NORTH CAROLINA NONPROFITS:
COPING WITH GOVERNMENT BUDGET CUTS

PREPARED FOR:
NORTH CAROLINA CENTER FOR NONPROFITS

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EXECUTIVE SUMMARY

POLICY QUESTION:

What challenges do nonprofits receiving state and other government grants and reimbursements for services face in North Carolina? What effects has the recession had on nonprofit organizations, and how can the North Carolina Center for Nonprofits support its members?

RECOMMENDATIONS (PAGE 19):

In the short-term, NCCNP should work with legislators to avoid any further cuts to nonprofit funding. It should also focus its efforts on reducing late government payments to nonprofits by working with agency leaders. Earlier payments will help nonprofits’ cash flow problems. NCCNP should continue to provide professional development opportunities for nonprofit staff and connect organizations with resources.

In the long-term, NCCNP should also encourage state and local governments to include indirect costs for administrative work in grants and reimbursement contracts. It should also provide educational opportunities for nonprofits to learn how to diversify their funding streams to decrease dependency on government funding.

ISSUES FOR NONPROFITS (PAGE 2):

Governments reduce funding for nonprofits during economic downturns

Government finances suffer during economic downturns. Governments collect less tax revenue (income, property, and corporate taxes). Since most states have balanced budget amendments, legislatures have to cut expenditures when revenues decrease. In times of economic hardship, state governments cut funding for programs, expecting nonprofits to deliver programs and services regardless of state support. Many nonprofits provide services with the understanding that they will be reimbursed for those services by the state through grants and reimbursements contracts. When states face revenues shortfalls, payments to nonprofits can be delayed, hurting the organizations’ cash flow.

1 This student paper was prepared in 2012 in partial completion of the requirements for PPS 304 the Masters of Public Policy Program at the Sanford School of Public Policy at Duke University. The research, analysis, and policy alternatives and recommendations contained in this paper are the work of the student who authored the document, and do not represent the official or unofficial views of the Sanford School of Public Policy or of Duke University. Without the specific permission of its authors, this paper may not be used or cited for any purpose other than to inform the client organization about the subject matter. The author relied in many instances on data provided by the client and related organizations and makes no independent representations as to the accuracy of the data.
North Carolina nonprofit organizations face funding cuts from all sources, including local, state, and federal government grants and reimbursements for services. State government cuts in 2009 affected 70 percent of North Carolina’s nonprofit organizations.

*Private funders also reduce funding for nonprofits during economic downturns*

Legislators can justify budget cuts for nonprofit services by arguing that private funders will sustain nonprofits activities, but historically charitable giving declines during economic downturns. Private foundations are not immune to economic downturns either. In 2008, foundation endowment levels fell by 26 percent. The decreased endowment levels of foundations reduced the required five percent annual grant payout to nonprofits for multiple years after 2008.

*Demand for nonprofit services grows during economic downturns*

People demand more nonprofit services, specifically services from human welfare organizations during economic hardships. Nonprofits have to do more with less. A 2009 survey of members of the National Council of Nonprofits showed that during the height of the recession, more than half of survey respondents experienced increased demand for their services, higher operating costs and decreasing revenues to meet these higher demands and costs.

Many organizations continue to see new clients; people who never sought social services before find themselves in situations of need. Organizations spend more time acclimating new clients to social service programs and educating them about available resources.

*Government system is difficult to navigate and payments are often late*

Nonprofits also experience problems with government payments, such as late reimbursements and reduced or revised contracts, during economic downturns. State governments change the terms of previously agreed upon contracts with nonprofit partners, lengthening payment schedules or reducing funding altogether. Contract problems create cash flow problems for nonprofit recipients. In a national survey by the Congressional Research Service, 35 percent of nonprofits reported that they had been affected by declines in overall government support and 33 percent experienced delayed payments from government.
POLICY OPTIONS FOR NCCNP (PAGE 5):

The eight policy options detailed below cover the main ways NCCNP can assist nonprofits in North Carolina:

1. Continue annual survey of government-funded nonprofits and conduct interviews

2. Lobby the North Carolina General Assembly and local governments for increased financial support for nonprofit services

3. Work with government agencies to encourage prompt payments

4. Collect more details on cash flow problems and investigate possible lines of credit for nonprofit organizations

5. Continue to coordinate with government agencies to streamline state funding applications and reporting processes

6. Encourage changes to funding guidelines to include indirect costs

7. Provide staff development assistance to nonprofits

8. Study differences between nonprofits receiving government funding and nonprofits without any government funding
POLICY QUESTION

What challenges do nonprofits receiving state and other government grants and reimbursements for services face in North Carolina? What effects has the recession had on nonprofit organizations, and how can the North Carolina Center for Nonprofits support its members?

BACKGROUND

When government and businesses fail to provide social services demanded by the public (market failures), nonprofits step in to provide those services. In return for providing services, the government can subsidize nonprofits through either grants or reimbursements for services. Government grants operate similarly to private foundation grants. The government grants a lump sum to an organization for a specific program at the beginning of the year. For reimbursement services, nonprofits sign a contract with the government and are reimbursed based on the amount of services they provide to the public. While reimbursements require that nonprofits provide specific products or services in return for payment, grants are payments made to organizations with the hope that desired goals will be achieved, but there is usually no contractual obligation on the part of the grantees.

North Carolina Nonprofit Sector

The North Carolina government supports nonprofit organizations through grants and reimbursements to support the efficient delivery of social services. Mirroring national trends, human services nonprofits hold the majority of North Carolina grants and reimbursement contracts. Sixty-two percent (62 percent) of government reimbursement contracts in North Carolina go to 972 human services organizations. Almost half of the 972 organizations receive two to four reimbursement contracts from the state, and 30 percent of organizations have five or more contracts with the state. The North Carolina Center for Nonprofits’ (NCCNP) membership reflects these statistics. Approximately 650 (of 1,500) organizations in NCCNP’s membership are health and human services nonprofit organizations.

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2 Additional background information can be found in Appendix I
DATA AND METHODS

The research for the NCCNP had three goals:

1. Identify the extent and magnitude of state cuts in grants and reimbursements compared to previous recession years on NCCNP members.
2. Determine if nonprofits are reducing programs or services or decreasing staff because of reduced state funding.
3. Collect information about what specific financial challenges state-funded nonprofits face.

Together with the NCCNP Director of Public Policy and Advocacy, David Heinen, and Sanford School of Public Policy Master’s Project committee members, I developed a research strategy:

1. Work with NCCNP to expand and implement online survey for Executive Directors of membership organizations.
2. Make follow-up phone calls to increase survey response rate.
3. Conduct interviews with select nonprofit organizations.
4. Analyze survey data and interview responses.
5. Synthesize information for NCCNP use.
6. Present recommendations to NCCNP.

ISSUES FOR NONPROFITS

Governments reduce funding

Government finances suffer during economic downturns because they collect less tax revenue (income, property, and corporate taxes). Since most states have balanced budget amendments in their constitutions, legislatures cut expenditures when revenues decrease.

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5 More details on data and methods can be found in Appendix III
In times of economic hardship, state governments cut funding for non-profit programs, expecting that the nonprofits will deliver programs and services regardless of state support. Many nonprofits provide services with the understanding that they will be reimbursed for those services through grants and reimbursements contracts. When states face revenues shortfalls, payments to nonprofits can be delayed, hurting the organizations’ cash flow.

Federal budget cuts affect funding at all levels. One quarter of state funding and one-third of local government funding for nonprofits comes from the federal government. During the Great Recession, nonprofits have been using federal stimulus funds to curb cuts, but now stimulus funding is running out. With no new money entering the system, competition between nonprofit organizations for grants and contracts increases. A Bridgespan survey of nonprofits across the United States found that 91 percent of respondents expected that federal spending cuts would have significant impacts on their organizations, but most of them did not know where the cuts would be, creating problems for long-term planning.

North Carolina nonprofit organizations face funding cuts from all sources, including local, state, and federal government grants and reimbursements for services. State government cuts in 2009 affected 70 percent of North Carolina’s nonprofit organizations. Between FY2008-09 and FY2009-10, North Carolina grants to nonprofits fell from $490 million to $363 million, a 25 percent drop.

To deal with these problems, nonprofits have to reduce client services or cut overhead costs, such as lay off staff, freeze salaries, or cut benefits. In a 2009 survey by the National Council of Nonprofits, over one-third of the organizations had to cut their operations because of budget cuts.

Private funding decreases

Legislators try to justify budget cuts for nonprofit services by arguing that private funders will sustain nonprofits activities, but historically charitable giving declines during economic downturns across sources. For example, private foundations are not immune

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10 Ibid.
to economic downturns. In 2008, foundation endowment levels fell by 26 percent.\textsuperscript{12} The decreased endowment levels of foundations reduced the required five percent annual grant payout to nonprofits for multiple years after 2008.\textsuperscript{13}

\section*{Demand for services increases}

Recessions do not affect all types of nonprofit organizations equally. Historically, human welfare organizations experience the greatest decline in funding while experiencing increased demand. Between 2007 and 2008, total philanthropic and charitable giving decreased nationally by 6 percent, but human services organizations saw a 16 percent decrease during the same period.\textsuperscript{14}

People demand more nonprofit services during recessions, specifically services from human welfare organizations.\textsuperscript{15} Nonprofits have to do more with less. A 2009 national survey of members of the National Council of Nonprofits showed that during the height of the recession (between late 2008 and August 2009), more than half of survey respondents experienced increased demand for their services, higher operating costs and decreasing revenues.\textsuperscript{16} Nonprofit groups that tend to be hit the hardest by cuts are those without political power providing essential services: mental illness, substance abuse, domestic violence assistance, elderly care, and homelessness groups.\textsuperscript{17}

Interviews corroborated that demand for services in North Carolina has increased during the recession. Nine of 10 interviewees responded that their client base increased since the beginning of the recession:

\begin{quote}
“Case management has gone up because Medicaid affects so many people…The rate used to be close to $100 per unit of service but now it’s close to $62 per unit of service…Need has gone up.”\textsuperscript{18}
\end{quote}

Many organizations continue to see new clients; people who never sought social services before find themselves in situations of need.


\textsuperscript{13} (2010) State Budget Crises: Ripping the Safety Net Held by Nonprofits. \textit{National Council on Nonprofits}


\textsuperscript{18} Interview with Interviewee 7.
“We are seeing different families coming for our counseling services than we used to see. They are coming with fewer resources to pay for those services, weaker insurances, so that’s requiring us to come up with more subsidy dollars. We are not finding them.”  

Organizations spend more time acclimating new clients to social service programs and educating them about available resources.

Government system is difficult to navigate and payments are often late

Nonprofits also experience problems with government payments, such as late reimbursements and reduced or revised contracts. State governments change the terms of previously agreed upon contracts with nonprofit partners, lengthening payment schedules or reducing funding altogether. Contract problems create cash flow problems for nonprofit recipients. In a national survey by the Congressional Research Service, 35 percent of nonprofits reported that they had been affected by declines in overall government support, and 33 percent experienced delayed payments from government.\(^{20}\) Forty percent (40 percent) of survey respondents in 2011 experienced delayed payments from North Carolina agencies.\(^{21}\)

POLICY OPTIONS FOR NCCNP

**Short-term options**
1. Continue annual survey of government-funded nonprofits and conduct interviews
2. Lobby the North Carolina General Assembly and local governments for increased financial support for nonprofit services
3. Work with government agencies to encourage prompt payments
4. Continue to coordinate with government agencies to streamline state funding applications and reporting processes
5. Provide staff development assistance to nonprofits

**Long-term options**
6. Collect more details on cash flow problems and investigate possible lines of credit for nonprofit organizations
7. Encourage changes to funding guidelines to include indirect costs
8. Study differences between nonprofits receiving government funding and nonprofits without any government funding

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\(^{19}\) Interview with Interviewee 8.
\(^{21}\) North Carolina Center for Nonprofits Government Contracting Survey 2011.
DISCUSSION OF OPTIONS

1. **Continue annual survey of government-funded nonprofits and conduct interviews**

Survey data indicates that nonprofits receiving government grants and reimbursement for services had fewer financial problems in 2011 than 2010; however, through interviews with nonprofit leaders, it appears that the “improved” picture painted by the 2011 survey may not capture completely the problems nonprofits face in their relationships with government agencies. Interviews indicate that state government-supported nonprofits’ biggest problems are related to inefficiency and a lack of transparency surrounding state funding. Late and insufficient payments cause problems for organizations like staff burnout, deficit spending, and decreased services.

The NCCNP will need to interview nonprofit leaders in addition to conducting the annual survey to gauge nonprofits’ struggles and successes. Although the survey collects valuable information, it is impossible for a short survey to capture all of the pressing issues nonprofits face. Short phone interviews with a handful of organizations can bring issues to the surface that otherwise may not be communicated in the survey. For example, nonprofit leaders appear to be more open in personal conversations than in surveys where they have to communicate problems in writing.

2. **Lobby the North Carolina General Assembly and local governments for increased financial support for nonprofit services**

Over the course of the latest recession, government funding of nonprofits has decreased, despite increases in demand for services. Survey results indicate fewer respondents received federal, state, and local grants and reimbursements for services in 2011 than in 2010 (Table 1), despite a growing demand for services. Overall, 65 percent of all respondents received some type of government support in 2011.

<table>
<thead>
<tr>
<th>Table 1. Percent (%) of nonprofits receiving government funding</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government</td>
<td>33.4</td>
<td>36.4</td>
</tr>
<tr>
<td>State Government</td>
<td>51.5</td>
<td>58.5</td>
</tr>
<tr>
<td>Local Government</td>
<td>42.0</td>
<td>46.7</td>
</tr>
<tr>
<td>None (No government funding)</td>
<td>34.7</td>
<td>28.2</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

Approximately 50 percent of nonprofits that received state funding in 2011 indicated that over half of their organizational budgets came from government grants and reimbursements for services. According to Table 2, approximately half of respondents receiving government funding received at least half of their funding from government support.

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22 Table data from survey results.
sources in 2011, making it clear that despite cuts, state-funded nonprofits lack diversified funding sources and heavily rely on government support.

<table>
<thead>
<tr>
<th>Table 2. Percent (%) of budget from government sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 All Respondents</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>&gt;10%</td>
</tr>
<tr>
<td>10-24%</td>
</tr>
<tr>
<td>25-49%</td>
</tr>
<tr>
<td>50-74%</td>
</tr>
<tr>
<td>75-100%</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

Particularly, survey responses and interview feedback indicate that governments heavily subsidize nonprofits providing human services instead of establishing and running government programs in areas like mental health and rehabilitation services. Of all state government funded human services recipients survey respondents, 60 percent receive at least 50 percent of operating funds from government sources. During economic downturns, it is difficult for these organizations to increase funding from private sources to fill the gaps made by government funding cuts (like decreases in Medicaid reimbursement levels).

Payments do not cover full cost of services

Over 60 percent of nonprofits do not receive enough funding to cover the full costs of their services. Two-thirds of human services organizations cited this as a problem in the survey. For example, Medicaid reimbursements have waned during the recession even though costs to provide services have not decreased. Interviewee 7’s organization depends on Medicaid reimbursements to provide services to adults and children with developmental disabilities. More people are eligible for Medicaid under expanded rules, putting even more strain on the organization.23 The Medicaid reimbursements for their services have fallen from $100 per unit of service to $62.26, a 40 percent drop.

Nonprofits committed to maintaining levels of service

Survey data and interviews indicate that nonprofit organizations are committed to providing services despite cuts in funding. Often, legislators reduce funding for nonprofits with the expectation that nonprofits will continue providing services regardless of funding levels. Though 37 percent of survey respondents indicate that they cut programs in 2011, interviews show that for the most part, nonprofits discontinued small parts of programs instead of cutting programs completely (See Table 3).

23 Interview with Interviewee 7.
Table 3. Percent (%) of nonprofits reducing services/programs

<table>
<thead>
<tr>
<th>Reduced services/programs</th>
<th>2011 State-funded Nonprofits</th>
<th>2010 State-funded Nonprofits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced services/programs</td>
<td>37.7</td>
<td>38.8</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

All of the interviewed Executive Directors do everything they can with fewer resources to maintain levels of service, mostly because of strong staff commitment: “We have not had any service disruptions because our staff is great and working regardless,” said one executive director.24

Organizations that have cut services have suspended or ended programs that are either provided by other providers or are in less demand due to the recession. Interviewee 4 described closing down two clinics because of redundancy in the areas where they operated. Another group cut its home loan-counseling program because people were not trying to get home loans during the recession. Other groups had to cut back on direct support to clients. A number of human service organizations historically supported clients with money for gas, clothing, and rent deposits, but they have had to cut that support because of funding uncertainties.

Organizations operate at a deficit or use reserves to fund programs

To maintain service levels, almost 40 percent of nonprofits operated at a deficit in 2011, compared to 46 percent in 2010. Half of survey respondents used reserves to supplement operations, down from 62.4 percent in 2010 (Table 4).

Table 4. Nonprofits operating at deficit or drawing on reserves (%)

<table>
<thead>
<tr>
<th></th>
<th>2011 State-funded Nonprofits</th>
<th>2010 State-funded Nonprofits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operated at a deficit</td>
<td>39.5</td>
<td>45.9</td>
</tr>
<tr>
<td>Drew on reserves</td>
<td>50.0</td>
<td>62.4</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

Interviewees were likely to operate a deficit or draw on reserves in 2011. Nine out of 10 nonprofit leaders interviewed had to use reserve funds in 2011, and eight of 10 operated at a deficit. For one Executive Director, using all of the organization’s reserves was unexpected:

“I’ve been here 17 years. This is the first year we’ve had to confront running through our reserves. We are trying now to build reserves in the

24 Interview with Interviewee 3.
next two years. We’ve had to use the reserves to leave our services unaffected.”25

In the past, this Executive Director’s organization used its reserves to expand services to the community. Today, despite its reserves, the organization struggles to provide services. With funding changes, it is more difficult for the organization to provide all of the necessary programs in the community without depleting its reserves:

“The depletion of our reserves came out of us trying to pick up what wasn’t being picked up…We are going to have to make decisions about which services to continue with and which services to hand off to someone else or discontinue. Since we no longer have reserves, we can no longer subsidize a program that is not adequately funded or supported unless it’s central to our core mission.”26

To make ends meet, nonprofits may detract from serving the neediest members of society because it is too expensive. Interviewee 8’s organization is exploring ways to create more fee for service programs. While this will increase the organizations’ revenue, the Executive Director recognizes that residents who cannot afford to pay for services will no longer have access to them. The organization will no longer serve those most in need.

One organization, Interviewee 10, did not draw on reserves or operate at a deficit in 2011. This organization relies on government funding for about a third of its budget (most interviewees received at least 50 percent from government), and it faced smaller government cuts than other organizations. It was the only organization in the survey that discontinued an entire program over the past year. Most organizations appear to operate at deficits or draw from reserves to avoid cutting services.

**Nonprofits lay off workers, freeze salaries, and cut benefits**

Nonprofit organizations continue to lay off workers and reduce employee benefits to save money. Although organizations still struggle to maintain adequate staffing levels after the height of the recession (2008 and 2009), cuts seemed to slow down in 2011. Interviews indicated that by 2011, most nonprofits were already working with minimal staff and benefits. They saved more by reducing part-time employees’ hours and cutting retirement benefits. Nonprofits also choose to not hire for vacant positions to save money and spread the responsibilities across current staff members.

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25 Interview with Interviewee 8.
26 Interview with Interviewee 8.
Four of 10 interviewees laid off staff in 2011. Some organizations moved full-time staff to part-time positions to cut costs. One organization laid off five percent of its staff, moving from 20 staff members to 15. Another organization will lose all of its case managers next year when state agencies take over case management. Interviewee 6 uses volunteers more than paid staff. The organization does not want to build staff unless the organization knows it can pay for salaries for at least one or two years.

Organizations also struggle to provide basic benefits to staff members. Instead of laying off employees, nonprofits cut or reduce benefits. Other organizations never had strong benefits to begin with because of the high costs of health insurance and retirement benefits. Interviewee 1’s organization has always struggled to provide benefits and does not have group health insurance: “Only full-time people get benefits, and there is only one person receiving retirement and that is me. Part-time people deserve benefits.”

According to 2011 survey data, nonprofits with state funding were almost three times as likely as nonprofits without state funding to cut jobs and reduce employee benefits (Table 5).

<table>
<thead>
<tr>
<th>Reduced number of workers</th>
<th>2011 State-funded Nonprofits</th>
<th>2011 Nonprofits w/o gov’t funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced employee benefits</td>
<td>43.2</td>
<td>16.8</td>
</tr>
<tr>
<td>Reduced employee benefits</td>
<td>24.7</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

### 3. Work with government agencies to encourage prompt payment

Cash flow is a major problem for nonprofits, particularly when organizations expect significant payments from the state to operate. NCCNP should work with agency leaders to set deadlines for payments. As one nonprofit leader mentioned, if states are going to require grantees to abide by numerous accountability measures, the state should also be accountable to what it agrees to do. Currently, nonprofits sign grant agreements with state agencies soon after the General Assembly passes the budget in June and July, but state agencies will not make payments until October, November, or even December (and sometimes later).

Many nonprofits receive the same state funding year after year. In cases where the state grants funds to repeat partners, the state should deliver payments no later than one month after it makes grant decisions. For organizations that are new to the state funding system, administrative work may take longer than one month, and the state should guarantee fund delivery in two months. Nonprofits should not have to provide services without payment or knowledge of when payments will arrive. Establishing

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27 Interview with Interviewee 1.
deadlines for state government grant payments will not eliminate cash flow problems, but nonprofits will be able to plan for payment on a specific date.

Setting deadlines for payments may lead to the state waiting longer to make grant decisions. With each Request for Proposal, the state should communicate a date when nonprofits will hear about funding decisions. The government will disperse funds no later than one month after that date.

Other options for state agencies would be to make partial payments to nonprofits at the beginning of the fiscal year to cover costs until the full amount can be distributed. Agencies could also explore multi-year contracts with nonprofits (contingent on available funding). The latter will reduce the time it takes for agencies to deliver funds and also save agencies and nonprofits from going through the burdensome application process each year.

**Late payments have lasting effects on nonprofit cash flow**

Even though survey results indicate that state agencies made fewer late payments in 2011 than in 2010 (Table 6), over 40 percent of survey respondents indicated that they had problems with late payments (down from over 60 percent in 2010). Most respondents reported less than five late payments in 2011.

<table>
<thead>
<tr>
<th>Late Payments</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40.9</td>
<td>59.2</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

North Carolina agencies fall behind on payments. This problem grows in years when the General Assembly passes the budget late in the summer.

Nonprofit leaders indicated that late payments are a major problem for nonprofits regardless of the state’s fiscal standing. There are annual systematic cash-flow problems due to delayed payments. The cash-flow crunch occurs annually between July and October. The largest and most common late payments appear to occur at the beginning of the state fiscal year (July 1). According to Interviewee 2, an Executive Director at a human services organization, cash flow becomes a major problem during the summer and fall:

“We are required to begin services on July 1 when the grant cycle and fiscal year begin. The budget gets passed later and later, and once it gets passed, it can take another couple of months before we actually get the
Because government agencies do not make payments on time, nonprofits need access to cash. Two of the nonprofit leaders interviewed had access to lines of credit, but others operated at a deficit and drew from reserves. Access to credit can act as bridge loans for nonprofits while they wait for state payments. They know that the payments will arrive eventually, but they do not know when they will have the cash in hand.

Seven of 10 nonprofit leaders said that even one late government payment could have serious repercussions on service and operations. Most of the organizations receive one or two large annual government payments, and when these payments are late, they create significant cash flow problems:

“There was no date upon which we could say ‘within two weeks we'll have the money back.’ You send it in and you wait. It might come in next week; it may come in the next month. It might be six or eight weeks before it comes in. We didn’t have a lot of control or predictability about that…it was devastating. We couldn’t make payroll.”

4. Continue to coordinate with government agencies to streamline state funding applications and reporting processes

Nonprofits have difficulty managing and understanding multiple applications and reporting formats across and within state agencies. The various requirements require organizations to spend time on administrative tasks instead of working on programs. The NCCNP has already done a lot of work to improve the state’s reporting systems. In 2010, the Center arranged meetings between nonprofits and the State Auditor and Office of State Budget and Management (OSBM) to address reporting problems, and the State Auditor and OSBM did make improvements to the system. Nonprofits also met with DHHS to speak about inefficiencies for state contracts, like inconsistent monitoring, redundant audits, and problems with Local Management Entities (LMEs). DHHS began a new initiative, DHHS Excels, to improve agency-customer relationships.

The improvements by OSBM and DHHS indicate that nonprofit feedback drives change at the state level. The NCCNP should continue to report problems to state agencies. Interviewees spoke overwhelmingly about problems with Council for Women grants, which come out of the Department of Administration (DOA). NCCNP should focus its next round of reform efforts on the application, reporting, and on-time payment of grants from the Council for Women.

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28 Interview with Interviewee 2.
29 Interview with Interviewee 3.
Government application processes are inconsistent and complicated

The main difficulties nonprofits have with the application processes are inconsistencies within agencies, between agencies, and with funding guidelines: “Everyone wants things in different language and different ways. There’s nothing wrong with that, but it makes things a little more difficult.”30 The Executive Director of a human services nonprofit indicated that his organization applied for a grant through a state agency, only to have the state agency reissue the RFP after the nonprofit had submitted their application. The nonprofit had to assemble a new application.31

Another nonprofit leader feels overwhelmed by the differences between grant programs and agencies, “…if you get grants from different agencies and they are all [managed] online, they are all different…you have to enter each grant differently. They are not standardized…It is not synchronized or organized at the state level.”32 Nonprofit leaders also had concerns about the differentiations in application requirements across state agencies.

<table>
<thead>
<tr>
<th>Table 7. Percent (%) of nonprofits reporting administrative issues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Difficulty with applications</strong></td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>difficulty with applications</td>
</tr>
<tr>
<td>Difficulty with reporting</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

![](image)

Forty-two (42) percent of state grantees indicated that they had difficulty applying for grants or reimbursement payments during 2011 (Table 7), and 36.6 percent reported difficulty with reporting. Interviews corroborated that applying for grants and reimbursements is getting easier, but many organizations find they are spending more and more time and funding on administrative work related to government grants and reimbursements. One Executive Director recently moved from a government position to the nonprofit sector and was shocked at the demands:

“The challenge for me coming into this nonprofit environment is how much time is consumed in getting the money and writing huge documents that have a lot of redundancy in them…I spend more than half of my time doing grant management and getting reports and documentation…It should be simplified so that people who are doing the work can grow the agency instead of constantly seeking the next dollar.”33

Nonprofit leaders appear to be most concerned with grant reporting in North Carolina. Funders, including governments, require increased accountability regarding how

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30 Interview with Interviewee 5.
31 Interview with Interviewee 5.
32 Interview with Interviewee 1.
33 Interview with Interviewee 3.
organizations spend grant money and what outcomes they achieve. State agencies, private funders, and other government entities can each ask for different outcome measures with different reporting formats. Interviewees feel that they are shifting time from program delivery services to administrative functions to fulfill reporting requirements. This is difficult because many organizations already provide services on a shoestring budget and with minimal staff. Nonprofit leaders spend various amounts of time on reporting, but most believe the burden is only increasing:

“What we didn’t anticipate was the complexity of the reporting function alone. Every department is asking for different reporting strategies...The paradigm here is that applying for grants is almost like shooting ourselves in the foot because we create more costs for us internally that are not picked up just to process grants. For every dollar we are getting, we are probably spending 30 to 40 cents just to accept it. We have 33 different grants.”

5. Provide staff development assistance to nonprofits

With large cuts to the North Carolina budget, NCCNP predicted that nonprofits receiving state funding would lay off more employees in 2011 than in previous recession year; however, survey responses indicate nonprofits did not face increased layoffs despite funding cuts. Nonprofits that receive state funding lost an average of one employee/position (median loss was one employee). Comparatively, all respondents on average laid off 4.6 full-time employees (median of zero). The low levels of layoffs could indicate that nonprofits already operate with minimal staff and/or nonprofits laid off employees during the height of the recession (prior to 2011).

To avoid further cuts to staff and services, organizations froze or reduced salaries, cut benefits, or operated on reserves. State-supported nonprofits cited frozen or reduced employee salaries as the most popular cost-cutting measure in the 2011 survey. In 2011, 51.9 percent of respondents froze or reduced employee salaries, down from 70.6 percent in 2010 (see Table 10 Appendix II). This decrease may indicate that nonprofits are more financially stable and do not need to cut or freeze salaries. It may also mean that nonprofits reduced or froze salaries prior to 2011 during the height of the recession. Interviews indicate that few nonprofits had the capacity to increase employee salaries during 2011.

The nonprofit sector has a difficult time attracting and retaining talent because of low salaries and minimal benefits. If the government wants nonprofits to provide effective services and increase accountability, the sector needs to be able to attract talent. Organizations operating on a “shoe-string” are more likely to have difficulty recruiting

34 Interview with Interviewee 8.
35 Some organizations may have answered the question wrong and put the total number of full-time employees instead of the number they laid off. The median layoffs are most likely more accurate than the average. Also, many organizations did not answer this question.
and retaining quality staff members. Many Executive Directors cited staff burnout in the interviews. Two Executive Directors resigned from their positions due to high levels of stress and frustration with constant funding problems, even though they had worked with the organization for years (even decades):

“It makes you very weary. Every day you come in knowing you got to find some money, see what you’ve got, and hope someone pays you. You go home thinking about it and crash…You are just weary.”

Low staffing levels can lead to employee burnout and low morale. Because of funding problems and staffing shortages, organizations cannot afford to provide professional development for employees, which they feel is imperative to staff retention and encouraging a positive work environment. NCCNP can provide information and access to staff development opportunities to keep nonprofit employees in North Carolina engaged and excited about their work.

Organizations find various ways to keep morale high among employees. One organization’s Board instituted a sabbatical policy for staff. Staff members that have been with the organization for ten years can take a month off from work. The Executive Director also applied to the Z. Smith Reynolds Foundation’s sabbatical program for Executive Directors. Another organization mandates that employees use vacation days to take at least one prolonged break each year.

Another Executive Director takes a day-to-day approach to maintaining positive morale among employees. He has stepped up communication dramatically and tries to be as transparent as possible with the staff. He makes sure that they know that he does not have answer and that he will not make false promises. Staff works together to make performance quality improvements and work on ways to become more efficient. He believes this approach of involvement has contributed to the organization’s low turnover rates.

6. Collect more details on cash flow problems and investigate possible lines of credit for nonprofit organizations

Organizations that depend on government funding often do not have diversified revenue streams. Without significant revenue outside of government funding, they face cash flow problems when payments are late. Only one of the ten interviewed organizations has enough outside funding to cover its operations when payments are late; two organizations have lines of credit to pay for expenses during that time. Organizations without lines of credit have to be creative to continue services and make payroll. One

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36 Interview with Interviewee 7.
37 Interview with Interviewee 5.
38 Interview with Interviewee 8.
organization in particular had to borrow money from Board members and use the Executive Director’s paycheck make payroll:

“The staff has not gotten paid on payday a number of times. [The staff] continued to work knowing that eventually it would come. Because they are who they are, we haven’t had any services disruptions.”

The NCCNP should conduct further research into how many nonprofits would benefit from lines of credit and how the lines of credit could be structured to encourage timely repayment by nonprofits. Lines of credit would only be made available to organizations waiting on state government payments and could be structured loosely around the idea of a payday loan (with lower interest).

Lines of credit appear to be helpful, but it is unclear if nonprofits utilize them beyond the amount of the expected state payment. Interviewee 9 says that she never has the means to pay off the line of credit because she has already spent the money by the time she receives the grant payment:

“Usually from July to October, we are working on a line of credit...sometimes we do not get the money until October, which is two quarters we don’t receive any money at all...The community supports us very well, but they can’t support us for three months...This happens every year. Most of the time I’m working off my line of credit all year long.”

7. Encourage changes to funding guidelines to include indirect costs

Government funding comes with increasing accountability measures for nonprofits, but the funding does not cover the growing administrative costs of capturing data and reporting on it. Since the interviews for this project cannot be regarded as representative of North Carolina nonprofits as a whole, the NCCNP should do further research to determine the true administrative costs for nonprofits.

If state-supported organizations do not have enough funding to cover the costs necessary to maintain service levels and meet reporting guidelines, the NCCNP should lobby for the inclusion of indirect costs in grants and contracts. An Executive Director who receives Head Start funding from the federal government believes the federal system of covering portions of indirect costs could be a model for the state system. The United States Department of Health and Human Services uses information from nonprofits to establish true indirect costs as a percentage of nonprofits’ budgets and allows nonprofits to charge that amount of indirect costs for their grants.

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39 Interview with Interviewee 3.  
40 Interview with Interviewee 9.
Indirect costs related are real burden to nonprofits

As government increases its accountability requirements, it does not take into consideration the additional administrative costs reporting requires. Grant and reimbursement for services funding do not cover growing overhead or administration costs. Interviewee 8 hired a full-time grants administrator when the organization received a two-year grant from a private foundation to pay for the position. He does not know what he will do when the grant ends:

“The biggest struggle for us is not only the amount of funding, but the design of funding…No one wants to pay for the management services. The degree of accountability that is being asked for when one receives is tremendously expanding accountability of an organization and its infrastructure. The emphasis on outcomes (which I believe is good) and accountability is creating expenses that go beyond the individual grant service, but no one is supporting that.”

Another Executive Director, a skilled grant writer, sees the risks in winning more grant funding: “In order to get a program done, you have to have programmatic people. Grant providers are never going to allow you to hire all of the infrastructure people you need to run a program.”

Nonprofit leaders understand and want accountability to ensure that the best organizations receive funding, but to offer effective services, they need funding to support administrative costs.

8. Study differences between nonprofits receiving government funding and nonprofits without government funding

According to the 2011 survey results, organizations that do not receive government funding (no federal, state, or local funding) appear to be better off financially than government-funded organizations. NCCNP can conduct further research to find out why this is the case.

Only seven percent of state-supported organizations maintained or increases revenue during 2011, compared to 24 percent of non-government supported organizations (See Table 11, Appendix I). Only 14.8 percent of state-supported nonprofits did not freeze or reduce salaries, operate at a deficit, cut employees or benefits, draw on reserves, or reduce programs (see Table 8), compared to 40 percent of nonprofits without government funding.

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41 Interview with Interviewee 8.
42 Interview with Interviewee 1.
In 2011, twice as many state-funded nonprofits froze or reduced salaries than organizations without government funding. Despite the widespread effects of the recession across nonprofit organizations, government funded nonprofits are cutting and freezing salaries at much higher rates.

Nonprofits with state support are only slightly more likely to cut or reduce services than organizations without government support (Table 8). The absence of a large discrepancy between these two groups may reflect the commitment of the sector to provide consistent and reliable services to clients.

Compared to nonprofits without government funding, state-funded nonprofits were more likely to operate at a deficit or draw on reserves. Nonprofits that depend heavily on state funding may have a more difficult time building reserves because are not reimbursed for the full cost of their programs or because funding is extremely restricted and cannot be put into a reserve account each year.

<table>
<thead>
<tr>
<th></th>
<th>2011 State-funded Nonprofits</th>
<th>2011 Nonprofits w/o gov't funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>No declines in revenue</td>
<td>14.8</td>
<td>40.2</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11
POLICY OPTIONS AND POTENTIAL SOLUTIONS

<table>
<thead>
<tr>
<th>Problem</th>
<th>Short-Term (&lt; 1 year)</th>
<th>Long-Term (&gt; 1 year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow issues due to late payments</td>
<td>Convince leaders of various government agencies to speed up payment</td>
<td>1) Help nonprofits diversify funding streams</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Identify possible fee for service opportunities</td>
</tr>
<tr>
<td>Administrative Challenges</td>
<td>Continue to provide resources to nonprofits for general administrative tasks, e.g.</td>
<td>1) Connect grantees and government agencies to discuss difficulties and possible</td>
</tr>
<tr>
<td></td>
<td>internal policies and procedures templates</td>
<td>ways to streamline application and reporting processes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Lobby for indirect costs to be included in state funding (both grants and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>reimbursements</td>
</tr>
<tr>
<td>Staff Burnout</td>
<td>Provide professional development opportunities for all staff levels</td>
<td>1) Make sector salaries and benefits more competitive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Increase funding for capacity building</td>
</tr>
<tr>
<td>Funding Decreases</td>
<td>Lobby to increase funding for nonprofit organizations</td>
<td>Continue efforts to demonstrate importance of NC nonprofit sector to legislature</td>
</tr>
</tbody>
</table>

RECOMMENDATIONS

In the short-term, NCCNP should work with legislators to avoid any further cuts to nonprofit funding. It should also focus its efforts on reducing late government payments to nonprofits by working with agency leaders. Earlier payments will help nonprofits’ cash flow problems. NCCNP should continue to provide professional development opportunities for nonprofit staff and connect organizations with resources.

In the long-term, NCCNP should also encourage state and local governments to include indirect costs for administrative work in grants and reimbursement contracts. It should also provide educational opportunities for nonprofits to learn how to diversify their funding streams to decrease dependency on government funding.
WORKS CITED


APPENDICES

APPENDIX I. ADDITIONAL BACKGROUND

There are two types of market failures that justify government subsidization. First, the free market provides too few public goods. Government subsidies (tax breaks, grants, and reimbursements) to organizations can increase overall public wellbeing through the provision of public goods. Also, many public goods have positive externalities (example: education can be spread outside formal education system), and government subsidies can encourage more positive externalities.43 Human services nonprofits provide perhaps the most vital public goods that the government and private sector do not. Human services organizations make up a large percentage of nonprofit organizations. As of 2009, 32 percent of nonprofit organizations filling IRS Form 990s (163,885 of 512,889 IRS 990s) were from human services organizations.44, 45

Nonprofit organizations deliver most of the human services in the United States because they deliver programs efficiently and are connected to the communities in which they work.46 The government underwrites the services through grants and reimbursements for services.47 The government supports some human service organizations and most health services through the reimbursement fee for service model. The government distributes its remaining funding through grants.48

Nonprofit Funding

Nonprofits receive funding from a variety of sources: private donations, earned/fee income, foundations, and federal, state, and local governments. The Congressional Research Service (CRS) estimates that 49 percent of nonprofit funding comes from private payments for services (fees).49,50 An Urban Institute study found that less than 20 percent of nonprofit income is from private donors, and more specifically, CRS states that private donors combine for 12 percent of nonprofit funding.51,52

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44 Total of 512,889 submitted IRS 990 forms does include hospitals and health organizations.
47 Ibid.
49 The CRS estimate of 49 percent includes healthcare organizations.
On average, government payments from reimbursements and grants account for 29 percent of nonprofit funding. Table 9 indicates what share nonprofit revenue by sector came from government grants in 2005. It highlights that the human services nonprofits received 22 percent of funding from government sources, more than any other sector. Nationwide, 54 percent of human services nonprofits receive income from government reimbursements or grants requiring matching or sharing of costs. As of 2009, the federal government distributed 200,000 grants to 33,000 human services providers. In 2009, government agencies dispersed $100 billion to nonprofits through grants and service reimbursements for the delivery of human services.

Table 9. Percent (%) of Revenue from Government Grants, 2005

<table>
<thead>
<tr>
<th>Type of Nonprofit</th>
<th>Share from Government Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts, Culture, &amp; Humanities</td>
<td>12.5</td>
</tr>
<tr>
<td>Education</td>
<td>14.9</td>
</tr>
<tr>
<td>Environment &amp; Animals</td>
<td>14.1</td>
</tr>
<tr>
<td>Health</td>
<td>3.4</td>
</tr>
<tr>
<td>Human Services</td>
<td>22.7</td>
</tr>
<tr>
<td>International &amp; Foreign</td>
<td>21.9</td>
</tr>
<tr>
<td>Other</td>
<td>18.9</td>
</tr>
</tbody>
</table>

Source: Congressional Research Service 2009

Nonprofit contributions to the economy

Nonprofits employ 13.5 million people nationally. In comparison, the manufacturing sector employs 12.3 million workers and the construction, finance, and insurance industries combined employ 11.6 million workers. Between 1998 and 2005, nonprofit employment in the United States grew by 16 percent (faster than employment in the U.S. economy overall). In 2010, the nonprofit sector in North Carolina employed 400,000 workers, or about one-tenth of the state’s workforce.

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53 Ibid.
55 Ibid.
57 Grants only, excludes reimbursements for services
59 These numbers include employment in the healthcare and higher education sectors.
In addition to employing millions of Americans, nonprofits contribute to the nation’s economy by purchasing billions of dollars in goods and services annually. The Bureau of Economic Analysis estimates that nonprofits serving households were responsible for five percent of the Gross Domestic Product in 2008 ($751.2 billion, not including healthcare or social assistance contributions to GDP).  

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### Table 10. Percent (%) of nonprofits freezing or reducing salaries

<table>
<thead>
<tr>
<th>Frozen or reduced salaries</th>
<th>2011 State-funded Nonprofits</th>
<th>2011 Nonprofits w/o gov’t funding</th>
<th>2010 State-funded Nonprofits</th>
<th>2010 Nonprofits w/o gov’t funding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>51.9</td>
<td>26.2</td>
<td>70.6</td>
<td>34.6</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

### Table 11. % Nonprofits Facing Funding Cuts from Various Sources

<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>2011 State-funded Nonprofits</th>
<th>2011 Nonprofits w/o gov’t funding</th>
<th>2010 State-funded Nonprofits</th>
<th>2010 Nonprofits w/o gov’t funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local gov’t grants/contracts</td>
<td>45.1</td>
<td>3.8</td>
<td>50.0</td>
<td>5.7</td>
</tr>
<tr>
<td>State gov’t grants/contracts</td>
<td>61.8</td>
<td>2.9</td>
<td>65.6</td>
<td>5.7</td>
</tr>
<tr>
<td>Federal gov’t grants/contracts</td>
<td>25.7</td>
<td>1.0</td>
<td>17.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Individual Donations</td>
<td>55.6</td>
<td>54.8</td>
<td>61.5</td>
<td>68.6</td>
</tr>
<tr>
<td>Private Foundations</td>
<td>34.0</td>
<td>32.7</td>
<td>42.7</td>
<td>31.4</td>
</tr>
<tr>
<td>Corporate</td>
<td>45.8</td>
<td>33.7</td>
<td>60.4</td>
<td>42.9</td>
</tr>
<tr>
<td>Investment Income</td>
<td>33.3</td>
<td>26.9</td>
<td>41.7</td>
<td>31.4</td>
</tr>
<tr>
<td>No declines in revenue</td>
<td>6.9</td>
<td>24.0</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2010-11

### Table 12. 2011 Survey participation summary

<table>
<thead>
<tr>
<th>Number of Respondents</th>
<th>Surveys sent</th>
<th>Survey respondents</th>
<th>Survey respondents w/state funding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,328</td>
<td>325</td>
<td>168</td>
</tr>
</tbody>
</table>

Source: Survey, NC Center for Nonprofits, 2011
APPENDIX III. DATA AND METHODS

Survey

On November 1, 2011, the North Carolina Center for Nonprofits sent 16-question online survey via Survey Monkey to its membership to gauge the effects of reduced government reimbursements for services and grants on nonprofits. The NCCNP emailed the survey to the Executive Directors of 1,328 member organizations located in North Carolina.\(^{64}\)

The Urban Institute began the survey in 2009 as part of its National Study of Nonprofit-Government Contracting: State Profiles.\(^{65}\) The state-by-state survey studied nonprofits’ contracts with state governments and analyzed data within and among states. The NCCNP distributed the Urban Institute survey to its members in 2010 and sent modified version in 2011. The 2011 version had additional questions to provide context and detail to respondents’ answers (please see Appendix III for survey questions). For example, if an organization had to reduce its number of employees over the past year, the new version of the survey asks how many full-time and part-time employees the organization let go. The Center did not remove any questions from the previous surveys.

Survey Follow-up

The 2010 survey response rate was 10-15 percent, but the 2011 survey response rate increased to 24.5 percent due to specific efforts to increase it. First, the cover letter to the survey communicated to nonprofits how filling out the survey could be beneficial to their organizations. Second, NCCNP emailed two reminders approximately halfway through the reply window (one week after original dissemination and another after two weeks). The survey closed on December 7, 2011, with 299 responses.

I conducted follow-up phone calls to increase the previously low survey response rate. To choose which organizations to call, larger organizations were assumed to provide more useful information and to be more important to this study than smaller organizations. The system used stratified random sampling to weigh non-responding organizations based on their annual budget size. The client agreed that this was an effective strategy to prioritize calls while maintaining a degree of randomization. Since larger organizations likely provide more services to North Carolinians, we inferred that larger nonprofits are more important to this study. For example (in simplified terms), a random number generator was used in Excel so that an organization with a $100

\(^{64}\) The North Carolina Center for Nonprofits has not been able to provide general characteristics about their membership yet. They are switching databases and will be able to print a report near the end of the year.

operating budget was 100 times more likely to be chosen by the generator than an organization with a $1 operating budget.

Approximately 78 organizations were contacted over a three-week period starting at the top of a randomly generated list with the goal of increasing the response rate. At the end of the three weeks, the survey had 325 respondents.

**Interviews**

After the survey was complete, 14 organizations were solicited for interview based on survey responses. The interviewed organizations that had either left extensive comments in the survey about their problems with state funding, or they indicated that they received high percentages of their funding from government sources and faced large cuts to those sources in 2011. Most organizations collected, at minimum, 25 to 50 percent of their revenues from government sources. Ten of 14 organizations responded to the interview request.

The interview guide was based on additional context needed to build on survey data. Questions generally focused on collecting more details on the magnitude of government cuts in funding, general trends of changes in government reimbursements, implications for services due to decreased staff capacity, and big picture questions regarding changes in the sector over the past several years. Interviews took place over the phone and lasted 20 to 30 minutes. Most interviews were not strictly structured.

All organizations were guaranteed anonymity to feel comfortable providing honest and accurate answers.

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66 See Appendix IV for interview questions and responses.
APPENDIX IV. SURVEY QUESTIONS
(Italics indicate questions added by author for 2011 survey)

1. Does your nonprofit receive any government contracts and/or grants (check all that apply)?
   a. Federal
   b. State
   c. Local
   d. We do not receive any government contracts and/or grants

2. Approximately what percentage of your total organizational budget comes from government contracts and/or government grants?
   a. Less than 10%
   b. 10-24%
   c. 25-49%
   d. 50-74%
   e. 75-100%

3. In the past year, has your nonprofit (check all that apply):
   a. Received late payments on government grants/contracts?
   b. Received contracts that do not cover the full cost of contracted services? (For example, payments that don’t cover indirect costs or your nonprofit’s operational expenses, or payments that require your nonprofit to obtain matching funds.)
   c. Had difficulty applying for grants and contracts? (For example, application process is too complex or takes too much time.)
   d. Had difficult reporting on grants or contracts? (For example, agency or grants system reporting process is unclear and overly complex.)
   e. Had government agencies make changes to your nonprofit’s grants/contracts after you signed the agreement and begun the work?
   f. None of the above

4. (If answered yes to A in Question 3) How many full time late payments did you receive?
   a. 1-2
   b. 3-5
   c. 6-8
   d. More than 8
   e. Not applicable

5. (If answered yes to A in Question 3) On average, approximately how late were the payments?
   a. A couple of days
   b. 1-3 weeks
   c. 1 month
   d. More than one month
6. In the past year, has your nonprofit (check all that apply):
   a. Frozen or reduced employee salaries
   b. Operated at a deficit
   c. Reduced your number of employees
   d. Reduced employees’ health, retirement, or other benefits
   e. Drawn on reserves
   f. Reduced the number of programs or services you provide
   g. None of the above

7. In the past year, how many employees have you let go for budgetary reasons?
   (Please enter “0” if you have not let any employees go for budgetary reasons)
   a. Number of full-time employees: ________
   b. Number of part-time employees: _______

8. In the past year, has your nonprofit experience a decline in revenue from (check all that apply):
   a. Local government grants and contracts
   b. State government grants and contracts
   c. Federal government grants and contracts
   d. Individual donations
   e. Private foundations
   f. Corporate and business donations
   g. Investment income
   h. No declines in revenue

9. (If yes to B or C in Question 8) Approximately how much has your revenue from state government grants and contracts declined?
   a. Less than 10%
   b. 10-24%
   c. 25-49%
   d. 50-74%
   e. 75-100%
   f. Do not know
   g. Not applicable

10. (If yes to B or C in Question 8) Approximately how much has your revenue from federal government grants and contracts declined?
    a. Less than 10%
    b. 10-24%
    c. 25-49%
    d. 50-74%
    e. 75-100%
    f. Do not know
g. Not applicable

11. We can provide a stronger case if you share your stories and specific examples of how any of these experiences have affected your organization or those you serve. Please write them here (or if you prefer, share them with David Heinen at dheinen@ncnonprofits.org or 919-790-1555, ext. 111).

12. How would you classify your nonprofit’s primary services (check one)?
   a. Arts, Culture, History, and Humanities
   b. Community/Economic Development and Housing
   c. Criminal Justice, Crime, and Crime Prevention
   d. Education, Literacy, and Related
   e. Environment, Science, and Technology
   f. Health
   g. Human Services
   h. International, Foreign Affairs, and Related
   i. Mutual Benefit Organizations
   j. Public and Societal Benefit
   k. Religion Related
   l. Other

13. What is your organization’s annual operating budget?
   a. Less than $100,000
   b. $100,000-$299,999
   c. $300,000-$499,999
   d. $500,000-$999,999
   e. $1,000,000-$2,999,999
   f. More than $3,000,000

14. How many full time employees does your organization employ?
   a. 0
   b. 1-2
   c. 3-5
   d. 6-10
   e. More than 10

15. How many part-time employees does your organization employ?
   a. 0
   b. 1-2
   c. 3-5
   d. 6-10
   e. More than 10

16. Optional (but very helpful so we can follow up to help your nonprofit and the sector solve problems that you’ve identified)
   a. Your nonprofit ______________________________
   b. Your name ________________________________
APPENDIX V. INTERVIEW RESPONSES

Interviewee 1 – Executive Director, Education, Literacy & Related
Interviewee 2 – Executive Director, Human Services
Interviewee 3 – Executive Director, Human Services
Interviewee 4 – Executive Director, Behavioral Health
Interviewee 5 – Executive Director, Human Services
Interviewee 6 – Executive Director, Criminal Justice, Crime Prevention
Interviewee 7 – Executive Director, Human Services
Interviewee 8 – Executive Director, Human Services
Interviewee 9 – Executive Director, Human Services
Interviewee 10 – Executive Director, Human Services

1. Please describe your government funding sources

Interviewee 1
25 percent of government funding is from local government and rest is from state government funding

Interviewee 2
NC Council for Women grants from NC Department of Administration (competitive)

Interviewee 3
NC Council for Women grants from NC Department of Administration (competitive)
County grant

Interviewee 4
Contracted mental health and substance abuse services

Interviewee 5
State contract with Department of Corrections
Contract with Department of Social Services (providing services for people receiving Work First benefits with criminal backgrounds)
County contract

Interviewee 6
Governor’s Crime Commission grant
County Junior Crime Prevention Council grant
County Comprehensive Anti-Gang grant

Interviewee 7
State Medicaid reimbursements

Interviewee 8
Federal Head Start grant
Department of Justice
2. Over the past year, have you experienced any changes in the demand for your services?

Interviewee 1
It’s always a depression where we are, so we didn’t see too much change.

Interviewee 2
We are at capacity and cannot serve any more people than we are already serving. The clients have changed as well; people who would not usually need services turned to us for help.

Interviewee 3
Prior to this year, things were more about quantity, quality was a given. Now it is about how many people. We probably serve more people on a long-term basis.

Interviewee 4
Three years ago we served 6,400 people. This past year we served 10,000. We expanded two programs.

Interviewee 5
It also has impacted the number of staff I have to provide services. We have clients who have to wait two months for services. People who are just coming out of prison, if they have to wait two months, they are going to find other devices for services. I don’t know how many of the folks that we were not able to see in a short period of time were rearrested, but I think having to wait that long for services, there’s a lot of drop off. If I had more staff that could manage a larger group of people, then it wouldn’t take as long to see them. There’s not a lot I can do.

Interviewee 6
More parents are looking for tutors for their kids.
Interviewee 7
Case management has gone up because Medicaid affects so many people. With cutbacks, the rate went way down and the hours of service were cut back to one hour of service per individual. So we all over-serve. We have somebody who needs ten hours, but we only get paid for one hour. The rate used to be close to $100 per unit of service but now it’s close to $62.26 per unit of service...Need has gone up.

We over serve an incredible amount of hours every month. I’d say case managers have 80 people to serve, they probably serve an excess of 200 or more hours for case management and 50-100 in vocational services. No reimbursement, but we are still paying staff. You need to keep helping people so that they are stabilized.

Interviewee 8
We are seeing different families coming for our counseling services than we used to see. They are coming with fewer resources to pay for those services, weaker insurances, so that’s requiring us to come up with more subsidy dollars. We are not finding them.

Interviewee 9
We see more clients. It seems like when the home dynamics change and the father is unemployed or underemployed and they can’t meet their bills, it is more stress on the family. It doesn’t cause domestic violence (it will happen anyway), but it does put more stress on the family and it just happens.

Interviewee 10
Our program that delivers financial counseling to people who need temporary financial assistance (TANF) delivered by the county has tripled in size. Other services have been very study, but the shifts have been in the types of clients. There are more TANF clients, and people who never accessed public assistance before needed temporary assistance. The county ended up taking it over.

3. Has your state funding been cut? If so, how much?

Interviewee 1
Grant structure has been changed more than funding cut. No guarantees of renewal.

Interviewee 2
Grant amount has fluctuated partly due to the economy and partly due to the fact that it is a competitive grant, and there has been turnover in who reviews the grants (program officers change). The grant parameters also change from one year to the next.

Interviewee 3
Council for Women grant cut by $8,000. One grant by VOCA is now formula-based instead of competitive so it will allow us to go after more creative dollars.
Interviewee 4
*Reimbursement rates from the state have been lowered consistently over the past several years as the fiscal environment has tanked. Soon, another group will managed all Medicaid dollars through a capitated system.*

Interviewee 5
*Reimbursement rates went from $46 to $42 two years ago.*

*It’s not just contracts. Grant funds are not as available as they used to be. We are getting similar support from contracts as we used to, but there used to be more grant funding available.*

Interviewee 6
*No cuts, but late payments described later.*

Interviewee 7
*Medicaid reimbursements are now $62.26 per unit of service when they used to be $100 per unit of service (unit of service is ¼ hour).*

Interviewee 8
*We have had some losses of about 10 percent, but no major losses. We anticipate some major hits in the area of domestic violence shelter grants. There have been more DHHS cuts to child development. More at Four revenues have decreased. Things change quickly. It is hard for us to plan budgets and programs not really knowing what is going to shift in three or four months.*

Interviewee 9
*So far, our funding has not been cut (that we know of). The Displaced Homemaker money may disappear in the future, and this year, the Office of Economic Opportunity says that domestic violence programs should not apply for Mercy Shelter Grants because they will not get it. That grant usually pays our electricity bill and a little bit of maintenance and supply costs each year.*

Interviewee 10
*NC Council for Women funding cut by $6,000.*

4. Have you had any problems or irregularities with your state contracts over the past year?

Interviewee 1
*One of the main things is if you get grants from different agencies and they are all online, but they are all different. They are not the same. They are not standardized. Even when you go to NCID website, you have to do it differently for every grant. You*
have to go get a different username and password. It is not synchronized or organized at the state level. All of the application processes are different and in different formats.

Interviewee 2
We are required to begin services on July 1 when the grant cycle and fiscal year begin. The budget gets passed later and later and once it gets passed it can take another couple of months before we actually get grant agreements in-hand that we have to get signed, and they go through all the state channels. In the last five or six years, we haven’t seen a check until October or November. We’ve had to run a program on other funds that we have until we get our first payment.

Interviewee 3
The promise seems to be, if you turn this paperwork in and cross every “t” and dot every “I”, then we’ll send you money. It doesn’t necessarily happen that way. There is a hard, fast line for us to get things in, but the same doesn’t seem to be true on the other side of the fence. So, if we cross our t’s and dot our I’s and get everything in, then we are subject to whether it’s been reviewed on time or whether it is perceived accurately…I just think there are inconsistencies.

If I asked them to be on time with reports, I needed to be like wise on time, making sure that they got the things I sent to them. I don’t necessarily see that. I don’t think it’s one agency or organization. I think it’s a mentality that shrouds the whole grant process.

All of it is a very slow, cumbersome government process without a whole lot of benefits.

There was no date upon which we could say ‘within two weeks we’ll have the money back.’ You send it in and you wait. It might come in next week, it might come in next month, it might be six or eight weeks before it comes in. We didn’t have a lot of control or predictability about that. Prior to getting a little bit of endowment that was devastating. We couldn’t make payroll. That was the money paying for 80 percent of many people’s salaries. It was very difficult for us.

Interviewee 4
We have had trouble drawing dollars for services. One organization that we have contracted with has instituted a new electronic system for billing, but the program is not working right and is delaying payments. Our staff had to go to the state division to appeal payments and have a mediator sit with them to make sure they got their contract dollars.

Interviewee 5
Federal reporting for a pass through grant was a bear and the database system didn’t work very well. One state department put out an RFP and took it back and reissued it after we had already filled out the application. We had to redo the application.
In general, the reporting is manageable, but there have been times where it seems like it is a lot. The hardest thing is that there are good organizations out there doing good work, but then grants are given to people who aren’t vetted very well.

Everyone wants things in a different language and different ways. There’s nothing wrong with that, but it makes things a little more difficult.

**Interviewee 6**
We have had some problems with the Governor’s Crime Commission grant. They did not abide by their own policies. We were supposed to get a grant in December, but it did not arrive until April. We had to cancel our program, but then in April, the Commission wanted us to start the program up right away.

**Interviewee 7**
Medicaid payments have always been on time. Vocational rehabilitation has been a good steward, but they have been really slow on paying out funds. State money tends to be slow.

The Medicaid has been incredible. We know when we are getting it. It gets in the bank every Thursday when it’s supposed to be.

**Interviewee 8**
What we didn’t anticipate was the complexity of the reporting function alone. Every department is asking for different reporting strategies - different forms, different timetables, different evidence and on and on and on. The full-time position is almost totally consumed by just reporting how money was spent. The paradigm here is that applying for grants is almost like shooting ourselves in the foot because we create more costs for us internally that are not picked up just to process grants. For every dollar we are getting, we are probably spending 30 to 40 cents just to accept it. We have 33 different grants.

There are very few large grants being given at this point, so what you have are a lot of little grants. The infrastructure demand from little grants is no different than big grants. We still have to have everything in place for a $5,000 grant as we do for a $500,000 grant…Our reporting mechanisms are diverse.

Strategically, we are looking at our organization and we are too reliant on grants, and we want to find other ways to create services, moving towards fee-based and contracted work. It changes the face of the organization and the community because a lot of nonprofits are doing this. We are looking at it. We need to find other ways, so we are forming collaborations and partnerships all based on creating a service that can be sold.

**Interviewee 9**
The NC Council for Women grant used to come in one big sum at the beginning of the year. Usually from July to October, we are working on a line of credit. Then we are
reimbursed for three months; sometimes we do not get the money until October, which is two quarters where we don't receive any funding at all from the Council for Women.

The trouble is that being in a small community and a small organization, the community supports us very well, but they can’t support us for three months while we are waiting for funding to come in. This happens every year. Most of the time I’m working off my line of credit all year long. It is $50,000. I never get enough money to pay that off because once I am reimbursed, that money has already been spent.

Interviewee 10
The Council for Women grant changed this year because the scoring of the grants changed. It is scored in tiers, and this year we scored in the second tier instead of the first tier, decreasing our funding by a third. We were in the top tier every other year. Grant payments are late. It feels good if we get it November, but that’s still six months of delivering services and paying staff, reporting to the state, and evaluating services without getting paid. We can float the state and pay staff and staff benefits. I hear that some organizations fire their Displaced Homemaker staff person and rehire them when the grant comes in because they don’t know when it will arrive.

The funds from HHS are partly federal pass-through and that might be the reason that they are generally dependable and on time.

5. How have problems affected your organization and its operations?

Interviewee 1
We’ve never actually missed payroll, but we’ve been late sometimes. When people have livelihoods and bills to pay, you never want to be late making payroll. I have borrowed from people on our board, their retirement funds, short-term loans, etc. You always pay it back, but I have taken my paycheck and put it right back in to pay the staff.

Interviewee 2
We have to forgo other things that money could have been used for. We use unrestricted funds to cover payments instead of being able to give clients assistance. We are cautious about giving assistance until we have the funds in hand, so it impacts clients as well as operations. It is difficult to give clients assistance without knowing when funds are coming in.

Interviewee 3
The staff has not gotten paid on pay day a number of times. They continued to work knowing that eventually it would come. Because they are who they are, we haven’t had any services disruptions.

Interviewee 4
Last year, we lost money for the first time in 18 years. We usually always sustain and at least break even or build over the years. Although it is a best practice to have a reserve, it has been very difficult in the past few years to deal with all of the changes. We lost five staff members because we could not afford to keep them. Two staff members went from full time to part time. We used to have two program directors, but now we have one program director who oversees both programs.

Interviewee 5
We are short-staffed. Although we usually have enough staff to provide services, we do not have enough staff for support services such as answering the phone and filing.

We started a building campaign, and we built the building. We owed the bank more money because we were not able to raise what we needed to raise to pay it off.

The population we serve is not one of the ones that people run to help. So many people right now are just dealing with the basic needs, and we utilize them, but people need to be able to go to work and find work even though they’ve been incarcerated. It’s been hard.

Interviewee 6
We went 7 months without receiving reimbursements for one program. Our day-to-day operations are affected to a degree because we relied on those funds to do the program. We spend a lot of time trying to figure out why we aren’t getting the money we are expecting and spend more time doing administrative work than programs.

Interviewee 7
We lost three employees three years ago. Today we provide the same amount of service that we did then. We over serve every month (meaning we serve more people/more hours than we are being reimbursed for). Local Management Entities will be taking over our case management and our services will be diluted.

Interviewee 8
The biggest struggle for us is not only the amount of funding, but the design of funding. Most funding sources (United Way, foundation and government grants) are not adequately funding the indirect costs that are necessary for us to operate the program. No one wants to pay for the management services. The degree of accountability that is being asked for when one receives money is tremendously expanding accountability of an organization and its infrastructure. The emphasis on outcomes (which I think is good) and accountability is creating expenses on the infrastructure side that go beyond the individual grant service, but no one is supporting that. They provide little, if any, support to management costs.

Interviewee 9
Employees are always nervous about whether grant funding will come in or not. We had to cut our accounting person who also knew a lot about computers. I brought in a contractor to do the accounting, which was cheaper than a full-time employee.
Interviewee 10
When a staff person left, we did not fill the position. We have some temporary staff filling in for some functions. We are also merging with another organization because our visions and missions are aligned. We believe we will be able to provide better services. The merger is not a direct result of the recession, although it didn't hurt. We have already been working together for a decade, and it took two years of feasibility studies and due diligence to make the merger happen.

We have been closing our office on Fridays and get all of our work hours in between Monday and Thursday. Our client numbers on Fridays were minimal, and it helps the staff. It was started to save energy. We do not save a lot of money, but we do save some.

6. Have you had to cut services?

Interviewee 1
We have actually been growing because we've applied for bigger and bigger grants. Since my background is in grant writing, we have a good chance, but not all organizations have that. In order to get a program done, you have to have programmatic people. They are never going to allow you to hire all of the infrastructure people you need to run a program.

We do not have group health insurance. Only full time staff gets insurance, and I am the only person who gets retirement. My staff virtually has no benefits. I do all of the bookkeeping.

Interviewee 2
This year, we had to cut financial assistance to clients that we usually provide for childcare, tuition and books, transportation, rent deposits to get people into housing, and uniforms for work.

Interviewee 3
We have not had any service disruptions because our staff is great and working regardless.

Interviewee 4
We let go of one of our clinics because there were to providers covering the same area. It was difficult to restructure programs that were losing money because staff may have been doing things a specific way for a while and now they have to do it differently. I make staff part of the planning and implementation processes so they feel okay about the changes. We did open a new program in a new county to provide services that make a little money because there was not already a provider there.

Interviewee 5
We have not cut direct services, but we have cut support services.
Interviewee 6  
*Has not had to cut services*

Interviewee 7  
*We have not cut services, but we have started small business ventures in an attempt to make money.*

Interviewee 8  
*I’ve been here 17 years. This is the first year we’ve had to confront running through our reserves. We are trying now to build reserves in the next two years. We’ve had to use the reserves to leave our services unaffected.*

*The depletion of our reserves came out of us trying to pick up what wasn’t being picked up. In recovery mode, we’re looking closely at the impact of a service and its profitability. We are going to have to make decisions about which services to continue with and which services to hand off to someone else or discontinue. Since we no longer have reserves, we can no longer subsidize a program that is not adequately funded or supported unless it is central to our core mission.*

Interviewee 9  
*We have not cut services. We work on a shoestring, and since all of our income is reimbursements, it is hard to spend money at first.*

Interviewee 10  
*We cut our housing program because no one could get a loan to buy a house anyway. We had to revamp our financial program to operate with less staff members.*

7. If you have not cut services, how have you avoided it (if not answered in previous question)?

Interviewee 1  
*NA*

Interviewee 2  
*We’ve done a more intense effort to raise money in the community. We do drives for gas cards and other gift cards for clients. We have had to become more creative.*
We have utilized as many subsidized employment programs as we could. We receive assistance from an area system for aging. We also utilized the Department of Social Service’s subsidized employment program. We trained some people to be peer mentors to provide case management. We also use a lot of volunteers and utilize interns more than we have in the past.

Interviewee 6
NA

Interviewee 7
NA

Interviewee 8
We have used reserves.

Interviewee 9
To cut back on expenses each month, we moved our offices into our program buildings because we couldn’t pay outside rent.

Interviewee 10
NA

8. What is the impact of the problems on the people you serve or your staff?

Interviewee 1
People burnout because we are always behind the eight ball. You want to do best practices, you want to feel on top of your game, but you are always behind trying to catch up. This is what gives us this reputation “Oh, you work for a nonprofit, you don’t expect the same as businesses.” Well, you do expect it, but you can get to it when you get to it.

Interviewee 2
That has hurt particularly people who have tried to get public housing. There is nowhere in the community that will pay a rent deposit. It is not typically paid for through most social service avenues. We’ve had to cut back on that. Sometimes it’s as little as $100-$150 that could stabilize someone’s family to get them into housing.

Interviewee 3
We have increased the amount of vacation time for staff and part of vacation time has to be taken as a lump sum. Staff has to take time away, and the Board strongly encourages that. We are providing more training to staff to get people more involved with nothing more than time out of the office and mileage. We are cross training so people can be out and operations can keep going.
Interviewee 4
NA

Interviewee 5
We do not have anyone to answer the phone or do filing.

Interviewee 6
NA

Interviewee 7
Morale [among staff] isn’t great, but it isn’t bad. Misery loves company. We still serve our guys with quality services and that’s what we’re about.

It makes you very weary. Every day you come in knowing you got to find some money, see what you’ve got, hope someone pays you. You go home thinking about it and crash…You are just weary.

Interviewee 8
NA

Interviewee 9
When another county’s program shut down because of funding, the rest of us had to absorb their clients.

Interviewee 10
NA

9. Have you cut employees?

Interviewee 1
No, but only full-time people get health insurance, and there is only one person receiving retirement and that is me. We virtually have no benefits. Part-time people deserve benefits. Three or four years ago everyone took a pay cut, and since then everyone’s salary has gone back up.

Interviewee 2
No, we have not had to cut any employees.

Interviewee 3
We have not lost any positions.

Interviewee 4
We lost five staff members. We couldn’t afford to keep them. Two went from full time to part-time.
Interviewee 5
We’ve cut 5.5 employees and now have a total of 15 employees.

Interviewee 6
We have not had to cut staff because we use mostly volunteers. We don’t want to build staff unless we have the money to keep them for at least one or two years.

Interviewee 7
We got rid of three employees three years ago. We will lose all of our case managers (3) when LMEs take over those services.

Interviewee 8
In the last two years we have lost eight positions. Now we have 140 employees.

Interviewee 9
We work on a shoestring. Yes, I had to lay two people off last year. One person I was able to bring back. We are one staff member short from what it normally is.

Interviewee 10
When a staff member left, we did not hire someone to replace them.

10. How can the NC Center for Nonprofits make it better or what resources do they provide that you find helpful?

Interviewee 1
It would be helpful if more policy language and templates were online. Some are there, but there are not enough for all of the policies that the state is asking us for.

Interviewee 2
The Center provides great resources. We receive money from the Wells Fargo Foundation. At the last statewide conference, I got to sit with the Wells Fargo representative. He let me know that we could get our money faster if we applied earlier in the cycle.

Interviewee 3
Everyone seems to complain most about DHHS, but we don’t have any funding from them. It would be great to have sessions during the conferences with funders – Council for Women and VOCA. I have been on the other side, and while I do think there are some things the legislators could do better, their hearts are in the right place. We need to step back and figure out how to make it better without more money and learn from one another.

The challenge for me coming into this nonprofit environment is how much time is consumed in getting the money and writing huge documents that have a lot of
redundancy in them…I spend more than half of my time doing grant management and getting reports and documentation and doing that busy work that should be simplified so that the people that are doing the work can grow the agency instead of constantly seeking the next dollar.

Interviewee 4

The Center does a great job helping people understand when to write a letter, when to send it, and what message is consistent and helpful. I have been a long-time member, but I know the Center provides more services and savings than I am aware of. I would like to figure out how to navigate the services better.

The state is focusing its attention on reforming Medicaid, but substance abuse is not included in that. The Center’s work should try to make sure that funding is reliable.

Interviewee 5

The NCCNP should continue to work with the legislature about how important nonprofits are. Although government funding is good, there are so many regulations; you do not have the opportunity to make the best decisions because you have to follow government rules.

Interviewee 6

I used the workshops and talk with David about issues. He put me in touch with a CPA and an attorney, which was helpful.

Interviewee 7

We want to examine creating a nonprofit incubator where organizations are in one building and pool resources until they can get on their feet. Guilford County is attempting to do it. We need to get entrepreneurial lessons and get away from outside assistance.

Interviewee 8

Communications and advocacy are always helpful. We haven’t utilized the discounted services available through the Center. We need help tackling the issue of indirect costs – feds are doing a better job than the state.

An area that troubles me is the lack of support for professional development or training because competency and quality are paramount in human services. It just hasn’t been getting much attention. There needs to be a willingness to allow a system to deepen itself.

Interviewee 9

I want you to lobby. I appreciate that you bring classes closer to us in the Western part of the state. Appreciates the lawyer at no cost.
We are all kind of weary of hearing the collaboration message because we are all collaborating. If the government wants us to behave in fiscally accountable manner and ask me to copy every single invoice and stick it in an envelope, I'd like for them to pay me on time. Even the county is making us copy invoices.