



DEAN DORTON

DEAN DORTON ALLEN FORD, PLLC



Kentucky Nonprofit Survey  
State of the Industry 2015

## 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. Many nonprofits do not have access to all the materials they need and are approaching higher demands, but without the right tools in place, meeting the demand will be even harder in the future. We believe that successful nonprofits will be those who utilize their resources efficiently across the board in order to create sustainable results.

Our second 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 nonprofit sector. This year we also included questions in regards to human resources, career advancement, and benefits to give a bit more insight.

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, implementation of technology advancements and effective leadership with a long-term view are critical to creating a true recipe for success.

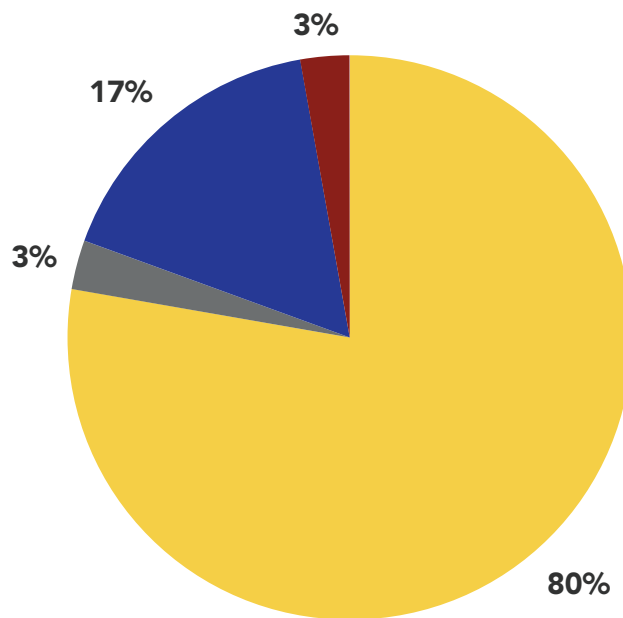
We thank the 35 nonprofit organizations who have taken the time to provide feedback and insights into their respective organizations and to those who have participated in discussions throughout Kentucky and the surrounding region regarding the state of nonprofits. We look forward to providing pertinent information regarding strengths, weaknesses, and trends throughout the study in years to come. 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

“Nonprofit entities” are typically 501c3 groups but we know the market includes many organizations that are 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.

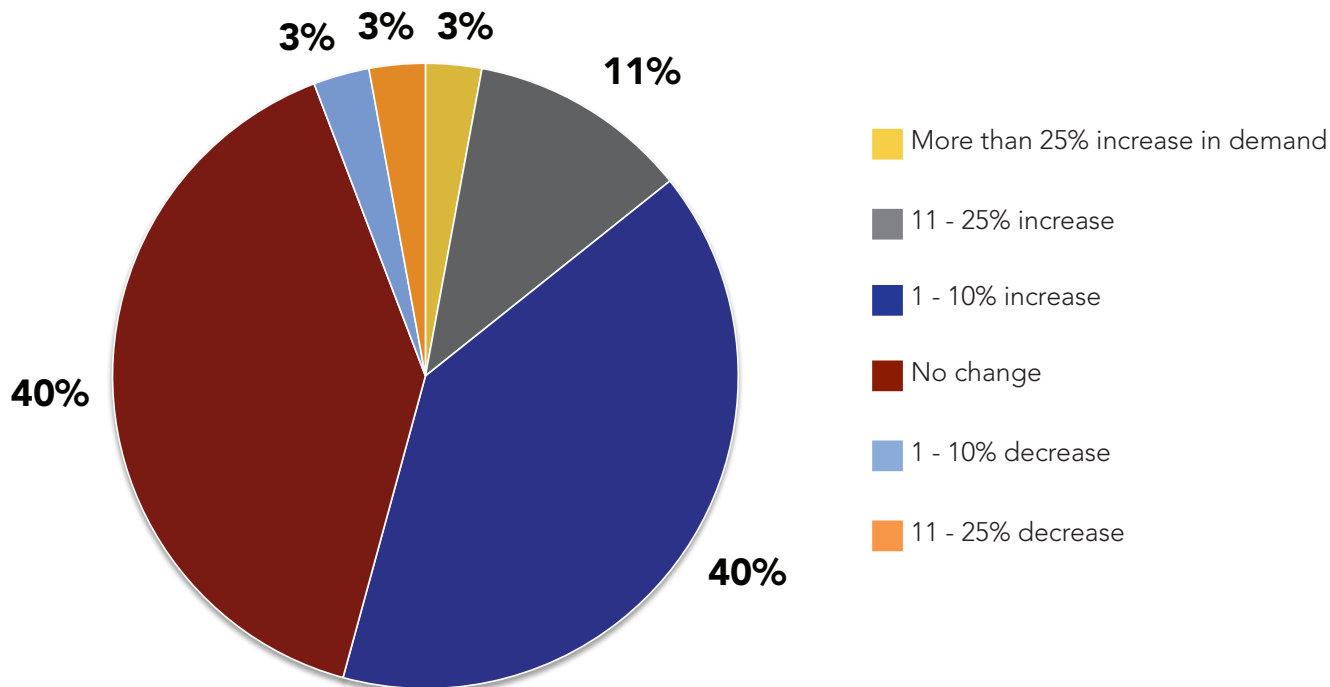


-  501(c)3 - Charity
-  501(c)4 - Civic leagues, social welfare organizations, local association of employees
-  501(c)5 - Labor, agricultural, or horticultural organizations
-  501(c)6 - Business leagues, chambers of commerce



## Demand for Services This Year Compared to Last Year

In last year's survey, 75% of our responders indicated their demand for services was increasing in the 1-10% range compared to prior year. As indicated below, more organizations experienced no change in demand of services this year, compared to last. This certainly indicates that growth is continuing throughout the sector but perhaps there are other factors helping the increase happen at a steadier rate.



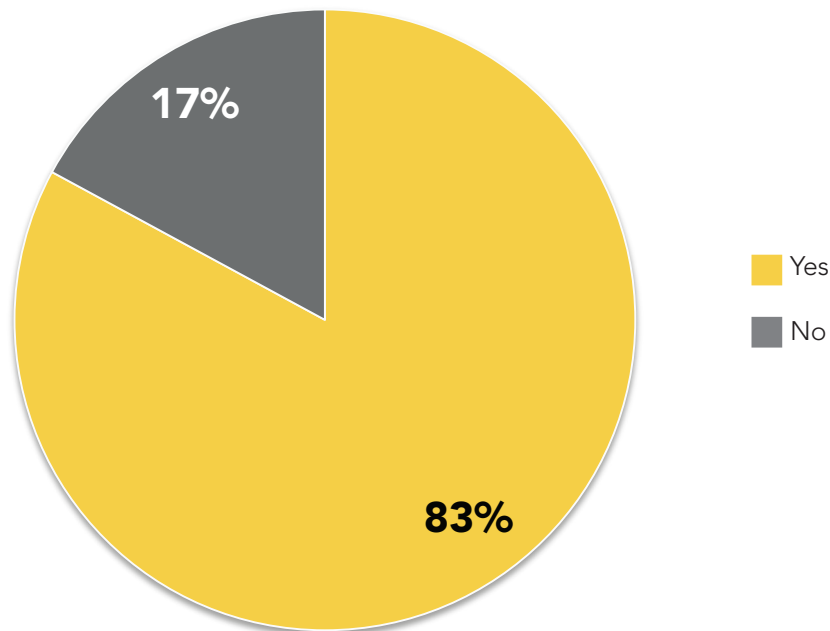


SUPPLY

DEMAND

## Ability to Meet Current Demand

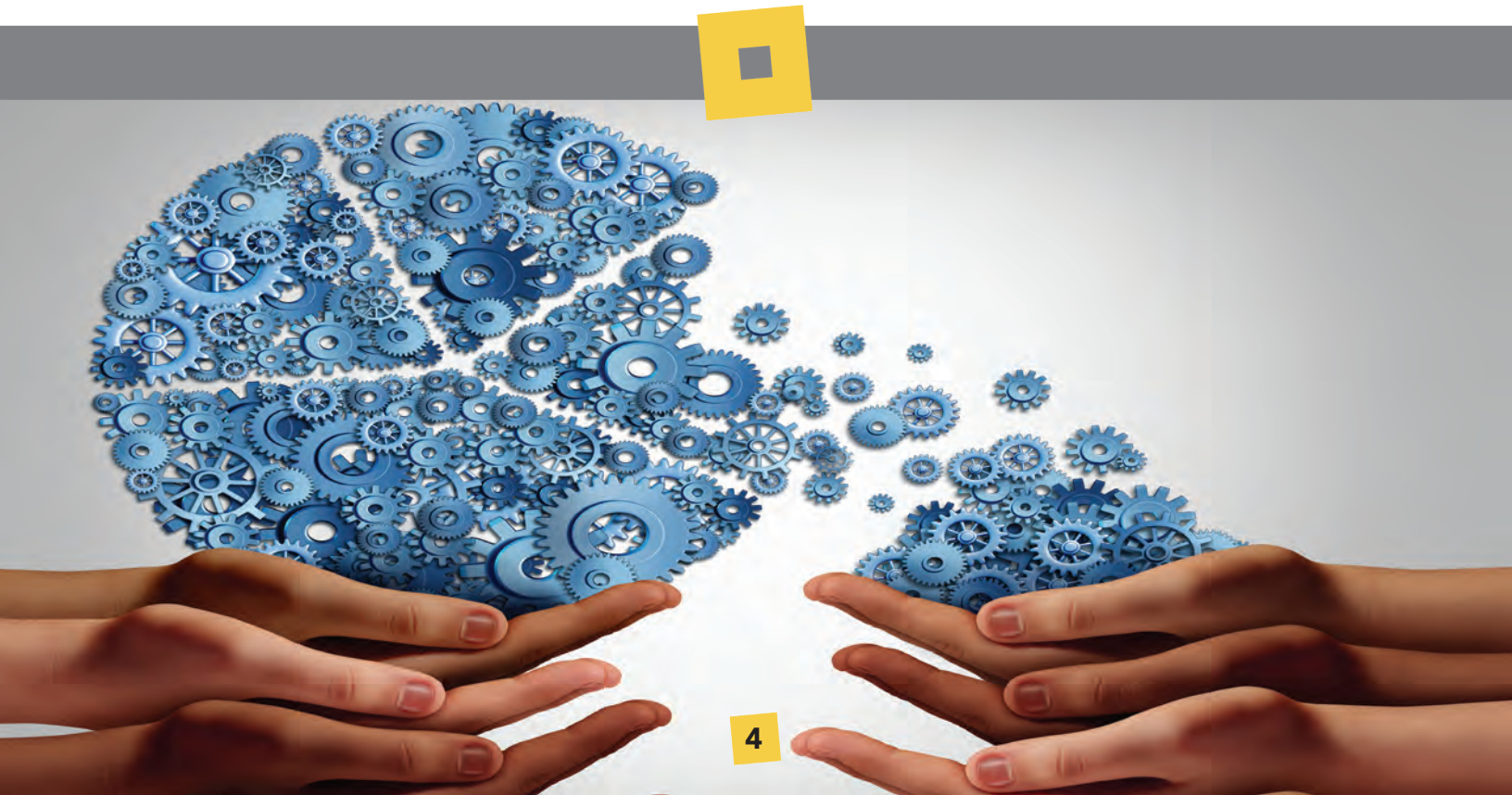
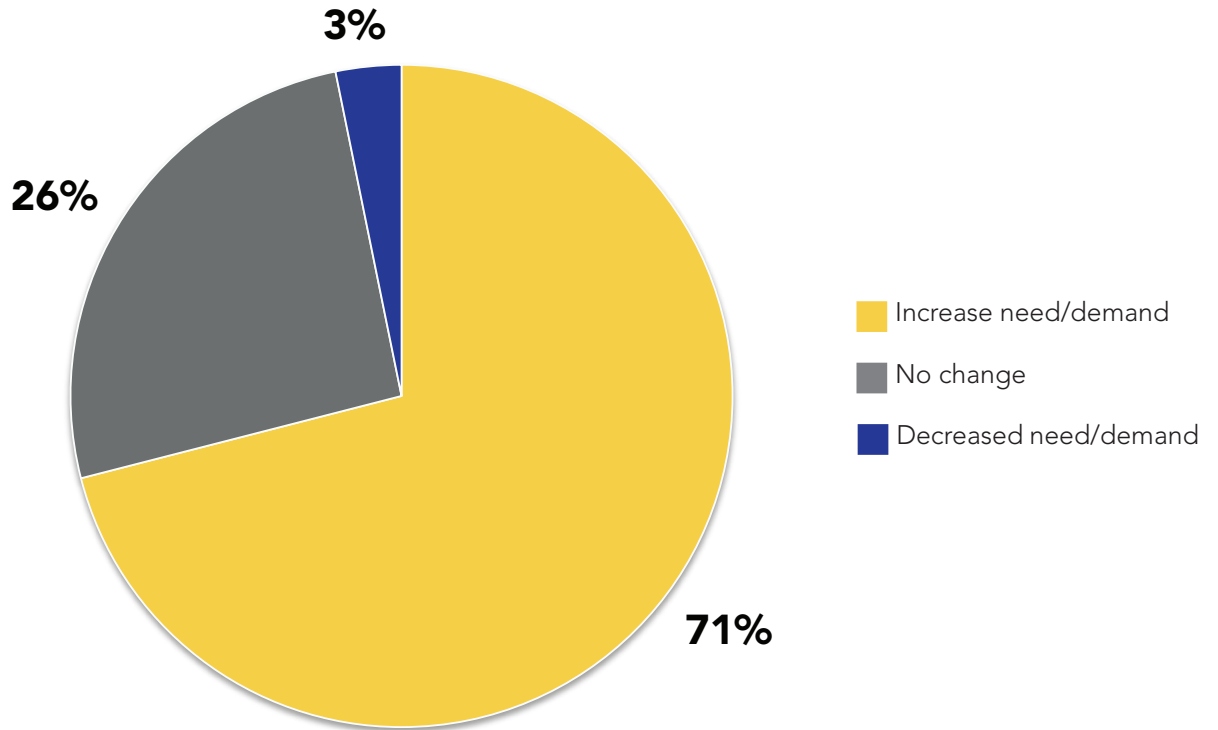
Approximately 83% of our responders indicate that their organization is able to meet the current demand for their services but do expect that demand to grow in the coming year. According to the American Institute of Certified Public Accountants' *Audit Risk Alert, Not-for-Profit Entities Industry Developments – 2015*, "Contributions to nonprofits and demand for the services they provide are increasing. Although the overall economic situation has been improving recently, contributions and government funding have not yet returned to per-recessionary levels. Of particular concern is a lack of availability of affordable lines of credit; increased competition or a smaller pool on contributions; maintaining effective internal controls with a reduced staff; and an increase in the number of delayed or uncollectible promises to give, grants, and accounts receivable."



# Expectations for Demand in 2015

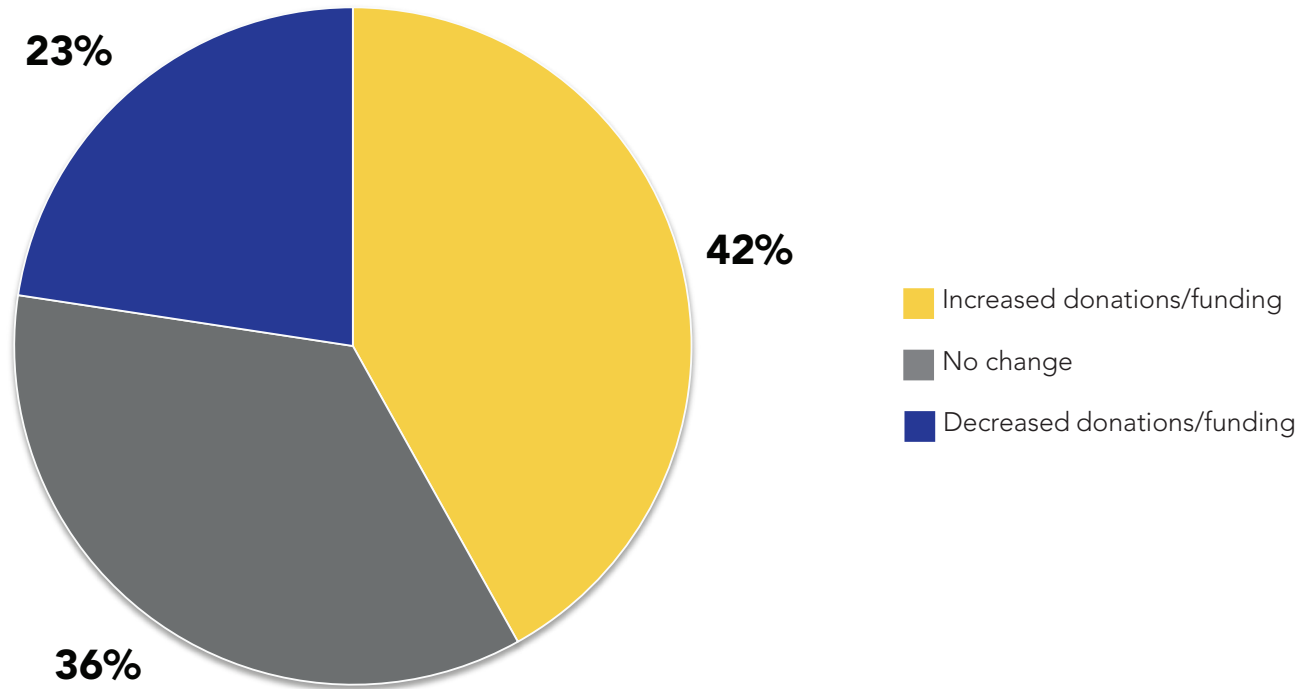
Among the responses to our open response question, "What is the biggest obstacle to meeting demand?" were:

- Due to sale of primary programs we are getting re-established including evaluating new identity, services, and staffing.
- "Funding" was mentioned in 3 of the 6 open responses.
- Personnel



# Expected Donation/Funding Level Compared to Prior 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 our previous chart, 71% of responders indicated increased demand for services but, the graph below indicates that only 42% of our responders expected donation/funding levels to increase year to year.

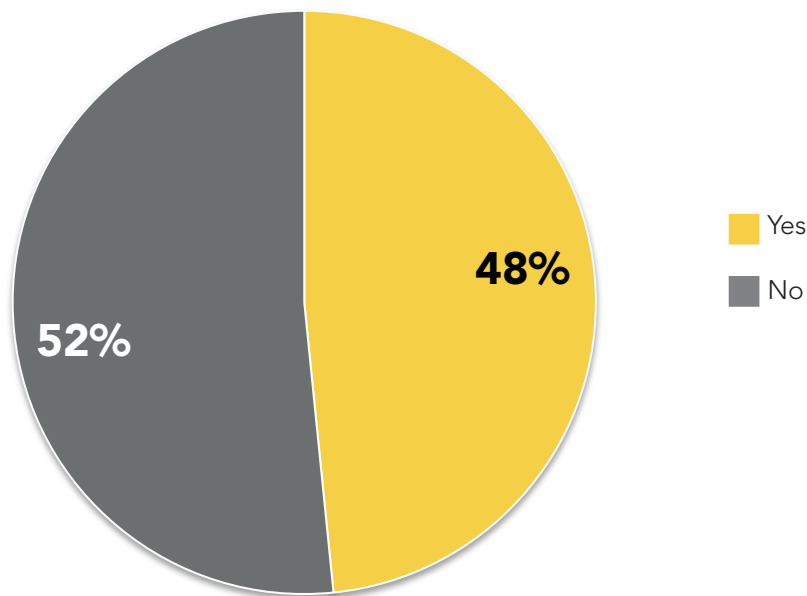


**CONTRIBUTE**





## Expected Significant Change in the Ways Your Organization Raises and Spends Money







## Revenue Diversification: Raising Funds Online

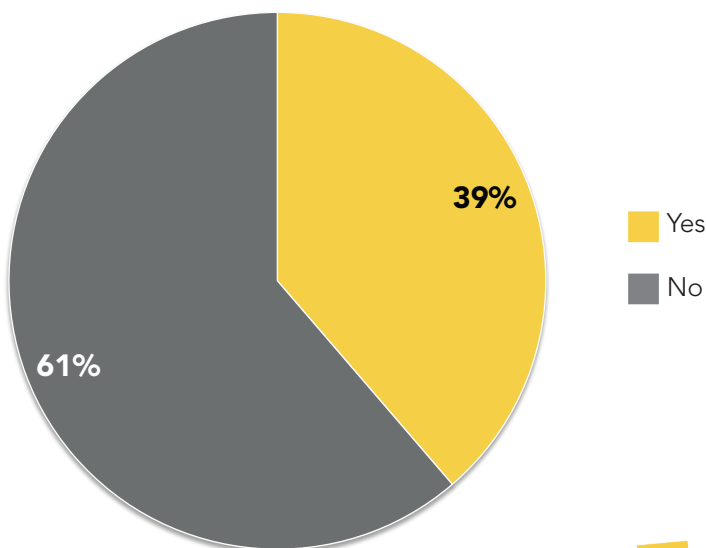
Since the introduction of numerous methods for online fundraising, it is expected to see a majority of the respondents (59%) to be actively raising funds via the internet. However, with the low cost and low barriers to entry for online fundraising, it is not expected that the remainder (41%) of organizations are not actively pursuing online fundraising strategies.

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:

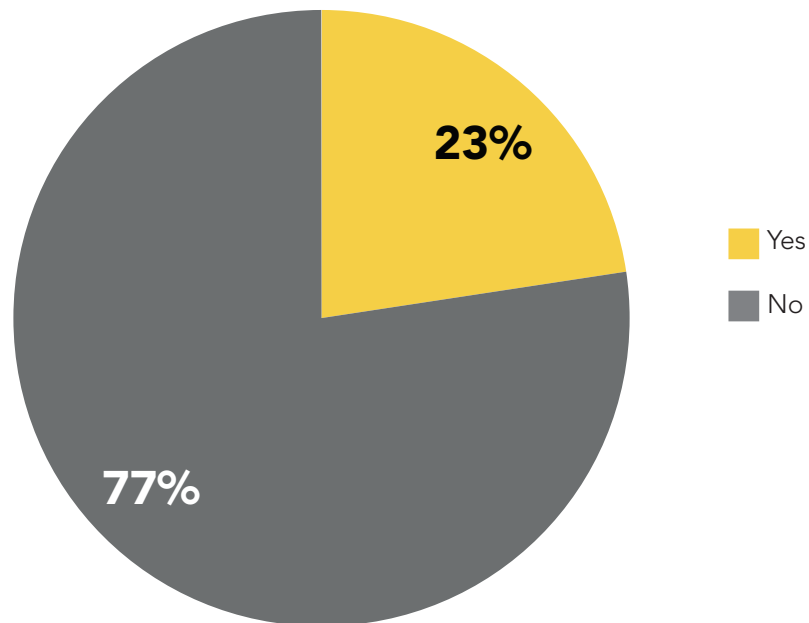
- Recurring Giving Program
- Peer-to-Peer Advocacy
- Event Registrations
- Team Fundraising
- Personal Advocacy Initiatives
- Online Gala Auctions: Pre-event
- Mobile Giving



# Getting Creative to Meet Growing Needs

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 a positive trend, but it will take time for the legal, social, and economic environments time to catch up.

As shown below, 23% of organizations are discussing or planning for an earned income/social entrepreneurship venture, and 77% are not. 2014 percentages were 9% and 91%, respectively.





# Funding from Alternative Outside Sources

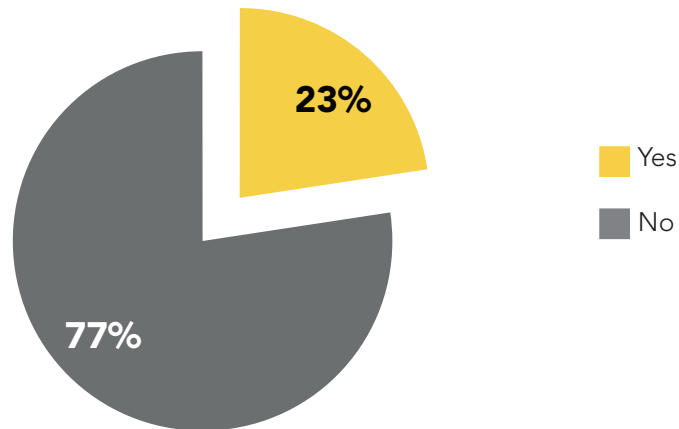
In an environment where conventional sources of financing and equity come up short, the federal government has created several types of tax credit vehicles to give banks or other investment entities the financial incentive to help nonprofits with capital projects.

Examples include: low income housing tax credits, rehabilitation tax credits and the increasing popular new market tax credit (NMTC). Enacted in 2000 to infuse investment dollars into low-income communities, the NMTC can provide resources where capital is generally more difficult to obtain. It is awarded through the Community Development Financial Institutions (CDFI) Fund, and provides for a 39% tax credit over a seven-

year period: five percent in years one through three, and six percent in years four through seven.

Each calendar year, the CDFI Fund awards credits to Community Development Entities (CDEs) through a competitive process. Capital is raised from investors that monetize the credits by making qualified equity investments in a Community Development Entities' investment fund. In turn, the CDEs invest the capital raised into projects and businesses in low-income communities. Those projects and businesses then must apply to the CDEs to seek to use their credit allocations. The credit can assist many different nonprofits in closing the funding gap for new facilities or rehabilitating or expanding current facilities.

23% of respondents will seek funding other than grants and contracts, (i.e. loans or other investments). In 2014, it was 33%.

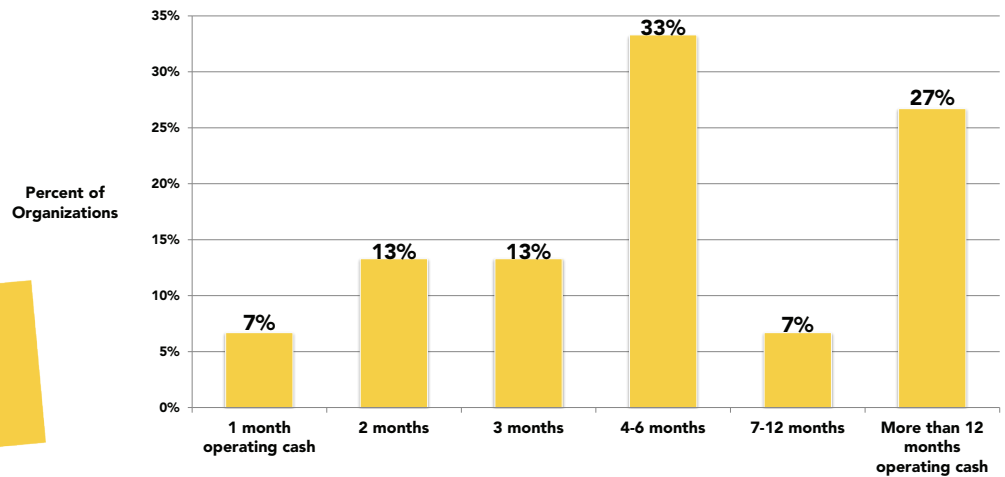




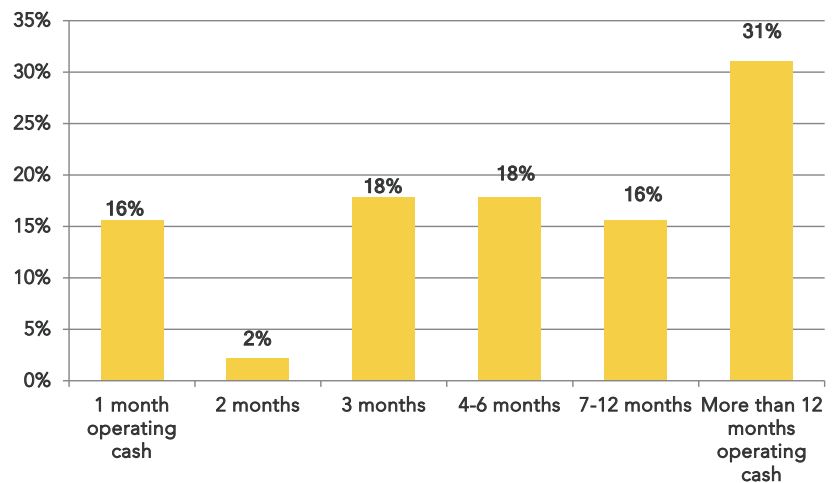
# Operating Cash Kept On Hand

We were pleasantly surprised to see that 80% of our respondents indicated that their organizations maintained three months or even more of operating cash on hand. This is a strong indicator of the financial discipline of many of Kentucky and Southern Indiana's nonprofits.

## 2015

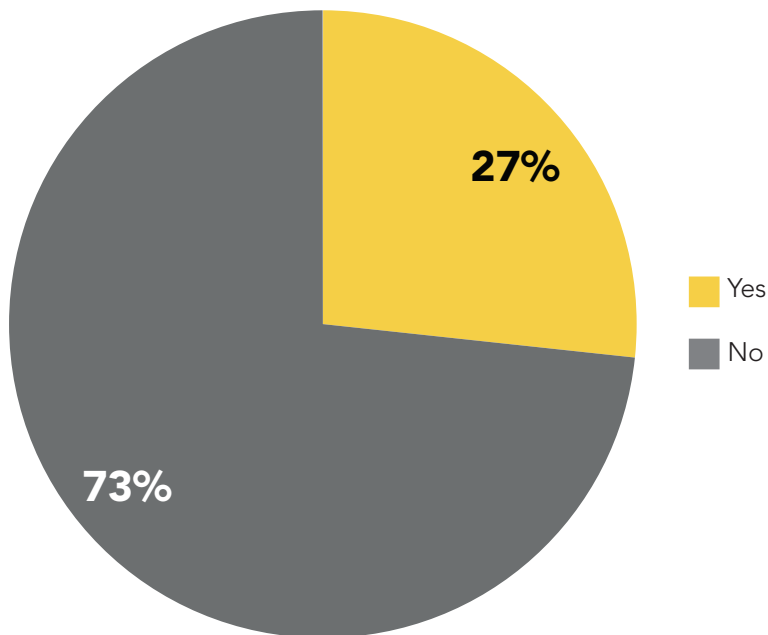


## 2014



# Deficits Continue with Decreasing Contribution Margins

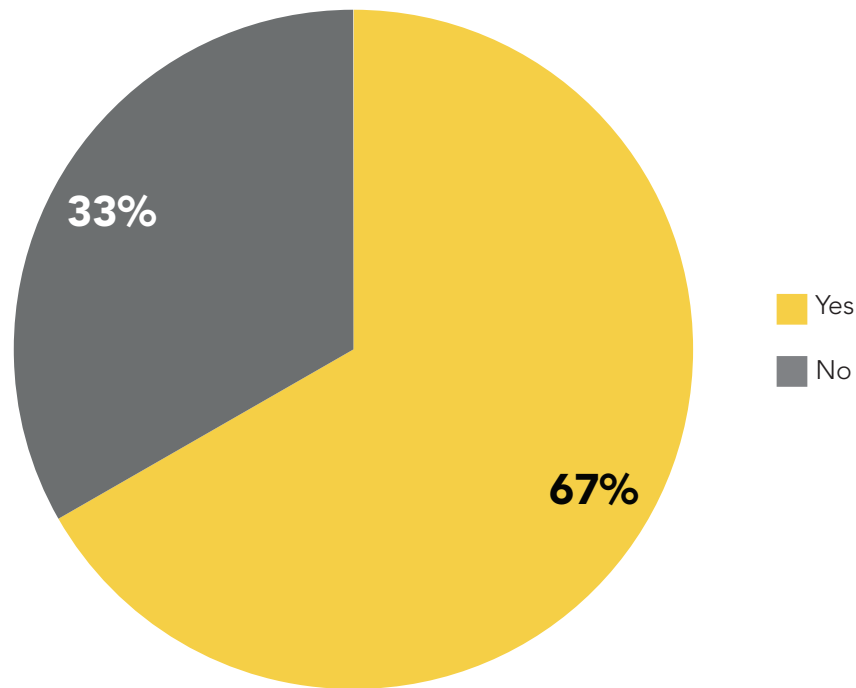
27% (20% in 2014) of our respondents indicated that their last fiscal year ended in a deficit. It seems the effects of the Great Recession continue to linger. However, the truism of “no margin, no mission” remains. Nonprofits are not immune to the fiscal reality that expenses must be properly aligned with revenues.



# Teaming Up for a Cause

The nonprofit sector is fragmented with many small organizations that often have similar or competing missions. The recent economic downturn has resulted in fewer contributions overall, which results in several organizations fighting for a smaller pool of contributions. Our survey revealed that half of our respondents are considering (or would consider) collaborating with another organization to improve/increase services. This can be a wise move for organizations that have similar or competing missions.

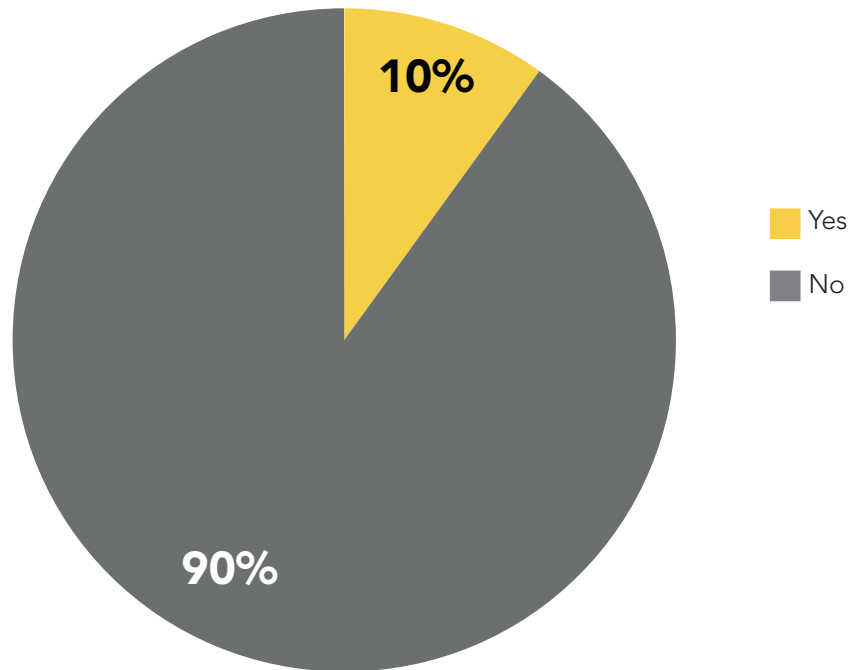
**67% of respondents indicated they will be collaborating with another organization to improve/increase services, as compared to 50% in 2014**





# Merging to Make an Impact

It is interesting to see that 67% of the respondents are considering collaborating to increase services; while only 10% (7% in 2014) 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.



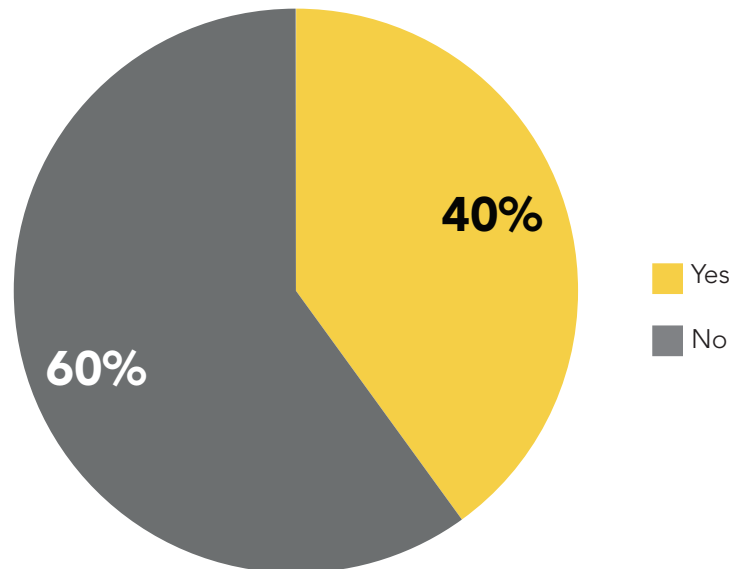


# Leveraging Technology for the Greater Good

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 60% (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.

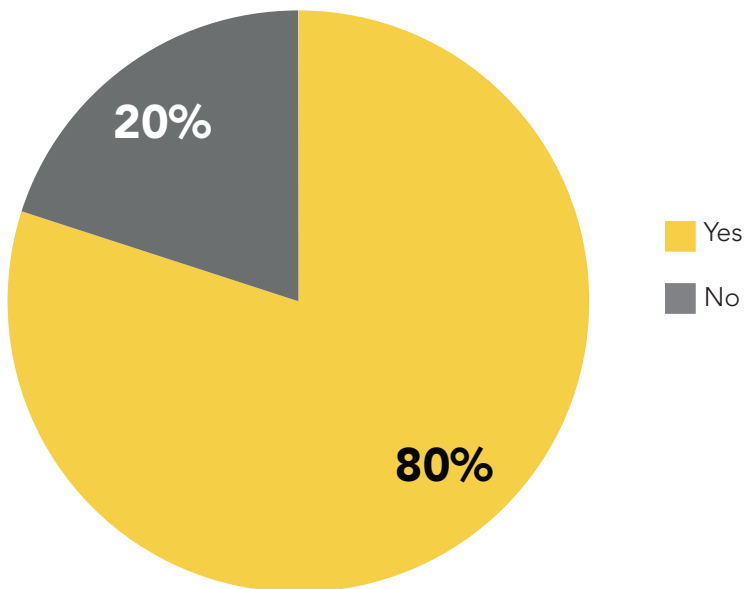




# Mobile Technology for Increased Productivity & Profitability

The demand for access to operational information and applications through mobile technologies, such as the Apple iPhone and iPad and devices running Google Android and Windows 7 Mobile, 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. 80% of respondents plan to include mobile strategies this year, compared to only 67% in 2014.



NON PROFIT

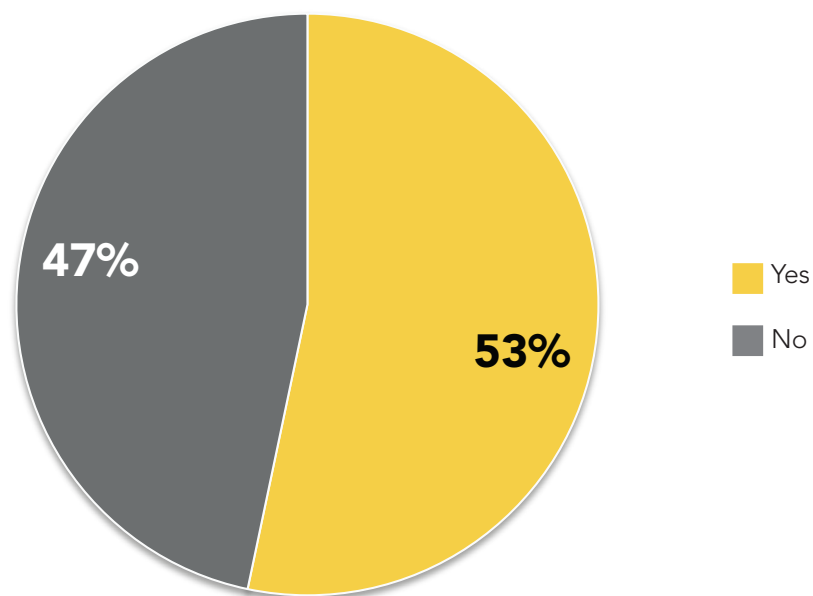






## Internal Audit within Nonprofit Organizations

About half of our respondents indicated that they had an internal audit function which is in line with our expectations and with national survey results (an identical proportion to 2014). Whether nonprofit organizations have an internal audit function or not is largely dependent on the type of organization, the size of the organization, and the make-up 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.

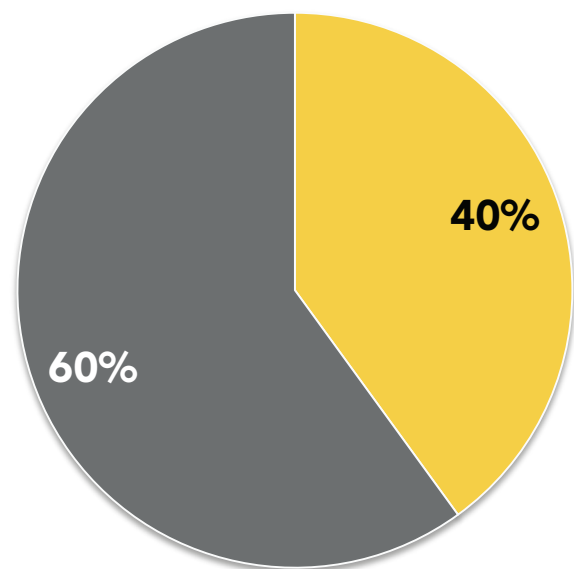




## Taking Action Against Fraud

Ethics and fraud employee hotlines have proven to be one of the most effective ways to detect or prevent fraud. Nearly half (40%) of detected fraud is uncovered due to a tip, compared to only 19% in 2014. 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.

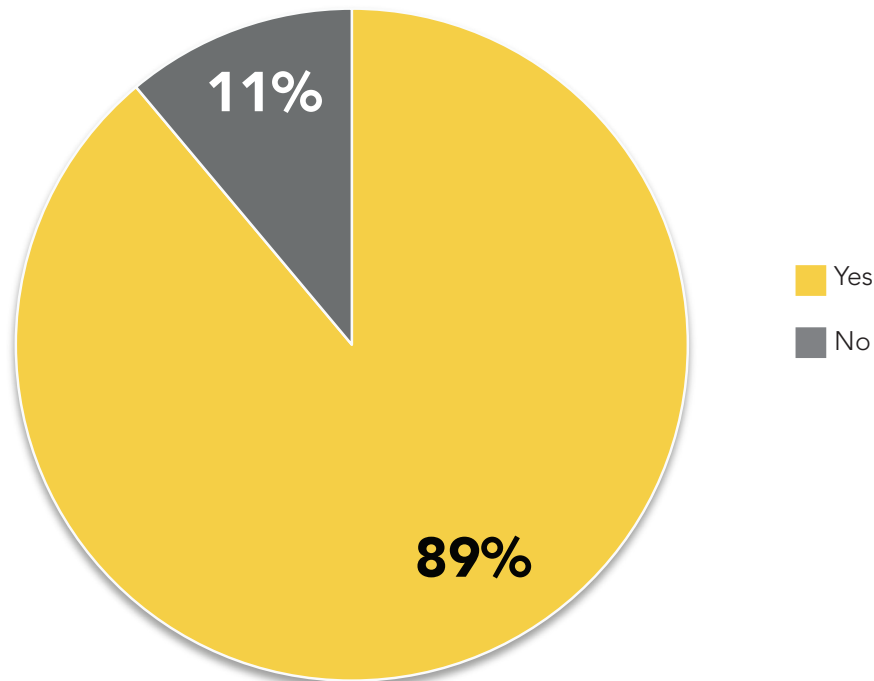
Many nonprofits believe that operating an effective fraud tip function would be too complicated, or too expensive; however, there are some easy in-house solutions or low-cost third party alternatives. Overall, we believe that the benefits outweigh the costs when organizations provide their employees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



# Addressing Long-term Concerns

The concept of Enterprise Risk Management (ERM) has been prevalent in corporate America since the 1990s, but has been increasingly embraced/utilized by the nonprofit sector in recent years. Obviously, ERM and long-range planning require a healthy partnership of a nonprofit's management, board and stakeholders. These are among the many "good governance" initiatives we have observed and applauded in the nonprofit sector in recent years. Newer initiatives include improved cost accounting processes and other "measuring effectiveness" processes.

Nearly 90% of respondents have conducted long-range strategic or financial planning, which is identical to the 2014 results.





# Most Effective Fundraising Methods

Respondents indicated the following were some of their most effective fundraising methods throughout the past fiscal year:

Estate and charitable planning  
Federal grants

**One-to-one solicitation/Direct meetings**

Grants  
Email solicitation

Galas and other Special Events  
Online giving  
**End-of-year campaign**

**Sponsorships**  
**Auctions**

Fees from services provided  
Collection of pocket change

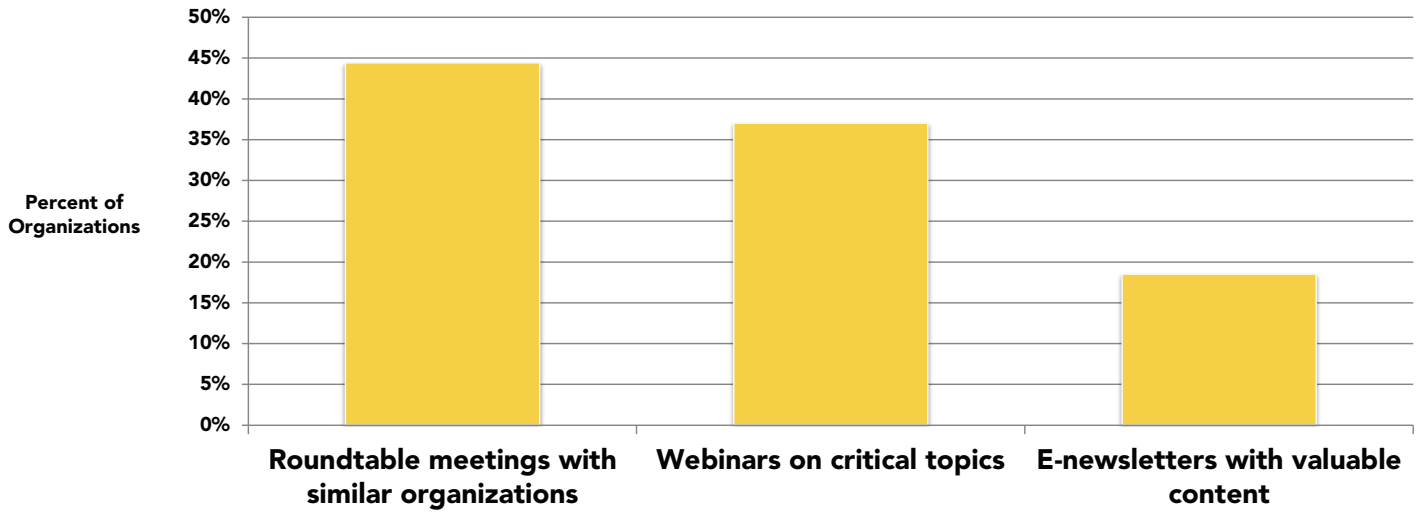
## Observation:

All of the above ideas were mentioned. "Grants" was listed twice, "Direct Mail" was listed four times, and "Face to Face" asks were mentioned five times.



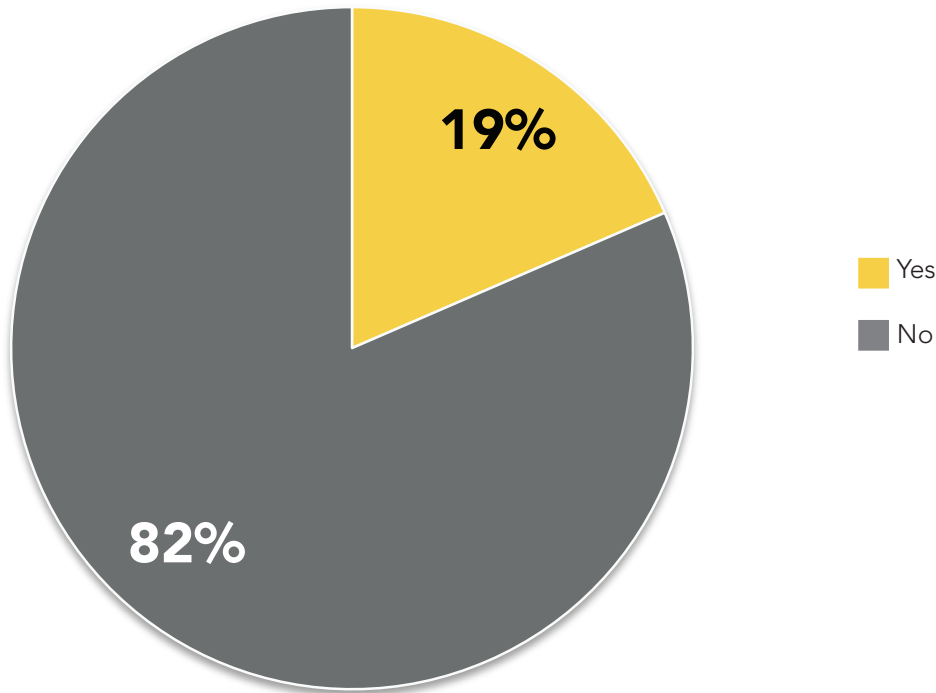
# Best Practices

This year we asked organizations about how they like to receive content and best-practices information in hopes that this will help spark some ideas.



# Employee Retention

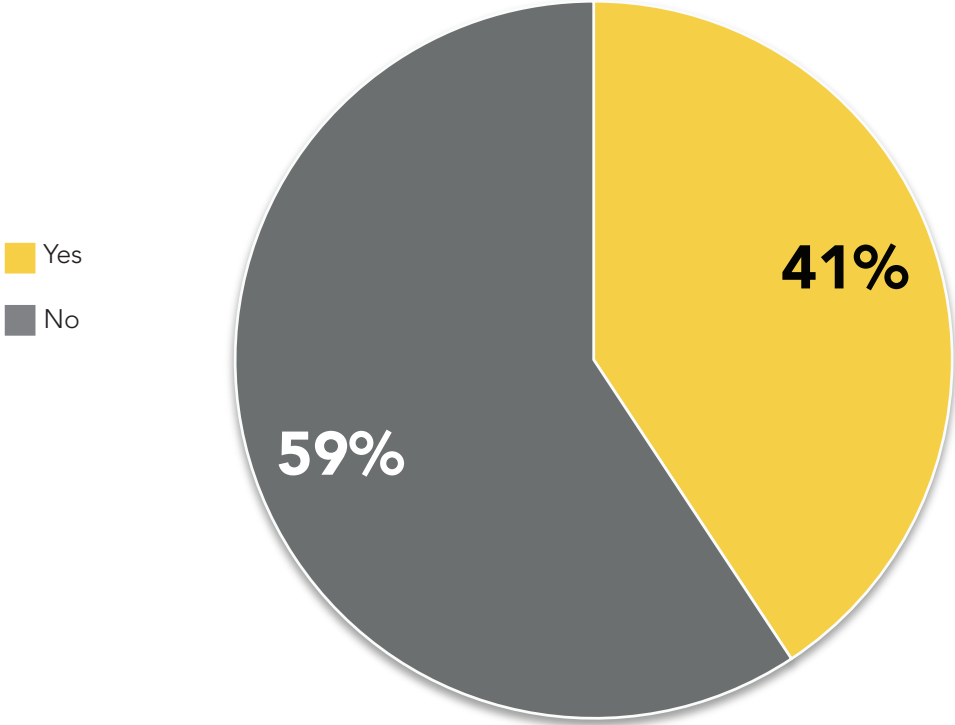
When asked "Is your organization having a hard time retaining employees?" 82% of respondents answered "No." With the for-profit job sector increasing, it was interesting to see that employee retention has not been an issue for organizations throughout the state, at least in the past year. We will be interested to find out if this trend continues. According to Kentucky Economic and Development Cabinet's *Kentucky Occupational Outlook to 2022* (published in 2014) Community and Social Service Occupations are projected to increase by 23% between now and 2022 - approximately a 1.8% annual increase in job openings.





# Incentives or Deferred Compensation

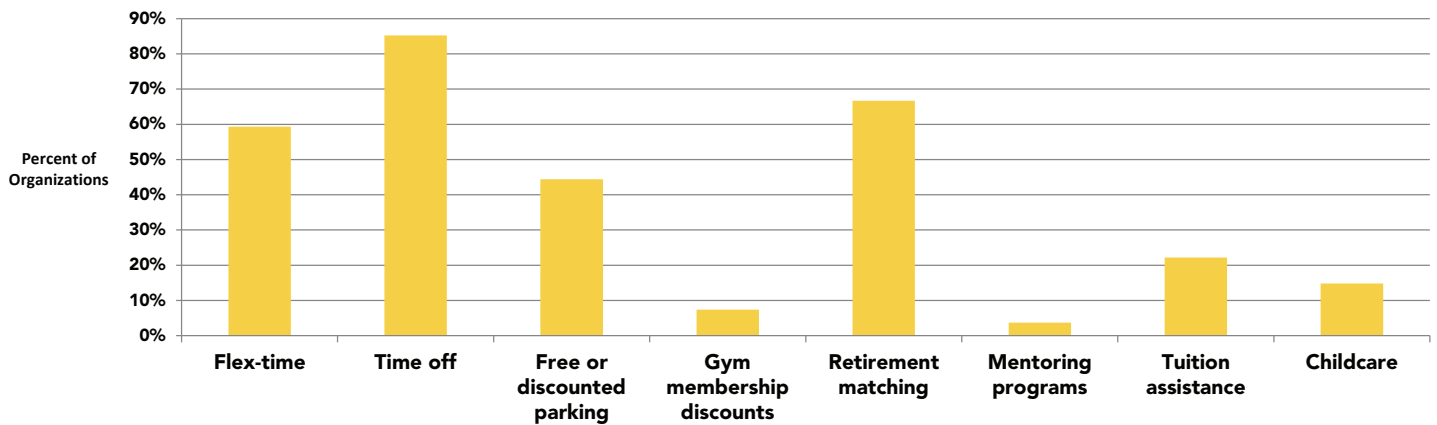
This year we asked organizations if they offer incentives or deferred compensation plans for their employees. 41% indicated they do offer incentives or deferred compensation. Typically nonprofits use incentives or deferred compensation to provide value to employees, beyond the salary or hourly wage they are paid.



# Non-Compensation Benefits

Other comments included:

- Paid life and long term disability policies for full time
- Wellness program
- Social Services
- EAP program, investment advisor, plus a vehicle is provided to each of our regional engineers, cell phones are provided to several on staff, iPads are provided to management team and to most professionals.
- HSA contributions
- In-house fitness facility
- Retreat time off and stipend



# Challenges in the Next Year

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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, and Membership/Donors**

- Decreased funding
- Retaining or increasing donors and board members
- Increasing gifts
- Member participation
- Increasing or managing revenue from program fees/registrations/tuition
- More effective sales strategies
- Increase in public awareness/marketing (kicking off a new direct TV campaign, decreasing direct mail, taking capital campaign public)
- Fundraising
- More robust development program
- Volunteers
- Increasing demand out-of-state
- Managing grant application expectations
- Engagement strategies (millennials and others)
- Grant acquisitions

## **Management (Operational and Finance)**

- Meet increasing needs for services
- Maintaining current operations
- Executing strategic plan
- Build out of in-house central billing office
- Implementation of charge capture system
- On-going implementation of Electronic Health Record
- New leadership
- Adequate staffing to meet demands
- Staff performance
- Operational deficit
- New board members
- Cash flow

## **Management (Operational and Finance), continued**

- Obtain more corporate sponsorships
- Growing annual fund
- Control spending
- Planning for potential new funds and how to use them effectively in the industry
- Address underperformance
- Developing tools for budgeting managers
- Industry consolidation
- Raising capital for new construction
- Debt financing
- Streamline non-essential events and activities; carefully assess impacts of organization's work

## **Legislative**

- Legislative issues
- Applying for accreditation
- Medicaid
- Billable insurance
- Billable CARF accreditation
- Dealing with grant cuts and expirations
- Taking advantage of policy change opportunities
- Regulatory pressures

## **Technology**

- Database changes
- Increased funding for technology
- Technology changes
- Implementing a new financial software platform



# The Three Most Critical Areas Where External Expertise Could Help Improve Operations



- Revenue cycle improvement
- Communications
- Government relations/advocacy
- Non-dues revenue development
- Newsletter design and implementation
- Getting message to potential members
- IT consulting
- Litigation support
- Technology
- Human Resources
- IT Collaboration (funding and membership)
- Fundraising
- Volunteer training/recruiting
- Low-cost, high-visibility events
- Setting up billing system
- Financing for growth/pilot projects
- SEO (Search Engine Optimization) & Cloud
- Online fundraising
- Grant acquisitions
- Low cost seminars relating to changes in HR
- IT development
- Enlightenment on ways to enhance employee productivity
- Data collection and Interpretation
- Major gifts
- Social media expertise
- Financial software analysis
- Internal controls
- Strategic Planning
- Web site building and improvement
- Marketing
- Policy messaging for grantees
- Evaluating impact of our work
- Big data analysis
- Debt financing
- Risk management
- Data mining
- Planned giving
- Bond counsel
- Camera technology
- Increasing process efficiency
- Vendor relationships
- Labor and Staffing

## 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 including:

- 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 other funding than grants and contracts, 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, to 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, care about others, and are inspiring leaders. 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. The Dean Dorton 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 & IT Solutions
- Assistance with bond issues and debt refunding
- Business plans
- Optimizing fundraising software
- 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

The Dean Dorton Nonprofit Team is available to assist you with 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





# DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

**BUSINESS ADVISORS**

106 W. Vine Street, Suite 600  
Lexington, KY 40507  
859.255.2341

**CPAs**

500 W. Jefferson Street, Suite 1400  
Louisville, KY 40202  
502.589.6050

**CONSULTANTS**