

# How to Start a Nonprofit Organization



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## Executive Summary

The Guilford Nonprofit Consortium is seeking a comprehensive guide detailing the process to startup a nonprofit organization (NPO) in North Carolina.

In her newly appointed role as Director of the Guilford Nonprofit Consortium, Ms. Mary Herbenick identified an opportunity to improve the process to assist potential new nonprofit organizations more efficiently. There is a plethora of resources online that detail portions of the startup process. However, these are often hard to comprehend and overwhelming to nonprofit entrepreneurs. Additionally, Ms. Herbenick does not need to repeat the same information for each potential founder, therefore a comprehensive guide will be a valuable resource.

The consultants responsible for this project conducted primary and secondary research. As part of the primary research, three case study interviews were conducted with founders of NPOs in different stages of their business development cycle. These case studies provided findings in developing a business plan, filing required legal forms to start an NPO, and resources available at no cost to alleviate the startup journey. The secondary research was completed using scholarly articles, journals, books, federal and state regulations, and trusted nonprofit resources. This research focused on understanding the nonprofit sector, understanding the challenges that NPOs face, researching the steps to startup an NPO, and political, economic, social, legal, technological, and environmental factors that influence the nonprofit sector.

The deliverables for the consulting team include this detailed report, which details how to start a nonprofit organization. It includes an interactive process map and individual one-page documents which can be used as independent resources by the Guilford Nonprofit Consortium. The process map and one-page resources can be used independently to provide details on the nonprofit startup process in a concise manner.

This report acts as a comprehensive resource, providing step by step insights into the startup process. Additionally, it addresses challenges in the nonprofit sector and provides information on how to perform a feasibility analysis, develop a business plan, define and write a mission statement, form a board of directors, raise funds, and implement financial management.

Upon completion of the project team's research, the following are our recommendations to the Guilford Nonprofit Consortium:

- Share the report, in its entirety or specific sections, with any individual who contacts the Guilford Nonprofit Consortium to startup a nonprofit organization.
- Make these resources available on the website, as part of the Consortium rebranding project.
- Use the findings to create digital content. This can include but is not limited to videos, applications, podcasts, or other modes of media.

## Methodology

The consulting team conducted primary and secondary research on the nonprofit sector. The primary research included three case study interviews with Guilford County nonprofit organization founders.

First, the team spoke with Ms. Bernadette Potts, founder of Operation Seed, Inc. a nonprofit that has been in operation for less than one year. One valuable resource she shared was the Elon School of Law program which helped her with the paperwork process to ensure it was completed accurately and completely. The interview with can be found in Appendix 1.

Second, the team interviewed Ms. Brittany Williams, the founder of iAlign Dance Company. The organization has been in operation for seven years, and Ms. Williams shared her experience growing and evolving the nonprofit organization to meet the needs of her community. Her full interview can be found in Appendix 2.

Third, the team discussed the Interactive Resource Center (IRC) with Ms. Liz Seymour, one of the original founders. The IRC has been providing a safe space for individuals experiencing homelessness in Greensboro for thirteen years. Ms. Seymour shared that her experiences with the IRC inspired her to start another nonprofit organization and the lessons learned have helped make that startup process much more successful. She emphasized that an organization should not outgrow their resources by trying to expand too quickly and accomplish too many goals too soon. She shared a valuable piece of advice, stick to the mission. The concept, stick to the mission, stood out and is discussed in more detail in Appendix 4. The full interview can be found in Appendix 3.

During the primary research stage, the consulting team also spoke with Kassie Ettefagh, the Greensboro Public Library Business and Nonprofit Research Librarian. She discussed the resources that the library provides individuals for free including access to research sites, assistance finding resources, and consultations to discuss the startup process or challenges throughout operations. The interview with Ms. Ettefagh can be found in Appendix 5.

In the secondary research phase, the team utilized scholarly articles, journals, books, federal and state regulations, trusted sources for nonprofit organization research, and other sources to research the nonprofit sector. The team focused on compiling a background on the sector, understanding the legal and regulatory requirements, understanding the funding options for nonprofit organizations, and focusing on the challenges the nonprofit sector faces. This research helped the team to understand the industry and collect important information to transform into a comprehensive guide on how to start a nonprofit organization in North Carolina. The team focused on North Carolina specifically as there are varying legal and paperwork requirements for different states. The research can be found in the Appendix 6.



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## Resources/Deliverables

In the Appendix, there are multiple documents that can be utilized as one-page resources. These will provide some additional information in a concise format that can be distributed in an easy-to-read format.

- Process Map
  - The process map is a high-level outline of the startup process for a nonprofit organization.
  - PowerPoint presentation version to the client includes the interactive navigation to each process.
- Helpful Resources in Guilford County
  - A short list of resources that may help in the startup process or when challenges arise.
- Online Sources to Access Data for Feasibility Analysis
  - Ten different online sources to access data at no cost or low cost.
- How to Recruit Volunteers
- How to Recruit Board Members
- How to Read and Interpret a Cash Flow Statement
- How to Read and Interpret an Income Statement
- How to Read and Interpret a Balance Sheet
- How to Fundraise and Get Donations
- How to Apply for Grants

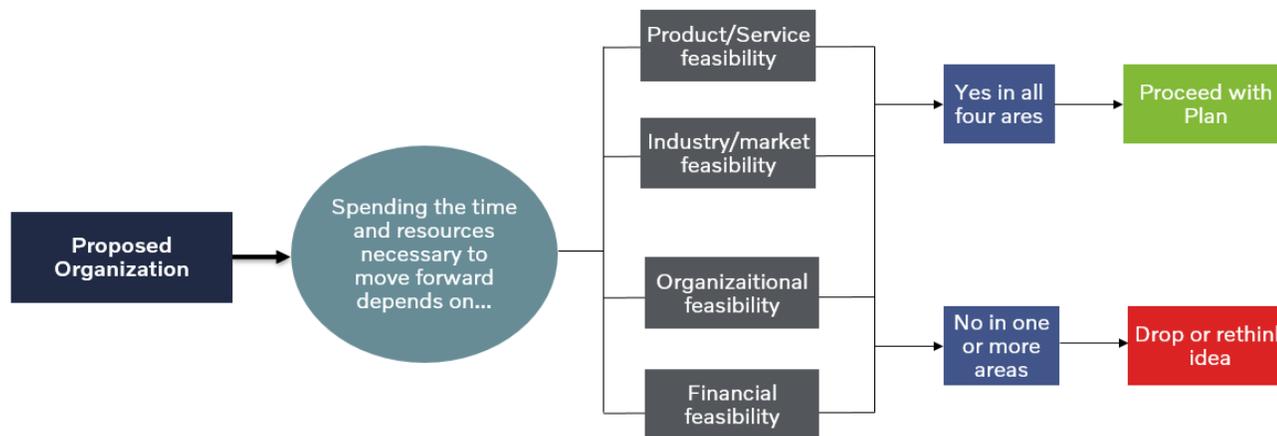
# How To Start a Nonprofit

## Feasibility & Market Analysis

Nonprofits fill a gap in the community where they can provide a good or a service to fulfill the needs that are not met by the local government or authorities. Similarly, to for-profit organizations, nonprofits are created based on an idea or an opportunity. However, it is crucial to determine if that business idea is viable. It is also important to understand the difference between an opportunity (a favorable set of circumstances that create a need for a new service or product) and an idea (a thought or a notion which may or may not meet the criteria of an opportunity).

Many founders make the mistake of identifying an idea and then jumping directly to developing the business model if any. This rushed action frequently omits or provides little time for the important part of testing the feasibility of the business idea.

The graph below provides a high-level methodology for conducting a feasibility analysis by describing four key areas. If a business idea falls short on one or more of the four key areas, it should be dropped or rethought. It is crucial to perform research. Information and database sources can be found in Appendix 7.



Source: Entrepreneurship: Successfully launching new ventures, 6th edition 2021

**Product/Service Analysis:** This is the assessment of how appealing the product or service is being proposed. There are two core factors that should be considered in this analysis: the product/service desirability and the product/service demand. The answers to the following questions can help determine the desirability of the product/service:

- Is it reasonable? Is this something real “customers” will want?
- Is this a good time to introduce the product/service?
- Are there any flaws in the product/service?
- Does it solve a problem or fill a gap?



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The best way to get answers for these questions is to talk, and most importantly, listen to the potential “customers”. Below are some tips to drive some of the questions/conversations:

- Make sure the person you are talking to is can give good quality feedback
- It is desirable not to ask questions for which you should already know the answer. For example, “What is your profession?” if the information can be found through pages like LinkedIn or public bios.
- Ask open ended questions. Minimize “Yes” “No” answers.
- Be prepared to hear things you don’t want to hear. The goal is not trying to sell the idea but rather getting honest feedback.
- At the end of the conversation, ask the questions if there is something else the interview should talk about.

After conducting the desirability analysis, the second component is to determine the demand of the product/service. Two common methods are talking face-to-face with potential customers and utilizing online tools to research demand such as <https://www.usa.gov/statistics>.

**Industry/Market Analysis:** This is the assessment of the overall appeal of the industry and the target market of the product/service being proposed. It is important to understand the difference between an industry and target market. Industry is an organization producing a similar product or service such as education, health, nutrition, or entertainment. A target market is the portion of the industry that it goes after or to which it wants to attract such as children, veterans, or high school graduates. Most nonprofits, and certainly new NPOs, do not service an entire industry. Instead, they select a specific group and then try to service that selected group. During the industry analysis process, it is important to consider if there is room for one more organization, given that most markets are already being served at least to some extent.

Most new organizations target a single segment or a specific target within the industry. Given that the existing competition may have certain established competitive advantages in terms of available funds and established customers, the following questions must be answered:

- Where is the potential competitive advantage for a new organization?
- Do the main competitors exhibit strengths that could overwhelm the new organization’s resources, or alternatively do these main competitors exhibit weaknesses that could present the new organization with an opportunity to create a specific competitive advantage?
- Is there a favorable environment where the new organization’s capabilities will fit?

These are important questions that must be taken into consideration during the industry/market analysis and research must be performed. Being aware of other NPOs with similar missions and knowing the approach with the population they serve will eliminate areas of duplication. In addition, there are two components to the industry/market feasibility analysis: Industry attractiveness and target market attractiveness.

Industry attractiveness is the degree to which environmental and business trends are moving in favor rather than against the industry. This is an important factor for the organization’s long-term health and the ability to serve its target market. A few components to consider here are:



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- Are economic trends helping or hurting the industry?
- Are market expenses going up or down?
- Are there any similar organizations shutting down or opening?

Some broad characteristics of attractive industries are:

- Fragmented rather than concentrated
- Growing rather than shrinking
- Offering products/services that customer must have rather than want

Target market attractiveness is focused on the narrower group of customers with similar needs within the industry. As a new NPO, you most likely won't have all necessary resources needed to participate in a large market, at least initially. On the other hand, by focusing on a specific target market, the new organization avoids head-to-head competition (e.g., grant or funding) and can focus on servicing the targeted group. The main challenge in this component is identifying an attractive market that is large enough for the proposed mission yet small to avoid competition from a grant and funding perspective at least until the new organization can get off to a successful start.

To determine the components mentioned above, it is recommended to perform a PESTEL analysis or a Porter's five forces analysis. [PESTEL](#) is an analysis based on Political, Economic, Social, Technology, Environmental, and Legal. [Porter's five forces](#) analysis is a model that identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths. These are measured by competition in the industry, potential of new entrants, power of suppliers, power of customers, and threat of substitute products or services.

**Organizational Analysis:** This is the assessment to determine whether the proposed organization has sufficient management expertise, competence, and resources to launch. In the absence of one of these components, an option is to gain experience by volunteering or becoming a BOD of an existing nonprofit to get business exposure and knowledge. A second option that is recommended is to find a business partner who may have the desirable experience and skills.

These are a few factors to take into consideration when looking for the right business partner:

- Make an honest assessment of the skills and experience you can bring to the organization and then pick someone who can fill the gaps
- Make sure personalities and work habits are compatible
- Make sure common goals and aspirations are aligned

From an organizational perspective, the potential members of the organization need to know and understand the purpose. This would be essential in making organizational decisions, changes, which impacts requesting donations, recruiting board members, volunteer members, and hiring staff if applicable. Once this organization is defined, it would be easier to determine who has the decision-making responsibility and who is accountable for each process or aspect of the organization.

**Financial Analysis:** This is the assessment of a preliminary financial forecast. Essentially how much money would be needed to start the organization. As mentioned before, this will be a



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preliminary analysis considering that the organization will evolve. In this analysis, it is important to understand the attractiveness of the business from a financial perspective. For example, are there opportunities to receive government funding or partnership with other organizations? Is money coming from personal savings, family contributions, or other sources such as bank loans? If so, what is the plan to repay the money if applicable?

A few factors to take into consideration are:

- Project start-up expenses. It is better to overestimate rather than underestimate.
- Plan a budget for at least 6 months of expenses.
- Have a backup plan in case of unexpected situations

There are worksheets online that can help determine the start-up costs to launch the organization. Visit SCORE at <https://www.score.org/> or U.S. Small Business Administration at <https://www.sba.gov/>. Furthermore, it is recommended to select an existing established organization with a similar profile/mission and perform a financial performance analysis. This will mean searching for financial reports that are usually available online.

Finally, performing the feasibility analysis will bring nothing but benefit to the potential founder or entrepreneur because it will force to do all parts of the analysis which will lead to a reasonable decision, it will force the collection of data and do careful research, it will bring realistic facts, it will avoid frustration resulting from unwise decisions, and it focus on the long-term sustainability of the organization.

## Advice Before Starting a Nonprofit

It is admirable that individuals have the passion to want to start a nonprofit organization. There are so many people who want to spread goodness in their communities. Before starting an NPO, it is recommended that a potential founder research the industry and other nonprofits in their area. If there is a nonprofit organization in the community that has a similar or identical mission, perhaps teaming up with that nonprofit can do better for the community than establishing a separate nonprofit organization.

Individuals can become a volunteer, board member, or potentially a paid staff member at an already established nonprofit organization. This will help an individual understand some of the requirements and operating procedures of a nonprofit organization, which may greatly help if the entrepreneur decides that starting a nonprofit is the right choice.

Additionally, there are many opportunities to get involved with national or global organizations working within an area of interest. Often, a local chapter can be established to help further the mission in the community.

If an idea is relatively local and small, an unincorporated association or club can provide community support. These groups can hold meetings and activities but skip all the reporting requirements if the annual budget is under \$25,000.

If an idea is to finance scholarships, family emergency funds, or others' activities and needs, you can establish a fund at a community foundation or organization. These already established organizations may be open to including scholarships or funds based on their missions in the community.

## Write a Business Plan

A business plan allows a nonprofit entrepreneur to systematically think through each aspect of their new organization. It takes time and patience to complete a well-developed plan because it requires the study of multiple factors such as, identifying the mission, forming a board of directors, developing bylaws, determining and executing funding, compliance and legal requirements, financial management, and living the mission. Furthermore, a business plan also helps describe the organization to the community it will serve and more in the long term it will help and facilitate in the grant application process.

## Define and Write a Mission Statement

The fundamental and unique goal of an NPO is described in the organization's mission statement. It conveys the value the organization offers, the population it serves, and the way in which it does so.

Writing an effective mission statement is extremely important for NPOs as it clarifies the purpose and guidance to operate with focus and discipline. A well-written mission statement not only directs and influences how organizations should work, but it also has a significant impact on how volunteers and employees see their jobs. The organizational culture is a key factor in employee satisfaction and an organization's culture is influenced and shaped by its mission statement. The mission statement provides a consistency in decision making for the team when they are pulled apart into multiple directions. The statement sends a meaningful message to the community and outside world which will encourage people to know more about the organization and support their work.

A mission statement must be clear, concise, and easy to understand. Above all, a mission statement should explain what the nonprofit does and provides direction for its employees and stakeholders. Crafting an effective mission statement is crucial. It is recommended to welcome the participation of the other members in the organization for their inputs in the process. Once the statement has been finalized and is being used, NPOs must review it frequently so it always reflects what the organization does and stands for. NPOs must regularly examine the statement once it has been finalized and put into use to ensure that it consistently reflects the work and principles of the organization.

To write a mission statement, you should consider the following steps:

- Brainstorm your ideas
- Create rough drafts
  - *Try the format: We [action verb] [who] [why].*
- Find the common thread in your drafts and use it to create a straightforward mission statement
- Make sure your mission statement explains the main purpose, and makes sense when said aloud
- Finalize your mission statement



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The following is an example of a mission statement.

*“The mission of The Women’s Center is to significantly improve the mental health and well-being of all members of the community through counseling, education, support and advocacy.”*

The mission statement for the Women’s Center clearly identifies the work that this nonprofit does and how they accomplish their mission. They use clear and concise language to identify their goal (to significantly improve the mental health and well-being of all members of the community). The organization also shares how they will achieve their goal (through counseling, education, support, and advocacy).

## Form a Board of Directors (BOD)

A Board of Directors functions as the governing authority overseeing a nonprofit organization. The board exercises corporate powers, including appointing the chief executive officer (CEO) or executive director and other officers as applicable. The board delegates powers to officers, administrators, executives, and staff who act for the corporation in its day-to-day operations. The board’s main responsibilities are to know the mission and purpose of the organization as well as the constituents it serves, meet to make decisions, and provide financial oversight. There are two different types of NPOs, which determine the structure of the nonprofit board of directors. For both structures, the service term for the BOD is determined within the bylaws. Board members are typically individuals who are passionate about the mission of the organization.

First, there are membership nonprofits. The members vote to elect the board members; the election is typically conducted at an annual meeting, according to procedures specified in the bylaws (Guidebook for Boards of Directors of North Carolina Nonprofits). The type of organization that may include a membership base may include networking or social organizations. As a member, individuals typically get some benefit for paying annual dues.

Secondly, in non-membership NPOs, the board of directors tends to be volunteer based and decided initially by the executive director. After the nonprofit has been in operation, these boards tend to maintain their board members and additional members are selected by current board members.

The bylaws will state the number of board members. In North Carolina, there is a minimum of one board member; however, it is recommended to have between five and seven BOD members. Board members do not necessarily have to live in the community that they serve, unless outlined in the articles of incorporation or bylaws. Board members typically serve in a volunteer capacity with no compensation. However, North Carolina does allow for director pay if the board so chooses.

Board members should represent diverse backgrounds and provide varying expertise and perspectives. An NPO should include an individual with experience in accounting or finance to assist with managing the organization’s money properly. Additionally, individuals with legal or business experience can provide valuable assistance. Finally, the presence of diverse



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philosophical perspectives can challenge shared assumptions and stimulate new approaches to challenges that may arise.

Board members have a duty of care, duty of loyalty, and duty of obedience. To simplify, the board should act in the best interest of the nonprofit organization throughout their tenure on the board. If a board member does not act responsibly, they can be removed from the board. The removal process for board members should be outlined in the bylaws.

The federal government passed the Sarbanes-Oxley act in 2003, which has implications for both nonprofit and for-profit organizations. The organization must provide protections to whistleblowers, individuals who report illegal activities perpetrated within an organization.

## Board Member Recruitment

A board of directors makes crucial organizational decisions on policy, programs, and other important topics. They oversee all operations and support and evaluate the Executive Director. Board members are also responsible for reviewing the financial statements and strategically advising the organization. All board members have a duty to do what is in the best interest of the nonprofit organization. They should assist with fundraising efforts and recruiting potential board members.

Below are some recommendations to find nonprofit board members:

- Rely on word of mouth and referrals.
- Find board members with complimentary talents and areas of expertise. Boards may benefit from adding individuals with experience in marketing, law, and finance. The requirements may differ from one nonprofit to another.
- Search for board members among volunteers. These individuals are passionate about the organization and are already familiar with the nonprofit.
- Utilize social media for recruitment. The organization's Facebook or LinkedIn profile may help connect the organization to find suitable board members. Donors, volunteers, and community members who follow the organization may see the opportunity and apply for a board position.
- Consider placing targeted advertisements. Ads in the newspaper, on online forums, on the radio, using a local volunteer network, or through other methods may reach interested parties.
- Consider online board member sites like [BoardStrong](#), [Bridgespan](#), [Idealist.org](#), and [LinkedIn Board Connect](#). These sites offer matching programs for individuals to connect with nonprofits that align with their interests.

See Appendix 14 for additional information



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## Develop Bylaws

Bylaws are the rules governing NPOs. They serve as an organizational tool like a user handbook which outlines how the organization operates. In North Carolina, the following processes should be included in the bylaws:

- Process to add/remove board members
- Processes to hold and run board meetings
- Voting processes
- Processes for managing conflicts of interest and emergencies
- Process to determine compensation for directors
- Process to amend the bylaws
- Requirements for dissolution of the nonprofit

Bylaws are legally binding rules that detail the processes for operating a nonprofit organization. Bylaws are required per North Carolina law. According to [Chapter 55A](#) (NC 55A-2-06) in the North Carolina Nonprofit Corporation Act, the Board of Directors “shall adopt initial bylaws” at the first organizational meeting.

The bylaws of an organization are an internal document, and do not need to be shared with the state. However, bylaws can be used as supporting documents when applying for grants and shared with potential donors to share the organizational management structure of the NPO.

When an organization applies for 501(c)(3) tax exempt status, they are required to share the bylaws with the Internal Revenue Service (IRS). Once the NPO gets the status, the bylaws are available as public records. Most NPOs write their own bylaws.

Members of the board are knowledgeable about potential problems and viable solutions. Another choice is to form a bylaw committee. With this approach, diverse viewpoints are considered, making it simpler to meet everyone's objectives throughout the whole organization.

According to NC 55A-2-06, North Carolina nonprofit bylaws can include anything “that is not inconsistent with law or the articles of incorporation” (<https://www.ncleg.gov/>). This includes multiple processes which must be reviewed frequently as it is necessary to keep track of the bylaw revisions. The bylaws should be current and correctly represent how the NPO operates.

Checklist items to be included in the bylaws:

- The board members' obligations to act honestly and in the organization's best interests should be outlined in the bylaws.
- Describe the duties and responsibilities, as well as how the President, Vice President, Secretary, and Treasurer (the most common positions in an NPO) are elected and terminated by resignation or removal.
- The bylaws of NPOs with members should specify the requirements for membership eligibility, dues, rights, voting privileges, and termination of membership.
- A section should be included which would detail the frequency of the meetings to be held and when the Annual General Meeting (AGM) to be held.
- In North Carolina for a nonprofit, most of the Board of Directors then serving shall constitute a quorum at the annual meeting and at any regular or special meeting. This is



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mentioned in NC legislation [55A-7-22](#) which states "Unless this Chapter, the articles of incorporation, or bylaws provide for a higher or lower quorum, ten percent (10%) of the votes entitled to be cast on a matter shall be represented at a meeting of members to constitute a quorum on that matter."

- Specify the minimum and the maximum number of board members.
- Mention the compensation details for directors, officers, and employees. Use the [IRS Form 1023](#) to understand the language the NPO may use for the approval of compensation requirements.
- The Executive Director is chosen by the board. He or she oversees the organization's daily operations. It needs to be ensured to be included in the bylaws the number of votes required to take this action, as well as the board's power to terminate the Executive Director.
- A provision needs to be included for handling conflicts of interest. Use the language recommended by the IRS and for guidance, check [IRS Form 1023](#).
- A dissolution provision is a requirement for NPOs unless the legislation specifies otherwise. The distribution of the organization's assets for tax-exempt purposes must be specified in dissolution provisions where mandated by law.

Writing effective nonprofit bylaws requires attention to detail and focus on legal and regulatory requirements. More details on North Carolina NPO Bylaws can be found at: [https://www.ncleg.gov/EnactedLegislation/Statutes/PDF/ByChapter/Chapter\\_55A.pdf](https://www.ncleg.gov/EnactedLegislation/Statutes/PDF/ByChapter/Chapter_55A.pdf)

## Determine and Execute Funding Strategy

As previously mentioned, there are three most common sources of funding besides personal funding. Donations (private or corporate), grants (offered by foundations or governments), and fundraisers. It is important to remember that as an NPO, fees can be charged for a work that is performed. This means revenue can be generated from products or services offered.

As a new organization, most of the funding will most likely come from personal funds, friends, and family, and private or corporate donations. Most grants will require a matching or proof that the organization is able to generate revenues first. Moreover, it is important to find ways of funding through creativity, ingenuity, and cost-cutting practices by any means necessary. For example, buy used equipment instead of new, minimize and avoid unnecessary expenses, share office space with other businesses, and recruit volunteers. For information on how to recruit volunteers see Appendix 13.

Finally, it is important to determine an efficient and effective communication channel. This can be done through a marketing strategy. A marketing strategy will provide the organization a substantial sense of purpose and movement towards funding goals and the short and long term. Creating a website is a must since most people will connect to the organization through an online platform. This will impact the credibility of the organization, the brand or image, provide opportunities for leads, and organic traffic (appearing in online searches). Some other ways to drive marketing and communication channels are through direct mail or telemarketing, publications, and press. For information on how to apply for grants, see Appendix 8.



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A nonprofit organization's success depends on their execution of the strategies determined in earlier stages of establishment. Execution refers to a methodical procedure or a logical sequence of connected tasks that enables a company to take a plan and make it effective. For a nonprofit, once one or multiple funding strategies have been determined, it is extremely crucial to get them executed.

For NPOs, writing grant submissions is a significant source of funding. Nonprofits can undoubtedly use other methods to try and generate the money they need to carry out their goals. The grants can come from Local or State governments and from private organizations. Depending on various funding strategies, the NPOs can execute on some of the following ideas strategies: To learn more, see Appendix 9.

**Fundraisers:** NPO fundraising is the ongoing process of soliciting donations or voluntary funds to help the organization grow and meet the needs of the community they serve. The nonprofit sector frequently uses events to raise money. Events and fundraisers provide individuals the opportunity to contribute to the organization at any level. Detailed information on how to arrange fundraiser and examples can be found in Appendix 9.

**Earned Income:** Earned income is the term used to describe money collected for products or services. For example, several NPOs sell products (t-shirts, bracelets, and stickers) or services (education and health).

**Donations:** The annual fund of a nonprofit is made up of donations made which can be individual or from private corporations. The annual fund is raised by making a direct appeal to the largest audience possible, including known regular donors, occasional donors, and prospects who haven't donated yet. Donation gathering and finding donors involves multiple processes and methods, details can be found in Appendix 9.

**Membership:** If a nonprofit is set up in a way that makes sense, offering membership opportunities provides a source of income. Membership fees can be charged on a monthly, quarterly, or annual basis. Memberships typically come with a benefit for individual members, such as a discount program, members-only events, or similar benefits.

## Compliance and Legal Requirements

There are certain checklist items that outline the laws that affect North Carolina NPOs which include operations, finances, advocacy, human resources, and fundraising requirements. It would be advantageous to seek advice from legal professionals. A good resource for legal advice and assistance at no cost is the [Elon Law School Entrepreneurship Clinic](#).

The following is a guidebook for IRS section 501(c)(3) tax exempt organizations incorporated and operated in North Carolina.

- To be able to function as a nonprofit organization, all NC nonprofits must submit articles of incorporation to the [NC Secretary of State](#) which can be filed by any individual. Once it is filed, then the NPO needs to adopt bylaws and related governance policies at their initial board meeting.



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- Any nonprofit incorporated (or authorized as a foreign nonprofit) in North Carolina that has changed its principal office address, registered office address, or registered agent needs to file with the [NC Secretary of State](#) using the Change of Address form.
- Each nonprofit board member is a fiduciary of the company and owes devotion, care, and obedience to it. The responsibilities and risks of the board are covered in Part 3 of the North Carolina Center for Nonprofits' [Guidebook for Boards of Directors of North Carolina Nonprofits](#). This information needs to be shared with the board members.
- Apply for a Federal Employer Identification Number (EIN) even if your nonprofit doesn't have employees. This EIN is used by the IRS to track reports and your Form 1023 tax-exempt application. To apply, submit IRS Form SS-4 either online, by phone, by mail, or by fax. Call the IRS's Business & Specialty Tax Line (1-800-829-4933) or check the IRS [webpage](#).
- All Nonprofits seeking to accept donations or grants that are tax-deductible and have annual gross receipts of at least \$5,000 need to file IRS form 1023 which is downloadable at [IRS](#) and the instructions are available at [IRS](#).
- Many organizations that have assets of \$250,000 or less and yearly gross receipts of \$50,000 or less can file the Form 1023-EZ online found at [IRS](#) and the instructions are available in [IRS](#).
- NPOs need to file Form 990, 990-EZ, or 990-N(e-Postcard) depending on the amount received in gross receipts. Form 990 is the IRS' primary tool for gathering information about tax-exempt organizations, educating organizations about tax law requirements, and promoting compliance. The 990 series forms are available [here](#) and E-Postcards are also available at the [IRS website](#). The different criterion of filing are available in [IRS 990 series section](#).
- Most NPOs adhere to the policies on conflicts of interest, gift acceptance, Form 990 review, whistleblower protection, and document retention and destruction. These questions are available for filling up in Part VI of Form 990.
- Nonprofits must state on their Form 990 if they used comparability data to calculate wages and benefits.
- All the NPOs need to report and pay tax for any Unrelated Business Income of \$1000 or more and for that Form 990-T needs to be filed. The details are available in the [IRS publication 598](#).
- All 501(c)(3) Nonprofits are forbidden from endorsing or opposing political parties or candidates per federal tax law. Thus, NPOs are prohibited from endorsing candidates, making financial contributions to partisan campaigns, or organizing activities with political campaigns.
- Any nonprofit that advocates for causes has the option to select 501(h) status, except for houses of worship and integrated auxiliary of such places of religion. NPOs may utilize up to 20% of the first \$500,000 of their expenditures for exempt purposes for lobbying under section 501(h). [IRS Form 5768](#) needs to be filed once for that status election.
- Any charity that accepts donations over \$75 in return for products or services. The cost of the products or services the donor got from the nonprofit must be disclosed. The only part that is tax deductible is the balance. Guidelines for gift acknowledgment are available in [IRS publication 1771](#).
- Most NPOs need to file a charitable solicitation license if they receive \$25,000 or more in private grants or contributions. It can be filed online with the [Secretary of state](#).



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- Any nonprofit that uses a contractor to solicit contributions or to advise or assist in fundraising related activities need to ensure that the solicitors are licensed with the NC Secretary of State.
- All North Carolina nonprofits must apply for state tax exemptions from the NC Department of Revenue to be exempt from corporate taxes. The requests need to be sent to
  - NC Department of Revenue
  - Corporate Income and Franchise Tax Department
  - PO Box 871
  - Raleigh, NC 27602
  - Enclose articles of incorporation, certified copy of bylaws, and IRS determination letter.
- Any NC nonprofits can apply for refunds of state and local sales taxes that they have paid by applying [IRS Form E-585](#) semiannually.
- File [IRS Form E-500](#) and pay the tax quarterly or monthly, depending on your volume of sales for selling retail items like books, videos, t-shirts, concessions, webinars, and e-publications.
- All the employees and contractors need to be classified per US Department of Labor, IRS, and NC Department of Revenue. Refer [IRS Publication 1779](#) to find specific criteria for classifying employees vs. contractors.
- All the NPOs must follow all federal and state laws which includes filing I-9, W-2, and W-4 forms, withholding tax, paying employment taxes, and putting up posters on the Job Board. Contact the [US Department of Labor](#), or [NC Department of Labor](#) for any questions.
- Any incorporated nonprofit with three or more employees and/or corporate officers must obtain workers compensation insurance. Contact the [NC Industrial Commission](#) for details.
- If a 501(c)(3) organization decides to pay its interns, they may be considered workers and be subject to the [Fair Labor Standards Act's](#) obligations for minimum wage and overtime compensation.
- The Employment Retirement Income Security Act (ERISA) requires nonprofits with [403\(b\) plans](#) and other retirement plans to develop a plan document for their employee retirement program and submit it electronically using [Form 5500](#).
- Any nonprofit organization that receives state grants and/or appropriations is required to certify to the organization's funding source that the state funds it received were utilized for the intended purposes and to give an accounting of any state monies it receives, uses, keeps, or spends.
- In every 30-day period, nonprofit staff employees (but not volunteers) who spend at least 5% of their time lobbying NC General Assembly members or NC executive branch officers are required to register as lobbyists. A nonprofit contractor who is paid to advocate is required to register as a lobbyist. NPOs that pay lobbyists must sign up as "lobbyist principals." The forms are available at [NCSBE](#) website.
- Any non-profit that hosts a bingo or raffle to raise money are required to get a license from [NC Department of Public Safety](#) for an annual fee of \$200.

For more detailed information on North Carolina Nonprofit Corporation Act please visit the [NC legislature website](#).

# Financial Management

For an organization to have long-term success, they must have strong financial management skills. It is crucial to have a grasp on how the organization is doing financially. One common mistake for several NPOs is not emphasizing the financial management and putting all the attention or focus on the mission.

As a founder or leader of the NPO you should be able to answer the following questions on an ongoing basis:

- Are we making or losing money?
- How much cash do I have on hand?
- Do we have enough cash to meet the short-term obligations?
- If something unexpected happens, are we in good financial shape?

A company with good financial management regularly returns to these questions and reevaluates their financial stance. For the organization to follow the right financial course and be on track to the questions previously discussed, it must take into consideration 3 main financial objectives: profitability, efficiency, and stability.

Profitability is the ability to make a profit or financial gain. This is the money left over from revenue sources after paying all expenses. Profitability is important because after receiving donations or grants, there must be enough funds to cover expenses such as utility bills, future fundraising events, and employees' expenses if applicable.

Efficiency is a measure on how well the organization is using its assets. This means how funds are being utilized specially for those young NPOs who have not been able to receive grants or make investments. Stability is the overall financial health of the organization as it relates to its debt/equity. This means the organization's debt, if any, is under control, meaning not borrowing more money that you can afford to pay back in the future.

In addition to the core financial objectives, it is also important to understand what the financial ratios of the organization are. Financial ratios are helpful to measure the organization from a financial standpoint. Most of the common financial ratios for NPOs are:

- Program expense ratio: The percentage of expenses allocated on its core mission. This is key in the eyes of donors. The Better Business Bureau (BBB) recommends a ratio of 65% or higher.
- Admin expense ratio: The percentage of expenses allocated to administrative costs. The BBB recommends a ratio of less than 35%.
- Government ratio: The reliance on government funding.
- Cash reserve ratio: The adequacy of resources available to support the mission. In other words, how many months of cash to cover expenses. The rule of thumb is to have enough cash reserves to cover three to six months of operations.
- Fundraising ratio: How much revenue is generated for every dollar spent on fundraising. Charity Navigator gives its highest ratings to those organizations that spend less than \$.10 for every dollar raised

For additional information on ratios see Glossary.



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In addition to profitability, efficiency, and stability, it is important that one or more individuals supporting an NPO understand basic accounting principles and how to read financial statements. The three main financial statements are balance sheets, income (profit and loss) statements, and statements of cash flows. In the Appendix, you will find a one-page document presenting the basics to reading each of the three financial statements. For additional information on how to read the above financial statements see Appendix 10, 11, and 12.



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## Conclusion

Starting a nonprofit organization is a huge endeavor. There are many steps in the process such as legal and compliance requirements that must be met. There are many milestones along the way to startup an organization. The consulting team is confident that this report and the interactive process diagram will provide efficiency to the Guilford Nonprofit Consortium with its clientele. In addition, this consulting team has provided three recommendations: Sharing the report with potential nonprofit founders, making resources available online, and using the finding to create digital content.

These recommendations can be implemented by sharing the content by printed copies or digitally prior to organizing a meeting with the clientele or any potential founder to ensure everyone has the same high level of understanding in the process. This will make meetings more efficient and be a better use of the Consortium team's time. Share the digital copies of content on the website and any other social media pages. There are very limited resources required to upload the digital content to the Guilford Nonprofit Consortium website. Adding these documents to the site will help make the content accessible for Consortium Members.

To create digital content, the Guilford Nonprofit Consortium should determine the mode they feel will be most effective for their clientele. The team recommends that the Consortium consider creating videos, podcasts, a mobile application, or other modes of media. We recommend a more professional approach to content creation. The cost range would be based on the format of the media along with the number of episodes and can range from anywhere between \$200-1000 per episode.

## Appendices

### Appendix 1 - Case Study 1 Operation: Seed Inc.

Organization: Operation: SEED Inc.

Founder: Bernadette Potts

Founded Date: May 2022

Years in operation: 6 months

#### **What is the mission of your organization?**

Operation: SEED Inc. stands for Supporting Emerging Entrepreneurial Dreamers. This organization was created with the purpose to provide encouragement and bridging support to new high school graduates in Guilford County, NC who desire to pursue an entrepreneurial passion as an alternative to a higher education pathway as their post-graduation plan.

#### **Who is the founder?**

Bernadette Potts. She retired in 2020 after 27 years of service with the City of Greensboro. She has also served her community as a literacy tutor for Reading Connections and a peer advocate for The Pregnancy Network. Bernadette comes from an entrepreneurial family.

#### **What inspired you to start your nonprofit organization?**

She had an idea she had written about how some high school graduates do not meet the traditional path of going to college after high school graduation and instead they choose a different path such as entrepreneurship. After consulting with friends who had some experience in NPOs, she decided to turn that idea into an organization that can provide for those graduates who decide to become entrepreneurs but do not have all the necessary resources.

#### **How did you research the startup process?**

Bernadette did a lot of research and participated in several workshops and training to prepare herself for this new journey such as a workshop given by NC LEAP on Non-Profit Formation at no cost. She also connected with friends and former colleagues who had experience in entrepreneurship.

#### **How did you go about the compliance and legal aspects of startup?**

She received assistance from Elon University School of Law regarding the articles of incorporation, bylaws, conflict of interest, and the 1023-EZ among other legal required forms. This assistance was at no cost. It was part of a program called Small Business and Entrepreneurship Clinic. All the legal aspects were done with the assistance of law students that were part of the entrepreneurship clinic.

#### **How do you fund your organization?**

Bernadette is still in the process of applying for grants. She has not been successful in receiving grants yet even though she has applied for some.



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**If you knew then what you know now, what would you do differently?**

Bernadette expressed the most challenging part of the process of creating an NPO was the legal documentation required by the IRS and the NC Department of the Secretary of State. She also did not consider early in her plan the importance of finding people for the board of directors and the fact that to qualify for most grants, she must prove that money has been raised by the organization. Also, most grantors would not even consider grant applications without the nonprofit status. Moreover, she mentioned that initially she was the board of directors of her NPO but that was seen as a red flag when she started applying for grants. She was informed of this after pursuing a grant.

## Appendix 2 - Case Study 2 iAlign Dance Company

Organization: iAlign Dance Company, Inc.

Founding Executive Director: Brittany Williams

Founded Date: January 2015

Years in operation: 7

(The following case study is interpreted from the conversation with Brittany Williams, direct quotes are provided in quotation marks).

### **What is the mission of your organization?**

The mission of iAlign Dance Company, Inc. is to inspire a greater world that embraces diversity and cultivates a deeper understanding of the human experience. To accomplish their mission, iAlign delivers an annual performance that highlights a theme submitted and voted on by the community. During the Covid-19 pandemic, iAlign Fit was established to encourage dance and community in the virtual environment. The team also hosts a radio show, iAlign Radio, on which Brittany facilitates conversations about personal growth. Additionally, iAlign has donated over \$15,000 back to organizations in the community in their lifetime.

### **Who is the founder?**

Brittany Williams is a qualitative research artist, talk radio host, and the Executive Director of iAlign Dance Company, where she combines philanthropy and artistry. iAlign empowers generational healing and connection by community storytelling within a diverse and inclusive learning environment through the alignment of dance/artistic expression, education, and community outreach.

### **What inspired you to start your nonprofit organization?**

After experiencing personal trauma, Brittany was inspired to find a way to teach people of all ages to interpret challenging topics through dance. She wanted to inspire the community and use art as an educational tool.

### **How has your mission changed since the incorporation of iAlign?**

The organization has changed since its inception but has always collected stories and translated them with dance. Brittany shared that “what has developed over the years is how extensive we go into collecting the stories and what is determined to be our community outreach project for the year and how I plan to educate them. I designed it to be vast at the beginning.” Brittany continued to explain how she has adapted the organization when a student really struggled with the social topic that was being discussed and the team realized they wanted to help provide mental health services for the students to process their emotions. Now, every third Saturday of the month, the students work with mental health professionals to talk about their emotions and talk about anything they need to. iAlign adapted as they saw a need in their student community. As Brittany stated, *“As much as your community changes, your organization has to change along with it.”*

### **How did you research the startup process for iAlign?**

Brittany researched the dance industry to understand the business behind operating a dance studio. She consulted with dance teachers in the local community to understand the business behind the operations of a dance studio. She learned that although her organization was a



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nonprofit, she still had to run the dance studio like a business in many ways. Brittany advised that NPOs should “look at your nonprofit as three dimensional.” She went on to explain that not only did she have to understand how to start up a nonprofit organization, but she also had to learn how a dance and entertainment business operates.

### **How did you go about the compliance and legal aspects of startup?**

In incorporating the nonprofit, she did much of the paperwork and legal processes herself with the help of Google.

### **How do you fund your organization?**

The funding for iAlign comes mainly from community support. They collect tuition from the dancers enrolled in the program and accept donations from the community. The fund, which had been in operation since 2015, received their first grant in the 2020 cycle and it was distributed in 2021. Brittany shared, “*I would advise those that [start a nonprofit] have a strong plan for grant writing and fundraising.*”

### **How did you build the community support you have?**

Brittany realized that she had to differentiate her dance company because there are many dance companies in the area. The market is saturated with dance studios, whether nonprofit or for-profit, and many of these companies do the same typical productions with the same schedule, hosting a traditional winter or spring recital. Brittany realized that “*thinking outside of the box by switching when we would typically have a recital*” would make iAlign different from other options that people in the community could choose.

During the COVID-19 pandemic, the world shut down. Brittany realized that the iAlign dance students did not have a way to contact their teachers. In her own words, “*I started collecting like old laptops from friends that they may have had in the back closet and was working with a couple of partners to get those clean and refurbished. I ended up getting enough laptops for our students, and then they told friends that told friends, and then we got picked up on Good Morning America, ABC, World News, Rachel Ray, and Broadway. And then we got a radio show.*” All these developments brought awareness to iAlign Dance Company and their mission.

### **What have you learned about people management?**

Brittany shared “*there has to be a level of sympathy and empathy with your staff which needs to start with leadership.*” After facing some challenges, Brittany learned that people management is important to prioritize, whether it be an intern, volunteer, or paid staff member.

Another word of advice from Brittany, “*Try to build your team where you can trust [them] and choose people who will be around for a while. I think that's hard with a nonprofit since we work with volunteers, and until you have the funding to compensate for time it's hard. Community service is not viewed as a necessity in life anymore.*” It is a real challenge to retain volunteers for many NPOs.

## **Appendix 3 - Case Study 3 Interactive Resource Center (IRC)**

Organization: Interactive Resource Center

Founding Executive Director: Liz Seymour

Founded Date: January 2009

Years in operation: 13

(The following case study is interpreted from the conversation with Liz Seymour, direct quotes are provided in quotation marks).

### **What is the mission of your organization?**

*Located in downtown Greensboro, one block from The Depot, the IRC is a place for people experiencing homelessness to congregate in a safe space, connect with important services, and join in fellowship with one another.*

*No matter what challenges our community members are facing, our priority is helping to end homelessness. Our staff, partners and volunteers all share this commitment. When you visit the IRC, you'll see just how powerful it is when people from all backgrounds come together toward the common goal of protecting this basic human right.*

### **Who is the founder?**

Liz Seymour: Freelance writer Liz Seymour was one of the founding members of the IRC day center for homeless individuals in January 2009. In June of the same year, she was appointed Executive Director. She stepped down from her role and left the organization in 2014.

Skip Macmillan: Skip Macmillan an US Air Force veteran, an industrial engineer, general manager, merchandiser, and owner for several apparel manufacturing facilities in Eastern North Carolina was one of the co-founders of IRC. He was a Founding Director of the IRC, Treasurer, Board Chair and, subsequently, was actively involved in the support of that organization over a period of years.

Other co-founders who helped in setting the direction for IRC are Fred Wershein and Cameron Cooke. They held a series of brainstorming sessions at Urban Ministries and other places along with the other founding members.

### **What inspired you to start your nonprofit organization?**

Liz Seymour was involved with a nonprofit named "Food not Bombs" which is a group that cooked and fed meals to people who were on the street, or who were hungry. Through that she met a lot of people as a lot of people who came there to cook were homeless and Greensboro had some of the standard services. It did not have a place for people to take showers, store their belongings and where they could sit and not be bothered. This inspired the group to start a task force for developing an idea of setting up a day center for homeless people. The task force involved the affected community in Greensboro who were the homeless people.

### **How did it all come together?**

In 2008, during the economic recession it became frightening to everyone about the night shelter as the Urban ministry in Greensboro had been full all summer. Liz Seymour was on the planning committee which was subnet of the task force that decided to start a day center. They found a Methodist church which had empty school rooms which were cleaned to start the day center. A local glass distributor family donated their building in downtown Greensboro and that started the Interactive Resource in 2009.



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### **Recommendations for starting a nonprofit:**

- Don't outgrow your resources. Keep the NPO small for as long as you can as there are a lot of nonprofits which are not around anymore because they got too big and fast quickly. "As a nonprofit, you want to grow at the right pace".
- Understand what the community needs and not what the NPO wants them to have. Understanding the mindset of the community that an NPO is going to serve is a key to fulfilling the needs of that community.
- "Always look for opportunities to involve the community that you are serving".



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## Appendix 4 - Stick to the Mission

It is critical that an organization stick to their mission statement. A mission statement communicates a nonprofit organization's outcomes and creates a clear focus for all decisions. Sticking to the mission will help an NPO accomplish their goals in a strategic way and avoid mission creep.

Mission creep occurs when an organization expands their mission beyond the original goals that were set. It typically occurs during a crisis or when a rash decision is made. Allowing mission creep may stretch an organization thin on resources and can impact their ability to accomplish their original goals. It may cause individuals to have different perspectives on the organization's goals and cause confusion.

To avoid mission creep, consider the following strategies:

- Communicate often across your organization
- Strategically develop a process for organized decision-making
- Ensure all understand the current mission of the organization, reference the mission statement when a question arises
- Use your mission to guide all decision-making practices



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## Appendix 5 - Research Interview

Greensboro Public Library Research Librarian

Name: Kassie Ettefagh

(The following summary is interpreted from the conversation with Kassie Ettefagh)

In addition to the case studies, the team held a meeting with Kassie Ettefagh, the Business and Nonprofit Librarian at the Greensboro Public Library.

The Greensboro Public Library has a Nonprofit Resource Center, which provides support to the nonprofit community by providing access to information on important topics. These include fundraising, grant searching, grant writing, and startup management of NPOs. The library has print books, e-books, research databases, and publications.

The Greensboro Public Library is a Candid Funding Information Network Partner. This provides access to a large nonprofit database that has nonprofit training, a grant searching tool, and a database with information on other NPOs and Grantmakers.

## Appendix 6 - Nonprofit Sector Overview

### Background

The nonprofit sector is a broad grouping of all nonprofit organizations (NPO) who work to “feed, heal, shelter, educate, inspire, enlighten, and nurture people of every age, gender, race, and socioeconomic status” (National Council of Nonprofits). The sector is a key provider of public and social services for the community it serves; it has become even more important in recent years as many states and local governments have reduced funding for services due to fiscal stress (Goodman, et. al, 2021). The main purpose of an NPO is to serve a charitable purpose. Within the United States, there is a long tradition of charity, philanthropy, and volunteerism and currently there are more than 1.57 million registered NPO in the United States, which provide a wide variety of services (National Center of Charitable Statistics, 2017).

In the nonprofit sector, most NPOs are relatively small: 97% of nonprofits have budgets less than five million dollars per year and 92% operate with less than a one-million-dollar budget (National Council of Nonprofits).

### North Carolina/Guilford County

Within Guilford County, there are 700 active nonprofits, and over 2,000 registered NPOs. There are approximately 250 registered in Greensboro, North Carolina alone (Community Foundation of Greensboro, 2022). The Guilford Nonprofit Consortium is an organization that supports the entirety of Guilford County and has 230 active members. The services that are offered by the Guilford Nonprofit Consortium include education, collaboration, networking, celebration, and advocacy.

### Compliance and Legal Requirements

In exchange for the services NPOs provide to our society, NPOs are granted tax exempt status from the government. There are many requirements for documentation from the federal government as well as state and local governments. It is critical that this documentation is completed accurately and on time to ensure the organization can maintain its tax-exempt status.

### Funding Strategies

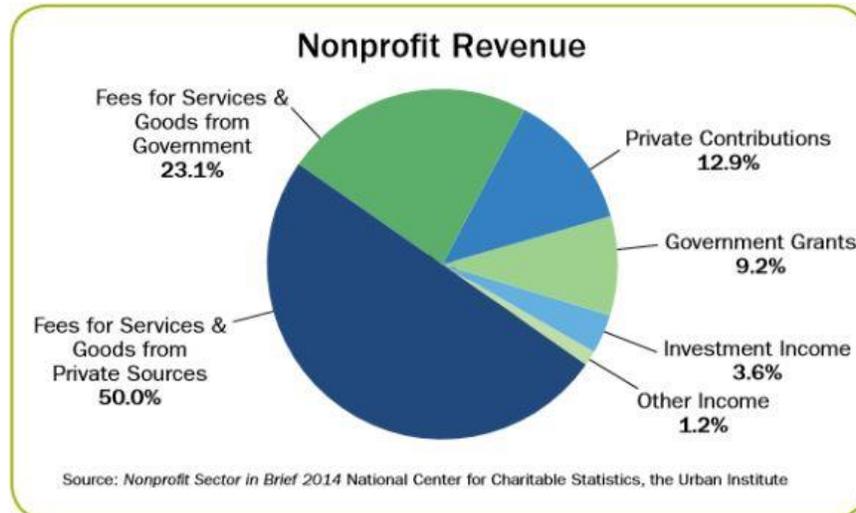
NPOs can get their funding from three main sources. They can charge for the work they do, receive donations, and find other ways to earn revenue (e.g., fundraiser events). They also may function using a mix of these strategies as there is no one-size-fits-all approach to funding an organization. Generally speaking, small to midsize nonprofits tend to rely more heavily on donations from individuals and grants from foundations, as do those focused on arts, culture and humanities, environment, or animals. Hospitals, other healthcare entities, and education institutions—all of which tend to be larger—receive more in private payments for services (National Council of Nonprofits, 2019).



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Although there are no requirements for what mix of funding works for all NPOs, the National Center for Charitable Statistics created the chart below. This chart details revenue should come from fees for services, private contributions, government grants, and investment income as their main sources of revenue.



## Financial Tools

It is imperative that an NPO is familiar with basic business financial principles. It is recommended that a board member or volunteer have familiarity with accounting to help the NPO balance their financials. This can be done by keeping up regularly with a balance sheet, income statement, and statement of cash flows.

## Challenges in the Nonprofit Sector

The nonprofit sector faces challenges just like the for-profit sector. Although the mission of NPOs is to help solve societal issues and most people who start organizations have great intentions, without clearly understanding the sector, nonprofits can fail. There is no conclusive data on how many NPOs fail; however, some sources suggest that more than half fail within the first ten years of operation (Arbogast, 2020).

The survival of NPOs depend on their ability to generate revenue. An organization cannot exist without financial resources (Arbogust, 2020). The official term is “resource dependency,” wherein organizations must rely on others to remain in existence. NPOs rely on grants as well as fundraising and donations as their main source of income. If these become inaccessible, the nonprofit will cease to exist, due to lack of funding.

Some of the funding challenges that affect the NPOs is due to the general population of the United States and their spending behaviors. The looming retirement of baby boomers and the influx of millennials who do not contribute at the same rates and levels creates a challenge in funding for NPOs (Corporate Philanthropy, 2015). For example, only 60% of Gen Y contributes an average of \$481 in charity compared to 72% of baby boomers at an average of \$1,212

(Corporate Philanthropy, 2015). This means that NPOs cannot rely on charitable contributions as their only source of funding. These nonprofits will also have to work much harder to receive individual donations and will find that the amount may be less than in previous years.

Receiving funding from grants is another challenge as grants often have long application processes that lead to few funds being distributed to limited recipients. These processes can limit quick access to capital, which may lead to a reduction in services as funding is not yet awarded and may not be depending on the grant payout and which organizations are in competition for the same funding.

There are a variety of issues surrounding employee and volunteer retention and filling vacancies in the nonprofit sector, not unlike the rest of the job market in the United States. In a 2021 survey of over 1,000 NPOs presented by the National Council of Nonprofits, it was determined that 16% of organizations had more than 30% job vacancies and a grand total of 76% of organizations reported more than 10% job vacancies (National Council of Nonprofits, 2022). This study outlined the reasons for these job vacancies in nonprofits, with the highest recurring causes being salary competition, inability to find childcare, and vaccination policies. Similarly, volunteer engagement has also been affected, which often drives organizations to open more paid positions.

The Coronavirus has impacted the nonprofit sector. In a study about how the pandemic affected the sector in North Carolina, 94% of those surveyed stated that COVID-19 affected their organization (National Council of Nonprofits, 2022). The results of the survey showed that financial losses suffered due to the pandemic were the main factor that shut down nonprofits as the world itself effectively shut down in March of 2020. Many NPOs receive their funding through events and cultural fundraisers, which were all canceled during the stay-at-home order issued by the state government. Additionally, many of the services provided by nonprofits were unable to be transformed into virtual services, therefore they could not service their demographics. The lack of ability to service combined with the inability to adapt to the changes of the pandemic caused challenges for many nonprofits.

Finally, there have been cases of highly publicized scandals that have eroded public trust in NPOs (Ebrahim, 2003). Empirical research has found that reputation is a source of competitive advantage, therefore public scandals cause huge challenges to the sector's reputation. An organization's funding and trustworthiness can be impacted by the public's distrust of the nonprofit sector due to the past instances where individuals made poor decisions, typically with the financials of their organization. Therefore, it is critical that a nonprofit operates with transparency and integrity.

## Consequences of Challenges

Due to the challenges in the nonprofit sector including employment and staffing challenges, limited resources, and increased demands there are many consequences for the communities in which the nonprofits work to service.

One consequence to the nonprofit sector was the wait time of services to the clientele. The study by the National Council of Nonprofits found that 26% of NPOs had a month or more long



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wait for services. Some organizations also reported that either the waiting list for services may take years, or they cannot keep a waiting list and must turn people away (National Council of Nonprofits, 2022). The lack of ability to provide services leads to individuals having to go elsewhere for services.

Some nonprofits have cut programming, adjusted days and times they provide services, and refused cases due to the challenges in the nonprofit sector. The COVID-19 pandemic, limited funding, and increased demand have put a strain on the nonprofit sector and charitable organization.

## Appendix 7 - Online sources to access data for Feasibility Analysis

- ProQUEST (<https://www.proquest.com/>) - Search engine for searching publications such as The Wall Street Journal and the New York Times - typically free if access from a university library.
- QuickFacts(<https://www.census.gov/quickfacts>) - Access to census bureau data - free.
- Google Scholar (<https://scholar.google.com/>) - search engine that specifically searches scholarly literature and academic resources - free.
- IBISWorld - Detailed reports available on hundreds of industries including trends, statistics, and buyer behavior - typically free if access from a university library
- Pew Research Center (<https://www.pewresearch.org/>) - Provides substantial data from economic and political conditions to better understand industry - free.
- Google Trends (<https://trends.google.com/>) - analyzes the popularity of top search queries in Google Search across various regions and languages - free
- Bureau of Economic Analysis (<https://www.bea.gov/>) - The U.S. Department of Commerce offers a wide-ranging open data source too, highlighting international transactions, trades of goods and services, etc. And it's frequently updated. - free
- Inc. (<https://www.inc.com/>) - A publication that offers loads of articles and videos on starting your own business - \$19.99/year
- HBR Idea cast by Harvard Business Review (<https://hbr.org>) - Podcast on entrepreneurship ideas and concepts - \$10/month

## Appendix 8 - How to Apply for Grants

There are many types of grants your organization may be eligible for based on the grant requirements. Grants may come from local, or state governments grants or private foundations. To receive grants, NPO must go through the grant-seeking process which includes searching, ensuring eligibility with requirements, and applying for grant opportunities.

- 1) Search for grants
  - a) Explore funding opportunities through various sources (websites, directories, and databases)
  - b) It is desirable to have a program in place that is cultivated on online/offline platforms. This is a method to share the mission of the company as well as reaching out to opportunities.
  - c) Foundation Directory Online.
    - i) Includes over 100,000 Grantmaker profiles, searchable 990s for other organizations, and a workspace.
    - ii) <https://fconline.foundationcenter.org>
    - iii) Guilford County residents can access the professional version of the database for free at the Greensboro Public Library.
  - d) Grants.gov
    - i) [www.Grants.gov](http://www.Grants.gov)
    - ii) Provides a centralized location for grant seekers to find and apply for federal funding opportunities.
    - iii) Houses information on over 1,000 grant programs including federal grant-making agencies.
    - iv) Offers grant writing tips as well as policies and grant management.
- 2) Ensure your organization is eligible for the grant
  - a) Ensure that your nonprofit organization is eligible and can meet the grant requirements
    - i) Do you have the proper documentation required?
    - ii) Can you meet the deadline?
    - iii) Are there any other requirements from the grantor?
- 3) Apply for the grant
  - a) Compile Documentation
    - i) Ensure all required documentation is available
    - ii) This may include mission statement, business plan, financial documentation
  - b) Write
    - i) Successful grant proposals stem from innovative and creative ideas and suggest new solutions to address existing gaps.



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- ii) It is recommended to seek a professional grant writer when applying for grants. These can be found at platforms such as [www.Linkedin.com](http://www.Linkedin.com) or Professional Grant Writers <https://www.professionalgrantwriter.org/>
  - (1) Cost may vary depending on the scope of the grant.
- c) Submit the grant application



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## Appendix 9 – How to Fundraise and Get Donations

### Fundraisers

Fundraising events can be organized in multiple ways. Examples of common fundraisers include:

- Runs and walks in which participants pay a registration fee and are then encouraged to seek additional donations from friends, family, and coworkers
- Dinners that might feature a speaker, live and silent auctions, and other revenue-generating activities
- Online auctions

The [North Carolina Center Of Nonprofits](#) offers workshops and training on how to execute fundraising effectively.

### Donations:

How to get donations:

- Online webpage: Creating an online webpage for an NPO is one of the simplest ways to get donations.
- Direct Mailings: Direct mailings are a way to contact individuals through the postal service. These typically include a description of the nonprofit organization and a call to action to donate to the cause.
- Sending emails to specific distribution lists based on criteria such as age, location, or those that have signed up based on interest. This is known as segmented emails.
- Text to give campaigns needs to be leveraged as it is a fast, comfortable way for potential donors to give to the NPO's cause when it's still on their minds.
- If someone is at the NPO's event, chances are they are interested in the organization's work. Use that momentum to get more donations and hopefully establish long-lasting relationships with new donors.
- Promoting the cause on social media websites like Facebook which has a built-in feature for the donors to host their own fundraisers. This can be extremely beneficial and reach a larger audience with some time investment. Leveraging other social media platforms like Twitter, Instagram can also be helpful.
- Once the donation has been received make sure the accomplishments have been shown to the donors so that they can also feel being a part of it and engage in recurring donations. This can be done by sharing images, charts and any data collected as part of the donations.

### Finding Donors

- The board members, volunteers, and existing funders are some of your cause's most ardent supporters since they have a stake in its accomplishment. To help your organization get the word out, ask them to tell their friends and relatives about it. Encourage supporters by providing rewards. Give out free branded t-shirts, for instance, to contributors who bring a close friend to a fundraising event or volunteers who bring a buddy to a volunteer opportunity.
- Invite potential donors to meet-and-greet activities. These occasions could be informal meet-and-greets, panels with guest speakers, or tours of the facilities.



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These gatherings should include details about the organization, including its goals, services, mission, and ways for people to get involved.

- Prospect research is a useful tactic for establishing connections with potential significant donors. Find potential contributors who are passionate toward the organization and have the resources to make a larger donation by using the internal donor database and outside resources.
- The NPOs can gain from corporate collaborations as well as alliances with other local groups like clubs or associations. These organizations may provide direct donations, in-kind donations, matching gifts, volunteer grants, and other types of fundraising assistance.
- According to a study done by [FidelityCharitable](#), Before opting to give to a cause, 42% of volunteers take part in volunteer programs. This demonstrates how potential supporters may learn more about the cause by volunteering and decide if they want to help both financially and through volunteer effort.



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## Appendix 10 – How to Read a Cash Flow Statement

A cash flow statement provides a detailed picture of what happened to cash during a specific time. This demonstrates an organization’s availability to operate in the short and long term. This is helpful for NPOs to utilize to understand how much it costs to operate and to understand whether there is enough funding or more cash needs to be raised.

The cash flow statement is typically broken into three sections:

- Operating activities
- Investing activities
- Financing activities

### Statement of Cash Flow



Cash Flows From Operating Expenses	
Cash Received From Contracts	\$50,000
Cash Received From Contributions	\$250,000
Cash Paid to Employees	-\$275,000
<b>Net Cash From Operating Expenses</b>	<b>\$25,000</b>
Cash Flows From Investing Activities	
Equipment Purchases	-\$5,500
<b>Net Cash From Investing Activities</b>	<b>-\$5,500</b>
Cash Flows From Financing Activities	
Credit Card Payments	-\$4,000
Loan Payments	-\$7,500
<b>Net Cash From Financing Activities</b>	<b>-\$11,500</b>
Increase (Decrease) In Cash	\$8,000
Cash at The Beginning of The Year	\$2,500
<b>Cash at End of Year</b>	<b>\$10,500</b>

The operating activities include all the cash flow that an organization receives from operations, this may include cash received for providing goods and services, employee salary, and cash received from grants and fundraising. Ideally, an organization’s operating income would exceed the expenses because a positive cash flow allows the organization to grow.

Investing activities include cash flow from purchasing or selling assets, this would include things like real estate or vehicles.

If a nonprofit organization takes out a loan or uses credit cards to make purchases, these would be included in this section.



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## Appendix 11- How to Read a Balance Sheet

This example balance sheet will help understand how to read a balance sheet.

A balance sheet is a financial snapshot of an organization at a single point in time. The balance sheet shows an organization's assets (what the organization owns) and liabilities (what the organization owes) plus stockholder equity. The formula below shows the balance between assets and liabilities.

$$\text{Total Equity} = \text{Total Asset} - \text{Total Liabilities}$$

**COMPANY B BALANCE SHEETS**  
As of November 30, 2018 and November 30, 2017 (In US\$ thousands)

ASSETS		
	NOVEMBER 30, 2018	NOVEMBER 30, 2017
<b>NON-CURRENT ASSETS</b>		
BRANDS	\$ 255	\$ 302
CUSTOMER RELATIONS	71	84
LEASEHOLD RIGHTS	537	585
CAPITALISED EXPENDITURES	631	-
GOODWILL	64	64
BUILDINGS AND LAND	805	804
EQUIPMENT, TOOLS, FIXTURES, AND FITTINGS	18,326	16,589
LONG-TERM RECEIVABLES	628	606
DEFERRED TAX RECEIVABLES	1,624	1,234
<b>TOTAL NON-CURRENT ASSETS</b>	<b>22,941</b>	<b>20,270</b>
<b>CURRENT ASSETS</b>		
INVENTORY	15,213	13,819
ACCOUNTS RECEIVABLE	2,207	2,337
TAX RECEIVABLE	477	-
OTHER RECEIVABLES	1,056	1,375
PREPAID EXPENSES	1,136	1,110
SHORT-TERM INVESTMENTS	2,995	6,956
CASH AND CASH EQUIVALENTS	14,148	14,319
<b>TOTAL ASSETS</b>	<b>\$ 60,173</b>	<b>60,188</b>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<b>NON-CURRENT LIABILITIES</b>		
PROVISIONS FOR PENSIONS	\$ 377	\$ 377
DEFERRED TAX LIABILITIES	1,951	950
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>2,328</b>	<b>1,327</b>
<b>CURRENT LIABILITIES</b>		
ACCOUNTS PAYABLE	4,234	4,307
TAX LIABILITIES	-	1,851
OTHER LIABILITIES	2,765	2,426
ACCRUED EXPENSES AND OTHER DEFERRED REVENUE	7,011	6,171
<b>TOTAL LIABILITIES</b>	<b>16,338</b>	<b>16,084</b>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL	207	207
RESERVES	(1,900)	(467)
RETAINED EARNINGS	45,528	44,384
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>43,835</b>	<b>44,104</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 60,173</b>	<b>\$ 60,188</b>

Harvard Business School Online

Assets include current assets, fixed assets, investments, and intangibles. Current assets consist of cash and cash equivalents (including bank accounts), accounts receivables, and inventory. Fixed assets include investments, like vehicles and real estate and stocks and bonds if applicable. Additionally, copyrights, trademarks, licenses count as assets in the category, intangible assets.

Liabilities represent the total cash value the organization owes to other entities. This can include current liabilities including accounts payable and long-term debt, like a mortgage. This would also include any amounts owed to any employees or applicable taxes (for-profit organizations).

Equity refers to the shareholder equity. For an NPO, it is the company's net worth if the company is liquidated.

In this example, it is noted that the total assets equal \$60,173 and the total liabilities equals \$16,338. Therefore, the total equity would be \$43,835 (\$60,173 - \$16,338).



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## Appendix 12 - How to Read an Income Statement

An income statement, also known as a profit and loss (P&L) statement, summarizes all income and expenses over a period. These can be done monthly, quarterly, and annually to show financial trends over time. Regardless of the product or service the organization provides to their clientele the basics of an income statement remain the same.

Assume the example below shows the income (revenue) and expense at just a particular month. This can be done using tools like MS Excel.

Example of Income Statement	
January 1st 2022 - January 31st 2022	
	\$USD
<b>INCOME</b>	
Contributions	\$20,000
Membership Dues	\$5,000
Program Fees	\$2,500
Grants	\$10,500
Investment Income	\$3,000
Total Income	\$41,000
<b>EXPENSES</b>	
Fundraising Expenses	\$7,000
Management Expenses	\$2,500
Program Expenses	\$6,000
Utilities	\$200
Total Expenses	\$15,700
<b>NET INCOME (Income - Expenses)</b>	<b>\$25,300</b>

First, it lists the revenue. This is all the money that an organization takes in during the reporting period. For a nonprofit organization, these may include categories like donations, grants, membership dues, fundraising income. These should be listed separately, if possible, to understand how much each category contributes to the revenue.

Then it lists the expenses. This includes any money that an organization spends during the reporting period. These can be broken down into individual line items to understand where an organization is spending their money.

On a typical income statement, there would be a calculation that shows income minus expenses which equals the earnings before tax. Then a line would be added for taxes. However, in a nonprofit environment, an NPO is tax exempt, therefore this can be eliminated. The revenue minus the expenses results in the net income.



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## Appendix 13 – How to Recruit Volunteers

Volunteers may assist with a variety of duties, from fundraising and administration to program delivery and promoting the nonprofit. Volunteers are the backbone of the nonprofit sector.

Below are some tips that will help to recruit volunteers:

- Have description of duties for the volunteer
  - Recruit volunteers with skill sets that align with the description
  - Ensure volunteers understand the role they are signing up for
- Create a volunteer onboarding process
  - Training ensures volunteers understand their roles & responsibilities
  - Share preferred communication methods/systems
- Consider your preferred volunteer demographics & methods of recruitment
  - Target your preferred demographic using varying communication models
  - Promotions can be posted online and on social media, on the radio, or at local volunteer fairs
  - Asking friends and family if they know anyone who would be interested in volunteering
- Consider virtual volunteer opportunities
  - Paperwork and administrative duties do not necessarily have to be completed on site
  - Social media and communications can be done online



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## Appendix 14 – How to Recruit Board Members

The decisions made by the nonprofit's board of directors affect things like its policy, programs, human resources, fundraising, and more. The board is tasked with supporting and evaluating the Executive Director as well as keeping track of the organization's assets and liabilities. Everyone on your Board should be responsible for researching and recruiting potential board members. It is excellent practice to establish a Governance Committee so that the board members may participate in the selection of new board members. This committee needs to be established to recruit new board members and monitor the overall performance of the board.

Below are some tips that will help to recruit board members:

- Referrals and word of mouth
  - NPOs could realize that they need certain talents on board when their governance committee determines what the board is lacking. Most boards will need people with experience in marketing, law, and finance. This may differ from one nonprofit to another.
- Consider current volunteer base
  - Passionate volunteers are already familiar with the nonprofit
- Search social media
  - LinkedIn is a professional networking site. You can use this to search for qualified candidates
- Use your social media
  - If you have Facebook, Instagram, LinkedIn, or other social media sites, create a post inviting interested parties to contact you about a position on the board of directors.
- Online Board Recruiting Sites
  - Websites like [BoardStrong](#), [Bridgespan](#), [Idealist.org](#), and [LinkedIn Board Connect](#) provide search options to find board members

## Appendix 15 – Helpful Resources in Guilford County

There are many resources in Guilford County that can help to startup a nonprofit organization or help with ongoing challenges.

- Guilford Nonprofit Consortium
  - Provide education, networking, collaboration, celebration, and advocacy with legislative bodies at the city/state/county level on behalf of the sector
  - Connects members with helpful resources to start up and maintain nonprofit operations
  - <https://guilfordnonprofits.org>
  
- Greensboro Public Library
  - Business and Nonprofit Research Services
  - Nonprofit and Business Research Librarian
    - Shares general information about how to start a business/nonprofit
    - Provide sample business plans and resources
    - Shares contact information for local organizations that may provide more information
  - Nonprofit Resource Center: 219 N. Church St Greensboro, NC
  - <https://library.greensboro-nc.gov/locations/central-library/nonprofit>
  
- University of North Carolina at Greensboro Library
  - Guest computers at UNCG can be used by the public for research purposes.
  - Access to many research databases and resources.
  - <https://library.uncg.edu/info/depts/scua/researchservices.aspx>
  - Steve Cramer, UNCG Business & Entrepreneurship Librarian
  - [http://library.uncg.edu/info/depts/reference/staff/steve\\_cramer.aspx](http://library.uncg.edu/info/depts/reference/staff/steve_cramer.aspx)
  
- Foundation Directory Online/Candid Databases
  - Online platform for researching grants
  - Search 990s for other NPOs
  - Full directory can be accessed for FREE onsite at any Greensboro Public Library
  - <https://fconline.foundationcenter.org/>
  
- The North Carolina Center for Nonprofits
  - Educate, connect and advocate for North Carolina nonprofits as they enhance and improve North Carolina's quality of life.
  - Serves as a statewide network for board, staff, and volunteers in 501(c)(3) nonprofits, an information center on effective organizational practices, and as an advocate for the nonprofit sector.



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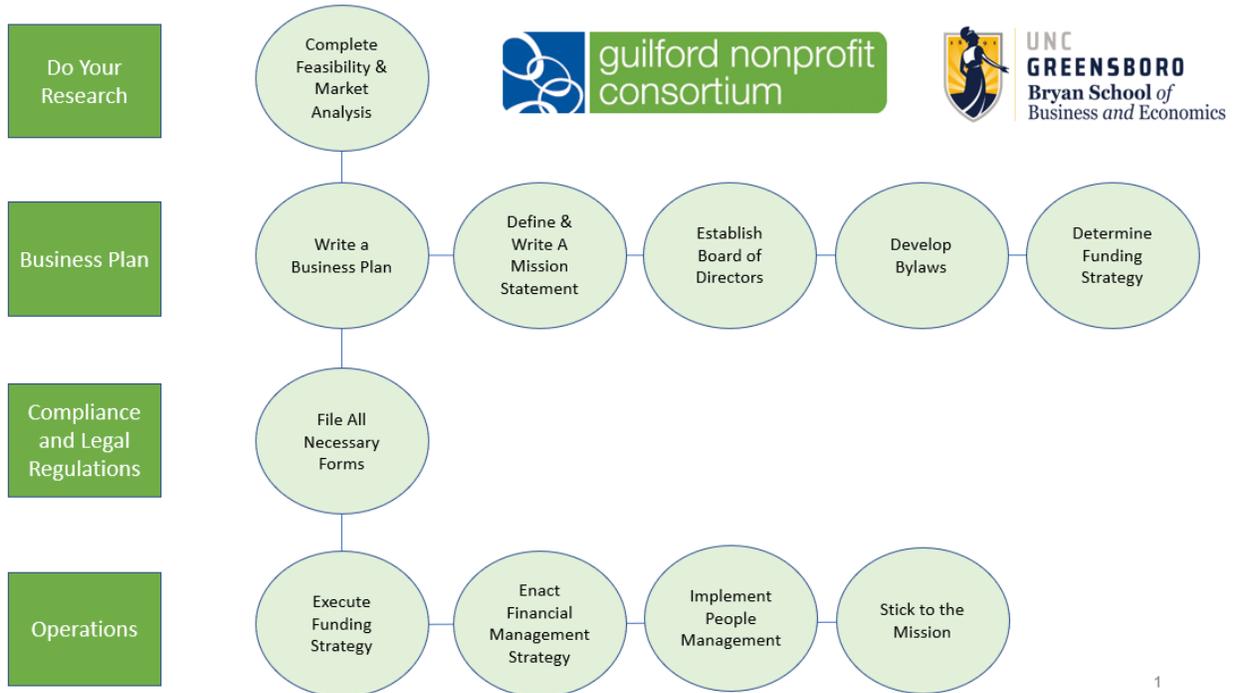
- <https://www.ncnonprofits.org/>
- North Carolina Secretary of State
  - Instructions for submitting Articles of Incorporation (form N-01)
  - <https://www.ncsbc.net/DocumentMaster.aspx?doc=3252>
  - Documents for NPOs including filing Articles of Incorporation, Filing for Tax Exempt Status
  - [https://www.sosnc.gov/forms/by\\_title/ Business Registration Business Entities Common](https://www.sosnc.gov/forms/by_title/Business_Registration_Business_Entities_Common)
- Elon School of Law - Entrepreneurship Clinic
  - Small business and entrepreneurship clinic where students can aid in subjects such as N.C. Secretary of State compliance, financing documentation, general legal counseling, and organizational document drafting and review.
  - <https://www.elon.edu/u/law/academics/experiential/our-clinics/entrepreneurship/>



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## Appendix 16 – Process Map



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## Glossary

- Accounts receivables: amount that an organization is due to collect for its product or services
- Accrual a charge for work that has been done but not yet invoiced, for which provision is made at the end of a financial period.
- Admin expense ratio: Administrative expenses / Total expenses
- Amortization: the practice of spreading an intangible asset's cost over that asset's useful life.
- Asset: what an organization owns
- Balance Sheet: A financial statement that contains details of the organization's assets and liabilities at a point in time
- Cash Flow Statement: A financial statement that tracks the cash of the organization.
- Cash reserve ratio: Cash / monthly expenses
- Change in net asset: Total revenue less total expenses
- Current assets: Cash and cash equivalents that an organization holds including accounts receivables and inventory
- Debt/Equity Ratio: a ratio to calculated by dividing the total liabilities by its shareholders equity (company's net worth if the company is liquidated)
- Depreciation: expensing a fixed asset as it is used to reflect its anticipated deterioration.
- Earned income: Fees collected for products or services
- Expenses: The amount of money a business spends during a reporting
- Financing activities detail cash flow from both debt and equity financing.
- Fixed assets: include real estate, vehicles
- Fundraising ratio: Total contribution / Fundraising expenses.
- Government ratio: Government contributions / Total Revenue
- Income before taxes: Operating income less non-operating expenses
- Income statement: also known as a profit and loss (P&L) statement, summarizes all income and expenses over a period of time
- Intangible assets: Copyrights, licenses, goodwill, trademarks
- Inventory: any product of an organization that is kept on hand
- Investing activities include cash flow from purchasing or selling assets (physical and nonphysical assets)
- Liability: what an organization owes
- Operating activities detail cash flow that's generated once the company delivers its regular goods or services, and includes both revenue and expenses
- Program expense ratio: Services expenses / Total expenses
- Revenue: The amount of money a business takes in during a reporting period



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