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Financial Health and Accountability and Transparency in Community Development Charities

Congcong Zhang

Chien-Chung Huang

Hansol Park

In recent years, accountability, transparency, and the financial health of nonprofits have been increasingly discussed in nonprofit literature. However, few studies have examined whether, and to what extent, financial health affects accountability and transparency in community development charities. Using 233 housing and neighborhood development organizations from Charity Navigator, we found that financial health has strong effects on the accountability and transparency of organizations. Specifically, higher net assets, working capital ratio, and fundraising efficiency are associated with greater accountability and transparency, whereas administrative expense shows the opposite effect. Policy and research implications were discussed.

. **Keywords:** financial health, efficiency, capability, accountability, transparency, community development charities, assets

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The decrease in public trust in nonprofits has resulted in a demand for greater levels of transparency and accountability from nonprofit organizations (Ebrahim 2003; Valencia, Queiruga, and González-Benito 2015). As a result, both nonprofit researchers and practitioners have increased their attention to nonprofit accountability and transparency in recent years (Behn, DeVries, and Lin 2010; Hyndman and McConville 2016; Liket and Maas 2015; Sanzo-Pérez, Rey-Garcia, and Álvarez-González 2017). Prior studies have focused on the internal and external factors that influence the performance of accountability and transparency in nonprofits (Arshad, Bakar, Thani, and Omar 2013; Dainelli, Manetti, and Sibilio 2013; Nie, Liu, and Cheng 2016; Rodríguez, Pérez, and Godoy 2012; Tremblay-Boire and Prakash 2015). Although some financial factors have been investigated, few existing studies focus on whether financial health has an influence on the accountability and transparency of these organizations. Yet, financial health is not just a fundamental requirement for organizational stability; it is a critical factor in determining an organization's capacity to deliver its services (Bowman 2011; Calabrese 2013; DeVita and Fleming 2001; Finkler 2010). Based on this, we posit that financial health is a critical factor in an organization's capacity to both explain its actions and provide important data to its stakeholders.

Although community organizations are considered a vital aspect of life in neighborhoods (Vermeulen, Minkoff, and Meer 2016), there are few academic studies investigating the factors of accountability and transparency in community nonprofit settings. Existing research on accountability and transparency are mainly conducted in nongovernmental development organizations (Valencia, Queiruga, and González-Benito 2015), universities (Saraite-Sariene 2018), and general nonprofits (Behn, DeVries, and Lin 2010).

Community organizations, in general, are nonprofit organizations targeting the housing, economic, social, or organizing needs of neighborhoods through physical development and complementary service programs (Blanchet-Cohen 2014; Gonzales 2017; Thomson and Etienne 2017). They are also referred to as Community Development Organizations (CDOs) or Community-Based Organizations (CBOs) in different contexts. In this paper, consistent with Charity Navigator, our data source, we use the term community development charities. Community development charities depend heavily on outside funding to execute far-reaching reform measures (Cress and Snow 1996; Silver 2004). Thus, in order to get long-term access to funding, it is essential for them to show their efficiency and trustworthiness by providing evidence of their accountability and transparency. In addition, there is public interest in how these nonprofit organizations use their resources and their level of accountability and transparency, particularly from donors and stakeholders.

Thus, the purpose of this paper is to examine financial health's influence on accountability and transparency in community development charities. The research questions of this paper are 1) what are the extents of accountability and transparency in community development charities? And 2) does the financial health of a nonprofit organization affect its accountability and transparency? The findings of this paper will shed light on our understanding of financial health, accountability, and transparency in community development charities. This article is structured as follows: The next section reviews literature on accountability, transparency, and financial health. We then present related theories and hypotheses. Afterwards, we present our data, measures, and analytic approach in a section on methodology. Methodology is then followed by our results section. We conclude this paper by discussing the implications of our findings.

Literature Review

In this section, we review the literature on accountability and transparency, the factors of accountability and transparency, and the financial health of nonprofits.

Nonprofit Accountability and Transparency

Accountability is particularly crucial to nonprofit governance (Greiling and Stötzer 2015; Tacon 2017). This is due to the basic characteristics of nonprofit organizations, including multiple organizational objectives, stakeholders, and a diversified workforce (Alexander, Brudney, and Yang 2010; Coule 2015). Transparency is often argued to be one of the most important processes by which nonprofits render themselves accountable to their stakeholders (Edwards and Hulme 1996; Schmitz, Raggo, and Vijfeijken 2012). These two concepts, though different, are related because access to information is the first step in the process of accountability (Goetz and Jenkins 2002; Meijer 2003; Weisband and Ebrahim 2007).

Accountability

In the nonprofit sector, many definitions of accountability have been offered by scholars. For example, Edwards and Hulme (1996) asserted accountability as the means by which nonprofits report to authorities and are held responsible for their actions. Kearns (1996) argued that accountability is the ability of an organization to maintain public confidence and explain its promises to the people who support it. What the definitions in literature share is that nonprofits demonstrate how they perform and whether they are managed both efficiently and effectively (Arvidson and Lyon 2014).

Nonprofit accountability has many faces (Ebrahim 2010). Kearns (1994) identified four types of accountability based on explicit or implicit performance standards and proactive or reactive organizational responses, which are negotiated, compliance, professional, and anticipatory accountabilities. Knutsen and Brower (2010) posited that there are instrumental and expressive accountability. Other scholars have offered typologies based on relationships with different stakeholder groups: upward (being held responsible by donors), downward (being responsible for the needs of clients) and lateral (taking responsibility for staff and volunteers) accountabilities (Christensen and Ebrahim 2006; Ebrahim 2003; Edwards and Hulme 1996). However, both practitioners and scholars have noted the difficulty in reconciling these multiple accountabilities as, in many situations, they are in conflict with each other (Edwards and Hulme 1996; Smith and Lipsky 1993).

Transparency

Transparency is a prerequisite for accountability, and it is achieved through the process of collecting relevant information about a nonprofit and making it available and accessible for public scrutiny (Rey-Garcia, Martin-Cavanna, and Alvarez-Gonzalez 2012; Weisband and Ebrahim 2007). Transparency can be used to mitigate information asymmetries among nonprofits and their stakeholders, while increasing the ability of the latter to hold organizations accountable (Sanzo-Pérez, Rey-Garcia, and Álvarez-González 2017). Lee and Joseph (2013) argued that organizational transparency consists of two dimensions: performance and financial transparencies, which refer to the ease with which donors, beneficiaries, and the public can access the information about how efficient a nonprofit is operating, and how effective a nonprofit is at achieving its social mission.

Although transparency is one of the critical dimensions of accountability, it is not sufficient to produce accountability (Fox 2007; Koppell 2005). In addition to transparency, Weisband and Ebrahim (2007) posited that there are another three core components of accountability: Answerability or justification, which requires providing clear reasoning for actions and decisions; Compliance, which requires monitoring, evaluating, and reporting action procedures and outcomes; and Enforcement, or sanctions for shortfalls in transparency, justification, or compliance.

Factors of Accountability and Transparency

Literature has identified a broad set of factors that influence nonprofit accountability and transparency. These factors can be divided into internal and external factors. Internal factors include the organization's size, age, donations, public funding, restricted funds, area of activity, legal form (association or foundation), as well as board composition, size, activity, and so on (Arshad, Bakar, Thani, and Omar 2013; Dainelli, Manetti, and Sibilio 2013; Nie, Liu, and Cheng 2016; Rodríguez, Pérez, and Godoy 2012; Tremblay-Boire and Prakash 2015). External factors include regulatory pressures, demands from key stakeholders, scandals, and third-party assessment (Ebrahim 2010; Rey-Garcia, Martin-Cavanna, and Alvarez-Gonzalez 2012; Schmitz, Raggo, and Vijfeijken 2012). For example, Behn, DeVries, and Lin (2010) conducted a study of the factors associated with greater transparency in education organizations. Their results revealed that a nonprofit is more likely to allow people access to its audited financial statements if it is a larger organization, has higher debt, a larger contribution ratio, a National Taxonomy of Exempt Entities (NTEE) classification of Higher Education, or a higher executive compensation expense ratio. Organizations with higher lobbying expenses, however, are less likely to share their audited financial statements.

Saxton and Guo (2011) conducted a web content analysis of 117 US community foundations to identify the factors that influence an organization's adoption of web-based accountability practices. Their results revealed that the capacity, measured by asset size, and governance, measured by board size, were significantly related to the adoption of web-based accountability practices. Schmitz, Raggo, and Vijfeijken (2012) interviewed leaders of 152 United States-registered transnational nongovernmental organizations (TNGOs) in order to examine leaders' perspectives of how accountability is perceived and practiced. The results revealed that larger organizations are more likely to adopt innovative accountability practices than smaller organizations. Similarly, the findings of Rodríguez, Pérez, and Godoy (2012) on examining potential factors of online transparency showed that a larger organizational size, measured by the number of volunteers, and public funding significantly and positively affect the online transparency of Spanish nonprofits.

Financial Health in Nonprofits

Although financial factors such as donations and public funding are present in the literature on accountability and transparency, few studies answer whether financial health could be taken as a good predictor of accountability and transparency. The nonprofit literature identifies financial capacity, sustainability, and stability as key dimensions of financial health. Financial capacity consists of resources that give an organization the wherewithal to seize opportunities and react to unexpected threats. Sustainability and stability pertain to the ability to maintain financial capacity (Bowman 2011; Chikoto-Schultz1 and Neely 2016). In addition, financial efficiency is often taken as a key indicator of nonprofit financial health, as representative of the extent to which an organization spends its operating budget directly on mission-based programs (Ecer, Magro, and Sarpça 2017; Kim 2017).

Despite the wealth of studies focused on the effects of financial health on funding and program outcomes (Ashley and Faulk, 2010; Ecer, Magro, and Sarpça 2017; Frumkin and Kim 2001; Kim 2017; Tinkelman 1999), few studies examine financial health's effects on accountability or transparency. Taking financial efficiency as the dependent variable, Valencia, Queiruga, and González-Benito (2015) creatively examined the relationship between these two aspects and analyzed the effect of transparency in nongovernmental development organizations, and discovered that the variables of transparency associated with the use of funds relate positively to allocative efficiency.

Theory

Our study is grounded in Agency Theory and Resource-based View. In this section, we provide a brief review of each of these theories before developing hypotheses. Originally developed in economics, agency theory is directed toward agency relationships, in which one party (the principal) delegates work to another (the agent) who performs that work (Eisenhardt 1989; Olson 2000). Agency theory assumes that there are information asymmetries, agent opportunism, and goal conflicts in the contractual relationship between principal and agent (Eisenhardt 1989; Van Slyke 2007), so transparency is needed to mitigate information asymmetries and prevent related risks (Leftwich, Watts, and Zimmerman 1981; Rodríguez, Pérez, and Godoy 2012). For nonprofits, transparency increases the credibility and legitimacy by not only building more common goals, but also by preventing excessive administrative expense and compelling resource investment in mission achievement (Callen, Klein, and Tinkelman 2010; Keating and Frumkin 2003; Rodríguez, Pérez, and Godoy 2012; Van Slyke 2007).

However, nonprofits with high overhead cost may choose not to disclose this information to avoid criticism from funding providers and the public (Edwards and Hulme, 1995; Lu, Huang, and Deng 2016). Edwards and Hulme (1995) found that where charities are not transparent in reporting of efficiency, inefficiency and deficient performance may be more likely. A study carried out by Valencia, Queiruga, and González-Benito (2015) treated transparency as an antecedent of efficiency and confirmed a relationship between them.

Resource-based View (RBV) holds that companies have the potential to achieve sustainable competitive advantage if they have valuable, nonimitable and irreplaceable resources (Barney, 1991, 2001). According to RBV, resources are the source of capability, which can be regarded as a source of competitive advantage. Brown, Andersson, and Jo (2016) have introduced the RBV perspective into nonprofit human service organizations and identified that financial capital, as a fundamental capacity factor, contributes to organizational performance. Based on this, we assume that financial capability also contributes to capacities for accountability, transparency, and further influence on performance of accountability and transparency.

Hypothesis

Firstly, we develop a hypothesis that a community development charity with good financial health will be more accountable and transparent than one in poor financial condition.

H1 There is a positive relationship between financial health and accountability and transparency in community development charities.

In addition, based on RBV, we propose that, with more assets and resources, larger community development charities would have more capacity to pursue public accountability and transparency, whereas with smaller charities, there is a possibility that lower levels of accountability and transparency are due to capacity limitations rather than the deficiency of willingness.

Therefore, we hypothesize that:

H2 There is a positive relationship between net assets and accountability and transparency in community development charities.

Additionally, a study conducted by Behn, DeVries, and Lin in 2010 concluded that nonprofits with greater top executive compensation are more willing to disclose audited financial statements. Executive compensation is expressed as a percentage of total revenues, and the probable reason for this conclusion is that this kind of organization is more likely to be monitored by interested parties, thus having more disclosure pressure. However, based on agency theory, CEOs are sensitive to the publication of information on compensation if their compensation is relatively high, as it may affect the organization's donations and reputation. Therefore, we propose a converse hypothesis: that community development charities with greater CEO compensation are less likely to be accountable and transparent.

H3 There is a negative relationship between CEO compensation expenses and accountability and transparency in community development charities.

Methodology

Data

Our data came from Charity Navigator. Founded in 2001, Charity Navigator is the largest and most utilized evaluator of charities in the United States. It contains information on more than 9,000 charities. The aim of this paper is to examine the effect of financial health on accountability and transparency in community development charities; as Charity Navigator collects charity performance data related to financial health, accountability, and transparency, it fits our aim well. There were 832 community development charities in Charity Navigator in March 2018 when we collected the data.

Charity Navigator defines community development charities as organizations that promote economic growth and stability through programs that increase access to affordable housing, stimulate our communities, and enhance our public and private institutions. Among these organizations, 270 of them are housing and neighborhood development organizations, 81 are community foundations, 85 are Jewish Federations, and 396 are United Ways organizations. We focused on 270 housing and neighborhood development organizations.

Charity Navigator defines charities in housing and neighborhood development as the organizations lead and finance development projects that invest in and improve our communities by providing utility assistance, small business support programs, and other revitalization projects (Charity Navigator, n.d.a). As these organizations provide services to their communities and are nonprofit organizations, accountability and transparency is key to their existence. Within these 270 organizations, Charity Navigator collected data on 233 of them. This is the final sample for this paper. The most recent data published on Charity Navigator's website were released in 2017, which include information reported for fiscal year 2015.

Measures

Dependent Variable

Accountability and transparency. Charity Navigator defines accountability as an obligation or willingness by a charity to explain its actions to its stakeholders and defines transparency as an obligation or willingness by a charity to publish and make available critical data about the organization. Charity Navigator uses 17 indicators to measure the accountability and transparency of an organization. Data on 12 of 17 indicators came from IRS Form 990, while the rest of 5 indicators came from a review of the organization's website (Charity Navigator, n.d.b). Twelve performance metrics from the IRS include board independence, material diversion of assets, audited financials prepared by independent accountants with an audit oversight committee, loan(s) to or from related parties, documented board meeting minutes, provision of Form 990 to an organization's governing body in advance of filing, conflict of interest policy, whistleblower policy, records retention and destruction policy, CEO listed with salary, process for determining CEO compensation, and board listed or board members not compensated. Five performance metrics from the charity's website contain board members listed, key staff listed, audited financials, Form 990, and Privacy Policy. Appendix 1 lists the rating metric for accountability and transparency performance (Charity Navigator, n.d.). The final accountability and transparency score ranges from 0 to 100, with higher scores representing higher accountability and transparency.

Independent Variables

Financial health. Charity Navigator measures financial health in two dimensions: financial efficiency and capacity, with information sourced from IRS Form 990. Financial efficiency is measured in 4 metrics: program expense percentage, administrative expense percentage, fundraising percentage, and fundraising efficiency. Financial capacity is measured in 3 metrics: program expense growth, working capital ratio, and ratio of liabilities to assets. Appendix 2 lists the rating metric for financial health performance (Charity Navigator, n.d.b). Calculations of four measures of financial efficiency and the working capital ratio are based on 3-year averaging, and program expense growth is based on data from the four most recent fiscal years. Charity Navigator converts each raw score from the above metrics into a numerical score ranging from between 0 and 10 by nonprofit type, and then calculates an overall score of financial health by summing up the seven scores plus 30 points. The final financial health score ranges from 0 to 100, with higher scores representing better financial health.

Net assets. Net assets is calculated by summing total assets minus total liabilities, and is collected from Form 990. Building and maintaining reasonable reserves of net assets is important to the stability of nonprofit service provision. Growing net assets also helps a nonprofit outpace inflation and sustain future program activities.

CEO compensation expense ratio. This ratio is calculated by dividing CEO compensation by total expenses. Compensation is based on the data found in each nonprofit's most recently filed Form 990, and includes salary cash bonuses, and expense accounts. Charity Navigator did not factor this into its rating of a charity's financial health score.

Analytic Techniques

The final sample of 233 community development charities were located in different states that varied by socioeconomic characteristics. In addition, the reporting requirements of accountability and transparency vary substantially by states (Hurwit & Associates, n.d.). In order to control for the differences among state characteristics and reporting systems, state-fixed effects were included in the regression model to account for unobserved characteristics across states. Specifically, fixed effects regression was used with the accountability and transparency score as the dependent variable and financial health, net assets, and CEO compensation expense ratio as the independent variables.Fixed effects models were run as ordinary least squares (OLS) regressions, with state binary variables as the fixed effects. The model specification is given by the following equation:

$$y\text{i} = \text{ai} + \text{b1} * \text{FH i} + \text{b2} * \text{c i} + \text{ei},$$

where yi is the accountability and transparency score for community development charity i; α is the individual state effect; FH is the financial health score; χ is a vector of other independent variables, including net assets and CEO's compensation ratio; β is a regression coefficient; and ε is an error component. Net assets were entered in regression analysis in the format of natural logarithmic function.

Results

Table 1 presents the descriptive statistics of 233 community development charities, released in 2017 by Charity Navigator and including data from fiscal year 2015. The accountability and transparency of these organizations was high, with a mean of 92.64 and a standard deviation of 7.23. Likewise, mean financial health was 88.23, with a standard deviation of 7.52. With respect to financial efficiency performance, the community development charities, on average, allocated 83.62% of total expenses in programs, while they spent 9.54% and 6.67% of total expenses on administrative and fundraising, respectively. The mean of fundraising efficiency was 0.10, meaning $0.10 spent on fundraising for every $1 raised. Regarding financial capacity performance, program expense growth was stable over time, with a growth percentage of 1.74. The working capital ratio was 6.35, meaning the organizations can continue their programs and service for 6.35 years on average without new funding. The liabilities to assets ratio was 28.97. The size of these organizations varied substantially. The average net assets of these organizations was 15 million, with a standard deviation of 41.1 million. Finally, CEO compensation, on average, occupied 3.74% of total expense.

Table 2 presents the estimates of OLS regression of accountability and transparency of community development charities. Four models are listed. Model 1 includes total financial health score and net assets. We added the state-fixed effect in model 2. In model 3, the total financial health variable was replaced with individual measures of financial health. All individual measures of financial health were entered in model 3, except for program expense percentage, as it is highly correlated with the administrative expense ratio (r > -.80). We added the CEO compensation expense ratio in model 4.

The results of model 1 showed that net assets was an important factor in the accountability and transparency of community development charities. A one percent increase in net assets would lead to a 0.57 point increase in accountability and transparency. Overall financial health, however, did not have effects on accountability and transparency. After controlling for state-fixed effects in model 2, estimation of net assets increased to 0.65, while financial health was still insignificant. The adjusted R-square increased to 0.07 once controlling for state effects.

Although overall financial health does not have significant effects in model 2, the individual measures of financial health show strong effects in model 3. Specifically, a one percent increase in administrative expense leads to a 0.24 point reduce in accountability and transparency (standardized beta = -0.17). An increase in one-year working capital would lead to a 1.12 point increase in accountability and transparency (standardized beta = 0.23). The effect of fundraising efficiency also achieves marginal significance; increasing 1 unit of fundraising efficiency would lead to 19.02 points of accountability and transparency (standardized beta =0.17). The effect of net assets remains significant, with an estimate of 0.54 (standardized beta =0.16), with the adjusted R-square increasing to 0.13. In model 4, the CEO compensation expense ratio did not show a significant level while other estimates were similar to estimates in model 3.

Discussion and Conclusion

This paper employs 2017 Charity Navigator data to examine the effects of financial health, measured by financial efficiency and capacity performance, on the accountability and transparency of community development charities. The results show that community development charities have very high accountability and transparency, 92.6 out of 100 scale, with modest variation.

The regression results indicate

good indicator of the financial status of a community development charity, it may not be a good predictor of organizational accountability and transparency. However, individual financial performance measures, particularly working capital and administrative expense, show significant effects on accountability and transparency. The positive and large result of working capital provides empirical evidence for capacity in Resource-based View theory, along with the finding on net assets. The negative effect of administrative expenses supports agency theory, in that a high percentage of administrative expenses increases moral hazard, and therefore decreasing an organization's likelihood of performing well in accountability and transparency. Organizations with sufficient capital and net assets are more capable than their counterparts to conduct accountability and transparency tasks. The insignificant effect of CEO compensation expense may be an indication that compensation may not be a good indicator of CEO leadership. In short, the large standardized coefficients of working capital and net assets suggest that financial capacity is the most important factor of accountability and transparency of community development charities.

This paper has several limitations that warrant further exploration. First, our sample was from 233 community development charities collected by Charity Navigator. Due to resource limitation, Charity Navigator tends to collect data from big and well-known organizations, and as a result, our findings may not be generalized to the whole of community development charities; instead, this study serves as an entry to understanding accountability and transparency issues in community development charities in the United States. In addition, the data from Form 990 were self-reported, and may be suffered from reporting errors. Second, we adopted the definitions of accountability and transparency provided by Charity Navigator, which focus on whether a charity explain its actions to its stakeholders and whether it publishes critical data about the organization. As literature showed, the concept of accountability and transparency is complicated, and involves many dimensions beyond information disclosure and justification, with many different stakeholders (e.g. upward or downward accountability). Future study could examine different dimensions of accountability and transparency, and whether the findings reported here still hold.

Third, the low R-squares in regression results suggest that many important factors of accountability and transparency were omitted from the analysis. Furthermore, variation in the accountability and transparency scores in Charity Navigator tends to be limited. Future studies that include more potential explanatory variables and measure accountability and transparency concepts in depth are warrant. Finally, although we infer causal relationships between explanatory variables and accountability and transparency outcomes, the models show associations between outcomes and explanatory variables, while offering no definitive establishment of the mechanisms through which the associations are derived. The data on accountability, transparency, and financial health measures were collected in 2017 from Charity Navigator. As the majority of financial health performance metrics were taken over three years on average, the models, which also include state-fixed effects, enhance confidence in the causal inference.

Table 1. Descriptive Statistics of Main Variables

	Mean	S.D.
Accountability and Transparency	92.64	7.23
Financial Health	88.23	7.52
Financial Efficiency Performance		
Program Expense [%]	83.62	7.11
Administrative Expense [%]	9.54	5.32
Fundraising Expense [%]	6.67	4.02
Fundraising Efficiency [$]	0.10	0.07
Financial Capacity Performance		
Program Expense Growth [%]	1.74	1.46
Working Capital Ratio	6.35	12.01
Liabilities to Assets Ratio [%]	28.97	25.71
Net Assets [million]	15.0	41.1
CEO Compensation Expense [%]	3.74	3.17

N=233

Table 2. Regression Estimates of Accountability and Transparency

	Model 1			Model 2			Model 3			Model 4		
	B	S.E.	P	B	S.E.	P	B	S.E.	P	B	S.E.	P
Financial Health	0.03	0.07		0.01	0.07		---	---		---	---	
Administrative Expense [%]	---	---		---	---		-0.24	0.10	*	-0.24	0.10	*
Fundraising Expense [%]	---	---		---	---		-0.11	0.17		-0.11	0.17	
Fundraising Efficiency	---	---		---	---		19.02	9.91	+	18.95	10.06	+
Program Expense Growth [%]	---	---		---	---		0.02	0.04		0.02	0.04	
Working Capital Ratio	---	---		---	---		1.12	0.37	**	1.12	0.37	**
Liabilities to Assets Ratio [%]	---	---		---	---		0.03	0.02		0.03	0.02	
ln (Net Assets)	0.57	0.23	*	0.65	0.25	**	0.54	0.27	*	0.53	0.29	+
Constant	81.65	5.73	***	67.1	7.71	***	71.59	6.87	***	71.66	7.04	***
CEO Compensation Expense [%]	---	---		---	---		---	---		-0.01	0.18	
State Fixed Effect	No			Yes			Yes			Yes		
R-square	0.03			0.25			0.32			0.32		
Adjusted R-Square	0.02			0.07			0.13			0.13		

N=233

Appendix 1. Accountability and Transparency Ratings

Performance Metric	Points Deducted
Less than 5 independent voting members on the board; or independent members do not constitute a voting majority.	15
Material diversion of assets within the last two years, without a satisfactory explanation	15
Material diversion of Assets within the last two years, with a satisfactory explanation	7
Audited financial statements are not prepared or reviewed by an independent accountant	15
Audited financial statements are prepared or reviewed by an independent accountant, but that accountant is not selected and overseen by an internal committee.	7
Loans to or from officers or other interested parties	4
Organization does not keep board meeting minutes	4
Form 990 not distributed to the board before filing	4
No Conflict of Interest policy	4
No Whistleblower policy	4
No Records retention and destruction policy	4
Does not properly report CEO compensation on Form 990	4
Does not have a process for reviewing and updating CEO compensation	4
Fails to report board members and compensation fully on Form 990, or reports that board members are compensated for their participation	4
Does not publish board members on website	4
Does not publish senior staff on website	3
Does not publish latest Audited Financial Statements on website	4
Does not publish latest Form 990 on website	3
No donor privacy policy	4
Opt-out donor privacy policy	3

Appendix 2. Financial Health Ratings

Stage 1	
Performance Metric	**Formula**
1.Program Expense Percentage	Average Program Expenses ÷ Average Total Expenses
2. Administrative Expense Percentage	Average Administrative Expenses ÷ Average Total Expenses
3. Fundraising Expense Percentage	Average Fundraising Expenses ÷ Average Total Expenses
4. Fundraising Efficiency	Average Fundraising Expenses ÷ Average Total Contributions
5. Program Expense Growth	[(Yn / Y0) ^ (1 / n)] - 1, Yn is the value in the most recent year of the interval, Yo is the value in the oldest year of the interval, and n is the length of the interval in years
6. Working Capital Ratio	Working Capital ÷ Average Total Expenses
7. Liabilities to Assets Ratio	Total Liabilities ÷ Total Assets
Stage 2	
Assigning Financial Health Score	After calculating the seven performance metrics above, Charity Navigator converts the charity's raw score to a numerical score ranging between 0 and 10 by nonprofit type, and then calculates an overall score of financial health by summing up the seven scores plus 30 points (to convert the scores to a 100 point scale)

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華民研究中心

Huamin Research Center

Rutgers, The State University of New Jersey
School of Social Work
390 George Street, Room 503
New Brunswick, NJ 08901
848-932-7520, ext. 28256
socialwork.rutgers.edu/huamin

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