. However, many of the organizations with 501(c)(3) status did not fit this social-service profile. Since the study focused on board behavior and not on service delivery, creating a unique definition of nonprofit organization (NPO) was deemed precarious. This arbitrary assignment may have introduced researcher bias into the results (trying to conclude that a specific organization counted as an NPO, while removing others). Nonprofit organizations included in this study needed only be 501(c)(3) tax-exempt organizations; service type was not used in the formulation of the sample.

Using the State of Florida database for nonprofit organizations provided the study with a base-line sample of every organization in the Central Florida region that was registered as a tax-exempt nonprofit organization. This sampling frame consisted of 15,526 nonprofit organizations in six counties. Based on the researcher's previous nonprofit study (Hodge & Piccolo, 2005) it

was anticipated that using a United Way database would yield a higher response. There was strong support against acquiring all of the data from United Way affiliated members, because the literature suggests that United Way affiliation may influence results (Cordes et al., 1999; Stone et al., 2001). This United Way influence supported the affiliation as a control variable in the study. Additionally, seeking a broader dataset was supported, as funding source is a primary variable in the study and United Way organizations would clearly all have funding similarities that would limit their scope as a representative sample.

Survey-distribution breakdown is as follows: 1,092 surveys were mailed out to the State of Florida sample (which included the local Heart of Florida United Way and America's Charities member agencies), 132 surveys were mailed separately to the Volusia-Flagler United Way and Heart of Florida member agencies, 150 surveys were distributed at a series of nonprofit lectures held at Rollins College, and an additional 114 surveys were mailed to member agencies of Central Florida United Way and United Way of Brevard.

The response rates for each method are outlined below in Table 3. Inclusion in the main study required a completed Board Self Assessment Questionnaire (BSAQ), organizational historical data (age of the organization), and the availability of financial information (IRS form 990).

Table 3

Response Rate Information by Target Group

	Total distributed	<u>Initial response</u>		<u>Main study</u>	
		Number	Percent	Number	Percent
State of Florida data	1,092	54	5.0	24	2.2
United Way mail (1)	132	31	23.5	24	18.1
Lecture series	150	45	23.7	35	23.3
United Way mail (2)	114	29	25.4	29	25.4
Total response	1,488	159	10.7	112	7.5

As expected, the lecture series and the United Way mailings received the highest response rate, while the data made available by the State of Florida–provided data-set yielded the lowest response rate. Because of the large size and the difficulty maintaining correct information, it was anticipated that the state data would have an overall lower level of quality and result in a lower response rate. However, the response rate of 5% with 2.2% of those responses usable in the study was even lower than expected. Several contributing factors were revealed once the responses were received. Many of the nonprofit organizations were extremely small and were using the NPO status for narrow purposes (homeowners' associations, gardening clubs, etc.), the organizations did not have enough revenue (\$25,000) to mandate filing an IRS 990, or the organizations had a religious affiliation and were not required to file a 990 form. The Salvation Army, for example, was one of the respondents that could not be included in the study because it is not required to file an IRS 990 due to its religious affiliation.

Power analysis provided insight into the exact number of responses needed in order to have meaningful interpretation of the results. Power analysis provides the estimated sample size

that is required to reject the null hypothesis ($r = 0$). Using the information collected from Jackson and Holland (1998) to provide benchmark statistics, power analysis requires a sample size of 63 to provide significant results (assumptions: $r = .35$, power = .80, and a significance level of .05). More conservative calculations ($r = .15$ and power = .80) require a larger sample of 275 in order to meet significance levels. A recent study using the BSAQ and financial performance indicators provided a benchmark in that it relied on information from 86 valid responses (Brown, 2005). The research used a revised sample size goal of 100 in order to test the specific hypothesis outlined in the study.

Of the 159 returned surveys, 47 were removed from the final sample for various reasons (incomplete financial information, incomplete survey information, etc.). The final sample of 112 organizations included in the main study had a completed BSAQ, organizational information, and financial information collected from the IRS 990, and their results were deemed appropriate for comparison. Four surveys were removed from the study with valid BSAQ and FVI data. These organizations were removed because their average FVI scores were well beyond the mean (.23) and considered extreme outliers (FVI=.03, .75, .86, and 1.0). It should also be noted that the three organizations in the high region submitted the IRS 990-EZ form (Appendix E), which made calculating the FVI imprecise and may have accounted for the high score. With respect to the low region FVI score (FVI = .03), the researcher is associated with the organization, supporting the removal of this organization from inclusion in the main group.

The overall response rates are similar to studies using the BSAQ for organizational assessment and comparison to financial outcomes. Although the response rate for the state database remains below the observed average (20%–30%) in prior studies (Brown, 2005; Holland, 1991), tests for non-response bias were conducted to support the inclusion of the

specified data in the final study, in order to ensure that the final sample was representative in nature and to generalize interpretation of the results.

To ensure that the study minimized the influence of response bias, several tests were applied to measure for this effect. First, a test was implemented to evaluate the differences between the FVI scores of the respondent organizations and a random sample of non-respondent organizations. Second, a comparison of the BSAQ scores was used to assess any differences between the observed scores of the organizations included in the study (main study group) and those not included in the final sample (excluded group).

To test for non-response bias, a sample of 75 organizations included in the initial mailing (1,092) that did not respond to the survey was created. Of this random sample of 75, 17 (9%) organizations had valid Financial Vulnerability Index scores (FVI). The FVI scores of the sample of non-response organizations were then compared to the FVI scores of the organizations included in the main sample. The results in Table 4 show that although the FVI scores for the non-response group are slightly higher, there appears to be no significant difference between the scores ($p = .35$).

Table 4

Mean Comparison for Non-Response Bias (FVI)

	Main study		Non-response group		t (df=18.5)	p
	N	Mean (SD)	N	Mean (SD)		
FVI	112	.23 (.09)	17	.26 (.13)	.97	.35

Table 5 shows that the average BSAQ score for the main study group is .64 (SD = .11), while the excluded group mean is .62 (SD = .10). Comparing the mean BSAQ scores for the organizations included in the main study to the scores of those organizations removed from the final sample revealed a slightly higher BSAQ score for the main study group; however, the difference was not deemed significant between the groups ($p = .24$).

Table 5

Mean Comparison of Main Study Surveys and Excluded Surveys (BSAQ)

	N	Mean (BSAQ)	SD	T (df=155)	Sig.
Main Study	112	.64	.11	1.18	.24
Excluded Surveys	45	.62	.10		

Summary

In order to understand the effect that a board of directors has on the relative financial performance of a nonprofit organization, the key variables of the study were identified and operationalized. These variables are the board's effectiveness in carrying out its mission, the distinct resource streams funding the organization, and the assessment of financial performance for the nonprofit organization.

This research was designed to calculate the effectiveness of the board of directors using the Board Self-Assessment Questionnaire (BSAQ). Financial data from IRS Form 990 provided information regarding primary funding sources and overall organizational financial vulnerability.

The use of these variables enabled the use of a broad array of statistical evaluations for significance, while controlling for other external factors.

The final sample of 112 organizations was consistent with the sample size predicted using power analysis and is supported in similar studies using board effectiveness to determine the financial position of the nonprofit organization. Additionally, the sample was tested for non-response bias, and no significant differences were found in the creation of the sample. The final sample of 112 organizations was representative in nature, and the results were expected to provide insight into the relationship between board effectiveness, funding source, and financial vulnerability.

CHAPTER FOUR

RESULTS

This chapter discusses in detail the results encountered while conducting a study of the relationship between board effectiveness, funding source, and financial vulnerability. The first section profiles both the respondent information and the organizational characteristics observed in the final sample and discusses steps taken to test for the presence of bias introduced from respondent type (Executive Director/Board Member) and organization affiliation with the United Way. The second section provides a detailed analysis of the key variables in the study, and addresses each of the study's three research questions and subsequent statistical testing of each hypothesis.

Descriptive Statistics and Response Bias

This section provides a detailed profile of the descriptive statistics observed for the respondents and subsequent organizations participating in the study. Board members and Executive Directors were asked to complete the survey, and the results were then paired to their individual organization's financial performance indicators.

Table 6 provides an overview of the respondents included in the final sample. The response group was predominantly white (88%), with 56% of the group being female. More than half of the respondents were above the age of 50 (61%) and nearly all of the respondents (93%)

held a college degree or higher. A third of the group (35%) reported an annual income of between \$50,000 and \$80,000, with 19% reporting incomes of greater than \$100,000.

Table 6

Descriptive Statistics of Respondents (N = 112)

Attribute	Number in sample	Percent
<u>Race</u>		
African American	7	6
Asian	2	2
Hispanic	4	4
White/non-Hispanic	99	88
<u>Gender</u>		
Male	48	43
Female	63	56
Missing	1	1
<u>Age</u>		
Under 35	4	4
35–40	4	4
41–45	16	14
46–50	16	14
51–55	28	25
56–59	24	21
60 +	17	15
Missing	3	3
<u>Highest level of education</u>		
High school	1	1
Some college	6	6
Undergraduate degree	44	39
Masters degree	43	38
Doctoral degree	18	16
<u>Annual salary</u>		
Under \$30,000	8	7
\$30,001–50,000	20	18
\$50,001–\$80,000	38	35
\$80,001–\$100,000	20	18
>\$100,000	22	19
Missing	4	3

The organizational characteristics observed in the study are reported in Table 7. The operating budgets of the organizations participating in the study were diverse, with the greatest number of organizations (32%) reporting annual budgets greater than \$2 million. Another 23% of the organizations reported budgets between \$500,000 and \$999,999 annually, while 8% of the groups held annual budgets of less than \$100,000. The nonprofit organizations participating in the study also varied in terms of their specific service type: 30% of the respondents were focused on Social Service issues, while educational related services accounted for 15% of the group and Child/Youth accounted for 13% of the organizations participating in the study. Illustrating the wide scope of nonprofit service characteristics, 15% of the organizations participating in the survey classified their organization as “Other.”

Table 7

Descriptive Statistics of the Organizations (N = 112)

	Number in sample	Percent
<u>Operating budget</u>		
Under \$100,000	9	8
\$100,000 – 499,999	20	18
\$500,000 – 999,999	26	23
\$1,000,000 – 2,000,000	21	19
> \$2,000,000	36	32
<u>Nature of service delivered by organization</u>		
Social service	34	30
Healthcare	14	13
Emergency service	5	4
Education	17	15
Children/Youth	14	13
Community	8	7
Other	17	15
Missing	3	3
<u>Board member composition</u>		
Community leaders	12	11
Business executives	21	19
Consumers of the NPO	3	3
Combination	72	64
Other	2	2
Missing	2	2

The board composition for the participating organizations was predominantly characterized as a combination of Community Leaders, Business Executives, and Consumers; accounting for 64% of the boards included in the study. Supporting the resource acquisition and leadership role of the board, only 3% of the sample relied on a board of directors composed entirely of consumers of the organization.

The data illustrate the challenge in collecting information from existing board members, as the majority of the surveys were submitted by Executive Directors. Table 8 reveals that 87% of the respondents were the Executive Director of their respective organizations, with members of the board combining to create the remaining 13% of the respondents.

Table 8

Respondent Affiliation to the Organization

Affiliation	Number in sample	Percent of total
Executive Director	97	87
Member of the Executive Committee	4	4
Board Chair	6	5
Board Member At-Large	5	4
Totals	112	100

The disproportionate number of Executive Directors in the final sample raises a concern about bias in the assessment of board effectiveness. It is possible, for example, that executive directors offered a more favorable account of board effectiveness than did members of the board. Taking that into consideration, I tested for potential bias with respect to scores on the BSAQ. Organizational bias was tested by comparing FVI scores across the sample. By examining mean differences in FVI and BSAQ scores between Executive Directors and board members, I was

able to determine if responses to those measures varied based on the respondent. Results are presented in Table 9.

Table 9

Mean Comparison of Executive Director Responses to Board Member Responses

	FVI				BSAQ		
	<i>n</i>	Mean	SD	<i>t</i>	Mean	SD	<i>t</i>
Executive Director	97	.23	.09	.07	.64	.11	.12
Board Member	15	.23	.08		.64	.09	

As results of two separate independent samples *t* tests reveal, responses on the FVI and BSAQ did not differ by type of respondent. The mean BSAQ scores reported by Executive Directors (M = .64, SD = .11) was equal to the mean BSAQ score reported by board members (M = .64, SD = .09), and the mean FVI scores were equal in both groups (M = .23).

The study relied heavily on the participation of local United Way members in the six counties in the Central Florida area. Seventy percent of the final sample reported an affiliation with the United Way (Table 10).

Table 10

Representation of United Way Affiliation in Final Sample

	Number in sample	Percent
Yes	78	70
No	33	30

As with the Executive Director respondents, it was of concern that bias might be introduced by relying on United Way affiliates in the final analysis. I used an independent samples *t* test to compare FVI scores and BSAQ scores from those organizations that reported a United Way affiliation with those organizations that did not. Results are presented in Table 11.

Table 11

Mean Comparison of United Way Affiliates and Non-Affiliates (BSAQ & FVI)

	FVI				BSAQ		
	<i>n</i>	Mean	SD	<i>t</i>	Mean	SD	<i>t</i>
United Way Agency	78	.23	.08	-.03	.64	.11	.12
Non-United Way	33	.23	.12		.64	.09	

As the results in Table 11 indicate, the mean FVI and BSAQ scores were similar for United Way member agencies ($M_{FVI} = .23$; $M_{BSAQ} = .64$) and for non member agencies ($M_{FVI} = .23$; $M_{BSAQ} = .64$), and the differences were non-significant ($t = -.03$ and $t = .12$,

respectively). This finding is of particular importance as four United Way member agencies (Heart of Florida, Volusia/Flagler, Central Florida, and Brevard United Way) were used to identify organizations for participation in the study. The results support the use of the final sample as representative of nonprofit organizations in the Central Florida region regardless of their United Way affiliation.

Table 12 demonstrates the distribution of several organizational variables that are of importance in the study. CEO tenure, Age of the Organization, and Board Size were identified as important variables in the examination of board effectiveness, funding source, and financial vulnerability. In the final sample, Executive Directors had assumed leadership roles at their respective organizations for an average of 11 years ($SD = 8.59$). The age of the organization was reported from available information on the date the organization was founded. It should be noted that the use of “filing date” (the date at which the organization initially filed for tax-exempt status) was used as a proxy for the date the organization was founded when “founding date” was unavailable. The mean age of organizations in the study was reported at 27.49 years ($SD = 17.45$). The average board size was 18.54 ($SD = 11.79$).

Table 12

Descriptive Statistics for CEO Tenure, Age of the Organization, and Board Size

	n	Minimum	Maximum	Mean	SD
CEO tenure	104	0	35	11.06	8.59
Age of the organization	107	2	103	27.49	17.45
Board size (number of members)	109	5	75	18.54	11.79

National organization affiliation was also identified as a variable of interest for this study. Table 13 gives the count of organizations reporting that their organization maintained a national affiliation. Of interest is the balance of organizations with (55%) and without (43%) a reported national affiliation. This equal distribution adds depth to interpretation of the data across organizations.

Table 13

Descriptive Statistics for National Affiliation

National affiliation	Number in sample	Percent
Yes	48	55
No	62	43
Missing	2	2

Primary funding source (PFS) was identified as a moderating variable when exploring the relationship between board effectiveness and financial vulnerability. The role of the board being linked strongly to strategic direction, organizational leadership, and resource management made this an attractive moderating variable of the relationship of interest. Primary funding source was calculated by averaging resource information collected from the financial information provided in the IRS 990. PFS was categorized (Private, Government, and Commercial) according to the source providing the highest percent of annual funding to the organization.

Table 14 provides descriptive statistics for the organizations participating in the study based on their primary funding source category. Private contributions provided primary funding for 46% of the organizations observed in the final sample. Government funded agencies accounted for 26% of the final sample, and commercially funded organizations represented 31% of the sample. Although a considerable portion of the sample is represented by privately funded groups, the distribution by funding source remains relatively even.

Table 14
Descriptive Statistics for Primary Funding Source

Primary funding source	Number in sample	Percent
Private contributions and donations	51	46
Government grants	26	23
Commercial activity/private-sector payments	35	31

Table 15 provides the mean scores for specific control variables identified in this study. Board size, CEO tenure, and age of the organization were considered according to funding source. These three control variables were selected, as the mean scores are valid for comparison. United Way affiliation and national affiliation were both dichotomous variables and deemed inappropriate for this comparison. Service area was coded as a categorical variable and not appropriate for inclusion in this table. One-way analysis of variance (ANOVA) was used to provide additional understanding of the nature of the sample. Testing for mean differences in specific control variables, I segmented the sample into three groups based on primary funding source (Private, Governmental, and Commercial). The table provides demographic data on each of the control variables. The ANOVA results demonstrate significant and near significant differences in two of the three control variables, underscoring the importance of funding source in this study.

Table 15

Control Variable Demographics and Mean Comparison

	Source of funding									<i>F</i>	Sig.
	Private			Government			Commercial				
	n	Mean	SD	n	Mean	SD	n	Mean	SD		
Board size	49	20.4	13.5	25	15.2	5.6	35	18.3	12.1	1.7	.20
CEO tenure (years)	45	8.8	7.1	25	13.0	9.0	34	12.7	9.6	3.0	.06
Age of organization (years)	49	23.0	15.5	24	33.0	18.7	34	30.0	18.1	3.3	.04*

* $p < .05$.

Hypothesis Testing and Results

Hypothesis 1 states that board effectiveness would have an inverse relationship with financial vulnerability, with the BSAQ as a measure of effectiveness and the FVI as a measure for financial vulnerability. Hypothesis 2 explores the impact that specific board characteristics associated with strategic planning and stakeholder management have in explaining more of the variation in financial vulnerability than the other dimensions of the BSAQ. Hypothesis 3 asserts that funding source, specifically private funding, acts as a moderating variable of the relationship between board effectiveness and financial vulnerability.

Table 16 presents means, standard deviations, and correlations among the control variables, the BSAQ, and FVI. Although not of primary interest, relationships between the control variables and financial vulnerability are worth noting. Age of the organization, for example, was significantly related to scores on the BSAQ ($r = -.23, p < .05$) and marginally related to scores on the FVI ($r = -.15, ns$). These results suggest that older organizations tend to have more effective boards but do not necessarily maintain a more stable balance sheet. Board size, on the other hand, was significantly related to board effectiveness ($r = .28, p < .01$) and FVI ($r = -.25, p < .01$), suggesting that additional members increase the likelihood of an engaged and effective board of directors, resulting in greater organizational financial health.

Table 16

Correlations Among Control Variables, BSAQ, and FVI

	Mean	SD	1	2	3	4	5	6
1. Age (years)	27.49	17.45	-					
2. CEO tenure (years)	11.07	8.60	.29**	-				
3. Board size	18.54	11.79	.32**	.10	-			
4. National affiliation	.44	.50	.13	.02	.24**	-		
5. United Way affiliation	.70	.46	.20*	-.15	.16*	.06	-	
6. BSAQ ^a	.64	.11	.23**	.17*	.28**	-.01	.00	-
7. FVI ^b	.23	.09	-.15	-.04	-.25**	-.08	-.00	-.26**

$n = 112$.

^a Board Self Assessment Questionnaire (BSAQ). ^b Financial Vulnerability Index (FVI).

* $p < .05$. ** $p < .01$.

The age of the organization was significantly associated with CEO tenure ($r = .29$, $p < .01$), board size ($r = .32$, $p < .01$), and United Way affiliation ($r = .20$, $p < .05$). The size of the board governing the organizations included in the final study was significantly associated with the age of the organization ($r = .32$, $p < .01$), United Way affiliation ($r = .16$, $p < .05$), and national affiliation ($r = .24$, $p < .01$). CEO tenure, national affiliation, and United Way affiliation showed no significant relationship with the BSAQ or FVI and were excluded from subsequent analyses.

Service Area of the nonprofit organization was coded as a categorical variable and could not be included in the correlation table. As described in Chapter Three, each organization was categorized into one of four primary service areas (Social Service, Healthcare, Education, and Other). I used One-Way ANOVA to determine if mean BSAQ and FVI scores were statistically different across these four independent groups. As results in Table 17 indicate, group mean scores for both BSAQ and FVI were similar across service area; there were no statistical differences observed for BSAQ ($F = .29$, ns) or FVI ($F = 1.4$, ns). With these observations, it is clear that organizations in each service area report similar levels of board effectiveness and financial vulnerability. That is, the nature of a nonprofit organization, in terms of service, does not have a meaningful influence on its reported scores on either the BSAQ or FVI. Thus, I excluded the Service Area variable in subsequent analyses.

Table 17

Evaluation of BSAQ and FVI Across Service Area (ANOVA)

Service Area	n	BSAQ	FVI
Social Service	42	.63	.22
Healthcare	19	.63	.22
Education	31	.65	.23
Other	17	.65	.27
<i>F</i> statistic		.29	1.40
<i>p</i> value		.83	.25

Hypothesis 1

Hypothesis 1 asserted that the financial position of a nonprofit organization is shaped in part by the effectiveness of its board of directors. As expected, the overall BSAQ score was negatively associated with FVI ($r = -.26, p < .01$), providing initial support for Hypothesis 1. When board effectiveness increases, financial vulnerability decreases. Consistent with both organizational level studies and general social science research (Brown, 2005; Gill et al., 2005; Rojas, 2000), the correlations remain low to moderate in nature.

Although the correlation between BSAQ and FVI is relatively low, given the negative association and the strong statistical significance, a hierarchical regression analysis was conducted to determine if board effectiveness would predict variance in FVI beyond two stable characteristics of the organization. As described previously, age of the organization and board size were both meaningfully related to financial vulnerability and are control variables of particular importance in explaining the legitimacy of a nonprofit organization. Age, for example, represents an organization's ability to survive in a competitive, resource-dependent environment,

while board size indicates the population's support for the mission of the organization and may represent legitimacy and stability in terms of access to financial resources provided by a diverse group of board members. As such, age of the organization and board size were treated as stable characteristics of the organization in the subsequent regression analyses. CEO tenure, national affiliation, United Way affiliation and service area demonstrated weak or insignificant bivariate correlations between FVI and BSAQ and were not included in the regression analysis.

To determine whether board effectiveness is a statistically significant predictor of financial vulnerability beyond stable characteristics of the organization, board size and age of the organization were entered into Step 1 of a hierarchical regression model and BSAQ into Step 2. If the change in R^2 is significant in Step 2 of the hierarchical regression model, then it can be asserted that board effectiveness adds to the explanation of the variance in FVI. Results are presented in Table 18.

Table 18

Incremental Variance of BSAQ in Predicting Financial Vulnerability

	Financial Vulnerability		
	Beta	R^2	ΔR^2
Step 1:			
Age of the organization	-.07	.08*	.08*
Board size	-.25*		
Step 2:			
BSAQ	-.22*	.12*	.04*

* $p < .05$.

As results in Table 18 illustrate, each of the Beta coefficients is negative, indicating that all of the variables of interest in this particular regression model are inversely associated with FVI. The Beta score for age of the organization (Beta = $-.07$, *ns*) is non-significant while the Beta score for Board size (Beta = $-.25$, $p < .05$) is statistically significant, suggesting that organizations with large boards are less vulnerable to economic shock. Taken together, these variables explain 8% of the variance in FVI ($R^2 = .08$, $p < .05$). As hypothesized, board effectiveness (BSAQ) is a statistically significant predictor of FVI (Beta = $-.22$, $p < .05$) controlling for age of the organization and board size, and the addition of BSAQ in Step 2 of the regression model adds 4% ($\Delta R^2 = .04$, $p < .05$) to the explained variance in FVI.

Hypothesis 2

With support of the notion that board effectiveness predicts financial vulnerability, the next step was to determine whether specific sub-dimensions of the BSAQ have a unique effect on FVI (Hypothesis 2). In particular, whether board behaviors associated with long-term planning (strategic) or stakeholder management (political) would be stronger predictors of financial position than the other four dimensions of the BSAQ (Contextual, Educational, Interpersonal, and Analytical).

Table 19 provides a comparison of published BSAQ sub-dimensions and overall scores to those observed in the main study. Complete statistical information was unavailable on the published scores, so the inclusion of this comparison is for face validity and cannot be interpreted for statistical significance. Of note: all of the scores included in the main study appear to be extremely close or identical to those published by Holland in the instructional handout accompanying the BSAQ (Appendix C).

Table 19

Comparison of BSAQ Scores from Published Study and Main Study Group

	n	Dimensions						BSAQ
		1	2	3	4	5	6	
Overall norm	200	.69	.54	.64	.62	.65	.66	.63
Average (current study)	112	.69	.58	.65	.65	.65	.64	.64

1 = Contextual. 2 = Educational. 3 = Interpersonal. 4 = Analytical. 5 = Political. 6 = Strategic.

The Board Self-Assessment Questionnaire (BSAQ) is a measure of overall board effectiveness, comprising six distinct sub-dimensions (a detailed explanation of each is provided in Chapter Two). To estimate correspondence among the dimensions, mean scores were evaluated and the correlations were calculated among the six sub-dimensions. Results are presented in Table 20. Prior research has revealed that each of the subscales is valid and reliable in the assessment of overall board effectiveness (Brown, 2005; Jackson & Holland, 1998), and in the current study, each of the six sub-dimensions achieves a reliability score above $\alpha = .60$ (four of the scales are at or above $\alpha = .70$). The relatively small number of items used to evaluate each dimension may compromise its reliability, as illustrated in the Political sub-dimension ($\alpha = .63$), comprising only eight items. The overall BSAQ score was used as a primary measure of board effectiveness, and it revealed an extremely strong measure of reliability ($\alpha = .95$).

Table 20

Correlations (Pearson's R) Among the Sub-dimensions of the BSAQ

	α	Dimensions						
		1	2	3	4	5	6	7
1. Contextual	.81	-						
2. Educational	.70	.70**	-					
3. Interpersonal	.67	.80**	.71**	-				
4. Analytical	.70	.77**	.65**	.74**	-			
5. Political	.63	.70**	.56**	.67**	.61**	-		
6. Strategic	.87	.83**	.73**	.72**	.77**	.62**	-	
7. BSAQ ^a	.95	.93**	.84**	.88**	.87**	.79**	.91**	-
8. FVI ^b		-.25**	-.27**	-.18*	-.12	-.26**	-.23**	-.26**

 $n = 112$.^a Board Self Assessment Questionnaire. ^b Three-year financial vulnerability index.* $p < .05$. ** $p < .01$.

Each of the six sub-dimensions of the BSAQ yields an inverse relationship with the FVI. The Contextual ($r = -.25, p < .05$), Educational ($r = -.27, p < .05$), Interpersonal ($r = -.18, p < .05$), Strategic ($r = -.23, p < .05$), and Political ($r = -.26, p < .05$) aspects were each significantly associated with FVI, while the Analytical sub-dimension yielded a non-significant influence on financial performance ($r = -.12, ns$).

Of particular interest is the inter-correlation between the sub-dimensions of the BSAQ. The average correlation between the sub-dimensions is high ($r = .71$), suggesting that respondents may not fully distinguish differences among the otherwise distinct aspects of board effectiveness. As such, the strong correlations provide support for using the overall BSAQ as the independent variable in the study and may provide insight into any perceived weaknesses observed in individual sub-dimensions in predicting for FVI over the others.

Hypothesis 2 suggests that two of the sub-dimensions of the BSAQ (strategic and political) would be more strongly associated with the FVI score than each of the other four sub-dimensions. However, correlation results do not support this suggestion. It was anticipated that items 5 and 6 on Table 20 would show statistically significant associations with FVI, while the other sub-dimensions would not. Although the strategic and political sub-dimensions demonstrate moderate correlations with FVI, these correlations do not appear to be different from those of the other dimensions. Thus, using correlation analysis, Hypothesis 2 could not be supported.

Multiple regression analysis was used to estimate the effect of the individual sub-dimensions of the BSAQ on the FVI. The results are presented in Table 21. Each of the six sub-dimensions was entered into a regression equation with the FVI as the dependent variable. As a group, the six sub-dimensions explain 12% of the variance in FVI ($R^2 = .12, p < .05$).

Table 21

Assessment of Sub-Dimensions in Predicting Financial Vulnerability

Dimension	Financial Vulnerability		
	Beta	R ²	ΔR ²
Contextual	-.20	.12*	.12*
Educational	-.24 [‡]		
Interpersonal	.13		
Analytical	.24		
Political	-.19		
Strategic	-.05		

$n = 112$.

* $p < .05$. [‡] $p < .10$.

As the results in Table 21 indicate, four of the six sub-dimensions (contextual, educational, political, and strategic) are negatively associated with FVI, while two of the sub-dimensions (interpersonal and analytical) yield positive Beta coefficients with FVI. However, none of the individual sub-dimensions emerges as statistically significant beyond the others; only the educational sub-dimension approaches statistical significance (Beta = -.24, $p < .10$). When controlling for the other five dimensions, both the strategic (Beta = -.05, *ns*) and political (Beta = -.19, *ns*) sub-dimensions of the BSAQ yield Beta coefficients that are close to zero. Thus, neither the strategic nor the political sub-dimension explains additional variance in the FVI

when holding the other sub-dimensions constant—a result that may be strongly shaped by the high correspondence among the sub-dimensions (average intercorrelation, $r = .71$).

Multiple regression models assume that the independent variables are not highly related, and they are highly sensitive to correlations among the independent variables. The existence of multicollinearity among the independent variables weakens the stability of regression estimates and compromises our ability to interpret relationships between the independent and dependent variables. In this particular case, because the sub-dimensions of the BSAQ are not independent of each other, it was necessary to test for the existence of multicollinearity.

A statistic used to identify multicollinearity is the variance inflation factor (VIF). A low VIF score (< 10.0) indicates that an independent variable has little of its variability explained by the other independent variables (Belsley, Kuh, & Welsch, 1980) and allows for traditional interpretation of the standardized regression coefficients (Beta). Additionally, SPSS provides a tolerance level for each independent variable as a measure of multicollinearity, which should be close to 1. Tolerance scores less than .10 indicate that multicollinearity may be a problem in the regression model (Norusis, 2000).

To support the use of multiple regression in the test of Hypothesis 2, the presence of multicollinearity among the independent variables was tested. Table 22 provides both the VIF scores and the calculated tolerance levels for each of the six sub-dimensions. The VIF scores range in value from 2.1 to 5.0, while the tolerance levels range from .20 to .47. None of these statistics are in the ranges that might suggest the existence of multicollinearity among the independent variables. Although the collinearity diagnostics do not point to a clear problem, other evidence suggests that the effects of each sub-dimension of the BSAQ on financial vulnerability (FVI) cannot be separated for individual analysis. As such, our observed regression

results (Table 21), in which FVI was regressed on the six sub-dimensions of the BSAQ, do not provide support for Hypothesis 2.

Table 22

Test for Multicollinearity Among Sub-Dimensions of the BSAQ

Dimension	VIF	Tolerance
Contextual	5.0	.20
Educational	2.5	.40
Interpersonal	3.5	.29
Analytical	3.1	.33
Political	2.1	.47
Strategic	4.1	.24

Hypothesis 3

Hypothesis 3 asserts that the major funding source of a nonprofit organization influences the relationship between board effectiveness and financial vulnerability. Specifically, it tests the extent to which board effectiveness predicts financial vulnerability in privately funded organizations, compared with those organizations funded from governmental and commercial sources.

In order to test Hypothesis 3, the final sample was segmented into three groups (private, government, and commercial) based on the organizations' primary funding source (details of the

formation of these groups is provided in Chapter Three). Once the groups were segmented into the three distinct categories, statistical testing could be applied to determine if funding source moderated the relationship between board effectiveness and financial vulnerability.

Results of an initial comparison of the organizations based on primary funding source are presented in Table 23. This table provides comparisons of the mean scores for BSAQ and the FVI, as well as the correlation between BSAQ and FVI in each of the funding source sub-groups. The table also provides ANOVA results that attempt to determine whether observed differences between the three groups are statistically significant.

Table 23

Comparison of Agencies Based on Primary Funding Source

	Private (n = 51)		Government (n = 26)		Commercial (n = 35)		F	p
	Mean	SD	Mean	SD	Mean	SD		
BSAQ	.63	.09	.65	.12	.66	.11	1.37	.26
Financial vulnerability	.23	.11	.23	.05	.24	.08	.12	.88
r _{BSAQ-FVI}	-.41***		-.03		-.19			

*** $p < .001$.

Each of the three groups (private, government, commercial) offer similar scores on both the BSAQ and the FVI. The reported levels of board effectiveness do not appear to vary based on funding source, and results of ANOVA ($F = 1.37$, *ns*) are non-significant. Further, the three

groups are subject to similar levels of vulnerability, and ANOVA results ($F = .12, ns$) suggest that observed differences are non-significant.

However, whereas funding source does not appear to influence reported scores on the BSAQ or the FVI, results in Table 23 do suggest that the impact of board effectiveness on FVI varies with primary funding source. That is, the correlation between BSAQ and FVI appears to fluctuate with funding source. Correlations between BSAQ and FVI are in the expected (negative) direction in all three groups; however, the magnitude of the association appears to vary. For privately funded organizations, the correlation between BSAQ and FVI is moderate in size and statistically significant ($r = -.41, p < .01$). In organizations that derive a majority of their funding from government ($r = -.03, ns$) and commercial ($r = -.19, ns$) sources, the relationship between BSAQ and FVI is close to zero. As such, the relationship between the study's primary variables (BSAQ and FVI) appears to be influenced by the primary funding source of the organization—an observation that is consistent with aspects of resource dependence theory.

To determine whether these observed differences are statistically significant, a one-tailed comparison of independent correlations using the technique proposed by Quiñones et al. (1995) was conducted. A Z score greater than +1.64 or less than -1.64 would indicate that observed differences were significant at $p = .05$. Results are presented in Table 24.

Table 24

Z-Score Comparison of Correlations Between Funding Source Groups

	<u>Funding source pairs</u>					
	Private	Govt.	Private	Comm.	Govt.	Comm.
Pearson's R	-0.41	-0.03	-0.41	-0.19	-0.03	-0.19
SE _{Mp1/ Mp2}	0.150	0.091	0.150	0.131	0.091	0.131
<i>P</i>	.05		.10		ns	
<i>Z</i>	-3.35*		-1.43		1.15	

One-tailed significance * $z > 1.64$ or $z < -1.64$.

The magnitude of the correlation between BSAQ and FVI in privately funded organizations ($r = -.41, p < .01$) is larger than the correlation in government funded organizations ($r = -.03, ns$), and the difference between the two is statistically significant ($Z = 3.35, p < .05$). This result suggests that the BSAQ is more strongly associated with FVI in privately funded organizations than in government funded organization, providing support for Hypothesis 3 and support for the use of funding source as a moderating variable. Further, the magnitude of the correlation between BSAQ and FVI in privately funded organizations ($r = -.41, p < .01$) is larger than the correlation in commercially funded organizations ($r = -.19, ns$), but the difference, while notable, is not statistically significant ($Z = -1.43, p < .10$). The correlation between BSAQ and FVI is non-significant in both government and commercially funded organizations, and the difference between the two is non-significant ($Z = 1.15, ns$).

Of note, the correlation between BSAQ and FVI was significant only in the privately funded groups; thus, Hypothesis 1 (BSAQ—FVI) could be re-examined in privately funded

organizations. A two-step hierarchical regression analysis was applied to the privately funded group using the initial parameters discussed in Hypothesis 1. This test was used to identify the impact that BSAQ would have in predicting variance in FVI beyond age of the organization and board size. Board size and age of the organization were again entered in Step 1 and BSAQ was entered in Step 2 of the regression analysis. Results are presented in Table 25.

Table 25

Incremental Variance of BSAQ in Predicting Financial Vulnerability in Privately Funded Groups

	Financial Vulnerability		
	Beta	R ²	ΔR ²
Step 1:			
Age of the organization	-.08	.10 [‡]	.10 [‡]
Board size	-.29 [‡]		
Step 2:			
BSAQ	-.40*	.23*	.13*

n=51.

* *p* < .05. ‡ *p* < .10.

Once again, age of the organization and board size each display a negative relationship with FVI (Betas = -.08 and -.29, respectively). Of interest, whereas board size is significant for the entire sample, it is no longer statistically significant when the regression analysis is applied to the private sub-group. As a group, the two variables do not explain a statistically significant portion of the variance in FVI ($R^2 = .10$). It is important to point out that the limited sample size

may also weaken the statistical power of this model; however, these results suggest that in the smaller sample the influence of the control variables (age and board size) on financial vulnerability is lessened for privately funded organizations.

BSAQ was entered in Step 2 of the regression analysis to determine if BSAQ explains variance in FVI beyond age of the organization and board size. If the change in R^2 observed in Step 2 of the regression is statistically significant, it can be determined that board effectiveness adds to the explanation of the variance in FVI. As results in Table 25 indicate, the Beta coefficient for BSAQ in Step 2 is in the expected (negative) direction (Beta = $-.40$, $p < .05$) and is statistically significant when controlling for age of the organization and board size. The magnitude of the Beta coefficient appears to be larger than that of the variables entered in Step 1. Further, BSAQ, age, and board size together explain 23% of the variance in FVI ($R^2 = .23$, $p < .05$), and the addition of BSAQ in Step 2 results in a statistically significant increase in variance explained ($\Delta R^2 = .13$, $p < .05$).

The results described above merit additional explanation. In the full sample, the addition of BSAQ in Step 2 of the regression model provides a statistically significant increase in the variance explained ($\Delta R^2 = .04$, $p < .05$), but this change is not substantial. The additional variance explained by BSAQ is relatively small (4%) and the control variables as a group are statistically significant ($R^2 = .08$, $p < .05$). However, when observing a similar analysis in a privately funded sub-group of the entire dataset ($n = 51$), the contribution of BSAQ, when controlling for age and board size, was both statistically ($\Delta R^2 = .13$, $p < .05$) and substantively significant. Whereas age and board size are valuable predictors of FVI for the entire set, these variables do not explain a statistically significant amount of the variance in FVI in a privately funded sub-group of the entire dataset ($R^2 = .10$, ns). However, when BSAQ is added to the

regression model in Step 2, a statistically significant portion of the variance in FVI is explained ($R^2 = .23, p < .05$). That is, board effectiveness appears to be particularly valuable in explaining an organization's vulnerability when the organization derives a majority of its funding from private sources, an observation that is consistent with resource dependence theory.

Although there is no significant difference between the mean BSAQ and FVI scores among the funding groups, the privately funded group displays a significant correlation between BSAQ and FVI, while the government and commercial groups display no statistically significant relationship. In addition, when comparing the correlations, a statistically significant difference between the private and government correlations is identified, a near significant difference between the private and commercial correlations, and no significant difference between the correlations observed in the government and commercial groups. Finally, two-step hierarchical regression analysis conveys that the BSAQ predicts for FVI beyond the control variables outlined in the study. This broad-based testing supports the assertion that the relationship between board effectiveness and financial vulnerability is moderated by funding source, specifically for those organizations receiving the majority of their funding from private sources.

CHAPTER FIVE

DISCUSSION

The focus of this study was to establish an understanding of the impact of board effectiveness on the financial position of the nonprofit organization, in the context of funding source. The relationship between board effectiveness and financial vulnerability was examined. Specific behaviors associated with strategic planning and stakeholder management were assessed to understand their impact on the organization. Funding source was identified and tested as a moderating variable of the relationship between board effectiveness and financial vulnerability.

The results after thorough testing were as follows: Hypothesis 1 was fully supported, as nonprofit board effectiveness showed an association with the financial vulnerability of the organization that was identified as statistically significant. Hypothesis 2 was not supported, in that there was no statistical evidence that the sub-dimensions of the BSAQ associated with strategic and political behaviors predicted financial vulnerability beyond the other sub-dimensions or the BSAQ as a composite measure. Hypothesis 3 was fully supported, demonstrating a significant relationship between board effectiveness and financial vulnerability moderated by funding source. Specifically organizations with primary funding from private sources showed a significant association between board effectiveness and financial vulnerability. No such association was found in government funded or commercially funded organizations.

Conclusions

Board effectiveness showed a negative association with financial vulnerability as measured by the Financial Vulnerability Index (FVI) that was identified as statistically significant. As observed board effectiveness increased, the measured financial vulnerability of the nonprofit organizations decreased. The nature of this correlation provides support for the notion that a nonprofit's governing board of directors has a positive impact on the organization's long-term financial health. These findings were consistent with previous literature linking board behavior and structure to organization performance (Callen et al., 2003; Crittenden, 2000; Heimovics et al., 1993; Provan, 1980). The reported effectiveness of the governing board was shown to play an important role in determining the financial position of the nonprofit organization.

The distinct sub-dimensions of the BSAQ did not appear to provide significant differences in predicting FVI. Although intuitively it would seem that board behaviors associated with strategic planning and stakeholder management would be stronger predictors of the financial vulnerability of the organization beyond the other characteristic noted in the study, the results were unable to support this notion. Whereas previous literature (Bradshaw et al., 1992; Crittenden & Crittenden, 2000) found a strong conceptual link between strategic planning and stakeholder management behaviors and the effectiveness of the nonprofit organization, this concept was not supported in the present study.

Funding source was identified and supported as a moderator of the relationship between board effectiveness and financial vulnerability. Organizations receiving a majority of their funding from private sources showed a moderate correlation between board effectiveness and financial vulnerability that was identified as statistically significant. These results support the

resource dependence theory, in that the organizations develop a board structure that supports the financial needs of the nonprofit organization. These results are consistent with the assertions that Froelich (1999) made with respect to resource dependence theory, stating that organizations moderate the effects of a resource dependent relationship by adapting in one of three ways (compliance, balancing strategies, and aggressive diversification strategies). Privately funded organizations often employ the diversification approach, for example, relying heavily on contributions from multiple donors; these contributions are often facilitated by an active and engaged board of directors.

The impact of the board was deemed less important in organizations receiving primary funding from government and commercial sources. The implication of this finding is that government and commercially funded nonprofit organizations rely less heavily on their boards of directors to facilitate their resource management activities, a result that is consistent with previous examinations of funding source (Brooks, 1999; Froelich, 1999; Hodge & Piccolo, 2005; Stone et al., 2001).

Impact and Strengths of the Study

The major contribution of this research is the observed association between a measure of board effectiveness and a measure of nonprofit financial performance. Previous studies have examined the notion of board effectiveness (Callen et al., 2003; Crittenden, 2000; Herman & Renz, 2000) and the literature has established the BSAQ as a sound tool for assessing board performance as it pertains to specific characteristics of effectiveness (Brown, 2005; Jackson & Holland, 1998). In addition, establishing a means for assessing financial performance continues to excite great discussion in the literature (Callen et al., 2003; Hagar, 2001; Trussel et al., 2002).

The inclusion of the FVI in this study is of importance because of the aggregate characteristics of the measure.

The influence of board performance on financial outcomes is of great interest to both the research community and the nonprofit community, as current research has attempted to identify an association with limited degrees of success. The diverse service focus of modern nonprofit organizations allows the scope of this research topic to impact a broad array of research areas, including but not limited to social work, healthcare, criminal justice, and public administration. Understanding the impact that the board of directors plays in an organizations financial stability directly influences all of these nonprofit service providers and should be considered by both the practitioner and the research community.

Linking board performance to financial performance is the conceptual focus of this research. This relationship was tested by examining the observed the relationship between the BSAQ and the FVI in the context of nonprofit funding source. The primary findings of this research, although modest in nature, provided a statistically significant association between BSAQ and FVI (BSAQ accounting for 12% of the variance in FVI), and in the context of funding source (private) the study was able to demonstrate that BSAQ accounts for 23% of the variability in FVI. These results provide a contribution to the existing knowledge base with regard to board performance and financial health.

The Board Self-Assessment Questionnaire (BSAQ) was identified as an effective tool in measuring board effectiveness. Consistent with previous studies, the questionnaire provides the research community and the practitioner with means for assessing board effectiveness across a broad spectrum of board behaviors. The IRS 990 information provided a great deal of information regarding the financial position of the nonprofit organizations in this study. The

information was presented in a standardized format that could be used for comparison, and the results could be applied broadly across the nonprofit community.

Building upon the understanding of the Financial Vulnerability Index, the use of the FVI was an effective measure in understanding the financial position of the nonprofit organization. The FVI is a composite measure of financial position beyond simple ratios used in previous studies, providing a more in-depth financial picture of the organization.

This study provides insight into the role that board self-assessment can play in evaluating both the board and the organization as a whole. Self-assessment measures used in this study provide the organization with a cost-effective means of assessing board (BSAQ) and organizational (FVI) performance. The role of funding source is of importance, as it is clear that privately funded organizations must make board development a priority. In addition, organizations can assess the individual components of the FVI to determine specific financial conditions that may place the organization at risk (examining annual revenue-to-expense ratios for example).

Limitations of the Study

This study focused on effectiveness and efficiency indicators for Central Florida nonprofit organizations. Some inherent limitations are associated with the board effectiveness measures and the organizational financial vulnerability calculations. It is important to note that this study did not seek to assess the accuracy of the BSAQ in measuring effectiveness or the FVI is determining financial vulnerability, rather the observed association between the two measures.

The study relied on a survey to provide board effectiveness measures. Surveys by nature are subject to threats to internal validity: instrumentation error, testing error, selection bias, and

others. The literature has identified response bias as a possible area of consideration, allowing that self-evaluation remains a sound means for collecting data on board activity (Heracleous & Luh, 2002; Scissons, 2002).

The financial vulnerability data are provided by a secondary source (IRS 990 tax submissions) and may be limited with regard to standardized interpretation of the results across the sample frame. The federal government does not mandate that all nonprofit organizations provide financial information. For example, religious organizations are not mandated to file with the IRS and neither are organizations with annual revenues of less than \$25,000. Although very few organizations were likely excluded for this last item, some undoubtedly were; thus their data were lost to this study.

Another limitation of this study is the precarious nature of predicting causal flow with some of the variables. It is important to note that information for the dependent variable (FVI) was collected for a period prior to the period reported for the independent variable (BSAQ). The influence of causal ordering should be limited as the financial information collected represents a three-year picture of the organization and the average CEO tenure for the organizations included in this study was 11 years.

Ultimately the model may not fully explain if effective boards create stable organizations or if stable organizations provide the board with the ability to focus on developing effective behavior sets. This limitation may weaken statistical interpretation and dilute the overall results when these relationships are included in the regression analysis. However, recognition that the organizational leadership (consisting of the CEO and the board of directors of the organization) of the nonprofit dictates the strategic focus of the organization provides a conceptual

understanding that the influences of the board impact the financial position of the organization and not the contrary.

Although the research supported the use of the final sample in interpreting the results in broad context, the smaller sample size may limit the overall interpretation of results in a larger context. The low response rate associated with the sample provided from the State of Florida can be partially attributed to the poor quality of the information making up the sample. The study was also limited in the overall diversity of respondents and participating organizations. Although the sample was tested for bias, it should be noted that gaining board member responses was difficult and the study relied heavily on participation from United Way–affiliated organizations. Additionally, the focus of the study was on nonprofit organizations in the Central Florida area, with the regional nature of these results limiting the applicability to a statewide or national context.

Implications

Implications for professional practice or decision making from this study imply that the role of the board clearly is important and has a direct impact on the financial vulnerability of the organization. Private organizations are more sensitive to the influences exerted by their boards and are thus in greater need of an effective board for resource management and long-term strategic guidance. Self assessment is attractive to nonprofit organizations, because self-assessment instruments are relatively easy to administer and provide a low-cost alternative (as opposed to conferences or consultants) in terms of board development. The BSAQ sub-dimensions may provide the organization with insight into specific areas for improvement. The

FVI and its components offer the nonprofit organization a resource for assessing and ultimately avoiding financial vulnerability (revenue diversification, financial reserves, spending ratios, etc.).

This research provides the academic community with several implications of interest. The findings in this research support the use of the BSAQ as an assessment tool that may assist in strategic decision making. Similarly the relationship between BSAQ and FVI shows promise in providing an understanding of how the board may influence the financial vulnerability of the organization. This study is one of the first to explore the relationship between the BSAQ as a measure of board effectiveness and the FVI as a measure of financial condition. This approach has provided insight into the role and importance of the board of directors in determining organizational success.

Previous research has explored the role of funding source in nonprofit organizations; this study supported the notion that the relationship between board behaviors and financial condition is greatly influenced by the primary funding source of the organization. The implications in terms of resource dependence theory suggest that organizations use their boards as a response to resource dependency; private organizations are more reliant on the activity of boards than government or commercially funded organizations. The alignment of board structure in terms of funding source is consistent with the tenets of resource dependence theory and provides the research community with further support for the use of this theoretical framework in understanding the role and impact of the nonprofit board of directors.

Future research studies should consider assessing the FVI scoring thresholds outlined in the literature. As the FVI scores observed in this study were higher than the published thresholds in previous literature (Greenlee & Trussel, 2000), future research could focus on determining whether the higher scores are associated with the sample (i.e., whether the organizations sampled

are indeed at a greater risk of financial vulnerability). Perhaps revisiting the participants in this study at one- or two-year intervals would provide the research community with a better understanding of the predictive qualities of the FVI.

The FVI scores for the organizations included in this study could be included in a longitudinal study in order to identify if those organizations with higher FVI scores ($< .20$) are more likely to experience failure in the form of dissolution than those organizations with lower scores. Additionally a pre-test/post-test research design could explore if specific steps can be taken at the board level to influence the organizations' observed level of financial vulnerability.

It is clear from the results of the study that the BSAQ needs to be tested more thoroughly to understand the assessment qualities of the specific sub-dimensions. One of the characteristics of the BSAQ that makes it an attractive assessment tool is the six distinct sub-dimensions that make up the scale. These sub-dimensions showed a high level of correlation to one another, indicating that perhaps the respondents were not able to clearly differentiate between the behaviors being assessed. Current studies involving the distinct sub-dimensions of the BSAQ are limited and tend to focus on the composite scoring of the measure (Brown, 2005; Holland, 1998). Future studies might attempt to test the sub-dimensions more thoroughly to assist the research community in understanding the scope in which the sub-dimension may be used in understanding the specific characteristics associated with board effectiveness. A detailed test of the board behavior being measured by each sub-dimension would add credibility in using the sub-dimensions to evaluate specific elements of board effectiveness (strategic, education, etc.)

In order to expand upon this research study, future studies should attempt to replicate this study in a broader context, seeking a larger sample size across a more diverse population. This population should include a greater focus on board member responses (as opposed to Executive

Directors), incorporate data from non–United Way affiliated organizations, and perhaps seek to solicit responses across service areas in greater numbers. In addition these future studies might expand the time frame from which FVI scores are calculated. These modifications to the research design will increase the extent to which the results can be applied.

As the pressure for the nonprofit community to provide services not met by the private and public sectors increases, it is important for nonprofit organizations to focus on increased levels of efficiency and effectiveness. The results of this study provide both the research community and the practitioner with a better understanding of the role and importance of the board of directors in determining the long-term viability of the nonprofit organization. Understanding the relationship between board effectiveness and financial vulnerability in the context of funding source allows for strategic decision making in terms of board development, resource management, and long-term financial management.

APPENDIX A

BOARD SELF ASSESSMENT QUESTIONNAIRE (BSAQ)

Thank you for participating in this study of nonprofit organization boards. The following statements describe a variety of possible actions by boards. Some of the statements may represent your own experiences as a member of your board, while others may not. For each of the items, there are four possible choices. Please mark with a check the choice which most accurately describes your experience as a member of this board. There are no "right" or "wrong" answers; your personal views are what is important. In order to ensure the anonymity of all responses, please do not put your name anywhere on the form. After you have completed all the items, please fold and insert the form into the envelope provided, and drop it in the mail. Thank you.

	Strongly Agree	Agree	Disagree	Strongly Disagree
1. This board takes regular steps to keep informed about important trends in the larger environment that might affect the organization.				
2. I have participated in board discussions about what we should do differently as a result of a mistake made by the board.				
3. I have had conversations with other members of this board regarding common interests we share outside this organization.				
4. I have been in board meetings where it seemed that the subtleties of the issues we dealt with escaped the awareness of a number of members.				
5. Our board explicitly examines the "downside" or possible pitfalls of any important decision it is about to make.				
6. Orientation programs for new board members specifically include a segment about the organization's history and traditions.				
7. This board is more involved in trying to put out fires than in preparing for the future.				
8. The board sets clear organizational priorities for the year ahead.				
9. This board communicates its decisions to all those who are affected by them.				
10. At least once every two years, our board has a retreat or special session to examine our performance, how well we are doing as a board.				
11. Many of the issues that this board deals with seem to be separate tasks, unrelated to one another.				
12. In discussion of key issues, it is not unusual for someone on the board to talk about what this organization stands for and how that is related to the matter at hand.				
13. Values are seldom discussed explicitly at our board meetings.				
14. If our board thinks that an important group or constituency is likely to disagree with an action we are considering, we will make sure we learn how they feel before we actually make the decision.				
15. Differences of opinion in board decisions are more often settled by vote than by more discussion.				
16. This board delays action until an issue becomes urgent or critical.				
17. This board periodically sets aside time to learn more about important issues facing organizations like the one we govern.				
18. I can recall an occasion when the board acknowledged its responsibility for an ill-advised decision.				
19. This board has formed ad hoc committees or task forces that include staff as well as board members.				
20. This board is as attentive to how it reaches conclusions as it is to what is decided.				
21. Most people on this board tend to rely on observation and informal discussions to learn about their role and responsibilities.				
22. I find it easy to identify the key issues that this board faces.				
23. When faced with an important issue, the board often "brainstorms" and tries to generate a whole list of creative approaches or solutions to the problem.				
24. When a new member joins this board, we make sure that someone serves as a mentor to help this person learn the ropes.				
25. I have been in board meetings where explicit attention was given to the concerns of the community.				
26. I have participated in board discussions about the effectiveness of our performance.				
27. At our board meetings, there is at least as much dialogue among members as there is between members and administrators.				

	Strongly Agree	Agree	Disagree	Strongly Disagree
28. When issues come before our board, they are seldom framed in a way that enables members to see the connections between the matter at hand and the organization's overall strategy.				
29. I have participated in discussions with new members about the roles and responsibilities of a board member.				
30. This board has made a key decision that I believe to be inconsistent with the mission of this organization.				
31. The leadership of this board typically goes out of its way to make sure that all members have the same information on important issues.				
32. This board has adopted some explicit goals for itself, distinct from goals it has for the total organization.				
33. The board periodically requests information on the morale of the professional staff.				
34. I have participated in board discussions about what we can learn from a mistake we have made.				
35. Our board meetings tend to focus more on current concerns than on preparing for the future.				
36. At least once a year, this board asks the executive director to articulate his/her vision for the organization's future and strategies to realize that vision.				
37. I have been present in board meetings where discussions of the history and mission of the organization were key factors in reaching a conclusion on a problem.				
38. I have never received feedback on my performance as a member of this board.				
39. It is apparent from the comments of some of our board members that they do not understand the mission of the organization very well.				
40. This board has on occasion evaded responsibility for some important issue facing the organization.				
41. Before reaching a decision on important issues, this board usually requests input from persons likely to be affected by the decision.				
42. There have been occasions where the board itself has acted in ways inconsistent with the organization's deepest values.				
43. This board relies on the natural emergence of leaders, rather than trying explicitly to cultivate future leaders for the board.				
44. The board often discusses where the organization should be headed five or more years into the future.				
45. New members are provided with a detailed explanation of this organization's mission when they join this board.				
46. This board does not allocate organizational funds for the purpose of board education and development.				
47. Recommendations from the administration are usually accepted with little questioning in board meetings.				
48. At times this board has appeared unaware of the impact its decisions will have within our service community.				
49. Within the past year, this board has reviewed the organization's strategies for attaining its long-term goals.				
50. This board reviews the organization's mission at least once every five years.				
51. This board has conducted an explicit examination of its roles and responsibilities.				
52. I am able to speak my mind on key issues without fear that I will be ostracized by some members of this board.				
53. This board tries to avoid issues that are ambiguous and complicated.				
54. The administration rarely reports to the board on the concerns of those the organization serves.				
55. I have been in board meetings where the discussion focused on identifying or overcoming the organization's weaknesses.				
56. One of the reasons I joined this board was that I believe strongly in the values of this organization.				
57. This board does not recognize special events in the lives of its members.				
58. The board discusses events and trends in the larger environment that may present specific opportunities for this organization.				
59. Former members of this board have participated in special events designed to convey to new members the organization's history and values.				

	Strongly Agree	Agree	Disagree	Strongly Disagree
60. This board provides biographical information that helps members get to know one another better.				
61. This board seeks information and advice from leaders of other similar organizations.				
62. This board makes explicit use of the long range priorities of this organization in dealing with current issues.				
63. This board understands the norms of the professions working in this organization.				
64. Members of this board seldom attend social events sponsored by this organization.				
65. More than half of this board's time is spent in discussions of issues of importance to the organization's long-range future.				

Please answer the following confidential information in order to assist us in developing a profile of Central Florida nonprofit organizations.

1. What is the budget size that best describes your organization? (Please choose **only one**)

- Under \$100,000
- \$100,000 - \$499,999
- \$500,000 - \$999,999
- \$1,000,000 - \$2,000,000
- Greater than \$2,000,000

2. Please indicate your gender:

- Male
- Female

3. Please indicate your highest level of education:

- High School
- Some College
- Undergraduate Degree
- Certification Coursework
- Masters Degree
- Doctoral Degree

4. Please indicate your race/ethnicity:

- White (Non-Hispanic)
- Hispanic
- African American
- Asian
- Native American
- None of the Above

5. Please indicate your appropriate age range:

- Under 35
- 35 - 40
- 41 - 45
- 46 - 50
- 51 - 55
- 56 - 59
- 60+

6. Please indicate the salary range that best describes your compensation:

- Less than \$20,000
- \$20,000 - \$30,000
- \$31,000 - \$40,000
- \$41,000 - \$50,000
- \$51,000 - \$60,000
- \$61,000 - \$70,000
- \$71,000 - \$80,000
- \$81,000 - \$90,000
- \$91,000 - \$100,000
- \$100,000+

APPENDIX B

EXAMPLES OF COVER LETTERS USED IN STUDY

University of Central Florida
College of Health & Public Affairs
Department of Public Affairs

April 22, 2005

Dear Nonprofit Board Member or Executive:

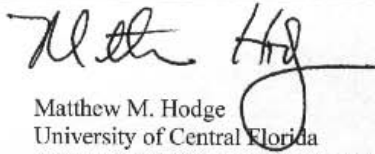
I am a graduate student at the University of Central Florida conducting research on nonprofit boards of directors and their impact on the financial position of the organization. I am asking for your participation in a brief survey that is designed to evaluate your understanding of the role the board plays in your particular organization.

You are not expected to answer any questions you do not wish to answer and your name will not be collected as a part of this study. We are collecting the name of the Central Florida nonprofit you are affiliated with so that we may access public financial records, however the name of your organization will be omitted from the published study and individual scores will not be used. There are no anticipated risks, compensation or other direct benefits to you as a participant in this survey. You are free to withdraw your consent to participate and may discontinue your participation in the survey at any time without consequence.

If you have any questions about this research project, please contact me at 407.765.5191. My faculty supervisor within the College of Health & Public Affairs is Dr. Larry Martin, additional questions may be directed to the UCFIRB office 407.823.2901. By taking part in this survey, you give me permission to report your responses anonymously in the final manuscript to be submitted to my faculty supervisor as part of my dissertation.

Thank you for your participation in this important study.

Sincerely,



Matthew M. Hodge
University of Central Florida
College of Health & Public Affairs

Ms. Jeanne Gold
Safehouse of Seminole
1100 E. First Street
Suite 1
Sanford, FL 32771

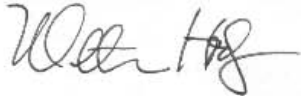
Dear Sir or Madam,

I am a doctoral student at the University of Central Florida, conducting research on nonprofit organizations and their boards of directors. The Heart of Florida United Way has generously agreed to let me contact current member agencies to participate in my study.

The focus of my dissertation research is on how board effectiveness impacts the organizations overall financial stability. **The survey is designed to be completed by the Executive Director or a current board member.** Your participation is completely voluntary and the names of the organizations will not be included in the published results.

Please complete the enclosed survey and return in the provided envelope. It is important that a board member or Executive Director fill out the survey. Thank you for your participation in this study, this study will assist in a better understanding of how nonprofit boards directly impact the organizations they serve.

Thank you,



Matthew M Hodge
College of Health & Public Affairs
University of Central Florida

APPENDIX C

SCORING THE BOARD SELF-ASSESSMENT QUESTIONNAIRE

HANDOUT PROVIDED WITH THE BSAQ

Source: Dr. Thomas P. Holland (address below)

The Board Self-Assessment Questionnaire (BSAQ) is composed of 65 items, which constitute six scales, one for each of the distinguishing competencies of high performing boards. The items are randomly ordered and should be grouped for scoring as follows:

Competency # 1: Understands context: 6, 12, 13, 30, 37, 39, 42, 45, 50, 56, 59, 63.

Competency # 2: Builds learning: 2, 10, 17, 18, 21, 24, 26, 29, 34, 38, 46, 51.

Competency # 3: Nurtures group: 3, 15, 20, 27, 31, 32, 43, 52, 57, 60, 64.

Competency # 4: Recognizes complexity: 1, 4, 5, 11, 22, 23, 28, 47, 53, 61.

Competency # 5: Respects process: 9, 14, 19, 25, 33, 41, 48, 54.

Competency # 6: Shapes direction: 7, 8, 16, 35, 36, 40, 44, 49, 55, 58, 62, 65.

Items are scored by assigning a 3 to a response of “strongly agree,” 2 to “agree,” 1 to “disagree,” and 0 to “strongly disagree.” **RESPONSES SHOULD BE REVERSE-SCORED FOR THOSE ITEMS IN THE ABOVE LIST THAT ARE UNDERSCORED.**

After completing the steps noted above, add up each respondent’s scores in each competency set. Divide the total score for the set by the number of items composing that set (for example, the first set is composed of 12 items, so divide the respondent’s sum by 12). Then divide that number by 3, which gives the average score for the set. Add up all of these averages in the set for all respondents in the group, and then divide the sum by the number of respondents, giving the average for the group. Repeat these steps for each competency.

An in-depth description of each competency is provided in the book by Chait, Holland, & Taylor, The Effective Board (Phoenix, Az.: Oryx, 1991, ISBN: 0-02-897088). Further information on developing these competencies is provided in the book by Chait, Holland, & Taylor, Improving the Performance of Governing Boards (Phoenix, Az: Oryx, 1996, ISBN: 1-57356-037-5). Discussion of the instrument itself is available in the article by Holland, “Self-Assessment by Nonprofit Boards,” Nonprofit Management and Leadership, (Vol. 2, No. 1, Fall 1991, pp. 25-36). Additional materials are available upon request.

The following data are taken from our work with boards of numerous, diverse nonprofit organizations. They allow some frame of comparison for a board to examine its own scores. Please keep in mind that any given board may differ from these sites in important ways that are relevant to interpreting its scores. Also, remember that self-assessments are not always consistent with assessments by observers or with other indicators of organizational performance. They are

mainly useful as a stimulus for group discussion and identification of areas in which attention may be directed further. We are currently extending the field applications of this instrument to include scores from many other nonprofit organizations. Please share your data and recommendations with us.

This table shows the average scores on the six competencies from the board reports of over 200 diverse nonprofit organizations.

Comp.	1	2	3	4	5	6
average	.69	.54	.64	.62	.65	.66

Please address all communications to
Dr. Thomas P. Holland
The University of Georgia Tucker Hall
Athens, Ga. 30602
telephone # 706-542-5463
FAX # 706-542-3282

See also:

Jackson, D.K. & Holland, T.P. "Measuring the Effectiveness of Nonprofit Boards." Nonprofit and Voluntary Sector Quarterly, Vol. 27, No. 2, June 1998, pp. 159-181.

Holland, T.P. & Blackmon, M. Measuring Board Effectiveness: A Tool for Strengthening Your Board. Washington, D.C.: National Center for Nonprofit Boards, 2000.

APPENDIX D
SAMPLE IRS 990 FORM

Form **990**

Return of Organization Exempt From Income Tax

OVB No. 1545-0047
2003
Open to Public Inspection

Department of the Treasury
Internal Revenue Service

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)
▶ The organization may have to use a copy of this return to satisfy state reporting requirements

A For the 2003 calendar year, or tax year beginning and ending

B Check 1 applicable: Address change, Name change, Initial return, Final return, Amended return, Application pending

C Name of organization: **Osceola County Council on Aging, Inc.**
Number and street (or P.O. box if mail is not delivered to street address): **1099 Shady Lane**
City or town, state or country, and ZIP + 4: **Kissimmee, FL 32744**

D Employer identification number: **59-1595398**

E Telephone number: **(407) 846-8532**

F Accounting method: Cash, Accrual, Other (Specify):

G Website: **N/A**

J Organization type: 501(c)(3), 501(c)(29), 501(c)(28), 501(c)(27), 501(c)(26), 501(c)(25), 501(c)(24), 501(c)(23), 501(c)(22), 501(c)(21), 501(c)(20), 501(c)(19), 501(c)(18), 501(c)(17), 501(c)(16), 501(c)(15), 501(c)(14), 501(c)(13), 501(c)(12), 501(c)(11), 501(c)(10), 501(c)(9), 501(c)(8), 501(c)(7), 501(c)(6), 501(c)(5), 501(c)(4), 501(c)(3)

K Check here if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS, but if the organization received a Form 990 Package in the mail, it should file a return without financial data. **Some states require a complete return.**

L Gross receipts: Add lines 5b, 8b, 9b, and 10b to line 12 ▶ **6,480,438.**

M Check if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF)

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances			
Revenue	1	Contributions, gifts, grants, and similar amounts received	
	a	Direct public support	1a 2,152,073.
	b	Indirect public support	1b 493,748.
	c	Government contributions (grants)	1c 3,426,436.
	d	Total (add lines 1a through 1c) (cash \$ 6,072,257. noncash \$)	1d 6,072,257.
	2	Program service revenue including government fees and contracts (from Part VII, line 93)	2 163,440.
	3	Membership dues and assessments	3
	4	Interest on savings and temporary cash investments	4 592.
	5	Dividends and interest from securities	5
	6 a	Gross rents	6a
	b	Less rental expenses	6b
	c	Net rental income or (loss) (subtract line 6b from line 6a)	6c
	7	Other investment income (attach schedule)	7
Expenses	8 a	Gross amount from sales of assets other than inventory	(A) Securities (B) Other
	b	Less cost or other basis and sales expenses	8a 8b
	c	Gain (loss) (attach schedule)	8c
	d	Net gain or (loss) (combine lines 8a, 8b, and 8c)	8d
	9	Special events and activities (attach schedule) If any amount is from gaming, check here <input type="checkbox"/>	
	a	Gross revenues (not including \$ 0. of contributions reported on line 1a)	9a 244,149.
	b	Less direct expenses other than fundraising expenses	9b 51,576.
	c	Net income or (loss) from special events (subtract line 9b from line 9a)	9c 192,573. See Statement 1
	10 a	Gross sales of inventory, less returns and allowances	10a
	b	Less cost of goods sold	10b
Net Assets	10 c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)	10c
	11	Other revenue (from Part VII, line 103)	11
	12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)	12 6,428,862.
	13	Program services (from line 44, column (B))	13 4,602,092.
	14	Management and general (from line 44, column (C))	14 382,004.
	15	Fundraising (from line 44, column (D))	15
	16	Payments to affiliates (attach schedule)	16
	17	Total expenses (add lines 16 and 44, column (A))	17 4,984,096.
	18	Excess or (deficit) for the year (subtract line 17 from line 12)	18 1,444,766.
	19	Net assets or fund balances at beginning of year (from line 73, column (A))	19 339,180.
20	Other changes in net assets or fund balances (attach explanation)	20 <11,174.> See Statement 2	
21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21 1,772,772.	

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Part II Statement of Functional Expenses		All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (c) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others			
Do not include amounts reported on line 6a, 8b, 9a, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22	Grants and allocations (attach schedule)				
	cash \$ _____ noncash \$ _____				
23	Specific assistance to individuals (attach schedule)				
24	Benefits paid to or for members (attach schedule)				
25	Compensation of officers, directors, etc	142,000.	0.	142,000.	0.
26	Other salaries and wages	2,720,860.	2,634,032.	86,828.	
27	Pension plan contributions				
28	Other employee benefits	319,760.	297,023.	22,737.	
29	Payroll taxes	218,763.	203,207.	15,556.	
30	Professional fundraising fees				
31	Accounting fees	22,123.	21,237.	886.	
32	Legal fees				
33	Supplies	87,786.	82,745.	5,041.	
34	Telephone	32,571.	28,054.	4,517.	
35	Postage and shipping	7,898.	7,651.	247.	
36	Occupancy	43,767.	40,007.	3,760.	
37	Equipment rental and maintenance	69,438.	62,610.	6,828.	
38	Printing and publications				
39	Travel	134,175.	124,535.	9,640.	
40	Conferences, conventions, and meetings				
41	Interest	16,648.	4,129.	12,519.	
42	Depreciation, depletion, etc. (attach schedule)	128,167.	68,911.	59,256.	
43	Other expenses not covered above (itemize)				
	a Insurance	63,485.	60,964.	2,521.	
	b Contract Labor	362,513.	355,856.	6,657.	
	c Other Related Expenses	151,149.	148,439.	2,710.	
	d Food	462,993.	462,692.	301.	
	e				
44	Total functional expenses (add lines 23 through 43)	4,984,096.	4,602,092.	382,004.	0.
	Organizations completing column (D), carry these 00s to lines 13-15				

Joint Costs. Check if you are following SOP 98-2
 Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? Yes No
 If "Yes," enter (i) the aggregate amount of these joint costs \$ _____, (ii) the amount allocated to Program services \$ _____,
 (iii) the amount allocated to Management and general \$ _____, and (iv) the amount allocated to Fundraising \$ _____

Part III Statement of Program Service Accomplishments		Program Service Expenses
What is the organization's primary exempt purpose? See Statement 3		(Required for 501(c)(3) and (c) orgs. and 4947(a)(1) trusts, but optional for others.)
All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (c) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)		
a	Case Management - Assess client needs and arrange services and follow-up to ensure that services are received.	
	(Grants and allocations \$ _____)	423,162.
b	Home Delivered Meals - 206,411 hot nutritionally balanced meals are sent to homebound seniors and disabled adults at eleven Congregate sites and 2,201 disadvantaged families.	
	(Grants and allocations \$ _____)	402,712.
c	Senior Social Service - Provide needed support services to the elderly including but not limited to, transportation to doctors, congregate meals sites, emergency medical, and homemakers.	
	(Grants and allocations \$ _____)	704,904.
d	Shared Cost - Provide personal care and services to the elderly.	
	(Grants and allocations \$ _____)	869,768.
e	Other program services (attach schedule) Statement 4	2,201,546.
f	Total of Program Service Expenses (should equal line 44, column (B), Program services)	4,602,092.



Part IV Balance Sheets

Note: Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.

		(A) Beginning of year	(B) End of year
Assets	45 Cash - non-interest-bearing	2,847.	3,736.
	46 Savings and temporary cash investments	11,369.	13,439.
	47 a Accounts receivable	47a	47c
	b Less allowance for doubtful accounts	47b	47c
	48 a Pledges receivable	48a 1,401,593.	48c 1,401,593.
	b Less allowance for doubtful accounts	48b	48c
	49 Grants receivable	670,610.	741,592.
	50 Receivables from officers, directors, trustees, and key employees		50
	51 a Other notes and loans receivable	51a 7,890.	51c 7,890.
	b Less allowance for doubtful accounts	51b	51c
	52 Inventories for sale or use		52
	53 Prepaid expenses and deferred charges		53
	54 Investments - securities <input type="checkbox"/> Cost <input type="checkbox"/> FMV		54
	55 a Investments - land, buildings, and equipment basis	55a	55c
	b Less accumulated depreciation	55b	55c
56 Investments - other	See Statement 5 2,600.	56 2,600.	
57 a Land, buildings, and equipment basis	57a 1,900,005.	57c 266,351.	
b Less accumulated depreciation	57b 1,633,654.	57c 266,351.	
58 Other assets (describe <input type="checkbox"/> Leasehold Advantage - Net)	29,463.	58 16,836.	
59 Total assets (add lines 45 through 58) (must equal line 74)	990,297.	59 2,454,037.	
Liabilities	60 Accounts payable and accrued expenses	222,894.	60 227,053.
	61 Grants payable		61
	62 Deferred revenue	216,199.	62 207,199.
	63 Loans from officers, directors, trustees, and key employees		63
	64 a Tax-exempt bond liabilities		64a
	b Mortgages and other notes payable	Stmnt 6 212,024.	64b 247,013.
	65 Other liabilities (describe <input type="checkbox"/>)		65
66 Total liabilities (add lines 60 through 65)	651,117.	66 681,265.	
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 67 through 69 and lines 73 and 74		
	67 Unrestricted	339,180.	67 1,771,179.
	68 Temporarily restricted		68 1,593.
	69 Permanently restricted		69
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 70 through 74		
	70 Capital stock, trust principal, or current funds		70
	71 Paid-in or capital surplus, or land, building, and equipment fund		71
	72 Retained earnings, endowment, accumulated income, or other funds		72
73 Total net assets or fund balances (add lines 67 through 69 or lines 70 through 72, column (A) must equal line 19, column (B) must equal line 21)	339,180.	73 1,772,772.	
74 Total liabilities and net assets / fund balances (add lines 66 and 73)	990,297.	74 2,454,037.	

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

323021 12-17-03



Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return		Part IV-B Reconciliation of Expenses per Audited Financial Statements with Expenses per Return	
a Total revenue, gains, and other support per audited financial statements	a 7,278,051.	a Total expenses and losses per audited financial statements	a 5,844,459.
b Amounts included on line a but not on line 12, Form 990		b Amounts included on line a but not on line 17, Form 990	
(1) Net unrealized gains on investments \$		(1) Donated services and use of facilities \$ 808,787.	
(2) Donated services and use of facilities \$ 797,613.		(2) Prior year adjustments reported on line 20, Form 990 \$	
(3) Recoveries of prior year grants \$		(3) Losses reported on line 20, Form 990 \$	
(4) Other (specify Stmt 7 \$ 51,576.		(4) Other (specify Stmt 8 \$ 51,576.	
Add amounts on lines (1) through (4)	b 849,189.	Add amounts on lines (1) through (4)	b 860,363.
c Line a minus line b	c 6,428,862.	c Line a minus line b	c 4,984,096.
d Amounts included on line 12, Form 990 but not on line a		d Amounts included on line 17, Form 990 but not on line a	
(1) Investment expenses not included on line 5b, Form 990 \$		(1) Investment expenses not included on line 6d, Form 990 \$	
(2) Other (specify) \$		(2) Other (specify) \$	
Add amounts on lines (1) and (2)	d 0.	Add amounts on lines (1) and (2)	d 0.
e Total revenue per line 12, Form 990 (line c plus line d)	e 6,428,862.	e Total expenses per line 17, Form 990 (line c plus line d)	e 4,984,096.

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated)				
(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (if not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
Beverly Houglund 1099 Shady Lane Kissimmee, FL 34744	C.E.O	82,000.	2,628.	3,540.
Sonya Deese Byrnes 1099 Shady Lane Kissimmee, FL 34744	President	0.	0.	0.
Maureen Kermarki 1099 Shady Lane Kissimmee, FL 34744	Past Pres	0.	0.	0.
Michael C. Carr 1099 Shady Lane Kissimmee, FL 34744	Treasurer	0.	0.	0.
Julie Boettcher 1099 Shady Lane Kissimmee, FL 34744	Assoc C.E.O.	60,000.	2,628.	0.

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than \$100,000 from your organization and all related organizations, of which more than \$10,000 was provided by the related organizations? If "Yes," attach schedule Yes No



Part VI Other Information		Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity		X
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes		X
78 a	Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return?		X
b	If "Yes," has it filed a tax return on Form 990-T for this year?	N/A	
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement		X
80 a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	X	
b	If "Yes," enter the name of the organization Kissimmee Oak Leaf Landing, Ltd. and check whether it is <input type="checkbox"/> exempt or <input checked="" type="checkbox"/> nonexempt		
81 a	Enter direct or indirect political expenditures. See line 81 instructions	81a 0.	
b	Did the organization file Form 1120-POL for this year?		X
82 a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	X	
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.)	82b 808,787.	
83 a	Did the organization comply with the public inspection requirements for returns and exemption applications?	X	
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	X	
84 a	Did the organization solicit any contributions or gifts that were not tax deductible?		X
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	N/A	
85	501(c)(4), (5), or (6) organizations		
a	Were substantially all dues nondeductible by members?	N/A	
b	Did the organization make only in-house lobbying expenditures of \$2,000 or less? If "Yes" was answered to either 85a or 85b, do not complete 85c through 85h unless the organization received a waiver for proxy tax owed for the prior year.	N/A	
c	Dues, assessments, and similar amounts from members	85c N/A	
d	Section 162(e) lobbying and political expenditures	85d N/A	
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices	85e N/A	
f	Taxable amount of lobbying and political expenditures (line 85d less 85e)	85f N/A	
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	N/A	
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85i to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	N/A	
86	501(c)(7) organizations. Enter:		
a	Initial fees and capital contributions included on line 12	86a N/A	
b	Gross receipts, included on line 12, for public use of club facilities	86b N/A	
87	501(c)(12) organizations. Enter:		
a	Gross income from members or shareholders	87a N/A	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them.)	87b N/A	
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX		X
89 a	501(c)(3) organizations. Enter: Amount of tax imposed on the organization during the year under section 4911 0. , section 4912 0. , section 4955 0.		
b	501(c)(3) and 501(c)(4) organizations. Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction		X
c	Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958 0.		
d	Enter: Amount of tax on line 89c, above, reimbursed by the organization 0.		
90 a	List the states with which a copy of this return is filed Florida		
b	Number of employees employed in the pay period that includes March 12, 2003	90b 194	
91	The books are in care of Connie Benca Telephone no (407) 846-8532		
	Located at 1099 Shady Lane, Kissimmee, FL ZIP + 4 34744		
92	Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041. Check here and enter the amount of tax-exempt interest received or accrued during the tax year 0.		N/A



Part VII Analysis of Income-Producing Activities (See page 33 of the instructions)

Note: Enter gross amounts unless otherwise indicated.

	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclu- sion code	(D) Amount	
93 Program service revenue					
a Client Income					141,794.
b Housing Income					21,646.
c					
d					
e					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments			14	592.	
96 Dividends and interest from securities					
97 Net rental income or (loss) from real estate					
a debt-financed property					
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income					
100 Gain or (loss) from sales of assets other than inventory					
101 Net income or (loss) from special events					192,573.
102 Gross profit or (loss) from sales of inventory					
103 Other revenue					
a					
b					
c					
d					
e					
104 Subtotal (add columns (B), (D), and (E))		0.		592.	356,013.
105 Total (add line 104, columns (B), (D), and (E))					356,605.

Note: Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See page 34 of the instructions)

Line No.	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes)
1	See Statement 9

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See page 34 of the instructions)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
N/A	%			
	%			
	%			

Part X Information Regarding Transfers Associated with Personal Benefit Contracts (See page 34 of the instructions)

- (a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? Yes No
- (b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? Yes No

Note: If "Yes" to (b), file Form 8870 and Form 4720 (see instructions).

Under penalty of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. I am aware that anyone who furnishes false or misleading information on a tax return or who omits material or information on a tax return is guilty of tax evasion, tax fraud, and filing a fraudulent tax return in violation of the Internal Revenue Code and the Tax Reform Act of 1986.

Date: 7-27-04
 Type or print name and title: Connie L. Benca, C.F.O.
 Date: 7/11/04
 Check if self-prepared:
 Preparer's SSN or PTIN: 00251107

SCHEDULE A
(Form 990 or 990-EZ)

Organization Exempt Under Section 501(c)(3)

OMB No. 1545-0047

(Except Private Foundation and Section 501(e), 501(f), 501(k),
501(n), or Section 4947(a)(1) Nonexempt Charitable Trust)

2003

Department of the Treasury
Internal Revenue Service

Supplementary Information—(See separate instructions.)

▶ MUST be completed by the above organizations and attached to their Form 990 or 990-EZ

Name of the organization **Osceola County Council on Aging, Inc.** Employer identification number **59 1595398**

Part I Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees

(See page 1 of the instructions. List each one. If there are none, enter "None".)

(a) Name and address of each employee paid more than \$50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
None				
Total number of other employees paid over \$50,000	0			

Part II Compensation of the Five Highest Paid Independent Contractors for Professional Services

(See page 2 of the instructions. List each one (whether individuals or firms). If there are none, enter "None".)

(a) Name and address of each independent contractor paid more than \$50,000	(b) Type of service	(c) Compensation
None		
Total number of others receiving over \$50,000 for professional services	0	

323101/12-05-03 LHA For Paperwork Reduction Act Notice, see the Instructions for Form 990 and Form 990-EZ. Schedule A (Form 990 or 990-EZ) 2003

11230716 793946 OSC31026 2003.05050 Osceola County Council on A OSC31021

Part III Statements About Activities (See page 2 of the instructions.)

	Yes	No
1 During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities: \$ _____ \$ _____ (Must equal amounts on line 38, Part VI-A, or line i of Part VI-B) Organizations that made an election under section 501(h) by filing Form 5758 must complete Part VI-A. Other organizations checking "Yes," must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities.		X
2 During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? (If the answer to any question is "Yes," attach a detailed statement explaining the transactions.) See Statement 10.		
a Sale, exchange, or leasing of property?	X	
b Lending of money or other extension of credit?		X
c Furnishing of goods, services, or facilities?		X
d Payment of compensation (or payment or reimbursement of expenses if more than \$1,000)? See Part V, Form 990.	X	
e Transfer of any part of its income or assets?		X
3 a Do you make grants for scholarships, fellowships, student loans, etc.? (If "Yes," attach an explanation of how you determine that recipients qualify to receive payments.)		X
b Do you have a section 403(b) annuity plan for your employees?	X	
4 Did you maintain any separate account for participating donors where donors have the right to provide advice on the use or distribution of funds?		X

Part IV Reason for Non-Private Foundation Status (See pages 3 through 6 of the instructions.)

The organization is not a private foundation because it is: (Please check only ONE applicable box.)

5 A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).

6 A school. Section 170(b)(1)(A)(ii). (Also complete Part V.)

7 A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).

8 A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).

9 A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). Enter the hospital's name, city, and state: _____

10 An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the Support Schedule in Part IV-A.)

11a An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(v). (Also complete the Support Schedule in Part IV-A.)

11b A community trust. Section 170(b)(1)(A)(vi). (Also complete the Support Schedule in Part IV-A.)

12 An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions - subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the Support Schedule in Part IV-A.)

13 An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in (1) lines 5 through 12 above, or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See page 5 of the instructions.)

(a) Name(s) of supported organization(s)	(b) Line number from above

14 An organization organized and operated to test for public safety. Section 509(a)(4). (See page 6 of the instructions.)

Part IV-A Support Schedule (Complete only if you checked a box on line 10, 11, or 12.) Use cash method of accounting.
 Note: You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.

Calendar year (or fiscal year beginning in)	(a) 2002	(b) 2001	(c) 2000	(d) 1999	(e) Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.)	4,355,876.	3,789,381.	4,160,240.	3,779,871.	16,085,368.
16 Membership fees received					
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose	374,275.	830,011.	310,101.	76,931.	1,591,318.
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975	2,574.	11,884.	11,846.	3,770.	30,074.
19 Net income from unrelated business activities not included in line 18			18,749.	17,971.	36,720.
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf					
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge.					
22 Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets.			See Statement 11	406,455.	406,455.
23 Total of lines 15 through 22	4,732,725.	4,631,276.	4,500,936.	4,284,998.	18,149,935.
24 Line 23 minus line 17	4,358,450.	3,801,265.	4,190,835.	4,208,067.	16,558,617.
25 Enter 1% of line 23	47,327.	46,313.	45,009.	42,850.	
26 Organizations described on lines 10 or 11: a Enter 2% of amount in column (e), line 24					26a 331,172.
b Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1999 through 2002 exceeded the amount shown in line 26a. Do not file this list with your return. Enter the total of all these excess amounts					26b 0.
c Total support for section 509(a)(1) test. Enter line 24, column (e)					26c 16,558,617.
d Add Amounts from column (e) for lines 18 30,074. 19 36,720. 22 406,455. 26b					26d 473,249.
e Public support (line 26c minus line 26d total)					26e 16,085,368.
f Public support percentage (line 26e (numerator) divided by line 26c (denominator))					26f 97.1420%
27 Organizations described on line 12: a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." Do not file this list with your return. Enter the sum of such amounts for each year	(2002) N/A	(2001) N/A	(2000) N/A	(1999) N/A	
b For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the larger of (1) the amount on line 25 for the year or (2) \$5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) Do not file this list with your return. After computing the difference between the amount received and the larger amount described in (1) or (2), enter the sum of these differences (the excess amounts) for each year	(2002) N/A	(2001) N/A	(2000) N/A	(1999) N/A	
c Add Amounts from column (e) for lines 15 16 17					27c N/A
d Add Line 27a total and line 27b total					27d N/A
e Public support (line 27c total minus line 27d total)					27e N/A
f Total support for section 509(a)(2) test. Enter amount on line 23, column (e)					27f N/A
g Public support percentage (line 27e (numerator) divided by line 27f (denominator))					27g N/A %
h Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))					27h N/A %
28 Unusual Grants: For an organization described in line 10, 11, or 12 that received any unusual grants during 1999 through 2002, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. Do not file this list with your return. Do not include these grants in line 15.	None				

323121 12-05-03

None

Schedule A (Form 990 or 990-EZ) 2003

Part V Private School Questionnaire (See page 7 of the instructions) N/A
(To be completed ONLY by schools that checked the box on line 6 in Part IV)

		Yes	No
29 Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	29		
30 Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	30		
31 Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves? If "Yes," please describe. If "No," please explain. (If you need more space, attach a separate statement.)	31		
<hr/>			
32 Does the organization maintain the following:			
a Records indicating the racial composition of the student body, faculty, and administrative staff?	32a		
b Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	32b		
c Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	32c		
d Copies of all material used by the organization or on its behalf to solicit contributions? If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)	32d		
<hr/>			
33 Does the organization discriminate by race in any way with respect to:			
a Students' rights or privileges?	33a		
b Admissions policies?	33b		
c Employment of faculty or administrative staff?	33c		
d Scholarships or other financial assistance?	33d		
e Educational policies?	33e		
f Use of facilities?	33f		
g Athletic programs?	33g		
h Other extracurricular activities? If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)	33h		
<hr/>			
34 a Does the organization receive any financial aid or assistance from a governmental agency?	34a		
b Has the organization's right to such aid ever been revoked or suspended? If you answered "Yes" to either 34a or b, please explain using an attached statement.	34b		
35 Does the organization certify that it has complied with the applicable requirements of sections 4 01 through 4 05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation.	35		

Part VI-A Lobbying Expenditures by Electing Public Charities (See page 9 of the instructions) N/A
 (To be completed ONLY by an eligible organization that filed Form 5768)

Check a if the organization belongs to an affiliated group. Check b if you checked "a" and "limited control" provisions apply.

		(a)	(b)
		Affiliated group totals	To be completed for ALL electing organizations
Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		N/A	
36	Total lobbying expenditures to influence public opinion (grassroots lobbying)		
37	Total lobbying expenditures to influence a legislative body (direct lobbying)		
38	Total lobbying expenditures (add lines 36 and 37)		
39	Other exempt purpose expenditures		
40	Total exempt purpose expenditures (add lines 38 and 39)		
41	Lobbying nontaxable amount. Enter the amount from the following table - If the amount on line 40 is - The lobbying nontaxable amount is - Not over \$500,000 20% of the amount on line 40 Over \$500,000 but not over \$1,000,000 \$100,000 plus 15% of the excess over \$500,000 Over \$1,000,000 but not over \$1,500,000 \$175,000 plus 10% of the excess over \$1,000,000 Over \$1,500,000 but not over \$17,000,000 \$225,000 plus 5% of the excess over \$1,500,000 Over \$17,000,000 \$1,000,000		
42	Grassroots nontaxable amount (enter 25% of line 41)		
43	Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36		
44	Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38		

Caution: If there is an amount on either line 43 or line 44, you must file Form 4720.

4-Year Averaging Period Under Section 501(h)
 (Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 11 of the instructions.)

Calendar year (or fiscal year beginning in)	Lobbying Expenditures During 4-Year Averaging Period				N/A
	(a) 2003	(b) 2002	(c) 2001	(d) 2000	(e) Total
45	Lobbying nontaxable amount				0.
46	Lobbying ceiling amount (150% of line 45(a))				0.
47	Total lobbying expenditures				0.
48	Grassroots nontaxable amount				0.
49	Grassroots ceiling amount (150% of line 48(a))				0.
50	Grassroots lobbying expenditures				0.

Part VI-B Lobbying Activity by Nonelecting Public Charities (For reporting only by organizations that did not complete Part VI-A) (See page 12 of the instructions) N/A

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:

	Yes	No	Amount
a Volunteers			
b Paid staff or management (include compensation in expenses reported on lines c through h.)			
c Media advertisements			
d Mailings to members, legislators, or the public			
e Publications, or published or broadcast statements			
f Grants to other organizations for lobbying purposes			
g Direct contact with legislators, their staffs, government officials, or a legislative body			
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means			
i Total lobbying expenditures (Add lines c through h.)			0.

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities.

Asset Number	Description of property							
	Date placed in service	Method/IRC sec	Life or rate	Line No	Cost or other basis	Basis reduction	Accumulated depreciation/amortization	Current year deduction
Program Services								
1	Building Improvements							
	Varies		.000	16	473,990.		433,541.	32,128.
2	Equipment							
	Varies		.000	16	702,658.		671,802.	15,272.
3	Furniture and Fixtures							
	Varies		.000	16	76,681.		63,120.	5,369.
4	Land Improvements							
	Varies		.000	16	40,675.		40,675.	0.
5	Vehicles							
	Varies		.000	16	606,001.		424,516.	62,770.
6	Leasehold Advantage							
	Varies		.000	16	252,550.		235,714.	12,628.
* 990 Page 2 Total Program Services					2,152,555.	0.	1,869,368.	128,167.
* Grand Total 990 Page 2 Depr					2,152,555.	0.	1,869,368.	128,167.

315231 09-01-09

- Current year section 179 (D) - Asset disposed

Form 990	Special Events and Activities	Statement 1
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Description of Event	Gross Receipts	Contribut. Included	Gross Revenue	Direct Expenses	Net Income
Bingo	151,337.		151,337.	25,656.	125,681.
Senior Santa	37,927.		37,927.	6,381.	31,546.
Pumpkin Patch	10,335.		10,335.	4,990.	5,345.
Meals for Mom	20,140.		20,140.	987.	19,153.
Other Activities	24,410.		24,410.	13,562.	10,848.
To Form 990, Part I, line 9	244,149.		244,149.	51,576.	192,573.

Form 990	Other Changes in Net Assets or Fund Balances	Statement 2
----------	--	-------------

Description	Amount
In Kind Services	<11,174.>
Total to Form 990, Part I, line 20	<11,174.>

Form 990	Statement of Organization's Primary Exempt Purpose Part III	Statement 3
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Explanation

To provide services and housing for older citizens, disabled adults and at-risk youth in the community.

Form 990	Other Program Services	Statement 4
----------	------------------------	-------------

Description	Grants and Allocations	Expenses
Adult Day Care		370,503.
Congregate Meals		289,682.
Clinic		229,373.
Guardianship		93,675.
Home Improvement		347,120.
Home Programs		98,688.
Kid Companion		90,761.
Project Guard		32,623.
Relief		22,748.

<u>Osceola County Council on Aging, Inc.</u>		59-1595398
RSVP		129,242.
Senior Center		196,090.
Senior Companion		265,095.
TEFAP		12,954.
Care Companion		22,992.
Total to Form 990, Part III, line e		2,201,546.

Form 990	Other Investments	Statement	5
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Description	Valuation Method	Amount
Investments	Cost	2,600.
Total to Form 990, Part IV, line 56, Column B		2,600.

Osceola County Council on Aging, Inc.

59-1595398

Form 990 Other Notes and Loans Payable Statement 6

Lender's Name Terms of Repayment
Citrus Bank Monthly Interest Pymts

Date of Note	Maturity Date	Original Loan Amount	Interest Rate
11/05/00	11/05/03	250,000.	4.75%

Security Provided by Borrower Purpose of Loan
None Working Capital

Relationship of Lender

None

Description of Consideration	FMV of Consideration	Balance Due
None	0.	247,013.

Total included on Form 990, Part IV, line 64, Column B 247,013.

Form 990 Other Revenue Not Included on Form 990 Statement 7

Description	Amount
Fundraising Expenses	51,576.
Total to Form 990, Part IV-A	51,576.

Form 990 Other Expenses Not Included on Form 990 Statement 8

Description	Amount
Fundraising Expenses	51,576.
Total to Form 990, Part IV-B	51,576.

11230716 793946 OSC31026

19 Statement(s) 6, 7, 8
2003.05050 Osceola County Council on A OSC31021

Form 990 Part VIII - Relationship of Activities to Statement 9
Accomplishment of Exempt Purposes

Line	Explanation of Relationship of Activities	Statement	
93a	Client income from providing meals in congregate settings, home delivered meals, and home service transportation from elderly patients		
93b	Management fee for providing housing for older citizens, disabled adults and at-risk youth in the community.		
101	Income from fundraising activities used to provide services for the beneficiaries of the organization.		
Schedule A	Statement Regarding Activities with Substantial Contributors, Trustees, Directors, Creators, Key Employees, Etc., Part III, Line 2	Statement	10

The organization leased office space from Michael Carr (Treasurer) at \$150.00/month.

Schedule A	Other Income			Statement	
Description	2002 Amount	2001 Amount	2000 Amount	1999 Amount	
Other	0.	0.	0.	406,455.	
Total to Schedule A, line 22	0.	0.	0.	406,455.	

Form **8868**
(December 2000)
Department of the Treasury
Internal Revenue Service

Application for Extension of Time To File an Exempt Organization Return

OMB No. 1545-1709

▶ File a separate application for each return.

- If you are filing for an **Automatic 3-Month Extension**, complete only **Part I** and check this box
- If you are filing for an **Additional (not automatic) 3-Month Extension**, complete only **Part II** (on page 2 of this form)

Note: Do not complete Part II unless you have already been granted an automatic 3-month extension on a previously filed Form 8868.

Part I Automatic 3-Month Extension of Time - Only submit original (no copies needed)

Note: Form 990-T corporations requesting an automatic 6-month extension - check this box and complete Part I only
All other corporations (including Form 990-C filers) must use Form 7004 to request an extension of time to file income tax returns. Partnerships, REMICs and trusts must use Form 8738 to request an extension of time to file Form 1065, 1066, or 1041.

Type or print	Name of Exempt Organization Osceola County Council on Aging, Inc.	Employer identification number 59-1595398
File by the due date for filing your return. See instructions.	Number, street, and room or suite no. If a P.O. box, see instructions. 1099 Shady Lane	
	City, town or post office, state, and ZIP code. For a foreign address, see instructions. Kissimmee, FL 32744	

Check type of return to be filed (file a separate application for each return):

- | | | |
|--|---|------------------------------------|
| <input checked="" type="checkbox"/> Form 990 | <input type="checkbox"/> Form 990-T (corporation) | <input type="checkbox"/> Form 4720 |
| <input type="checkbox"/> Form 990-BL | <input type="checkbox"/> Form 990-T (sec. 401(a) or 408(a) trust) | <input type="checkbox"/> Form 5227 |
| <input type="checkbox"/> Form 990-EZ | <input type="checkbox"/> Form 990-T (trust other than above) | <input type="checkbox"/> Form 6069 |
| <input type="checkbox"/> Form 990-PF | <input type="checkbox"/> Form 1041-A | <input type="checkbox"/> Form 8870 |

- If the organization does not have an office or place of business in the United States, check this box
- If this is for a **Group Return**, enter the organization's four digit Group Exemption Number (GEN) _____ . If this is for the whole group, check this box . If it is for part of the group, check this box and attach a list with the names and EINs of all members the extension will cover.

1 I request an automatic 3-month (6-month, for **990-T corporation**) extension of time until **August 16, 2004** to file the exempt organization return for the organization named above. The extension is for the organization's return for:

▶ calendar year **2003** or

▶ tax year beginning _____, and ending _____.

2 If this tax year is for less than 12 months, check reason: Initial return Final return Change in accounting period

3a If this application is for Form 990-BL, 990-PF, 990-T, 4720, or 6069, enter the tentative tax, less any nonrefundable credits. See instructions. \$ _____

b If this application is for Form 990-PF or 990-T, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit. \$ _____

c **Balance Due.** Subtract line 3b from line 3a. Include your payment with this form, or, if required, deposit with FTD coupon or, if required, by using EFTPS (Electronic Federal Tax Payment System). See instructions. \$ **N/A**

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete, and that I am authorized to prepare this form.

Signatures *Aly McLean* Title **CPA** Date **4/30/04**

LHA For Paperwork Reduction Act Notice, see instruction Form 8868 (12-2000)

322831
05-01-03

10990420 309946 09071026 2003 05040 Osceola County Council on Aging 09071021

APPENDIX E
SAMPLE IRS 990-EZ FORM

Form **990-EZ**

**Short Form
Return of Organization Exempt From Income Tax**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)
 For organizations with gross receipts less than \$100,000 and total assets less than \$250,000 at the end of the year
 The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No. 1545-1150

2003

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

A For the 2003 calendar year, or tax year beginning 2003, and ending 2003

B Check if applicable:
 Address change
 Name change
 Initial return
 Final return
 Amended return
 Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization
FLAGLER VOLUNTEER SERVICE, INC.

D Employer identification number
59-3644298

Number and street for P.O. box, if mail is not delivered to street address; Room/suite
P. O. BOX 1604

E Telephone number
(386) 439-7449

City or town, state or country, and ZIP + 4
FLAGLER BEACH, FL 32136-1604

F Group Exemption Number

G Accounting method Cash Accrual
Other (specify):

H Check if the organization is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF)

I Website:

J Organization type (check only one) — 501(c) (3) (insert no.) 4947(a)(1) or 527

K Check if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS, but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.

L Add lines 5b, 6b, and 7b, to line 9 to determine gross receipts. If \$100,000 or more, file Form 990 instead of Form 990-EZ. **\$ 82,607**

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 37 of the instructions.)

Revenue			
1	Contributions, gifts, grants, and similar amounts received	1	69,522
2	Program service revenue including government fees and contracts	2	
3	Membership dues and assessments	3	
4	Investment income	4	
5a	Gross amount from sale of assets other than inventory	5a	
5b	Less: cost or other basis and sales expenses	5b	
5c	Gain or (loss) from sale of assets other than inventory (line 5a less line 5b) (attach schedule)	5c	
6	Special events and activities (attach schedule). If any amount is from gaming, check here <input type="checkbox"/>		
6a	Gross revenue (not including \$ of contributions reported on line 1)	6a	13,085
6b	Less: direct expenses other than fundraising expenses	6b	4,390
6c	Net income or (loss) from special events and activities (line 6a less line 6b)	6c	8,695
7a	Gross profit on sale of inventory, less returns and allowances	7a	
7b	Less: cost of goods sold	7b	
7c	Gross profit on sales of inventory (line 7a less line 7b)	7c	
8	Other revenue (describe)	8	
9	Total revenue (add lines 1, 2, 3, 4, 5c, 6c, 7c, and 8)	9	78,217
Expenses			
10	Operating expenses (attach schedule)	10	
11	Other expenses paid to or for members	11	979
12	Salaries, other compensation, and employee benefits	12	57,972
13	Professional fees and other payments to independent contractors	13	813
14	Occupancy, rent, utilities, and maintenance	14	6,581
15	Printing, publications, postage, and shipping	15	4,369
16	Other expenses (describe)	16	14,261
17	Total expenses (add lines 10 through 16)	17	84,975
18	Excess or (deficit) for the year (line 9 less line 17)	18	6,758
Net Assets			
19	Net assets or fund balances at beginning of year (from line 27, column (A)) (must agree with end-of-year figure reported on prior year's return)	19	15,807
20	Other changes in net assets or fund balances (attach explanation)	20	0
21	Net assets or fund balances at end of year (combine lines 18 through 20)	21	8,849

Part II Balance Sheets—If total assets on line 25, column (B) are \$250,000 or more, file Form 990 instead of Form 990-EZ. (See page 40 of the instructions.)

	(A) Beginning of year	(B) End of year
22 Cash, savings, and investments	15,807	8,849
23 Land and buildings		
24 Other assets (describe)		
25 Total assets	15,807	8,849
26 Total liabilities (describe)		
27 Net assets or fund balances (line 27 of column (B) must agree with line 21)	15,807	8,849

For Paperwork Reduction Act Notice, see the separate instructions. Cat No 10642I Form 990-EZ (2003)

SCANNED JUN 15 '04

RECEIVED
MAY 14 2004
OPEN IT

83
15

Part III Statement of Program Service Accomplishments (See page 41 of the instructions.)		Expenses (Required for 501(c)(3) and (4) organizations and 4947(a)(1) trusts, optional for others.)
What is the organization's primary exempt purpose? Describe what was achieved in carrying out the organization's exempt purposes. In a clear and concise manner, describe the services provided, the number of persons benefited, or other relevant information for each program title.		
28	TO PROVIDE SENIOR VOLUNTEERS TO: NOT-FOR PROFIT AGENCIES, GOVERNMENTAL AGENCIES & PROPRIETARY HEALTH CARE ORGANIZATIONS. WE ALSO PROVIDE THE VOLUNTEERS WITH RECOGNITION FOR THEIR EFFORTS. (Grants \$)	28a
29	(Grants \$)	29a
30	(Grants \$)	30a
31	Other program services (attach schedule) (Grants \$)	31a
32	Total program service expenses (add lines 28a through 31a)	32

Part IV List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated. See page 41 of the instructions.)				
(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
SEE ATTACHED LIST				

Part V Other Information (Note the attachment requirement in General Instruction V, page 14.)		Yes	No
33	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity		<input checked="" type="checkbox"/>
34	Were any changes made to the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes		<input checked="" type="checkbox"/>
35	If the organization had income from business activities, such as those reported on lines 2, 6, and 7 (among others), but not reported on Form 990-T, attach a statement explaining your reason for not reporting the income on Form 990-T		<input checked="" type="checkbox"/>
a	Did the organization have unrelated business gross income of \$1,000 or more or 6033(g) notice, reporting, and proxy tax requirements?		<input checked="" type="checkbox"/>
b	If "Yes," has it filed a tax return on Form 990-T for this year?		<input checked="" type="checkbox"/>
36	Was there a liquidation, dissolution, termination, or substantial contraction during the year? (If "Yes," attach a statement.)		<input checked="" type="checkbox"/>
37a	Enter amount of political expenditures, direct or indirect, as described in the instructions ▶ 37a	0	<input checked="" type="checkbox"/>
b	Did the organization file Form 1120-POL for this year?		<input checked="" type="checkbox"/>
38a	Did the organization borrow from, or make any loans to, any officer, director, trustee, or key employee or were any such loans made in a prior year and still unpaid at the start of the period covered by this return?		<input checked="" type="checkbox"/>
b	If "Yes," attach the schedule specified in the line 38 instructions and enter the amount involved	38b	N/A
39	501(c)(7) organizations. Enter: a Initiation fees and capital contributions included on line 9	39a	N/A
b	Gross receipts, included on line 9, for public use of club facilities	39b	N/A
40a	501(c)(3) organizations. Enter: Amount of tax imposed on the organization during the year under section 4911 ▶ section 4912 ▶ section 4955 ▶		0
b	501(c)(3) and (4) organizations. Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach an explanation.		<input checked="" type="checkbox"/>
c	Amount of tax imposed on organization managers or disqualified persons during the year under 4912, 4955, and 4958 ▶		0
d	Enter: Amount of tax on line 40c, above, reimbursed by the organization ▶		N/A
41	List the states with which a copy of this return is filed. ▶ NONE		
42	The books are in care of ▶ JUDITH STETSON, DIRECTOR Telephone no. ▶ (386) 439-7449 Located at ▶ 408 SO CENTRAL AVE, FLAGLER BEACH, FL. 32138 ZIP + 4 ▶ 1604		
43	Section 4947(a)(1) nonexempt charitable trusts filing Form 990-EZ in lieu of Form 1041—Check here ▶ <input type="checkbox"/> and enter the amount of tax-exempt interest received or accrued during the tax year ▶ 43		

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

5-10-04
Date

Flagler Volunteer Services, Inc. (59-3644298)

December 31, 2003 - 990-EZ

Part IV: List of Officers, Directors, Trustees, and Key Employees

(A) Name and Address	(B) Title & Hrs.	(C) Compensation	(D) Contributions Plans & Defd Cp	(E) Exp. Acts & Other Allow
James M. O'Connell (Jan. 1 to Aug. 15) 259 Wellington Cr. Palm Coast, FL 32164	Exec. Director 40 Hours	\$20,800.00	\$0.00	\$0.00
Judith Stetson (Aug. 15 to Dec. 31) 665 Co. Rd. 2006 Bunnell, FL 32110	Exec. Director 40 Hours	\$10,194.00	\$0.00	\$0.00
Suzanne Rutherford 1325 Sherwood St, Bunnell, FL 32110	Vol. Co-ordn. 40 Hours	\$21,698.00	\$0.00	\$0.00
Brian Cooper 1 Cardwell Ct., Palm Coast, FL 32137	President 3 Hours	\$0.00	\$0.00	\$0.00
Charles Helm 78 Kingsley Cir. Ormond Bch., FL 32174	Vice President 3 Hours	\$0.00	\$0.00	\$0.00
H. D. Davis 43 Wellstream Ln., Palm Coast, FL 32164	Treasurer 8 Hours	\$0.00	\$0.00	\$0.00
Gale Lampert 802 OceanMarina Dr FlaglerBch FL 32136	Secretary 2 Hours	\$0.00	\$0.00	\$0.00
Joe Nardi - 3 Wasson Place PO Box 354398, Palm Coast, FL 32135	Director	\$0.00	\$0.00	\$0.00
James Manfre 10 Walnut Pl., Palm Coast, FL 32164	Director	\$0.00	\$0.00	\$0.00
William A. Grady No. 1 300 North 3rd St., Flagler Bch., FL 32136	Director	\$0.00	\$0.00	\$0.00

Flagler Volunteer Services, Inc. (59-3644298)
December 31, 2003 - 990-EZ
Other Expenses - Line 16

Business Liability Insurance	\$ 1,800.00
Business Volunteer Liability Insurance	\$ 1,500.00
Holiday Breakfast for Volunteers	\$ 2,245.00
Recognition Event	\$ 5,442.00
Travel: Volunteers & Staff	\$ 2,748.00
Equipment: Rental & Maintenance	\$ 379.00
Bank Service Charges	\$ 99.00
Credit Card Interest & Charges	\$ 48.00
	<u> </u>
Total to Line 16	<u>\$ 14,261.00</u>

APPENDIX F
SAMPLE FVI CALCULATION WORKSHEET

Nonprofit Organization Case Number Fiscal Year	TEST Trussel & Greenlee	Volusia Literacy 2000			PRIV GOV	VC Mediation 2001			PRIV GOV	
		2001	2002	2003	COM	2000	2001	2002	COM	
<i>Revenue Sources</i>										
1a	Private	\$ 200,000.00	46,069	48,028	12,569	35,222		250	800	350
1b	Indirect	\$ -	67,308	67,300	57,680	64,096				-
1c	Government	\$ 450,000.00	74,444	53,915	112,265	80,208				-
	Noncash	\$ -				-				-
2	Program service revenue	\$ 150,000.00				-	64,438	72,490	88,514	75,147
3	Membership dues and assessments	\$ -	499	1,280	500	760				-
4	Interest on savings	\$ -	4,808	1,520	1,833	2,720	87	38	18	48
5	Dividends	\$ -				-				-
6c	Rental Income	\$ -				-				-
7	Other investment income	\$ -				-				-
8d	Net gain (or loss) from savings	\$ -			14,350	4,783				-
9c	Net income(or loss) from special events	\$ -			41,965	13,988				-
10c	Net sales of inventory	\$ -				-				-
11	Other	\$ -	783	1,325	18	709				-
12	Total Revenues	\$ 800,000.00	192,911	173,368	241,180	202,486	64,525	72,778	89,332	75,545
<i>Administrative Expenses</i>										
13	Program services	\$ -	159,473	174,396	188,250		12,866	11,325	9,868	
14	Management and general	\$ 50,000.00	13,553	13,432	30,200		58,405	61,674	64,309	
15	Fundraising	\$ -	7,042	8,137			1,357	1,199	1,003	
16	Payments to affiliates	\$ -								
17	Total Expenses	\$ 700,000.00	180,068	195,965	218,450		73,428	74,998	75,180	
59	Total Assets	\$ 900,000.00	246,004	212,747	169,525		4,831	2,611	16,763	
66	Total Liabilities	\$ 600,000.00	84,300	82,078	4,733					
<i>Financial Vulnerability</i>										
FM		0.237	0.25	0.38	0.20		0.50	0.45	0.26	
Z		-1.17	-1.10	-0.48	-1.41		0.01	-0.20	-1.06	
Average FVI			0.28			99318.00	0.40			350.00
						80208.00				0.00
						759.67				75147.33
						22200.67				47.67
<i>Financial Distress Indicators</i>										
Debt Ratio (EQUITY)		0.667	0.34	0.39	0.03		0.00	0.00	0.00	
Revenue Concentration (CONCEN)		0.414	0.33	0.32	0.31	0.49	1.00	0.99	0.98	0.00
Surplus margin (MARGIN)		0.125	0.07	-0.13	0.09	0.40	-0.14	-0.03	0.16	0.00
Administrative cost ratio (ADMIN)		0.063	0.07	0.08	0.13	0.00	0.91	0.85	0.72	0.99
Size (SIZE)		13.71	12.41	12.27	12.04	0.11	8.48	7.87	9.73	0.00

APPENDIX G
IRB DOCUMENTS



Office of Research

April 8, 2005

Matthew Hodge
Executive Director
SCC Foundation, Inc.
100 Weldon Boulevard
Sanford, FL 32773-6199

Dear Mr. Hodge:

With reference to your protocol #05-2433 entitled, "Nonprofit Board Effectiveness, Funding Sources and Financial Vulnerability" I am enclosing for your records the approved, expedited document of the UCFIRB Form you had submitted to our office. **The expiration date for this study will be 3/31/06.** Should there be a need to extend this study, a Continuing Review form must be submitted to the IRB Office for review by the Chairman or full IRB at least one month prior to the expiration date. This is the responsibility of the investigator. **Please notify the IRB when you have completed this study.**

Please be advised that this approval is given for one year. Should there be any addendums or administrative changes to the already approved protocol, they must also be submitted to the Board through use of the Addendum/Modification Request form. Changes should not be initiated until written IRB approval is received. Adverse events should be reported to the IRB as they occur.

Should you have any questions, please do not hesitate to call me at 407-823-2901.

Please accept our best wishes for the success of your endeavors.

Cordially,

Barbara Ward

Barbara Ward, CIM
IRB Coordinator

Copy: IRB file

12443 Research Parkway • Suite 302 • Orlando, FL 32826-3252 • 407-823-3778 • Fax 407-823-3299

An Equal Opportunity and Affirmative Action Institution



THE UNIVERSITY OF CENTRAL FLORIDA
INSTITUTIONAL REVIEW BOARD (IRB)

IRB Committee Approval Form

PRINCIPAL INVESTIGATOR(S): Matthew Hodge

IRB #: 05-2433

PROJECT TITLE: Nonprofit Board Effectiveness, Funding Source and Financial Vulnerability

- New project submission
- Continuing review of lapsed project
- Study expired
- Initial submission was approved by full board review but continuing review can be expedited
- Suspension of enrollment email sent to PI, entered on spreadsheet, administration notified 2/16/05
- Resubmission of lapsed project # _____
- Continuing review of # _____
- Initial submission was approved by expedited review

Chair

IRB Co-Chairs:

Expedited Approval
 Dated: 1 April 2005
 Cite how qualifies for expedited review; minimal risk and _____

Signed: _____
 Dr. Sophia Dziegielewski

Exempt
 Dated: _____
 Cite how qualifies for exempt status; minimal risk and _____

Signed: _____
 Dr. Jacqueline Byers

Expiration
 Date: 31 March 2006

Waiver of documentation of consent approved
 Waiver of consent approved

NOTES FROM IRB CHAIR (IF APPLICABLE): FIRST REVIEW - 1 March 2005
Please clarify methodology. How will survey be collected?
Protocol says by phone, mail, e-mail and the web.
More information is needed on how this will be done. Also,
survey is written how will it be administered over phone,
or through e-mail? Clarification is needed. Does stocla
provide list of board members contact info. If not, permission is needed
Also once clarified, could qualify for consent waiver.
Otherwise how will consent be separated from
survey? How will consents be gathered on phone, etc.
Non-vulnerable population.

All signature lines removed from consent letters. Duw 4/1/05

C. UCFIRB Form

The complete IRB packet must be submitted by the 1st business day of the month for consideration at that monthly IRB meeting. Please see page 6 of this manual for detailed instructions on completing this form.

1. Title of Project: Nonprofit Board Effectiveness, Funding Source and Financial Vulnerability

2. Principal Investigator(s):

Signature: <u>[Signature]</u>	Signature: _____
Name: <u>Matthew Hodge</u>	Name: _____
<u>Mr./Ms./Mrs./Dr.</u> (circle one)	Mr./Ms./Mrs./Dr. (circle one)
Degree: <u>MPA</u>	Degree: _____
Title: _____	Title: _____
Department: <u>PhD Public Affairs</u>	Department: _____
College: <u>Health & Public Affairs</u>	College: _____
E-Mail: <u>Mhodge4@cfi.cc.com</u>	E-Mail: _____
Telephone: <u>407-328-2030</u>	Telephone: _____
Facsimile: <u>407-328-2032</u>	Facsimile: _____
Home Telephone: <u>407 895 6681</u>	Home Telephone: _____

3. Supervisor:

Signature: <u>[Signature]</u>	Degree: _____
Name: <u>Larry Martin</u>	Title: _____
<u>Mr./Ms./Mrs./Dr.</u> (circle one)	Telephone: _____
Department: <u>PhD Public Affairs</u>	Facsimile: _____
College: <u>COH PA</u>	E-Mail: _____

4. Dates of Proposed Project (cannot be retroactive): From: 2/20/05 To: 7/20/05

5. Source of Funding for the Project: (project title, agency, and account number) SELF FUNDED

6. Scientific Purpose of the Investigation: Collect information regarding Nonprofit Board behaviors

7. Describe the Research Methodology in Non-Technical Language: (the UCFIRB needs to know what will be done with or to the research participants) Survey Nonprofit Boards to link specific behaviors to financial performance of the org.

8. Potential Benefits and Anticipated Risks. (Risks include physical, psychological, or economic harm. Describe the steps taken to protect participant. Expand knowledge in this area, no risks to participants. Names not included in data.

9. Describe how participants will be recruited, the number and age of the participants, and proposed compensation (if any): State provides list of all Nonprofit org's, survey will be collected by mail, phone, email & web.

10. Describe the informed consent process: (include a copy of the informed consent document) letter requesting signature & check box on survey

I approve this protocol for submission to the UCFIRB. [Signature] Department Chair/Director Date 2/17/05

Cooperating Department (if more than one Dept. involved) _____ Department Chair/Director Date





University of Central Florida
College of Health & Public Affairs
Department of Public Affairs

March 1, 2005

Dear Nonprofit Board Member or Executive:

I am a graduate student at the University of Central Florida conducting research on nonprofit boards of directors and their impact on the financial position of the organization. I am asking for your participation in a brief survey that is designed to evaluate your understanding of the role the board plays in your particular organization.

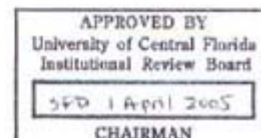
You are not expected to answer any questions you do not wish to answer and your name will not be collected as a part of this study. We are collecting the name of the Central Florida nonprofit you are affiliated with so that we may access public financial records, however the name of your organization will be omitted from the published study and individual scores will not be used. There are no anticipated risks, compensation or other direct benefits to you as a participant in this survey. You are free to withdraw your consent to participate and may discontinue your participation in the survey at any time without consequence.

If you have any questions about this research project, please contact me at 407.765.5191. My faculty supervisor within the College of Health & Public Affairs is Dr. Larry Martin, additional questions may be directed to the UCFIRB office 407.823.2901. By signing this letter, you give me permission to report your responses anonymously in the final manuscript to be submitted to my faculty supervisor as part of my dissertation.

Thank you for your participation in this important study.

Sincerely,

Matthew M. Hodge
University of Central Florida
College of Health & Public Affairs



LIST OF REFERENCES

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