



2016

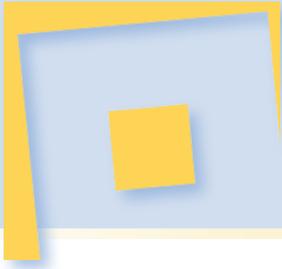
Kentucky Nonprofit State of the Industry Survey



DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

BUSINESS ADVISORS CPAs CONSULTANTS



INTRODUCTION

Nonprofit entities are located all around us — on the next block, down the street, and around the corner. Although some of the dynamics nonprofit entities face are the same as for-profit entities, the majority of day-to-day activity exists because of someone or something else — a volunteer, donation, or funding through grants.

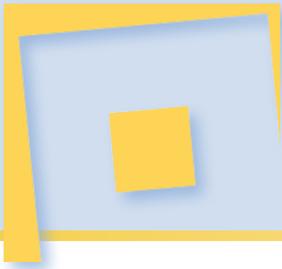
25% of the U.S. adult population — 62 million people — did volunteer work for nonprofits during 2014, putting in a total of more than 8 billion hours.

AICPA, ARA, Not-for-Profit Entities Industry Developments - 2016

Our third annual report focuses on the day-to-day operations of nonprofits with an overview of the financial well-being of those in the Kentucky and Southern Indiana region. The report also covers human resources, career advancement, technology, and ethics hotlines — all pertinent topics for the nonprofit sector.

Dean Dorton believes that today's nonprofit organizations are experiencing a much different demand than in the past. With the funding of nonprofit entities always in question and the decrease in government funding opportunities compared to years back, implementation of technology advancements and effective leadership with a long-term view are critical to creating a true recipe for success.

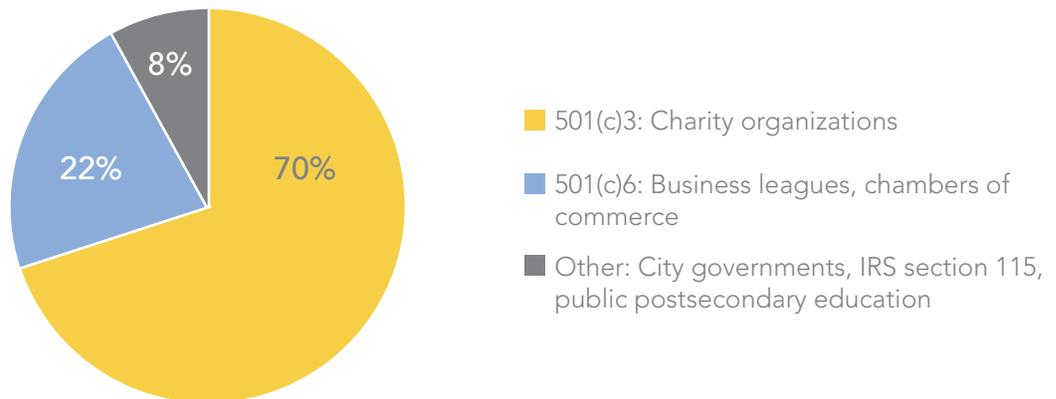
We thank the nonprofit organizations who have taken the time to provide feedback and insights into their respective organizations and to those who have participated in discussions throughout Kentucky and the surrounding region regarding the state of nonprofits. It is evident that those serving the missions of the 20,000+ nonprofits in the area are dedicated to success and we hope this survey provides a unique perspective and ideas for the future.



SURVEY RESPONDENTS

The most common type of "nonprofit entity" is a 501(c)3 group, but we know the nonprofit sector includes many other types of tax exempt organizations.

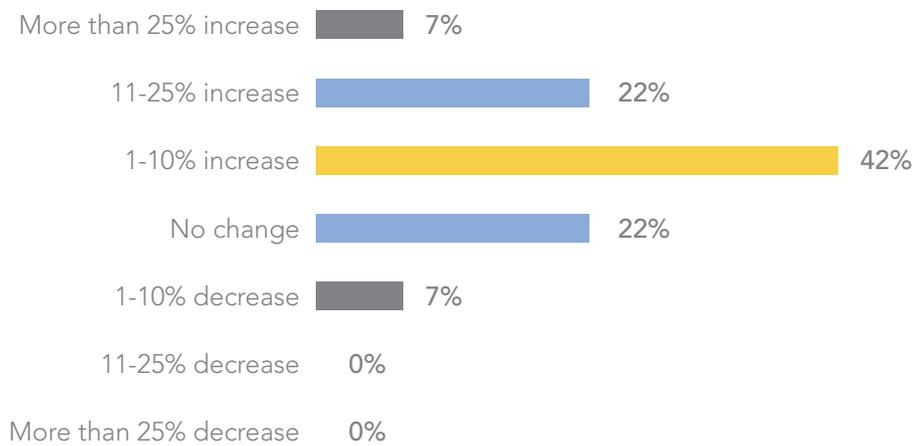
We gathered information from a variety of nonprofit organizations and with that, the survey provides insight into what actions others take for funding and awareness. This information is not only pertinent to how your organization compares to others in your category, but may also spark some other ideas that could help you be successful as well.





DEMAND FOR SERVICES

In last year's survey, 40% of our respondents indicated their demand for services had no change, compared to only 22% this year. The proportion of the 1-10% increase range remains the same from last year to this year, at around 40%. However, more of this year's respondents have seen a demand increase of more than 25%. This indicates that growth continues throughout the nonprofit sector.



70% of the organizations are able to meet the current demand. Their biggest obstacles to meeting demand are:



Funding



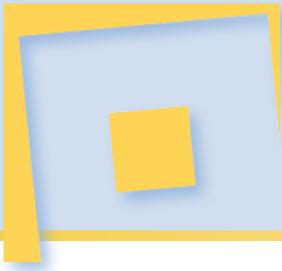
Volunteer support



Staffing

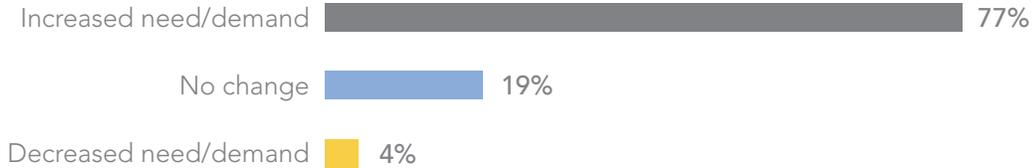


Technology



EXPECTATIONS

Most respondents anticipate an increased need or demand next year.



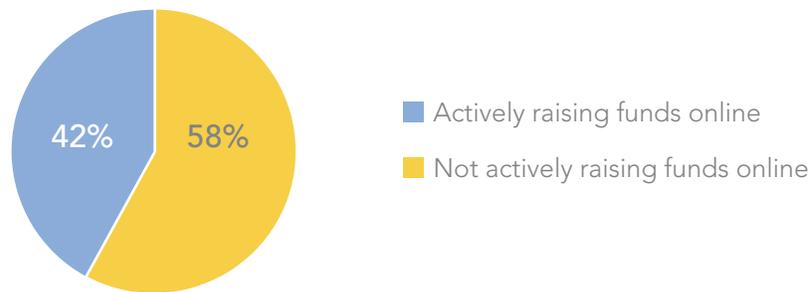
It seems the constant challenge facing nonprofits is the demand for services is increasing faster than the funding. This is once again evidenced in our survey results. On the above illustration, 77% of respondents indicated increased demand for services, but the graph below indicates that only 50% of the respondents expect donation/funding levels to increase year to year.



One-third of the respondents expect to significantly change the ways they raise and spend money, which is a decrease from last year — nearly half of last year's respondents expected to significantly change the ways they raised and spent money.

FUNDRAISING

Fewer than half of the respondents are actively raising funds online.



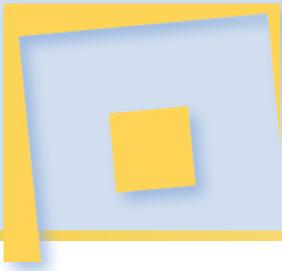
As nonprofits struggle with finite resources and the access for public and private monies is more competitive, the need for revenue diversification is important. It seems that with today's powerful and easy-to-use tools, online fundraising should be leveraged by all organizations, not necessarily just in order to raise money but also to create awareness. Nonprofits must plan on more than the simple "donate now" strategy. Organizations should offer engagement opportunity that meets the diverse demographic profiles of their constituency.

Online fundraising strategies:

- Recurring giving program
- Peer-to-peer advocacy
- Event registrations
- Team fundraising
- Personal advocacy initiatives
- Online gala auctions: pre-event
- Mobile giving

These days, cybersecurity must be considered in the same breath as fundraising. Data hacks are becoming all too common for businesses across the globe, including nonprofits who aim to simplify the process of online fundraising for donors.

According to the 2016 Verizon Data Breach Incident Report, web applications compromised 40% of all breached data in 2015. The Privacy Rights Clearinghouse reports the highest data breach occurrence within the nonprofit sector has occurred within healthcare and educational institutions.



FUNDRAISING

Over the past decade, there has been a blurring of lines between the governmental or public sector, the nonprofit sector, and the private sector. Private sector enterprises are taking cues from investors and other stakeholders in undertaking values driven activities, and the nonprofit and public sectors are becoming more entrepreneurial and bottom-line driven on activities and outcomes. All of this seems to be a positive trend, but it will take time for the legal, social, and economic environments time to catch up.

As shown below, 11% of organizations are discussing or planning for an earned income/social entrepreneurship venture, and 89% are not. 2015 percentages were 23% and 77%, respectively.



One-fourth of respondents will seek funding other than grants and contracts. Such funding may include loans or other investments. According to our respondents, the most effective fundraising methods include:



Direct solicitation via email, phone, and in-person communication



Grants



Fundraising events



Membership dues



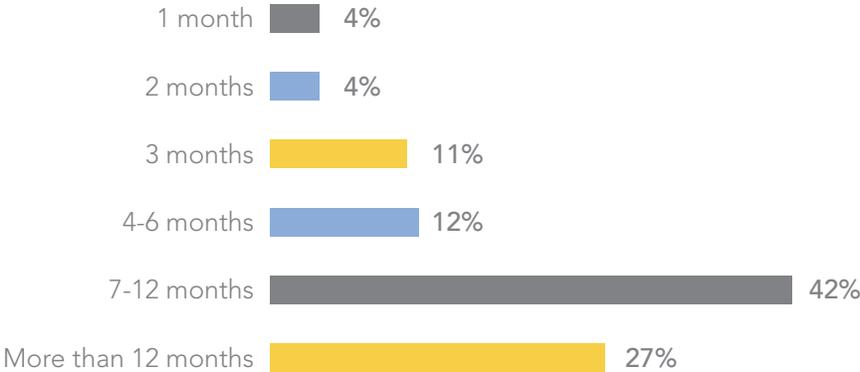
Corporate donors

Direct solicitation was by far the most popular way to seek funding — twice as popular as the runner-up, which was grants.

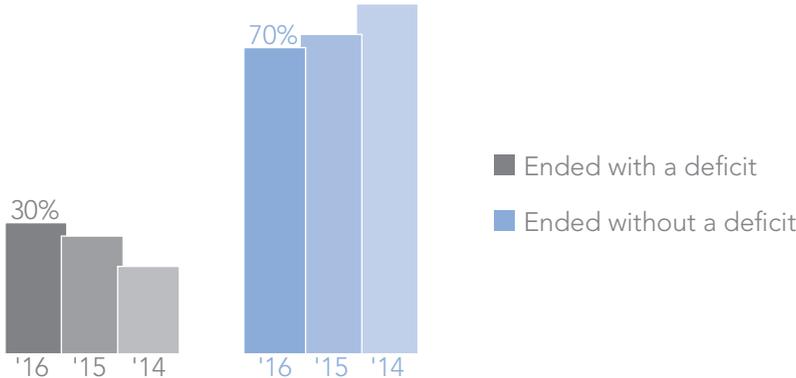


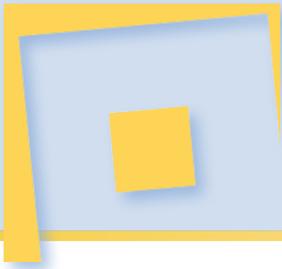
FUNDRAISING

Most respondents currently have seven or more months of operating cash on hand. Over 90% of participating organizations maintain three months or even more of operating cash on hand, which is an increase from 80%, based on last year's survey results. This is a strong indicator of the financial discipline of many of Kentucky and Southern Indiana's nonprofits.



30% of the respondents ended the last fiscal year with a deficit. This is a slight increase from 27% last year, but a larger jump from 20% in 2014. It seems the effects of the Great Recession continue to linger. However, the truism of "no margin, no mission" remains. Nonprofits are not immune to the fiscal reality that expenses must be properly aligned with revenues.



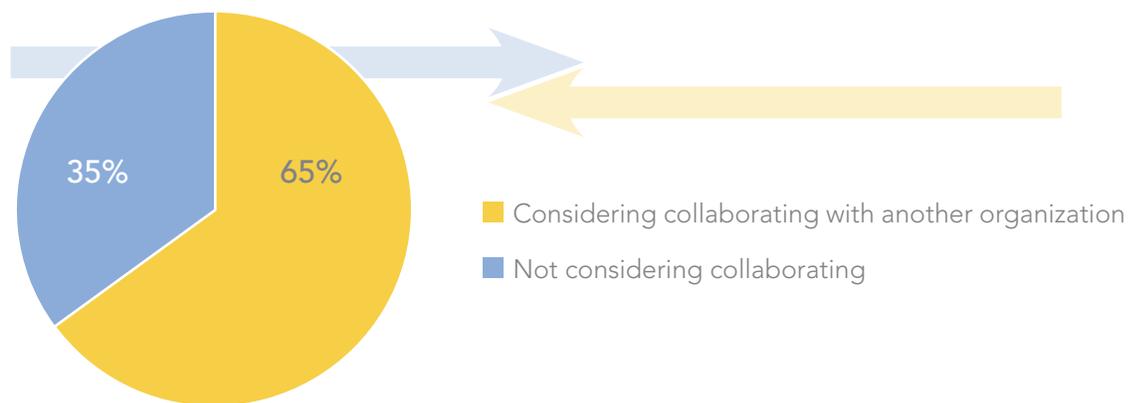


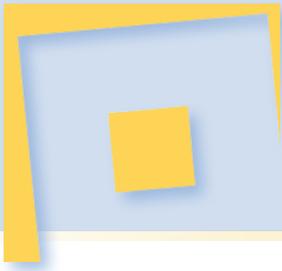
COLLABORATION

It is interesting to see that over 65% of the respondents are considering collaborating to increase services, while less than 8% (10% in 2015) are considering merging with another organization.

Nonprofit mergers are lagging behind for-profit mergers in the improving economy. Nonprofit mergers do not have the significant financial incentives that often drive the for-profit needs; in addition, they face certain barriers related to the softer side of the merger.

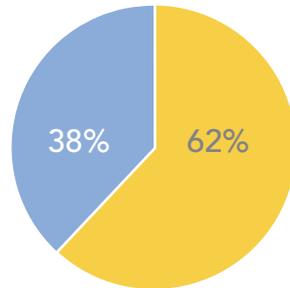
The struggles with blending cultures (which includes board culture) and brands can be too difficult to overcome. Another obstacle is finding a place for the senior staff members of each organization after the merger. A merger can definitely be worth it, but it takes a significant amount of planning and willingness to overcome challenges to make it successful.





SOFTWARE & TECHNOLOGY

Over 60% of responding organizations receive everything they needed to run their organization to the best of their ability from their current software.



■ Receive everything needed to run the organization from current software

■ Do not receive everything needed to run the organization from current software

Most respondents — more than 92% — receive value from their current accounting software. They would change the following about their software:

- Donor management software for a reasonable cost
- Merging ability of accounting and donor tracking software
- Better customer support
- More integrated platform

As nonprofits struggle with finite resources, achieving operational efficiencies is paramount for long-term sustainability. Current technologies are dramatically changing software offerings, operational flexibility, and pricing. Nonprofits traditionally lag behind industry standards in the adoption and leverage of current technology.

The survey results show this still to be true with over 50% (60% in 2015 and 73% in 2014) of respondents indicating that their organization is not leveraging the full operational advantages of current technologies.

Nonprofits need not only to catch up but also need to understand how current technologies, including the cloud infrastructure transformation, can yield critical operational gains.





MOBILE TECHNOLOGY

The demand for access to operational information and applications through mobile technologies, such devices running Apple iOS or Google Android, is surging as staff preferences and behavior spill over into the business workforce. The massive growth in the adoption of these technologies in the nonprofit sector has many business managers wondering how to effectively position their organizations to benefit from the trend.

The drive for mobility is part of the business technology agenda for most companies today. However, in a business context, more types of data and complexity of information are needed, ranging from access to documents and presentations, to status on initiatives and processes, and for specific application needs to perform various business intelligence functions.

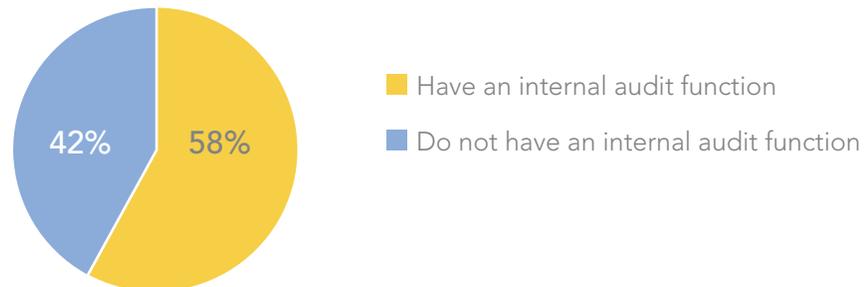
In order to fully leverage this trend, nonprofits are at a juncture where they need to develop mobile technology strategies in their operational plans. Just under 75% of respondents plan to include mobile strategies this year, compared to 80% in 2015, but only 67% in 2014. We believe that organizations realize the importance of mobile technology integration, as reflected by the surge in numbers in the past two years, compared to 2014.



Nearly 75% of respondents plan to utilize mobile technology in the next year.

INTERNAL AUDIT & ETHICS

Over half of the responding organizations have an internal audit function. Whether nonprofit organizations have an internal audit function or not is largely dependent on the type and size of the organization, as well as the makeup of the Board. It is our view that all organizations — no matter the type or size — should have an internal audit function. The size and structure of the internal audit function, however, may vary greatly from organization to organization. One of the biggest risks facing nonprofits is reputation risk because a damaged reputation can dry up funding in a heartbeat. The best way to minimize reputation risk is through strong internal controls supported, tested, and validated by an internal audit function.

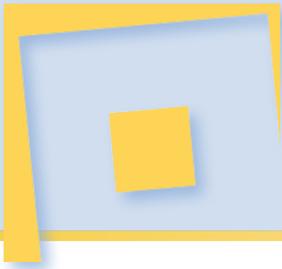


Ethics and fraud employee hotlines have proven to be one of the most effective ways to detect or prevent fraud within an organization. One-third of respondents have an ethics/fraud employee hotline.

Operating without an ethics hotline may be accepting unnecessary risk.

We believe that organizations should make it easy for their employees to report suspected fraudulent activity, theft, misconduct, or unethical behavior. Additionally, by putting a hotline in place, you will convey to your employees that your organization is committed to an ethical culture. As an employer, you will have comfort in that the hotline provides you with a safeguard that may identify employee concerns or complaints before they develop into a crisis situation.

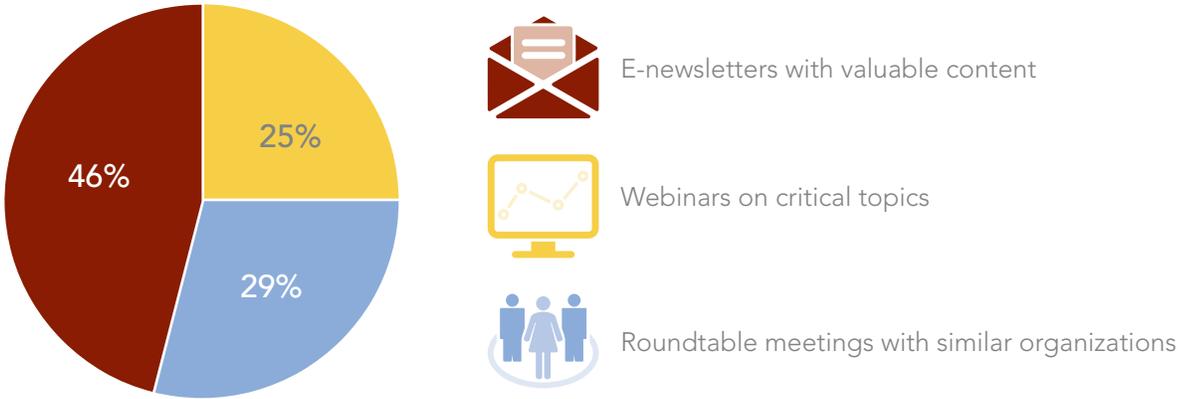
Many nonprofits believe that operating an effective fraud tip function would be too complicated or too expensive; however, there are some easy in-house solutions or low-cost third party alternatives. Overall, we believe that the benefits outweigh the costs when organizations provide their employees with the ability to report concerns safely and anonymously.



BEST PRACTICES

We asked organizations about how they like to receive content and best-practices information in hopes that this will help spark some ideas for your organization.

This year's results were surprisingly flipped from last year's results. In 2015, the most attractive vehicle for best-practices content was roundtable meetings, while the least attractive was e-newsletters.





CHALLENGES

When asked to list their organization's top three challenges in the next year, respondents indicated that there are a variety of challenges ahead of them, most notably regarding the main topics identified below:

FUNDING & GROWTH

- Fundraising
- Cash flow
- Cost control
- Membership recruiting
- Volunteer training

- Staff hiring
- Employee retention
- Employee benefits
- Membership service
- Marketing and communications

MANAGEMENT

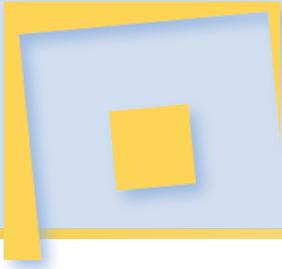
- Industry consolidation
- Strategic planning
- Facility upkeep
- Insurance

- Capital projects
- Street and road improvements
- Software integration
- Data accumulation

LEGISLATIVE

- Government regulation
- Overtime regulations
- Legislative tax reform

- Regulatory changes
- Medicaid



EXTERNAL EXPERTISE

The most critical areas where external expertise could help improve operations:

Web development

Sales

Fundraising

Branding awareness

Strategic planning

Marketing

Risk assessment

Volunteer recruitment and training

Software integration

Mobile app development

Security audits

Grant writing

Disaster planning

Information technology maintenance and enhancements

Financial reporting

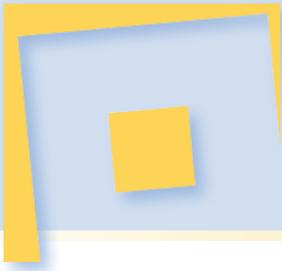
Client conflict training

Government regulations

Employee benefits

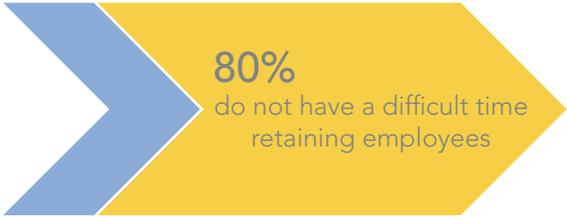
Utility billing

Affordable legal assistance



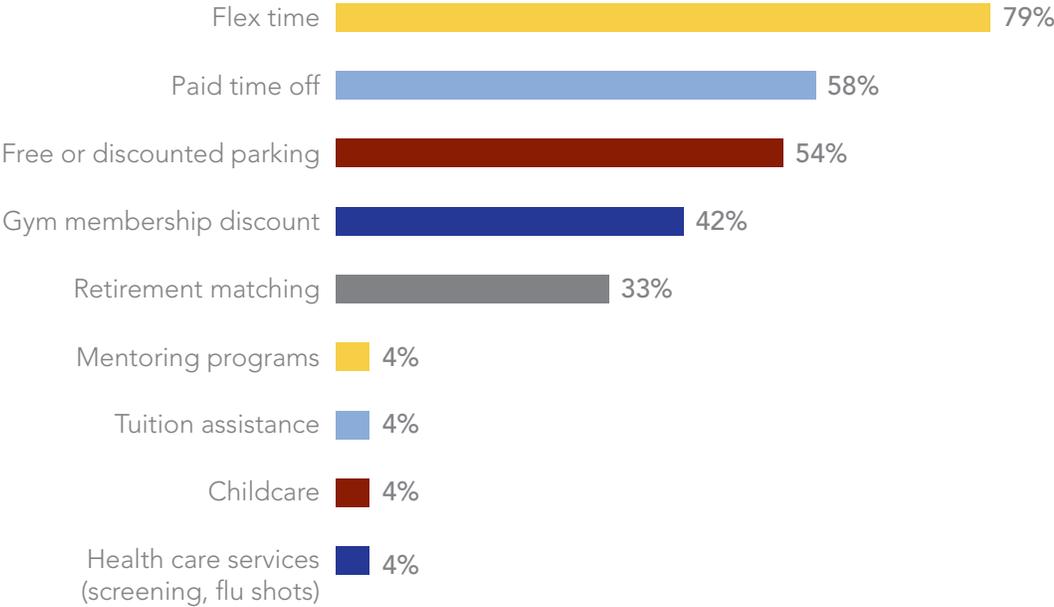
EMPLOYEE BENEFITS

Only one-fifth of the responding organizations have a difficult time retaining employees, which is consistent with last year's survey results. With the for-profit job sector increasing, it was interesting to see that employee retention has not been an issue for organizations throughout the state, at least in the past two years.



42% of the respondents utilize incentive or deferred compensation, such as bonuses and retirement plans. Nonprofits typically use incentives or deferred compensation to provide value to employees, beyond the salary or hourly wage they are paid.

The responding organizations provide the following types of non-compensation benefits to their employees:





CONCLUSION

Clearly, this important sector of our society has its share of challenges. Although the economy has improved, contributions and funding have not yet returned to pre-recession levels. Always, it seems, the demand for the services nonprofits provide is greater than the revenues available, continually requiring nonprofit executives and staff to improve their delivery and effectiveness and often make Solomon-like decisions. The decisions made today will impact a nonprofit's success in the future. Such decisions include:

- Utilizing mobile technology for increased productivity and profitability
- Addressing long-term concerns through strategic or financial planning
- Considering collaborating with other organizations with similar missions
- Seeking funding other than grants, such as loans or other investments

Our goal in working with nonprofit organizations is to help organization leaders achieve their goals while continuing to meet their mission. To do so, we carefully listen to our clients and develop a solid understanding of their needs. Our ability to listen, collaborate on solutions, and then apply needed expertise — whether the need is related to accounting, tax issues, or consulting on operational issues — has allowed us to build long-term client relationships. We are truly passionate about helping our nonprofit clients succeed and prosper!

MORE FROM DEAN DORTON

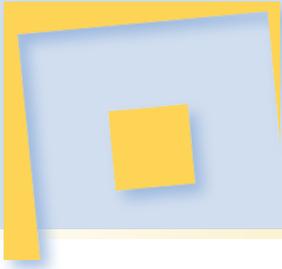
For more information regarding our specialized nonprofit solutions, or to inquire about scheduling a customized review, please contact David Richard or Amelia Sebastian.



David Richard, CPA
Director of Assurance Services
drichard@deandorton.com
859.425.7662



Amelia Sebastian, CPA
Manager of Tax Services
asebastian@deandorton.com
502.566.1064



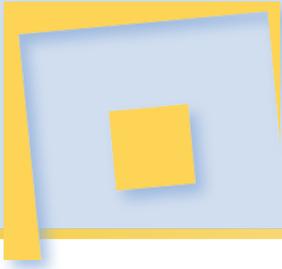
ABOUT DEAN DORTON

Supporting the nonprofit community is important to Dean Dorton. Nonprofit leaders are people who are committed, determined, and inspiring. These are characteristics and values that are important to us as well.

We recognize that nonprofit organizations face a variety of unique economic, accounting, tax, and operational issues. Dean Dorton's nonprofit team has an in-depth understanding of these issues. Our goal is to apply our specific expertise in these areas and collaborate with you in ways that help you operate more effectively, while keeping your bottom line in mind by bringing value to our relationship.

Some areas where we have helped nonprofits include:

- Nonprofit operational excellence
- Fundraising innovation
- Leveraging technology and IT solutions
- Assistance with bond issues and debt refunding
- Business plans
- Fundraising software optimization
- Controllership outsourcing
- Cost of alternative analysis
- Employee benefit plan administration and consulting
- Charitable gift analysis and structuring assistance
- Review of anti-discrimination policy and procedural requirements
- Financing alternatives
- Grant applications
- Internal auditing
- Health and welfare plan consulting
- Compiled projection of the debt service requirements of a planned bond issue



DEAN DORTON TEAM

The Dean Dorton nonprofit team is available to assist you with your needs throughout the year.



Simon Keemer, CPA, CGMA, ACA

Director of Assurance Services
skeemer@deandorton.com
502.566.1036



Faith Crump, CPA

Director of Tax Services
fcrump@deandorton.com
502.566.1025



Leigh McKee, CPA

Director of Tax Services
lmckee@deandorton.com
859.425.7617



Allison Carter, CPA

Manager of Tax Services
alcarter@deandorton.com
859.425.7645



Jim Tencza, CPA, CGMA

Director of Assurance Services
jtencza@deandorton.com
502.566.1071



Jason Miller

Director of Technology Consulting
jmiller@ddaftech.com
859.425.7626



BUSINESS ADVISORS CPAs CONSULTANTS

Lexington

106 West Vine Street, Suite 600
Lexington, KY 40507
859.255.2341

Louisville

500 West Jefferson Street, Suite 1400
Louisville, KY 40202
502.589.6050

deandorton.com

Dean Dorton is a full-service accounting and business consulting firm which provides services to clients of all sizes in a variety of industries. The firm has grown to be one of the largest Certified Public Accounting firms based in the Commonwealth of Kentucky.

At Dean Dorton, our philosophy centers on an unyielding commitment to provide services that exceed our clients' expectations and are consistently superior to our competitors in quality and timeliness. Further, we strive to do so in a setting that is satisfying professionally and personally for firm employees.