**Designing a Nonprofit Restaurant to Minimize Fraud**

**While Building Capacity:**

**A Research Service Learning Project**

Karen A. Maguire

Professor of Accounting

E. Craig Wall, Sr. College of Business Administration

Coastal Carolina University

kmaguire@coastal.edu

(843)-349-4163

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The objective of this graduate research service learning project is to evaluate options in several key areas of designing a successful Nonprofit Restaurant, including: Education & Training; Target Customers; Location; Food Concepts; Suppliers; and Types of Payment. Research is conducted for Nonprofit Restaurants in general, and specific research is provided for the project client, Palmetto Works Community Development Corporation. They are working with other organization to create C.H.O.P.S. – Culinary & Hospitality Operatives Prepared to Serve Culinary Arts Training Program. C.H.O.P.S. is “a collaborative jobs training program between A Father’s Place, Palmetto Works Community Development Corporation and Palmetto Missionary Baptist Church. It is designed to enhance the culinary skills, service attitude, business acumen and personal and professional motivation of participants to enable them to enter the workforce or to start a business ([1] Palmetto Works, 2014).”

For each key area, this graduate research service learning project evaluates options and makes recommendations that allow C.H.O.P.S and other Nonprofit Restaurants to:

* Utilize the appropriate Policies and Procedures (P&P) menu and self-assessment processes from previous graduate research service learning projects
* Make operational choices that minimize the potential for fraud
* Make recommendations that take full advantage of opportunities to demonstrate financial accountability to donors and grant makers, and
* Choose an approach that meets their commitment to achieving best practices while maximizing the benefit to both program trainees and the surrounding community.

**Keywords: Nonprofit Organizations, Accounting, Auditing, Governance, Restaurants, Internal Controls, Research Service Learning**

**Introduction**

*“[I]f you give a man a fish he is hungry again in an hour. If you teach him to catch a fish you do him a good turn.”* was first said by Anna Isabella Thackeray Ritchie, in her novel *Mrs. Dymond (1886*). This is one of the truths motivating the Palmetto Works Community Development Corporation to realize their vision of operating a successful nonprofit restaurant. They are working with other organization to create C.H.O.P.S. – Culinary & Hospitality Operatives Prepared to Serve Culinary Arts Training Program. C.H.O.P.S. is “a collaborative jobs training program between A Father’s Place, Palmetto Works Community Development Corporation and Palmetto Missionary Baptist Church. It is designed to enhance the culinary skills, service attitude, business acumen and personal and professional motivation of participants to enable them to enter the workforce or to start a business ([1]Palmetto Works, 2014).”

The objective of the research project, “*Designing a Nonprofit Restaurant to Minimize Fraud while Building Capacity,*” is to evaluate options and make recommendations that allow C.H.O.P.S and other Nonprofit Restaurants to:

* Utilize the appropriate Policies and Procedures (P&P) menu and self-assessment processes from previous projects
* Make operational choices that minimize the potential for fraud
* Make recommendations that take full advantage of opportunities to demonstrate financial accountability to donors and grant makers, and
* Choose an approach that meets their commitment to achieving best practices while maximizing the benefit to both program trainees and the surrounding community

The project evaluates options and makes recommendations for C.H.O.P.S. and other Nonprofit Restaurants in several key areas of designing a successful nonprofit restaurant including:

* Education & Training
* Target Customers
* Location
* Food Concepts
* Suppliers
* Types of Payment

The key conclusion from this research is that the Palmetto Works vision for the C.H.O.P.S. restaurant is very viable from every perspective we researched. If Palmetto Works agrees and wants to make their C.H.O.P.S. vision a reality they need to begin implementing their vision to make it a reality. The first logical step seems to be to name someone to be the leader/manager of the C.H.O.P.S. restaurant and charge that person with the responsibility to open the C.H.O.P.S. restaurant using some or all of these recommendations.

The general conclusion from this research is that the concept of a nonprofit restaurant is viable as a whole. If an NPO is interested in opening a nonprofit restaurant in their community, this research provides a set of recommendations that the NPO may choose to implement.

This research project was completed by the graduate Fraud Examination class at Coastal Carolina University and builds on previous projects completed by graduate level Fraud Examination and Advanced Auditing classes at Coastal Carolina University.

This research project was completed in collaboration with The Chapin Foundation, The Waccamaw Community Foundation, and The Frances P. Bunnelle Foundation.

With this and each past and future project, the **common goal** is to provide cost effective methods for South Carolina Nonprofit Organizations (NPOs) to achieve best practices and demonstrate these efficiencies to their donors and clients.

# [Project Background](#_Table_of_Contents)

 In 2011, the Advanced Auditing class at Coastal Carolina University surveyed South Carolina Nonprofit Organizations (NPOs) regarding their accounting, auditing, and governance practices to determine their strengths, weaknesses, and future needs. In 2012, the Advanced Auditing class at Coastal Carolina University produced a stepwise menu of policies and procedures for NPOs of four difference sizes to follow. Each menu adds additional policies and procedures to facilitate organizations as they grow. The objective of the stepwise menus is to centralize and standardize “back-room operations” of NPOs in South Carolina. All stepwise menus mentioned in the 2012 published policies and procedures white paper meet state and federal legal requirements in addition to aiding the organization in achieving state and national best practices. All applicable policies and procedures in the aforementioned white paper are recommended for all NPOs ([2]Maguire, 2013).

 In 2013, the Advanced Auditing class at Coastal Carolina University determined testing tasks for NPOs to self-assess compliance to the previously published stepwise menu of policies and procedures. Whereas the 2012 project addressed the design of internal controls, this project addressed the operation of internal controls. The self-assessment tasks were developed to improve effectiveness and efficiency of both internal and external audits, in addition to achieving best practices. The self-assessment testing tasks applicable are also recommended for all NPOs utilizing this paper’s research ([3]Maguire, 2014).

In 2013, the Fraud Examination class at Coastal Carolina University conducted a financial asset mapping and gap analysis of all NPOs in Horry and Georgetown Counties of South Carolina. The project analyzed tract level census data, conducted a geographical mapping and financial analysis, and identified locational and financial gaps. The goal of these projects is not only to help local NPOs standardize and grow, but also to help reduce the costs to build connections between the nine existing NPO sectors in Horry and Georgetown Counties ([4]Maguire, 2013).

# [Industry](#_Table_of_Contents) Overview

***Nonprofit Organizations***

 As of the 2010 Tax Year, all NPOs with revenues greater than $50,000 are required to file IRS Form 990 on an annual basis ([5]Internal Revenue Service, 2014). Based on 2011 statistics, 43% (354 of 826) of registered NPOs in Horry County filed Form 990, while 46% (134 of 286) filed in Georgetown County. For the state of South Carolina the filing rate was 19% (4,317 of 22,250) and for the United States overall 367,146 of the 1,565,497 registered NPOs, or 23%, filed Form 990. These statistics show that over half of the NPOs in Horry and Georgetown Counties have revenues of less than $50,000, even though the Form 990 filing rate is greater than that of South Carolina and the United States ([6]National Center for Charitable Statistics at the Urban Institute, 2013).

***Restaurant Industry Statistics***

Why should an NPO opt for a restaurant to help achieve its mission? There are many reasons including the size and growth of the industry and the number of jobs available. Here are some of the key 2014 statistics from the National Restaurant Association that support an NPO opting for a restaurant to help achieve its mission.

* In 1955, the restaurant industry’s share of the food dollar was 25%. Today, it is 47%.
* The restaurant industry’s sales equal 4% of US gross domestic product.
* Average annual location sales were $874,000 for full service and $777,000 at quick service restaurants in 2011.
* In 2014, restaurant industry job growth will outpace the overall economy for the 15th consecutive year.
* The restaurant industry employs 10% of working Americans.
* The number of jobs in the restaurant industry is expected to grow by 1.3 million in the next decade ([7]National Restaurant Association, 2014).

The restaurant industry in South Carolina accounts for 8,139 of the 990,000 restaurants in the United States ([7]National Restaurant Association, 2014). Accordingly, restaurant sales in South Carolina are around $7.7 billion out of the $683.4 billion in the United States. Every one-dollar spent on restaurant sales in South Carolina generates an additional $0.93 in state sales. Every $1 million spent in South Carolina restaurants generates 27.3 additional jobs in the state. Restaurants in South Carolina employ 206,000 individuals out of the 13.5 million employed in the United States, which accounts for 11% and 10% of total jobs, respectively ([7]National Restaurant Association, 2014).

Why should an NPO opt for a nonprofit restaurant to help achieve its mission? Because it serves the community and it helps their target clients. Evidence supporting this concept is:

* 80% of adults believe restaurants are good corporate citizens
* 72% of adults believe restaurants give back to their communities
* These perceptions are not unrealistic – 94% of all restaurants make charitable contributions totaling $3 billion per year ([7]National Restaurant Association, 2014).

***Food Trends***

 In every industry there are trends affecting how the industry is evolving to better serve its clients. Are there any trends in the restaurant industry of which an NPO should be aware and which may even prove to be a benefit to the community? The National Restaurant Association 2014 Culinary Forecast lists these Top 5 Trends:

1. Locally sourced meats and seafood
2. Locally grown produce
3. Environmental sustainability
4. Healthful kids’ meals
5. Gluten-free cuisine

One additional noteworthy point in the survey: 96% of chefs surveyed also responded that these will be the strongest trends 10 years from now ([7]National Restaurant Association, 2014).

Further proof of the trends towards locally grown produce and locally sources meats and seafood comes from two other sources. In 2007 the Oxford Dictionaries’ Word of the Year 2007 was “Locavore”. They defined a “Locavore” as “A person whose diet consists only or principally of locally grown or produced food” ([8]Oxford University Press, 2007). As part of the “Food-to-Table” movement, which involves food made with locally sourced ingredients, the Food, Conservation, and Energy Act of 2008 defines the total distance a product can be transported and still be considered local or regional food is less than 400 miles from its origin or within the state it was produced ([9]Johnson et al., 2012).

Can an NPO responsibly take advantage of these industry trends?

* These trends reflect the movement toward social responsibility
* Trends support local community
* Trends support healthy choices
* Trends support healthier foods that are also better tasting for citizens of all ages
* Trends are predicted to have long term impact, which benefits both trainees and nonprofit restaurant

In fact, by including these trends as factors in their plans for the nonprofit restaurant, the NPO shows their caring for the community and their social responsibility.

# Fraud Triangle

All NPOs should be aware of the Fraud Triangle and its important elements. Created by Dr. Donald Cressey, the three elements of the fraud triangle are Perceived Pressure, Perceived Opportunity, and Rationalization. Each of these elements must be present for fraud to occur ([10]Albrecht, 2012). People who try to prevent fraud work to decrease Perceived Opportunity. Both Perceived Pressure and Rationalization are internal to the fraudster, and the person working to prevent fraud cannot affect those perceptions. However, having good internal controls can decrease both perceived and actual opportunities, so fraud fighters focus all or most of their preventive efforts on implementing controls and ensuring adherence to them. They rarely focus on the pressures motivating fraud or on the rationalizations of the perpetrators ([10]Albrecht, 2012).

***Increasing Fraud Opportunities***

There are six major factors that increase opportunities for individuals to commit fraud within an organization. These six factors include: lack of controls that prevent and/or detect fraudulent behavior; inability to judge quality of performance; failure to discipline fraud perpetrators; lack of access to information; ignorance, apathy and incapacity; and lack of an audit trail ([10]Albrecht, 2012).

***Decreasing Fraud Opportunities***

The first step to decreasing fraud opportunities is to recognize that all three elements MUST be present for fraud to occur. An important step an organization can take to prevent the opportunity for fraud is to have an effective internal control framework ([10]Albrecht, 2012). Resources that an NPO can use to do this are the Coastal Carolina University produced stepwise menu of policies and procedures for NPOs of four difference sizes created in 2012; and the Coastal Carolina University produced testing tasks for NPOs to self-assess compliance to the previously published stepwise menu of policies and procedures. Implementing strong internal controls attacks the perceived opportunity to commit fraud.

The Association of Certified Fraud Examiners (ACFE) estimated that 5% of revenues are lost to fraud. The ACFE found that when internal controls are present it leads to a significant decrease in cost and duration of fraud schemes ([11]ACFE, 2014).

# Universal Topics

This section includes topics we refer to as “Universals” – regulations or recommendations that apply to all nonprofit restaurants. Universal topics include ADA Guidelines, Food Safety and ServSafe, Licensing of Music, NPO Insurance Protection, Unrelated Business Income Tax (UBIT), and Restaurant Checklists.

***Federal and State Regulations***

 As with any business, there are applicable laws and regulations that must be followed by nonprofit restaurants. Two sources of these laws and regulations are the Americans with Disabilities Act and OSHA. They both provide standards that must be met to remain in compliance.

***Americans with Disabilities Act & Related Policies***

 The Americans with Disabilities Act establishes guidelines for seats, tables, counters, ramps, entrances, parking lots, and restrooms. Aisles must be 36 inches wide, tabletops must be 28 to 34 inches high, the under table must be 30in wide x 27in high x 19in deep, and the cashier and food-ordering counter is a maximum of 36 inches tall. Ramps must be 36 inches wide, 60 inches minimum for landing, maximum slope of 1:12 or less, and those longer than 6 feet must have 34-38 inch handrails. Entrances must have a 32 inch wide opening, 18 inches of clear wall space, and you must be able to open/close the door with a closed fist. The parking lot must have 1 accessible spot for every 25 spots, 1 in every 8 must be van accessible, must be 8ft wide with no more than 2% slope, there must be a visible sign and parking spot outline, the spots must be placed next to an accessible entrance, and there has to be at least one travel route into building. Restrooms must have at least one stall that measures 30in x 40in and is at least 60in diameter; can also be T-shaped 36 in wide, at least one urinal must be designed for wheelchair with clear space, 30in wide x 48in deep, there must be horizontal grab bars mounted on wall, the sink must be no more than 34in high with clear space underneath, and valves or knobs must be operable with one hand ([12]ADA, 2010).

 It is important for all NPOs to follow the Americans with Disabilities Act (ADA) and its related policies. This act prohibits discrimination and ensures equal opportunity for persons with disabilities in employment, state and local government services, public accommodations, public facilities, and transportation. Businesses that serve the public must modify policies and practices that discriminate against people with disabilities; comply with accessible design standards when constructing or altering facilities; remove barriers in existing facilities where readily achievable; and provide auxiliary aids and services when needed to ensure effective communication with people who have hearing vision and speech impairments ([12]ADA, 2010). NPOs should follow the laws, regulations and policies related to the Americans with Disabilities Act, which can be found at ADA.gov.

***Food Safety and ServSafe***

 Safety guidelines consist of safety, health, and environment regulations for restaurants and are made up by FDA Standards, safety program and training, accident reporting policy, and any industry required laws that apply. Federal standards state that floors must stay clean and dry with proper drainage near water, everyone must wash hands and utensils before handling any food, using warm soapy water, there must be a fire safety plan for evacuation, fire extinguishers, and flammable liquids must be handled appropriately, due to the hot nature of kitchens a cool area with fans or air conditioner must be provided for breaks, and age restriction guidelines must be followed for work performed ([13]FDA, 2013).

 All NPOs operating a nonprofit restaurant benefit from its members getting ServSafe certified. There are several different ServSafe programs and certifications available. The ServSafe Manager program provides food safety training, exams and educational materials to foodservice managers. Students can earn the ServSafe Food Protection Manager Certification. The program encompasses the latest FDA *Food Code*, food safety research and food sanitation training experience. Managers learn to implement essential food safety practices and how to create an environment of food safety. ServSafe also provides a program known as the ServSafe Food Handler Program. This program covers five sections of food handling including basic food safety, personal hygiene, cross-contamination and allergens, time and temperature, and cleaning and sanitation. Upon successful completion of this program as well as passing an assessment, students are awarded a Food Handler Card. There is also a ServSafe Alcohol program available. This program prepares bartenders, servers, hosts, bussers, valets, bouncers and all front-of-house staff to effectively and safely handle difficult situations in their operations. Students can choose from two exams when registering for a course. The ServSafe Alcohol Primary Exam tests basic understanding, while the ServSafe Alcohol Advanced Proctored Exam tests proficiency in key concepts ([7]National Restaurant Association, 2014).

All restaurants must meet food safety and health requirements. The South Carolina Department of Health and Environmental Control (DHEC) provides a Food Safety and Security Checklist to ensure compliance. It calls for pre-opening, 30-day, and yearly routine inspections ([14]SC DHEC, 2005).

***Licensing of Music for a Restaurant***

 It is recommended that all NPOs wishing to play music in their nonprofit restaurant receive a music license in order to play music in their restaurant. The United States copyright law states that the owner of any given song has the exclusive rights to perform their songs in public. If NPOs want to play music in their restaurants they will need permission from the song’s owner. US copyright law is very particular when music is being used by another person to make money. Since playing music adds value and encourages people to eat at restaurants, royalties must be paid to the song’s owner. Restaurants in the United States that want to play music pay royalties by purchasing music licenses. In the United States there are three companies that issue licenses to restaurants. The three companies are the American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI), and the Society of European Stage Authors and Composers, Inc. (SESAC, Inc.). Each of these companies holds the rights to a select number of albums and songs. Technically, you are contracting with one of these companies to play music in the restaurant but are only allowed to play music from that company’s library ([15]National Restaurant Association, 2014). It is highly recommended that all NPOs interested in running a successful restaurant where its customers can enjoy music should purchase a music license from one of these three companies. The National Restaurant Association (2014) recommends that restaurants purchase a blanket license to avoid any legal liability. Fortunately for NPOs, prices for licenses range from the low hundreds to several thousand per year, with prices negotiable given various criteria.

***NPO Insurance Protection***

 All NPOs should protect themselves via insurance for the unexpected. How your NPO chooses to do so is dependent upon your Board of Directors and Executive Director/ President. Four basic insurance policies all NPOs, specifically those selling food and/ or products, should consider are general liability insurance, property insurance, product liability insurance ([16]Pakroo, 2014), and lastly, fidelity bonding ([17]State Farm, 2014). To begin with, all NPOs should have some kind of general liability insurance. This coverage protects your organization from any type of injury that someone could have allegedly suffered on your premises, from your products, or generally from something your organization has done. A classic slip and fall scenario is an example of how this type of coverage can protect you. Also, please note general liability insurance, if negotiated with your agent, can also provide minimal coverage of some of the following scenarios as well ([16]Pakroo, 2014).

 In the event of a natural disaster, theft, vandalism, etc. your organization could lose thousands of dollars worth of property and/or equipment. In order to protect yourself and your organization, you want to have property or renters insurance depending on whether you rent or own. It is recommended that your policy will pay to replace all items that are damaged or destroyed instead of paying market value. All policies are different, so be sure to ask your insurance agent to carefully explain the details of your policy ([16]Pakroo, 2014).

 Considering your nonprofit restaurant will be selling food prepared by trainees to the public, you want to have product liability insurance. This coverage will protect your organization from potential claims made by customers as a result of your product. This type of insurance will usually cover legal costs and a substantial portion of any damages ([16]Pakroo, 2014).

 In order to protect your organization, trainees, and volunteers, you want to have some type of coverage that insures against loss from fraudulent actions. Fidelity bonding is a type of business insurance policy that, for example, can protect the organization from loss caused by trainees or volunteers that handle cash or other valuable assets. It has been referred to as a “guarantee” to the employer that trainees and volunteers will be honest. The Federal Bonding Program provides Fidelity Bonds to anyone who is not eligible for commercial bonding, at no cost to the employers or employees ([18]Wisconsin DWD, 2014). Organizations such as State Farm Insurance ([17]State Farm, 2014), Travelers, and Nationwide can provide this coverage at varying rates ([19]Nationwide, 2014).

 Some organizations choose to protect their volunteers separately in the event that they cause a claim via volunteer liability insurance. Additional coverage your organization may want to consider, depending on your specific needs, is: Coverage for volunteer liabilities, Workers Compensation, and Directors and Officers coverage ([20]Nonprofit Insurance Alliance Group, 2014). For additional information on these types of insurance, please refer to the Nonprofit Insurance Alliance Group at [www.insurancefornonprofits.org](http://www.insurancefornonprofits.org).

***Unrelated Business Income Tax***

 All NPOs must be cognizant of unrelated business income tax, more commonly known as UBIT. The sole fact that your organization is tax exempt does not mean that you are *always* exempt from paying taxes to the Internal Revenue Service. Unrelated business income is “income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption” ([21]IRS, 2014). Of course, not all income from activities unrelated to your mission is considered unrelated business income worthy of taxation.

 The IRS specially exempts volunteer labor, convenience of members, selling donated merchandise, and certain bingo games as activities excluded from the UBIT calculation. The IRS describes volunteer labor as, “…substantially all the work is performed for the organization without compensation. Some fundraising activities, such as volunteer operated bake sales, may meet this exception” ([21]IRS, 2014). Next, it describes convenience of members income as, “any trade or business is excluded that is carried on by an organization described in section 501(c)(3) or by a governmental college or university primarily for the convenience of its members, students, patients, officers, or employees. A typical example of this is a school cafeteria” ([21]IRS, 2014). Finally, it describes selling donated merchandise as, “…selling merchandise, substantially all of which the organization received as gifts or contributions. Many thrift shop operations of exempt organizations would meet this exception” ([21]IRS, 2014). Other examples of unrelated income that your exempt organization would likely not include are: “dividends, interest, other certain investment income, royalties, certain rental income, certain income from research activities, and gains or losses from the disposition of property” ([21]IRS, 2014).

 If your organization has greater than or equal to $1,000 of gross unrelated business income, it is required to file a form 990-T. Furthermore, your organization must pay an estimated tax if you expect your UBIT to be greater than or equal to $500. An estimated tax is paid on a quarterly basis and the estimated calculation can be found on the Form 990-W. The Internal Revenue Service Publication 598 and the Form 990-T Instructions have additional information regarding this topic if your organization is unsure of certain income classifications ([21]IRS, 2014).

***Restaurant Checklists***

 The Food Service Resource Associates LLC ([www.FoodServiceResource.com](http://www.FoodServiceResource.com) ) provides a wide array of services to those wanting to start a restaurant. When opening a restaurant this organization recommends and provides detailed checklists of key items that must be addressed before opening the restaurant. The lists include:

* Equipment
* Inventory
* Pre-Opening
* Green Food
* Human Resources

# Food Concepts Overview

 The business model of the restaurant is an important factor in how all other decisions will be made. This section provides a brief overview of the restaurant models used in our analyses. These models emerged from multiple sessions using open ended surveys administered to students and clients. Two distinct, potential food concepts for the nonprofit restaurant emerged. We refer to these food concepts as Economic Eats and Premium Palates.

 The Economic Eats restaurants are similar in that they offer quick service, fast casual, food truck, and/or take out for a menu of 20-25 American and Southern styled items in a price range of $3 to $10. The revenue goal for a single site would be $600,000 to $1 million.

 The Premium Palates restaurants would have table service, take out, delivery, and/or catering, as well as an expanded menu of 30-40 items of French, Italian, and Asian cuisine at a price point of $10-$25. The target revenue of a single site would be $1.6-$2.2 million.

# Education and Training

The NPO will need to consider the Education and Training dimension of their successful restaurant. Knowing the various training programs that are available along with the funding and transportation options will be a key part of the success for the NPO’s restaurant efforts.

***Various Training Programs and Levels of Training***

 There are several different training programs that vary in the length of time and requirements needed to complete them. They include high school programs, certificate programs, associate degree programs, bachelor degree programs, and master degree programs. All of these programs reviewed are ServSafe approved, as they provide instruction in basic food safety, personal hygiene, cross-contamination and allergens, time and temperature, and cleaning and sanitation ([22]ServSafe, 2014).

 The Academy for Technology and Academics in Conway, South Carolina, is an example of a high school program where Culinary Arts are taught through a base high school, have varying lengths of time, and offer preparation for further education. They teach the basic skills needed in culinary arts through courses such as Culinary Arts I, II, and III ([23]Academy for Technology and Academics, 2014). ProStart is another high school program, this one offered by the National Restaurant Association. It is a two year program that cross-trains the student in all aspects of a restaurant’s operation through 400 hours of mentored work experience. Upon completion, the student is awarded the ProStart National Certificate of Achievement ([7]National Restaurant Association, 2014).

 There are several different certificate programs, each with different lengths and levels of training. Tri-County Technical College offers a Culinary Arts Certificate for an eight week program that teaches food production, business concepts for food services, and employment training ([24]Tri-County Technical College, 2014). FEDCAP is a culinary arts/food services training program that teaches food preparation, operations management, and customer relations in a twelve week/300 hour curriculum ([25]FEDCAP, 2014). The National Restaurant Association offers the National Restaurant Association Cooking Certificate. This program consists of two years and 400 hours of mentored work experience in which the student will learn kitchen essentials, including equipment and culinary techniques, and management skills such as communication and customer service ([26]National Restaurant Association, 2013).

 Many technical colleges offer associate degree programs in culinary arts. Horry Georgetown Technical College offers an Associate in Applied Science degree in Culinary Arts Technology. It is a two year program consisting of 70 credit hours in which the student will learn food production, business concepts for food services, and management skills ([27]Horry Georgetown Technical College, 2014). The Culinary Institute of America offers an Associate in Occupational Studies in Culinary Arts degree. It is a 21 month program that teaches basic baking, nutrition, menu development, food safety, communication, and cost control skills ([28]The Culinary Institute of America, 2014).

 The Culinary Institute of America also offers a Bachelor of Science Degree in Culinary Arts. It is a continuation of the associate degree program that requires 24 additional credit hours in which the student will learn financial management, marketing and promoting food, other countries cultures and foods, professional food writing, and leadership skills ([29]The Culinary Institute of America, 2014). Johnson & Wales University also offers a Bachelor of Science in Culinary Arts degree. It is a four year program that teaches culinary arts and food service management, as well as baking and pastry culinary arts ([30]Johnson & Wales University, 2014).

 At the highest level of education, Atlantic International University offers a Master of Culinary Arts degree. In this program, the student will gain experience in the kitchen, study the business of cost control, and learn about sanitation and safety, menu and beverage management, nutrition, and kitchen management. The length of the program varies as the schedule is flexible and built for the student’s needs ([31]Atlantic International University, 2014).

***Funding Options***

The sources of funding for the training programs depends on the needs of the potential trainees. For Palmetto Works and their mission, the potential trainees include at-risk youth, military veterans, and prior offenders. Each of these categories has several options to seek funding.

 At-risk youth consist of those who are lacking the opportunity and advantages of other youth. The Workforce Investment Act (WIA) provides youth funds that can be used to provide incentives for recognition and achievement to eligible youth. The incentive and stipend awards are not an entitlement and are subject to the availability of WIA Youth funds ([32]Fuqua, 2011).

 Veterans are those who have served in our armed forces. There are several sources of funding for this group. The GI Bill provides tuition and fee payments made to programs on the individual’s behalf. It also provides a monthly housing allowance as well as a books and supplies stipend of up to $1000 per year ([33]United States Department of Veterans Affairs, 2012). The Veterans Workforce Investment Program provides training services through grants and contracts that assist eligible veterans with reintegration into meaningful employment. It consists of a one year grant that is renewable for up to an additional three years based upon approval ([34]United States Department of Labor, 2012).

 For prior offenders the Department of Labor has a handbook that includes topics on the “One Stop Employment Assistance Center” plus a collection of recommendations for helping prior offenders.

The state of South Carolina offers funding for several different types of efforts. The web site for the funding available is [www.SouthCarolinaGrantWatch.com](http://www.SouthCarolinaGrantWatch.com) . Among the types of effort for which grants are available are:

* Grants to US NPOs to help meet technology needs: $5,000-$25,000
* Grants to address community improvement: $3,000
* Grants for workforce development or provision of basic needs
* Grants to US NPOs for education, culture, health, community
* Grants to US and international NPOs and others to address the needs of low-income college students
* Other links: Veterans, economic development, higher education, housing, youth ([35]GrantWatch, Inc., 2014).

***Transportation***

 There are transportation grants available to support NPOs that build strong local economies in South Carolina. The majority of the grants are for between $15,000 and $250,000 and are awarded to US NPOs for programs that promote a just, equitable, and sustainable society ([35]GrantWatch, Inc., 2014). Coastal Carolina University also has 12 passenger vans in their motor pool that are available for short-distance travel and short term use only ([36]Coastal Carolina University, 2014).

***Recommendations***

 Our first recommendation is to utilize an in-house rotational training program in order to increase trainees’ marketability, facilitate both kitchen and customer operations of the nonprofit restaurant, and mirror the all-around training approach of the education and training programs profiled above. This would include training in server setup and greeting, taking orders, other server duties, other server information, and server evaluation. The first week of the rotational training might be:

* Day 1: Orientation & Company Introduction
* Day 2: Position Training- Server Setup & Greeting
* Day 3: Position Training- Taking the Order
* Day 4: Position Training- Other Server Duties
* Day 5: Position Training- Other Server Information
* Day 6: Position Training- Server Evaluation ([37]The Manual Solution, 2007)

For the certificate program, we recommend the Tri-County Technical College Culinary Arts Certificate, as it is a WIA eligible training program. For higher education programs, we recommend the Culinary Institute of America as it offers a variety of degree programs, from associate to bachelor degrees, with easy student transition between degree programs. Students in these programs are eligible for Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, Federal Work-Study, and Veterans Benefits. For more information, please see Appendix A: Training (available from author upon request).

# Target Customer

 When considering the customers of a nonprofit restaurant, there are three distinct groups the NPO can serve while carrying out its mission. The components for target customers include tourists, locals, including college students, donors, and the trainees themselves, who may be at-risk youth, veterans, and prior offenders.

***Locals***

 People like to buy local food. Grocery shoppers largely embrace the increase in local food options because they believe it helps local economies. This feeling spills over into the restaurant industry. The demand for locally sourced, socially responsible organizations has a strong impact on customer growth through word of mouth, spreading from locavores and college students to other locals and tourists ([38]Grace Communication Foundation, 2014).

 The National Restaurant Association’s 2014 survey brings out many important points about why Locals are such a valuable target audience:

* 90% enjoy restaurants
* 40% find them essential to their lifestyle
* 70% cannot replicate their favorite restaurant foods at home
* 72% are more likely to choose a restaurant with lower prices during off-peak hours
* 72% are more likely to choose a restaurant with healthy choices
* 64% are more likely to choose a restaurant with locally sourced food
* 58% choose a restaurant based upon its sustainability efforts ([7]National Restaurant Association, 2014)

***Students***

 Students are an excellent target customer. Several different surveys point out the reasons why. Just some of the reasons are:

* College students spend 36% of their discretionary spending on food, which amounts to $42.1 billion per year ([39]Refuel Agency, 2014)
* 88% of college students visit quick service and 83% visit sit down restaurants monthly ([39]Refuel Agency, 2014)
* Study found 59% of college students are food insecure, and food insecurity is inversely related to GPA ([40]Patton-Lopez et al., 2014)
* From 1977-1995, children 2-18 years increased fast-food consumption by 500% ([41]Davis and Carpenter, 2009)

***Tourists***

National Restaurant Association research shows that roughly one in four industry sales dollars come from travel and tourism. The Senior Vice President of the National Restaurant Association’s Research and Knowledge Group told a House panel that travel and tourism plays a crucial role in restaurant industry growth, including helping the nation’s nearly one million restaurants create jobs ([7]National Restaurant Association, 2014). Tourists ask locals for suggestions of restaurants and entertainment, and will gradually come in based on the spread from locals ([42]National Restaurant Association, 2013).

Tourists are a valid target customer for a nonprofit restaurant. Tourists have several unique characteristics on how they choose a restaurant and how they buy from them. These characteristics need to be considered when deciding how to best serve and win the tourist customers’ business.

* Tourists will gradually come in based on the spread from locals
* Tourist ask locals for suggestions of restaurants and entertainment
* 33% consider feedback from peer-review websites when selecting restaurants
* 44% use a smartphone to check nutrition information for restaurants ([42]National Restaurant Association, 2013)

***Trainees***

 The program’s trainees will also be target customers. This category includes at-risk youth, veterans, and prior offenders. There are many at-risk youth in our country. More than 20 million children live in single parent homes. The average annual median income of single mothers is $24,000. One third of American children are being raised without a father, and children without fathers are more likely to grow up in poverty ([43]Anderson, 2013). Only three other developed countries have a higher child poverty rate than the United States: Mexico, Chile, and Turkey. Students that come from low-income families are seven times more likely to drop out of school, and children below the poverty line are 1.3 times more likely to have learning disabilities ([44]DoSomething, 2014).

Why should an NPO opt for the restaurant industry in which to train its at-risk citizens in need of marketable skills? Simply put, because of the opportunities to serve these people and make a difference in the community:

* 80% of all restaurant owners’ first job was in a restaurant
* 90% of all salaried restaurant employees started as hourly workers
* First line supervisors/managers in 2012: 59% women, 14% black or African-American, 17% Hispanic origin
* Overall, the number of restaurant businesses rose 36% from 1997-2007. During same period:
	+ Women owned restaurants rose by 50%
	+ Black or African-American owned rose by 188%
	+ Hispanic owned rose by 80% ([7]National Restaurant Association, 2014)

There are several programs that are trying to fight this problem, including the Tiger Woods Foundation, the Sprint Foundation, the AT&T Foundation, the Office of Juvenile Justice and Delinquency Prevention, the 21st Century Community Learning Centers, GEAR UP, and the Daniels Fund ([45]Josephson Institute, 2014). With the large number of at-risk youth, and the fact that their training is a core goal of this proposed program, they also constitute a large segment of target customers.

***Veterans***

 Veterans also make up a large segment of society and the restaurant industry. There are more than 250,000 veterans employed in the restaurant industry ([7]National Restaurant Association, 2014). Veterans are known for their dedication and provide invaluable skills in organizational, team building, and problem solving areas ([46]Charitable Giving Statistics, 2014). There are several programs designed to get veterans back into the workforce. Among them are the VOW to Hire Heroes Act of 2011 ([47]United States Department of Veterans Affairs, 2011), Work Opportunity Tax Credit ([48]Lockhart, 2012), Returning Heroes Tax Credit, and the Wounded Warriors Tax Credit ([49]White House, 2011). The large quantity of veterans creates an appealing target customer market.

Why should an NPO opt for the restaurant industry in which to train its veteran citizens in need of marketable skills? There are 2 very good reasons to do this – Need and Opportunity. Veterans are in need of the kind of help that gives them a future and a career:

* Veterans serving since 2001 to the present have an unemployment rate of 10%, compared to the national average of 7.3%
	+ For female veterans, the unemployment rate is 11.6%
* One in five households that relies on the Low Income Home Energy Assistance Program (LIHEAP) has a veteran in it
* Veterans make up 7% of the general population, but 13% of the homeless population ([50]Covert, 2013)

Veterans are also a great opportunity for the NPO to serve the community through giving veterans the skills to develop a career in the restaurant industry, which has already shown how receptive it is to Veterans:

* Veterans are half to full owners in 65,469 restaurants
* 250,000 veterans work in the restaurant industry: 19% in management, 14% supervisors, 6% were on active duty in the last year
* National Restaurant Association maintains a database of job openings matched to and searchable by Military Occupation Specialty (MOS) Codes ([7]National Restaurant Association, 2014)
* Various franchises actively recruit veterans
	+ Offer credits, discounts, or waive fees for honorably discharged, non-service disabled, and service-disabled veterans toward their first store
	+ These franchisors believe the skill set, composure, and commitment that veterans possess make them ideal franchisees
	+ Programs include Little Caesars Veterans Program, Cici’s Pizza Patriots Program, International Franchise Association’s VetFran Program ([7]National Restaurant Association, 2014)

***Prior Offenders***

 The final category of trainees is prior offenders. These are people who have committed past mistakes and are in need of assistance in the transition back into society. Businesses who hire prior offenders benefit from the Work Opportunity Tax Credit. Programs exist that allow for GEDs and college degrees as well as vocational training. Workforce development programs have shown that prior offenders have been committed to turning their lives around ([48]Lockhart, 2012). As one of the core groups of trainees, they are also an important target customer.

Why should an NPO opt for the restaurant industry in which to train its returning citizens in need of marketable skills? Because it helps these people in need, helps the community, and helps business:

* Businesses who hire prior offenders benefit from the Work Opportunity Tax Credit
* Programs while incarcerated that allow for GEDs and college degrees as well as vocational training provide a smoother transition to further training and employment
* Workforce development programs have shown that prior offenders have been committed to turning their lives around ([48]Lockhart, 2012)
* Websites that offer job search assistance for prior offenders
	+ Xamire.com
	+ [www.Hirenetwork.org](http://www.hirenetwork.org/)
	+ WorkSC.org
	+ [www.lewisb.org](http://www.lewisb.org/)
* Fidelity Bonding

***Donors***

 There are several sources of funding and donations for a nonprofit restaurant training program, and these same sources can also be considered potential customers. These potential donors/customers include Community Foundation Centers, local businesses, local farmers, and individual donors including Locals, Students and Tourists ([51]Grace Communications Foundation, 2014). According to NPTrust (2013), 88% of households give to charity. The average annual household contribution is $2,213 while the median is $870. In 2011, the largest source of charitable giving came from individuals at $217.79 billion, or 73% of total giving; followed by foundations ($41.67 billion/14%), bequests ($24.41 billion/8%), and corporations ($14.55 billion/5%). Foundation giving increased in 2011 to $41.67 billion--a 1.8% increase from 2010. The number of foundations has increased 242% since 1980; 33.6% since 2000; and 6% since 2005. Corporate giving held steady in 2011 at $14.55 billion. There were 177,357 donor-advised fund accounts in 2011. Fifteen donor-advised funds held $37.43 billion in assets in 2011. As the statistics indicate, people are more than willing to give their money to a good cause, so it stands to reason that donors are an important target customer ([52]NPTrust, 2013).

***Recommendation***

 Our first recommendation for target customers is to take advantage of the opportunity that all three members of our first customer group – Locals, Students, and Tourists – demonstrate a need or demand for the following:

* Locavore and/or sustainability efforts
* Positive word of mouth
* Positive feedback on peer-review websites
* Healthy choices with online nutrition information
* Lower prices during off-peak hours

For trainees we recommend targeting at-risk youth as there are both public and private sources for funding, and this helps not only the individuals, but the community as a whole. Veterans are important target trainees and customers as many already work or have worked in restaurants, they provide invaluable skills, and there are both funds and tax benefits for including them. They are organized, disciplined problem-solvers, and their training in team-building makes them excellent classmates during training and employees or managers upon graduation. Prior offenders should also be targeted in the program, as there are various programs that help with funding, as well as tax benefits and fidelity bonding for employers who hire these training graduates. For donors we recommend starting small with local businesses and farms, and then expanding to community foundations and corporations. Given that the Food-to-Table movement is already functioning, this provides options to help the nonprofit restaurant with both ideas and resources.

# [Location](#_Table_of_Contents)

The components of an NPO’s restaurant location choice are: demographic studies, choosing a location, safety, the ADA, transportation, and the decision of whether to lease the property or purchase the property.

***Demographics***

First, demographic studies can be executed by the NPO or an external source. One typically engages in such a study in order to decide on a location for a nonprofit restaurant. External demographic studies can be cost effective, but for most NPOs, they are cost prohibitive. Demographic analysis can be beneficial in choosing a restaurant location. When analyzing the location, the NPO wants to analyze the demographics, trends, traffic patterns, and the levels at which these take place. In addition, the NPO needs lifestyle data, competitive analysis, and neighborhood traffic generator information to piece together where they want their location to be. Some of this information can be found in US census data. This allows the NPO to see what type, and how many people are in a certain location, which aids in choosing a location ([53]Spaeder, 2014).

***Choosing a Location without Spending a Donors’ Dime***

 NPOs can engage in studies that are cost effective and costly when choosing a location. NPOs can also choose to benefit from going where others have already gone – in other words, simply locate yourself with your competitors. Your competitors have chosen their location based upon costly demographic studies, so take advantage of the results and spend your donors’ money more effectively elsewhere. The benefits of this strategy can range from using the competitors’ location to entice customers to the nonprofit restaurant’s location, to benefitting from the competitors advertising. As the competitor advertises and brings in customers, the customers notice the new restaurant that just opened. It entices them to try it. If they like it they will come back. The nonprofit can also learn from the competitor’s business. The nonprofit should analyze the competitor’s pitfalls, target demographics, and zonings with a fresh perspective and adjust its operations accordingly ([53]Spaeder, 2014).

***Safety***

 Safety is an important aspect when considering where to open a restaurant. The building should be up to code to avoid any additional costs being funneled toward the building instead of the business operations and its success. The nonprofit should inspect fire alarms, sprinkler systems, and handicap accessibility to meet minimum code expectations. Any local code enforcement officer will help the nonprofit to identify if any issues are present ([54]Mealey, 2014). The nonprofit should also have inspections done to the building, sewer, fire, and general environment to ensure safety ([55]Rahm, 2014). The nonprofit should also consider the safety of the restrooms. Are the restrooms accessible for the handicapped? The equipment in said restroom should also be fully functioning ([56]Haring, 2014).

 Crime can be a detriment in some prospective restaurant locations. The nonprofit should be aware of the most common restaurant related criminal activities. Armed robberies, employee theft, violence, and burglaries are among a few. Crime prevention policies can help prevent and prepare for such an event. The nonprofit should encourage an honesty and prevention policy with regards to crime and its employees. These policies are included in the NPO P&P stepwise menus discussed earlier. In the event of a crime at the nonprofit restaurant location, report losses to local authorities. Other prevention tactics include employee screening or background checks, employee training on the subject, physical security to guard the restaurant location, and security systems ([57]Mississippi Hospitality & Restaurant Association, 2014). Crime maps with applicable crime rates regarding activity in inner city and downtown areas of the cities of Conway and Myrtle Beach, SC are shown in Appendix C: Location (available from author upon request) ([58]Parpal, 2014).

***American Disabilities Act***

 The United States Department of Justice requires that all restaurants comply with the American Disabilities Act of 2010. In order to do so, restaurants must have proper handicap parking, and handicap accessible ramps. In addition to entering the building, the Act also provides requirements for restrooms and dining room seating ([12]United States Department of Justice, 2010). Please see the Universal Topics section above for more information.

***Transportation***

Trainees and employees of the nonprofit restaurant may face logistical challenges when going to and from work. There are solutions to this challenge that may vary from location to location. A grant offered by the US Department of Transportation, named Job Access and Reverse Commute Program (JARC), was established to overcome logistical challenges faced by low-income persons with hopes of seeking and maintaining employment. Private NPOs, state and local governments, and operators of public transportation services are eligible to receive the grant. Grants are also available to private NPOs for capital, planning, and operating expenses for projects that transport low-income individuals to and from employment ([59]US Department of Transportation FTA, 2014). In addition to federal grants, Coast RTA, the Waccamaw Regional Transportation Authority, offers a reduced fare to senior citizens, persons with disabilities, students, and Medicaid recipients ([60]Coast RTA, 2014). Please refer to Appendix C: Location for transportation resources (available from author upon request).

***Buying versus Leasing***

 To properly understand the implications of leases versus buying, you must first understand leases for the lessee and how each effects the NPO’s financial statements. Lessees classify lease transactions as either a capital lease or an operating lease. The Financial Accounting Standards Board states that a financing transaction is called a capital lease on the lessee’s books if it meets one of any of the following four criteria: ownership, bargain purchase option, estimated economic life, or fair value. The ownership test is met if the lease transfers ownership of the property to the lessee by the end of the lease term. The bargain purchase option is met if the lease contains an option to purchase the leased property at a bargain price. The estimated economic life test is met if the lease term is greater than or equal to 75% of the leased property’s estimated economic life. Finally, the fair value test is met if the present value of rental and other minimum lease payments equals or exceeds 90% of the leased asset’s fair value. If none of the preceding criteria is met, the lease is considered to be an operating lease. A capital lease is treated as an acquisition of an asset and the lessee assumes the related obligations, which are reported on the balance sheet ([61]Lee, 2003).

 FASAB defines an operating lease as one in which the lessee does not assume the risk of property ownership. It is simply an agreement for the right to use the property for a specified period of time in exchange for lease payments. It is reported as an expense, with any accrued lease payments on the balance sheet at the end of the period. No asset or future lease liabilities are reported ([61]Lee, 2003).

 If the NPO accounts for its lease as an operating lease, the amount paid for the lease should be accounted for as rent expense on Form 990 ([62]Internal Revenue Service, 2013). If the NPO accounts for its lease as a capital lease, the cost of the property should be depreciated over its useful life. Effectively, the NPO is purchasing a capital asset when entering into a capital lease ([63]Miller, 2014). There are benefits to leasing that are not present when purchasing a property. When leasing a property, initial cash flow and credit ratings are not as prominent of an issue as when prospectively purchasing property. If something were to happen with the restaurant or the location needed to be moved, the NPO would have the option to sublet the space and would not have to hassle with selling a property ([64]DiFranco, 2013). A property owner that rents residential property to an NPO and does not make a profit on the rental activity can take a deduction of rental expenses only up to rental income ([65]Internal Revenue Service, 2013). If rental expenses exceed rental income for any particular year, the property owner is not allowed to deduct the loss or carry it forward to the following year ([65]Internal Revenue Service, 2013). Unlike residential property, tax deductions are not allowable to landlords willing to lease office space at a discount or free to an NPO. The concept put forth by the IRS is that the landlord is generating less taxable income than he would have otherwise, so therefore he is already paying fewer taxes ([66]Sanders, 2014). There are disadvantages for the NPO when leasing versus purchasing property. The NPO does not have the ability to build equity and may be subject to escalating rental rates based on the rental market. As a precautionary leasing measure, the NPO should address whether the lessor is willing to enter into another lease term after the current one has expired if it is probable that the NPO will stay in the same location after the conclusion of the first lease term ([64]DiFranco, 2013).

If the NPO chooses to lease and then makes improvements in the property these are called Leasehold Improvements. These are a separate asset from rental property to be depreciated. Examples are: painting, installing partitions, changing the flooring, and putting in customized light fixtures.([61]Lee, 2003).

 Benefits of purchasing and owning a restaurant location are mainly attributable to yearly tax returns and equity. The interest paid on the property’s mortgage loan is tax deductible and deductions can be made from annual depreciation expense paid. In addition, the NPO builds equity in the property with the ownership. The option to make changes to any aspect of the building is also present with ownership. Extra maintenance and capital are among the disadvantages of owning the restaurant property. Purchasing a property usually requires more initial capital than leasing a property would. The owner may also be subject to regulatory and legal requirements that would not affect a lessee. Ownership of property entails responsibility for all things related to the property, unlike leasing. The NPO also runs the risk of a bad investment and incurring losses related to the property in the event of a sale ([64]DiFranco, 2013). If the NPO wants to avoid purchasing or leasing altogether, the IRS offers an enticing benefit to property owners. Owners can choose to donate office space to an NPO as an in-kind donation, as the IRS encourages the donor take a tax deduction for the fair market value ([66]Sanders, 2014). Please refer to Appendix C: Location for a link to a buy versus lease calculator that may be helpful in the decision (available from author upon request).

***Recommendation***

 We recommend that C.H.O.P.S. and other nonprofit restaurants choose a location based on the location of other established, competitive restaurants in their geographic area of interest. The nonprofit restaurant will benefit from surrounding competition. For Palmetto Works as well as other NPOs, we believe that it is more beneficial to lease versus buy property, as it is more economically feasible in the short run. This option minimizes initial cash flow and maximizes flexibility. In the long run, it will allow for future growth should the nonprofit restaurant decide to expand ([67]Dinkytown, 2014).

 Our location recommendation specifically catered for C.H.O.P.S. is for a restaurant property in the Highway 501 Corridor in the general area of Carolina Forest. The location is proximal to Coastal Carolina University, Horry Georgetown Technical College, Miller Motte Technical College, the City of Myrtle Beach, the City of Conway, and is in the heart of the Grand Strand region of South Carolina. The Quick Serve restaurant will benefit from students and tourists on a year round basis. While school is in session during the fall and spring, students travel and/or commute back and forth from Conway to Myrtle Beach. Sixty one percent of Coastal Carolina students are commuters ([68]Coastal Carolina University, 2014). Carolina Forest is conveniently located on the 501 corridor from Conway to Myrtle Beach and vice versa. When school is out of session, more than fourteen million tourists visit Myrtle Beach each year ([69]MyrtleBeach.com, 2014), which increases the population by 1,500% during the summer ([70]Vacations Made Easy, 2014). The majority of routes in and out of Myrtle Beach from northern states, western cities and states (Columbia, SC and beyond), and anywhere from Highway I-95 all involve Highway 501 as an entrance and exit route ([71]Myrtle Beach Golf Secret, 2013). This adds a significant amount of traffic in and around the Highway 501 Corridor. Exceptions to this are tourists that are willing to add mileage to their travels in order to avoid Highway 501 traffic.

 As an added benefit, quick serve restaurants are noticing a loyal trend beyond university years in its student customers ([72]Watral, 2010). Research suggests that college students spend between $500 and $1,000 on meals per month not including beverages ([73]PRWeb, 2013). As of recently, policymakers are beginning to view universities as having a direct economic impact by being an important tool for growth in their respective regions. This is an increasing inclination as colleges and universities help improve their respective region’s workforce with educated workers, and aid in creating jobs for these additional educated workers ([74]Abel and Deitz, 2011).

 For NPOs who are unable to choose a location and open near a college or major corridor, we recommend considering areas that provide a consistent congregation of people, such as hospitals, business parks, or high schools. Again, the presence of competitors can provide an indication of the potential success of a location.

# [Food Concepts](#_Table_of_Contents)

 As indicated earlier, NPOs who wish to operate a restaurant have the option to serve ‘Economic Eats’ versus ‘Premium Palates’ in their nonprofit restaurants. Food concepts, such as types of menu, hours of operation, menu prices, type of cuisine, serving style, and food safety for a nonprofit restaurant may differ depending upon whether the organization characterizes the food it serves as economical or premium. It is also important for NPOs to realize the potential fraud that may occur within the operation of a restaurant.

***Economical Eats***

 An NPO operating an Economical Eats restaurant has many options when choosing a type of menu. The organization may choose to have a set menu. This type of menu stays relatively the same, with infrequent updates ([75]Leroy, 2014). A second type of menu is a ‘no set menu’ approach. The ‘no set menu’ is changed more frequently and menu options generally depend on the type of season. The ‘no set menu’ approach fosters creativity because it allows cooks to constantly make different items ([76]One World Everybody Eats Foundation, 2011). Another type of menu that can be used is called a cycle menu. In a cycle menu, the items differ on a daily basis and tend to repeat periodically ([75]Leroy, 2014). The organization may also decide to incorporate a specials menu. This type of menu includes new and exciting items only offered for limited amounts of time ([77]All Food Business, 2014). When an NPO is operating a restaurant, it may also be beneficial to challenge employees by allowing them to create their own specials each day of the week. This is beneficial in a few different ways. It gives employees a sense of pride and accomplishment, allows for exploration of different cuisine options for the restaurant, can create seasonal entrees, and also promotes creativity in a work environment ([77]All Food Business, 2014). Please note that we recommend this as an excellent training exercise as well.

 An NPO running an Economical Eats restaurant should have specific hours of operation. Breakfast is suggested to be served between 7 a.m. and 11 a.m. Lunch should be served between the hours of 11 a.m. and 4 p.m. And finally, dinner should be available to customers between 4 p.m. and 10 p.m. ([78]Lesonsky, 2014). When operating an Economical Eats restaurant, menu prices should range between $3 and $10 per item.

 There are a few types of cuisines that can be used at an Economical Eats type restaurant. Two popular types of cuisines are American and Southern style. An American style cuisine includes a collection of traditional simple dishes. Examples of these dishes may include: meatloaf, hamburgers, and apple pie. A Southern style cuisine is quite different. This type of cuisine is characterized by deep fried foods, heavy sauces, and sweet deserts. Examples of foods offered at a Southern style restaurant include Southern-fried chicken, home-style gravy, barbecue, and pecan pie ([79]Hunter, 2012). Recommended beverages at an Economical Eats restaurant should be non-alcoholic including sodas, smoothies, and shakes.

 Three examples of restaurants who serve Economical Eats are Jon Bon Jovi’s Soul Kitchen, One World Everybody Eats, and One Bistro. Jon Bon Jovi Soul Kitchen is a community restaurant that has no prices on its menu, and offers three course meals based on American regional cuisine ([80]JBJ Soul Foundation, 2014). This compares to One World Everybody Eats restaurant, which have no set prices, no set menu, and patrons are allowed to choose the portion size that they wish to eat ([76]One World Everybody Eats Foundation, 2011). Lastly, One Bistro is a nonprofit community restaurant where customers pay what they can afford. It serves a brunch fare, and has one main location with a mobile food truck ([81]One Bistro, 2014).

 There are six different serving styles that are available to an Economical Eats NPO restaurant. A quick service style includes simple décor, inexpensive food, speedy service, and customers ordering at a service counter with a cashier. Another option is a fast casual serving style. This style includes a combination of fast food and casual dining, where customers can order at a service counter or at a table, the food is inexpensive and there is prompt service ([82]Parpal, 2014). A food truck may be used as another style of serving. A food truck serving style has low operating costs, mobile location and very few staff members needed to operate ([83]Mealey, 2014). A popup restaurant is another option. This style of operation includes opening up at various locations for days, weeks or even months at a time, has low operating costs, and helps build a wide-spread reputation. Buffet serving style is also an option. A buffet is all you can eat, where customers pay one set price and serve themselves, which makes for limited staff needed ([83]Mealey, 2014). The last recommended option is take-out style. Take-out involves a wide variety of ordering options. These options can vary from telephone, to online ordering, to walk-ins. A take-out style helps increase customer base ([82]Parpal, 2014).

 Food safety is imperative for any NPO operating a restaurant. As previously discussed, it is recommended that managers and employees of nonprofit restaurants complete a ServSafe program. ServSafe programs help provide educational materials to the restaurant industry using face-to-face as well as online instruction ([84]National Restaurant Association, 2014). Nonprofit restaurants should abide by all nutrition standards. In order to help with better nutrition in restaurants, the US Food and Drug Administration (FDA) issued two proposed regulations that would ensure calorie labeling on menus and menu boards in chain restaurants, retail food establishments, and vending machines that have 20 or more locations ([85]United States Food and Drug Administration, 2013). Proper food preparation as well as storage is also very important to ensure food safety in a restaurant. Performing self-assessment of the restaurant’s operation can help improve work practices to reduce the risk of accidental foodborne illness. Self-assessment also protects the restaurant’s operation from deliberate food tampering. It is also vital to follow state regulations. The South Carolina Department of Health and Environmental Control (DHEC) helps carry out the state’s food safety laws ([86]SC DHEC, 2014).

***Premium Palates***

 The food concepts associated with nonprofit restaurants serving Premium Palates differ from those who serve Economical Eats. There are four different types of menus recommended for a Premium Palates NPO restaurant. The first type of menu is called table d'hôte. This type of menu is a set menu, which is predetermined, and includes full course meals at fixed prices. The second type of menu is called À la carte, the opposite of a set menu. This type of menu includes an array of offerings and side dishes but with little formal structure regarding the courses. The next menu type is called menu bundling. Menu bundling offers both a set menu and an À la carte selection. Another option is a specials menu. A specials menu changes often and includes various new and exciting items ([87]Jones, 2010 and [88]Abuso, 2009).

 Suggested hours of operation for a Premium Palates nonprofit restaurant differs slightly from that of an Economical Eats restaurant. It is recommended that Premium Palates restaurants do not offer breakfast. Lunch should be served from 11 a.m. until 4 p.m., with dinner being served from 4 p.m. to 10 p.m. The items on the menu will be more expensive than those nonprofit restaurants serving Economical Eats. The prices for casual dining should range between $10 and $15. Prices should be $20 and up for fine dining.

 There are three different types of cuisines recommended for a restaurant serving Premium Palates. One option is French cuisine, which is recognized as the world’s best cuisine. French cuisine is almost uniformly found in deluxe, high-end restaurants ([89]Gauchat, 2014). The second type of cuisine is Italian cuisine. Italian cuisine is unique and well developed ([90]Pandiath, 2013). The third option is Chinese cuisine. This type of cuisine consists of a wide variety of breaded or steamed meats, often served with starch ([91]tvropes.org, 2013). Beverages recommended at a restaurant serving Premium Palates include nonalcoholic beverages, domestic as well as imported wine and beer, and a full bar that includes a wide selection of beer, wine, cocktails and liquors ([92]Parpal, 2014).

There are four recommended options for serving styles for a Premium Palates restaurant. The first service style option is table service. Table service at a fine dining restaurant is the most attentive, with well trained and experienced servers. Second, a casual dining style is not as formal but professional service is still expected. Take-out and delivery are other options available. Take-out and delivery service have many benefits and are very popular, especially at casual dining restaurants, but are also fairly prevalent in fine dining restaurants ([93]Parpal, 2014). Mobile food ordering applications are another service option. In a report from the National Restaurant Association, a significant number of consumers aged 45 and below reported that they would use mobile applications to order meals as well as to make reservations. Another option is catering. If executed correctly, catering represents a potentially lucrative revenue stream for restaurants looking to expand and diversify ([94]National Restaurant Association, 2013).

 All food safety rules and regulations mentioned for nonprofit restaurants who serve Economical Eats are also suggested for Premium Palates restaurants. ServSafe programs are highly recommended for managers and employees. Applicable nutrition standards should be followed closely. Proper food preparation and storage is also critical when operating the restaurant. Lastly, any applicable state regulations should be followed by all restaurants serving Premium Palates.

***Minimizing Fraud in Restaurant Operations***

 Whether an NPO is operating an Economical Eats or Premium Palates restaurant, it is vital to have an understanding of the potential fraud that may occur within the organization. Prevalent frauds occurring in a restaurant include inventory shrinkage as a result of employee theft, employees giving discounts or giving food away, and employee liquor theft. A lot of theft occurring in restaurants is perpetrated by employees. Inventory shrinkage refers to a loss of product between manufacturing and the ultimate sale. The largest cause of inventory shrinkage is employee theft. The National Restaurant Association estimates that internal employee theft is responsible for 75% of inventory shortages and about 4% of total restaurant sales ([95]Accounting Tools, 2014).

 There are many ways for the organization to identify potential inventory theft issues. Managers or employees who keep track of inventory will be more likely to notice items missing. It is much more efficient to have multiple people count inventory than a single individual in order to try to prevent fraud. Another way to minimize employee theft in restaurants is to allow employees to eat a meal at work. Some restaurants allow employees to ring up and make their own meals during break or after a shift. In order to control this process, there should be a limit on the number of menu items that an employee is permitted to eat during a shift. Another terrific way to help guard against employee theft is to closely monitor employees. If employees have been acting secretively or defensively at work, it is more worthwhile to pay attention to these employees more closely. Pay attention to food costs and keep detailed records of workers arrival and departure from work. If food costs have suddenly gone up, and detailed records are being kept, discovering theft may be easier, pointing to an event such as a particular employee’s arrival at the restaurant ([96]Parpal, 2014).

 Employee liquor theft is prevalent in restaurants. Managers should be wary of liquor theft. Alcohol is usually stolen in three ways. The three methods are deliberate theft, spillage and over pouring. Managers should pay close attention to see if any of the employees are stealing from the organization through any of these ways. Research suggests that most establishments lose an astonishing 25% of their alcohol to employee liquor theft ([97]Baltazar, 2011).

 There are many steps that can be taken to help prevent inventory theft in restaurants. Maintaining a strict employee theft policy is one way to guard against inventory being stolen. Let the employees know that there will be zero tolerance for theft. Properly train employees, monitor employee access to inventory and keep tabs on product inventory using multiple employees and managers. Another great way to prevent inventory theft is to let employees have meals during their shift. There should be a limit of one meal per employee per shift, and someone else should always make an employee’s meal and ring in the order. Security cameras are also a great way to prevent employees from stealing. Fidelity bonding is a great program that can protect NPOs who experience fraudulent activities in their restaurants. This is a great way to protect against losses from stolen items such as food and liquor ([96]Parpal, 2014).

There are many useful precautions available to nonprofit restaurants to guard specifically against employee liquor theft. First, the feed from surveillance cameras can be placed an area of the restaurant where the bar is being monitored. Also, organization managers should make employees aware of what constitutes alcohol theft, including acts of spillage or over-pouring. Limit the purchase, receipt, and issuing of alcohol to key personnel. It’s also smart to store liquor in a secure area of the restaurant. Limit the access of this area to personnel in supervisory positions, such as the manager. Other helpful precautions include daily liquor inventory counts, spot checks at the bar to ensure proper bottle counts and liquor levels, smell checks on liquor bottles for authenticity, as well as bar monitoring by a supervisor for at least ten minutes every hour. A great way to ensure that not too much liquor is being poured into drinks is to use pour-control devices that attach to bottle spouts, helping to make the flow of liquor into drinks be more consistent. Another precaution is for the employees to store belongings in a locked room ([98]Amo, 2014).

***Recommendation***

Recommendations for Palmetto Works and other NPOs include use of the Economical Eats model. A set menu should be used that also includes weekly specials. The cuisine offered should be Southern and American. Given the customer demand previously discussed, make sure to use local food products and also work with socially conscious companies. It is not suggested that Palmetto Works serve any alcoholic beverages. The restaurant should be open for lunch and dinner. Also, menu items should be priced anywhere between $3 and $10, with lower prices during off-peak hours. Finally, Palmetto Works should implement a fast casual serving style with take-out options.

# Suppliers

 NPOs operating a restaurant will need to purchase supplies to use in restaurant operations. The organization needs to consider what equipment to buy and from where to buy it. Also, the NPO must consider where to get food for the restaurant. If the restaurant needs office supplies, the organization must figure out what office supplies are necessary and where to purchase these supplies. Lastly, the organization needs to acquire transportation vehicles that can be used to transport goods to the restaurant location.

***Equipment***

 A restaurant has many options of how to acquire equipment. One way to obtain equipment is through leasing. There are both advantages and disadvantages to leasing equipment. The advantages of leasing equipment include less cash required to be paid up-front and lower or no repair costs. In addition, when the lease ends, the NPO can renew the lease or upgrade to a newer model of equipment without any disposal costs or time involved. However, there are disadvantages to leasing equipment. Disadvantages include the monthly lease payments that are required, and no ownership of the equipment ([99]Mealey, 2014).

Examples of equipment needed for the operation of the restaurant includes dining and kitchen equipment. Dining equipment will be needed at the restaurant including tables, menus, chairs, cleaning supplies, and a ‘point of sale’ ordering system to track orders. Kitchen supplies will also be needed. Kitchen supplies include ranges, prep stations, walk-ins and washers.

***Food***

 The organization must make a choice on where its food is purchased. It is recommended that the organization receive its food supply from socially responsible food organizations. The organization can look to Oxfam, a world-wide community improvement organization, to find companies that meet the socially responsible dynamic. Oxfam is an organization that monitors major companies in the food corporation sector to see if they are politically and socially responsible for their actions. Oxfam looks at companies that excel at “creating shared value.” They offer a list of companies that benefit society as well as its shareholders ([100]Nestly, 2010).

 More specific options for the organization to purchase produce include local vendors. Local community suppliers are a great place to shop. The organization can choose to shop at local farmers markets, utilize community supported agriculture programs (CSAs) which provide direct-to-consumer programs, as well as ‘pick your own farm’ programs. Other food supplier programs include direct-to-retail, food service and institute programs. Food hubs are an example of a facilitator in local food distribution, helping to bring produce directly to establishments ([38]Grace Communications Foundation, 2014).

 Another socially responsible way to purchase produce is from sustainable agriculture and sustainable livestock farms. Sustainable agriculture farming techniques are where farms raise food in an ecologically and ethically responsible manner. This technique is environmentally friendly. It is not operated like corporate mono-cropping, where a single crop is grown by the same farm year after year, which is damaging to the soil ecology. Sustainable agriculture farms also use heirloom seeds to harvest. Sustainable livestock farms are also recommended because of their farming of heritage and heirloom animal breeds. ([38]Grace Communications Foundation, 2014).

 There is also the option to acquire food to be used in the restaurant from food banks and donations. The Low Country Food Bank donates food to charitable organizations. There is also the option to buy produce from local suppliers. Clear Creek Farm and Natural Grown Meats are two local farms in the Myrtle Beach, SC area that sell produce. Other sources include national food and distribution companies. Great examples of national companies that the restaurant may purchase food from include Sysco and Core-Mark Holding Company. The NPO restaurant also has the option to buy food from wholesale stores, such as well recognized companies like Costco, Sam’s Club and Walmart. Please see Appendix E: Suppliers for links to these resources (available from author upon request).

***Office Supplies***

 Office supplies are also needed for the restaurant’s operations. Typical office supplies needed by a restaurant include a point of sale (POS) system, cash registers, as well as OSHA and ServSafe manuals. It is recommended that the restaurant acquire a checklist of items needed in operation prior to opening for business. As discussed in the Universal Topics section, FoodServiceResource.com is a website that provides a standard pre-opening checklist for newly starting restaurants ([101]FoodService Resource, 2014).

 There are many options for the restaurant to buy office supplies. One store that sells a wide variety of office supplies is Office Depot. They sell well-known brands of supplies including Grand & Toy, Viking and TUL. The NPO can also purchase office supplies from Target, which has an educational and office supplies department. Sam’s Club is another great store to shop. They offer registers, printers, shredders and time clocks among other necessary supplies. Other stores to shop at include BJ’s, GSA, Sysco and Staples. BJ’s sells paper, storage supplies, and chairs. GSA offers copiers, mail management, and furniture solutions. Sysco provides sanitation management and child seat & tray stand options. Lastly, Staples offers its own restaurant resource center making it easy to shop for any office supply needs.

***Transportation***

 Transportation vehicles will be needed to bring purchased supplies to the nonprofit restaurant location. The restaurant can attend car and truck auctions to bid for transportation vehicles that can be used for restaurant operations. The restaurant can also make efforts to receive donations of vehicles from the surrounding community through local organizations such as Mid-State Auto Auction. Mid-State Auto Auction is an organization that assists people willing to donate automobiles to charitable organizations ([102]Mid-State Auto Auction, 2014). Rentals and leases of different transportation vehicles is also an option for the restaurant.

 More specific transportation options include rental of U-Haul’s trucks and trailers at discounted rates for NPOs, and vehicles from the General Services Administration. Vehicles can also be purchased from police auctions as well as various private and public auctions. The restaurant also has the option to use personal vehicles for transportation purposes. NPOs have the option to receive donated vehicles through the Vehicle Donation Program (V-DAC).

***Preventing Inventory Fraud***

 When operating a restaurant, the restaurant uses a lot of supplies which are susceptible to inventory fraud. There are six ways that inventory fraud can occur. Inventory fraud can occur by double counting the inventory, capitalizing costs that should be expensed, cutoff problems, overestimating inventory, bill-and-hold sales, and cosigned inventory. Managers of restaurants should be wary of these various ways inventory fraud is committed, and make sure to find ways to minimize the risk of these frauds occurring ([103]Albrecht, 2012).

The NPO needs to have strong consistent policies and procedures and controls in place to prevent these types of fraud. Resources that an NPO can use to do this are the Coastal Carolina University produced stepwise menu of policies and procedures for NPOs of four difference sizes created in 2012; and the Coastal Carolina University produced testing tasks for NPOs to self-assess compliance to the previously published stepwise menu of policies and procedures. When employees know there are strong internal controls in place it decreases the perceived opportunity to commit inventory fraud or other types of fraud.

***Recommendations***

 With respect to equipment, it is suggested that Palmetto Works and other NPOs look for donations of older equipment, including from other restaurants that are closing down. Another recommended option is to lease equipment. It is suggested that Palmetto Works and other NPOs obtain food from local and regional suppliers, community supported agricultural programs (CSAs), as well as donations from farmers. Also, it is recommended that Palmetto Works and other NPOs use the checklists that Food Service Resource provides to acquire office supplies and run the restaurant more efficiently. Lastly, in order to acquire transportation vehicles for restaurant use, it is recommended that Palmetto Works and other NPOs take advantage of donations from the community, rental discounts for NPOs from U-Haul, as well as bidding at car and truck auctions.

# [Types of Payment](#_Table_of_Contents)

 There are many components to the different types of payment nonprofit restaurants can use in operations. The following are types we will discuss: cash, credit cards, checks, gift cards, mobile payment, coupons, pay it forward, and college credit.

***Cash***

Cash payments face the risk of embezzlement and counterfeit fraud schemes due to the nature of the transaction. Cash embezzlements include skimming schemes, which consist of an employee removing cash from the company before it enters the accounting system ([104]Green, 2014). Cash embezzlements can also consist of an employee ringing up sales for less than the actual amount of the transaction and pocketing the difference. Likewise, an employee can void a sale and in turn pocket the cash. Lastly, an employee has an opportunity to misappropriate company funds if he or she collects cash and also makes bank deposits ([104]Green, 2014).

 The risk associated with cash with regards to counterfeit money can be avoided. The employee accepting cash always wants to do quick assessments of suspicious or large bills ([105]US Secret Service, 2014). This assessment entails examining the look and feel of the paper along with the color-shifting ink. The print on a genuine bill is slightly raised where a copied bill would not have that quality. To examine the color-shifting ink on a bill the employee would hold the bill straight out in front of them, with adequate lighting, then tilt the bill 45 degrees. The color will shift from black to green, or copper to green, depending on the year the bills were printed. Employees should note that five-dollar bills do not have color-shifting ink. The employee should also check for a watermark. A watermark can be examined when holding the bill up to a light. A genuine bill with a portrait will have a watermark to the right of the portrait and can be seen from both sides of the portrait ([106]LossBusters, 2014). When possible, the employee can also compare the bill in question to a genuine bill. A genuine bill has Federal Reserve and Treasury Seals, and distinct serial numbers. Serial numbers are evenly spaced and are printed in the same color ink as the accompanying Treasury Seal ([105]US Secret Service, 2014).

***Credit Cards***

 Nonprofit restaurants have various types of credit card payment processing options given their status. The types within the scope of this research include: merchant accounts, third-party processors, and commercial third-party processors, programs designed specifically for nonprofits, debit cards, and wireless credit card terminals. Merchant accounts can be set up with any bank or credit card company. The fees can vary widely between different institutions so the nonprofit should shop around for the best rate. Blackbaud offers a merchant service that caters to nonprofit organizations with competitive rates. There are no initial fees or monthly minimums. In addition to the ease of use and simple set up, Blackbaud merchant services can be combined with any of its other nonprofit software. Advantages of nonprofits using merchant accounts are the branding ability as the nonprofits name appears on the donor’s credit card statement in addition to the funds from payments flow quickly into the nonprofit’s account. Disadvantages of merchant accounts include fee structures that can be complicated, the wide fee variance across processors, and the longer set up time. Examples of institutions that offer this type of service with applicable rates are in Appendix F: Payment (available from author upon request) ([107]Fritz, 2014).

 Third-party processors and commercial third-party processors accept donations for other organizations through its own merchant account giving the nonprofit restaurant the ability to avoid setting up their own merchant account. Third-party processors simply pass the donation along to the nonprofit less a processing fee. Advantages of third-party processors are that they are simple to manage and take little time to do so. They are relatively inexpensive and have the ability to form their own opinion of the service for widely used third-party processors. A disadvantage of third-party processors is the nonprofit does not have the branding ability and speed of getting funds into the nonprofit’s account as it does with merchant service accounts. Examples of third-party processors and commercial third party processors with applicable processing fees are present in Appendix F: Payment (available from author upon request) ([107]Fritz, 2014).

 Programs designated specifically for nonprofit organizations operate similarly to a merchant account but are more catered to the operations of a nonprofit organization compared to a traditional business. The cost of the service is dependant upon what organization the nonprofit uses for processing along with the additional services the nonprofit chooses to add on. Advantages of programs designed specifically for nonprofits are that the system is customized to the nonprofit’s needs, and they have the ability to integrate the nonprofit’s financial systems. Disadvantages of the processing system are that they are relatively expensive given the customization and they are not catered to different sized nonprofits. Another drawback is that the nonprofit does not have the ability to shop around, as there is a limited number of companies that offer this service. Examples of institutions that offer this type of service with applicable rates are in Appendix F: Payment (available from author upon request) ([107]Fritz, 2014).

 If you want to give your customers the option to use a debit card as payment, make sure the method of processing you choose can process debit cards with the ability for the customer to enter his or her PIN number on a PIN pad. This is imperative if you want to process debit cards, as some debit cards do not have the ability to be processed as a credit card ([108]North American Bancard, 2014).

 Lastly, the nonprofit restaurant can choose to use a wireless credit card terminal. This option is technologically advanced in the sense that it is a fairly recent payment option. This option allows the server to enter the customer’s order at tableside. The order is processed at that moment. If this is an appealing option to your organization, you should confirm that your merchant account provider offers this type of service ([108]North American Bancard, 2014).

***Preventing Credit Card Fraud***

 In order to prevent restaurant fraud with regards to credit cards, you must first be aware of the types of fraud that can take place. Credit card skimming is a prevalent and fairly advanced fraud. It is also one of the most common theft trends in the Quick Service Restaurant industry. The cashier swipes the customer’s credit card into a skimming device during credit card transactions. The information from the magnetic strip is captured and either used or sold, and your nonprofit restaurant is responsible for the fraudulent charges as a result of this scheme. Your nonprofit should take certain precautions in order to protect your nonprofit restaurant from this type of fraud. The first precaution is engage in comprehensive loss prevention programs. They address the vulnerability of credit card theft and the ways it is committed. Next, you always want to train your employees with policies and procedures to educate them on how to properly handle credit cards. In addition, as with any organization, you want to have audits and reviews that address compliance ([109]LossBusters, 2013). Tips claimed by servers working in the nonprofit should always be authorized to ensure that the amount written is the amount given. Lastly, when employees are handling credit cards, they want to compare and match the account number on the credit card to the printed sales receipt. They also want to assure the credit card is returned to its rightful owner ([109]Visa, 2012).

***Checks***

 We do not recommend accepting checks from customers for food payment. The reason being, there is a high risk for check fraud, checks returned for insufficient funds, or closed bank accounts, which all usually result in chargeback charges to the nonprofit organization. Whereas business-to-business payment by check has remained steady at 80%, payment by check volume decreased 26% overall from 2006-2010. During the same time period, fraud cost per check doubled from 1.8 to 3.6 cents per check written ([110]Check Guarantee, 2013). However, accepting checks from donors is acceptable. Each check from donors should have personal information, dates, and applicable bank I.D. numbers. In addition, the check must be written to your nonprofit’s name. Also, verify the check signature with photo identification. Do not accept post or future-dated checks. Always trust your instinct when dealing with checks and be aware of suspicious behavior or “red flags.” If you are not sure of a check’s legitimacy, it is always acceptable to call the bank and have them verify the check. ([111]United States Small Business Administration, 2012).

 When depositing checks, mark them as ‘for deposit only’ ([112]Hoover, 2010), and deposit them as soon as possible. Banks have limits on honoring checks dated back a certain number of months. After accepting and depositing a check, the nonprofit should send the donor a written acknowledgement letter for donations $250 or more during the tax year the gift was given in order to aid the donor in claiming a tax deduction. For gifts of less than $250 a receipt will suffice. The acknowledgement should include the name of the organization, the date of the contribution, the amount of the contribution and the goods and/or services provided ([113]Snowden, 2014).

 Your nonprofit can be a victim of fraud in a number of ways. Checks can be forged or reproduced. The amount payable to the payee can be changed and checks can be fraudulently cashed with various false identification methods. To avoid becoming a victim of such fraud, ask your bank for their suggested procedures for check fraud prevention, check stock considerations, and their reconciliation process recommendation. Follow and comply with their requests and recommendations. Your organization should also implement internal control procedures discussed in the aforementioned 2012 Policies and Procedures white paper. We recommend that you use the 2013 NPO P&P Self-Assessment white paper to test the operation of your implemented policies and procedures. For the scope of this section, you should always run a background check, ensure two people are responsible for accounts payable, in addition to having a secure mailing system within the nonprofit’s physical location ([114]Acom Solutions, 2003).

***Online Donations***

 As the Internet becomes more and more a part of our daily life, giving to the nonprofit of a donor’s choice through online means is an increasing trend. It has the appeal of an impulse buy for the nonprofit and is easy for busy donors. The donor can even set up recurring payments to the nonprofit it he or she so chooses. Examples of institutions that offer an online donation option with applicable rates are listed in Appendix F: Payment (available from author upon request) ([115]Wired Impact, 2014).

***Gift Cards***

 Gift cards are a type of payment that can be used in the nonprofit restaurant setting if properly set up and monitored. The nonprofit can obtain gift cards through a private label (store-only), private network, or a credit card network. Private label gift cards only work in the nonprofit’s retail location and do not have the ability to be processed via a credit card network. The nonprofit must have a point of sale (POS) system in place and functioning in order to use private label gift cards. With this POS system, the nonprofit will have the ability to register, activate, confirm the value, and properly account for the value on the card. Advantages of private label gift cards are the nonprofit has control over the system and there are no fees for the purchase made with a gift card ([116]Rescue Marketing, 2008).

 A private network gift card functions similarly to a private label gift card except it can be authorized using a credit card network within multiple specified stores – not just your nonprofit restaurant. This type of gift card system is not recommended, as it is complex and requires additional hardware, and can have possible transcription errors ([116]Rescue Marketing, 2008).

 Lastly, credit card network gift cards act as an ordinary credit card with a limit specified by the amount associated with the gift card. The nonprofit restaurant can process credit card network gift cards through the credit card terminal they use in every day operations. The advantage of such a gift card is that it can be used with any existing point of sale system or credit card terminal ([116]Rescue Marketing, 2008).

***Preventing Gift Card Fraud***

 Fraud associated with gift cards is a common obstacle to overcome. A recent study suggests that many retailers’ biggest concern with fraudulent use of gift cards is their employees. The switch is a scheme that employees use to switch a gift card balance from a remaining balance to a zero balance, which allows for the employee to have a gift card with a balance. Employees can also launder gift card money by post voiding the purchase of a gift card. Fraudsters can also collude with employees and reproduce fraudulent gift cards for personal gain. To prevent the nonprofit from loss and/or liability, certain precautions should be taken. First, protect PIN numbers with scratch off labels to prevent visibility. The nonprofit should also understand the process within its system of issuing, activating, and using a gift card. This can help determine and minimize risks. It is also beneficial to the nonprofit to keep gift cards displayed in a manner that is easily tracked while discarding used gift cards immediately. The nonprofit should take more of a step in discarding than just throwing it in the trash can adjacent to the cash register ([117]Kuchinskas, 2014).

***Mobile Payment***

Mobile payment is a method that is becoming more common given the increase in smart phones. This payment processing method helps to streamline the process along with providing efficient table turnover rates. Apps that facilitate such a transaction have additional features that allow the customer to split bills, calculate tips, and place their order without the server being present. The benefits of mobile payment are the opportunity for enhanced customer service by storing order history and preference, in addition to an efficient experience. The nonprofit restaurant can also manage real-time customer feedback ([118]TabbedOut, 2014).

***Coupons***

 Coupons are typically a good fit for organizations that are location based and are product oriented. This allows for customers to have quick and easy savings. When implementing the use of coupons, the nonprofit restaurant must be prepared to deal with heavier customer traffic in a quick and seamless manner. The nonprofit should also crunch the numbers and make sure that the discounts will not hurt them financially. Furthermore, the nonprofit should also develop a policy to ensure they will not incur losses due to excessive coupon use. Also, be aware of frauds related to coupon usage. Printing more than two coupons per computer, disregarding manufacturers’ stipulations, and the use of expired coupons are all considered fraud ([119]Hamilton, 2013).

 It is recommended that the nonprofit restaurant does not allow combined coupon usage and identical coupons at one time. When promoting the coupons, the nonprofit should also promote the policy they employ along with the coupon expiration date ([120]Beesley, 2012). When marketing coupons specific to the restaurant industry, the nonprofit should align the coupon program with the restaurant’s image. Customers find ease in printing coupons from online therefore the nonprofit should attempt to distribute them via the web. The nonprofit should make the promotion reasonable and evaluate each promotion to find flaws and improve it ([121]Doxey, 2014). When digitally marketing coupons, the nonprofit should consider integrating the following things: E-mail distribution, visual appeal, reach target customers, partner with a distributor, text message the promotion, and utilize social media outlets ([122]Hendricks, 2013).

***Pay it Forward***

 Pay it forward is a unique option for nonprofit restaurants with a few options that can be customized to fit the needs of the nonprofit. One option allows a customer to pay what they can afford, and if they are unable to pay, they can volunteer their time to help with something in the restaurant. Potential service duties include wrapping silverware, bussing tables, setting tables, cleaning, restacking, and doing dishes ([81]One Bistro, 2014). Alternately, a customer can pay the full amount of the suggested price or they can pay above the suggested price, ultimately contributing to someone else’s bill. A customer can also volunteer his or her time for someone else to enjoy a meal. A point of accountability system is useful as it allows the customer to physically hand the donation to someone or something. That someone or something can be a cash register, a box with a slot or some other creative measure your nonprofit comes up with to facilitate pay it forward donations. It is useful because it reduces the number of people who would abuse the system otherwise ([123]Cerreta, 2012). Some drawbacks associated with the pay it forward option are the complexity of the differing transactions and that revenues are not steady or predictable ([124]Daks, 2013).

***College Cash/Credit***

 College cash and credit is a form of payment that is accepted off campus at participating retailers. An example of college cash/credit in the Conway area is Cino Cash provided by Coastal Carolina University. It may be used at dining locations and non-food locations for purchases on and off campus ([125]Coastal Carolina University, 2014). Most universities in surrounding areas have something similar to Coastal Carolina University’s CINO Cash.

***Restaurant Fraud Detection Software***

 The National Restaurant association reports that theft and fraudulent transactions amount to 4% of industry sales ([126]Hamilton, 2013). To counteract this statistic, there are several fraud prevention software packages any nonprofit can purchase and implement, including Avero and Micros XBR ([127]MICROS, 2014).

***Types of Payment Recommendation***

 Based on the aforementioned information, we recommend nonprofit restaurants use the following types of payment: cash, major credit cards, checks from donors only, private-label gift cards, smart phone web payment apps, coupons, college cash, and incorporate fraud detection software to support the use of each.

# [Conclusion](#_Table_of_Contents)

# The key conclusion from this research is that the Palmetto Works vision for the C.H.O.P.S. restaurant is very viable from every perspective we researched. If Palmetto Works agrees and wants to make their C.H.O.P.S. vision a reality they need to begin implementing their vision to make it a reality. The first logical step seems to be to name someone to be the leader/manager of the C.H.O.P.S. restaurant and charge that person with the responsibility to open the C.H.O.P.S. restaurant using some or all of these recommendations.

 The general conclusion from this research is that the concept of a nonprofit restaurant is viable as a whole. If an NPO is interested in opening a nonprofit restaurant in their community, this research provides a set of recommendations that the NPO may choose to implement.

# Summary of Findings

***C.H.O.P.S. Findings***

This research project has created many findings and recommendations for the Palmetto Works C.H.O.P.S. vision of creating and running a successful nonprofit restaurant. The findings are in every area from who to train to where they should locate to what types of payment they should accept. Below is the summary of findings in each category:

* Training
	+ In-House Training Rotational Program
	+ Culinary Arts Certificate offered by or modeled after Tri-County Technical College
	+ For those transitioning into higher education, Associate and Bachelor Degrees offered by or modeled after Culinary Institute of America
* Trainees
	+ At-Risk Youth
		- Both public and private funding sources of assistance available
		- Helps not only the individual, but helps the community as a whole
	+ Veterans
		- Organized, disciplined, problem-solvers
		- Training in team-building makes them excellent classmates during training and employees or managers upon graduation
	+ Prior Offenders
		- Both federal and state funding sources of assistance available
		- Tax benefits and fidelity bonding for employers
* Customers
	+ Locals, Students, Tourists all demonstrate a need or demand for:
		- Locavore and/or sustainability efforts
		- Positive word of mouth
		- Positive feedback on peer-review websites
		- Healthy choices with online nutrition information
		- Lower prices during off-peak hours
	+ Food-to-Table Movement already functioning, which provides options to help nonprofit restaurant with ideas and resources
* Location
	+ Choose location based on where other competitive restaurants are established
	+ More beneficial to initially lease
	+ If not able to locate near students, tourists, and/or major thoroughfare, consider areas of consistent congregation of people, such as near hospitals or business parks
	+ C.H.O.P.S. Site: Highway 501 Corridor
* Food Concepts
	+ Economic Eats Model
	+ Set menu with weekly specials
	+ Serve Southern, American cuisine
	+ Use local food products and work with socially conscious companies
	+ Serve non-alcoholic beverages
	+ Open for lunch and dinner
	+ Price items from $3-$10 with lower prices during off-peak hours
	+ Have Fast Casual Serving Style with Takeout options
* Suppliers
	+ Checklists
	+ Donations
	+ Local and Regional Suppliers
	+ Leased Equipment
	+ Auctions
* Types of Payments
	+ Cash
	+ Major credit cards
	+ Checks from donors only
	+ Private-label gift card
	+ Smartphone App
	+ Coupons
	+ College Cash
	+ Incorporate Fraud Detection Software

***General Findings***

The general findings of this research paper center on the benefit this type of research brings to NPOs in South Carolina.

Working in collaboration with The Chapin Foundation, The Waccamaw Community Foundation, and The Frances P. Bunnelle Foundation, the output of these multi-stage research projects will assist NPOs achieve best practices in their “back room operations” now and as they grow. Achieving compliance with best practices for financial accountability, transparency, and board governance, the output of these projects facilitate the link between philanthropic leadership, charitable resources, and civic influence with community needs and opportunities.

The recommendation for the future is to continue to conduct research for NPOs that will provide education on how to achieve best practices. Research with the participation of Master of Accountancy graduate students at Coastal Carolina University provides the opportunity to assist the NPOs in several areas. Through the research, assistance can be provided to help NPOs achieve best practices for corporate governance, accounting, and auditing, and reduce the costs of attaining these goals.

This research process is intended to assist South Carolina NPOs achieve compliance with best practices for financial accountability, fundraising, and board governance. Essentially, by strengthening the financial knowledge and practices of South Carolina NPOs, donors will have more confidence, NPOs will have the ability to obtain the funding needed to reach their goals, achieving efficiency in “back-room operations” will increase effectiveness in “front-room operations,” NPOs can build capacity, and continue providing charitable services to our communities. This research provides a mutual benefit to both Coastal Carolina University and the South Carolina NPO community.

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