Kentucky Nonprofit
State of the Industry Survey

2017

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 2015, putting in a total of more than 3 billion hours.

AICPA, ARA, Not-for-Profit Entities Industry Developments - 2017

Our fourth 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 the makeup and role of boards of directors, technology and cybersecurity, 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.
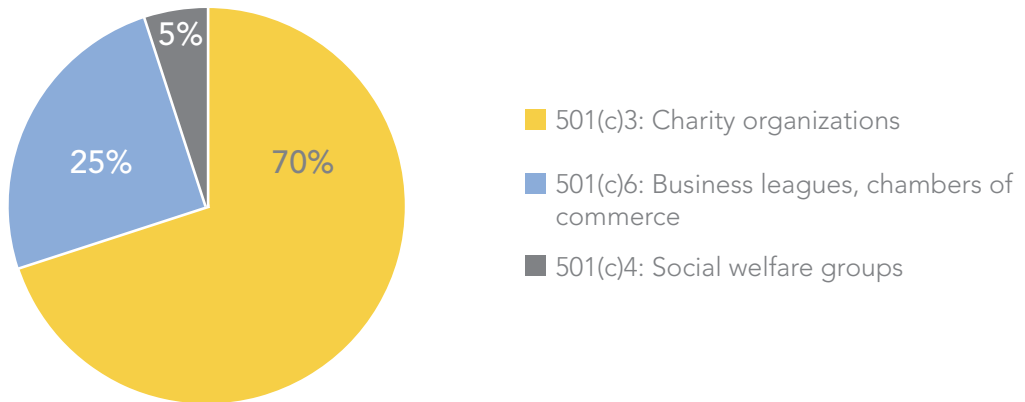
We thank the nonprofit organizations who have taken the time to provide feedback and insights into their respective organizations and to those who have participated in discussions throughout Kentucky and the surrounding region regarding the state of nonprofits. It is evident that those serving the missions 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.

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 ideas that could help you be successful as well.

- 501(c)3: Charity organizations
- 501(c)6: Business leagues, chambers of commerce
- 501(c)4: Social welfare groups
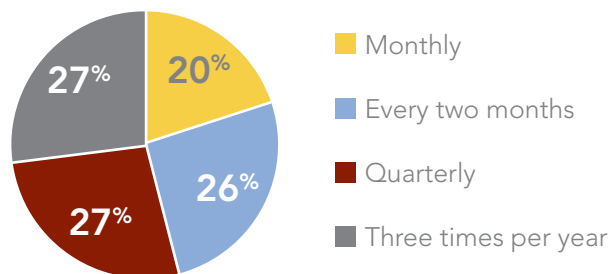
BOARD OF DIRECTORS

All responding organizations have a board of directors. The board size ranges from four members to more than 30 members. Committees within the boards include:

Alumni

Audit

Development

Executive

Facility

Finance

Governance

Investment

Lending

Marketing

Nominating

Personnel

Program

Social

Strategic Planning

Technology

According to our survey respondents, the most common length of time in which board members stay on the board is three years. Some board positions have a single term, some may have a two-year term with three renewal options (totaling to six years on the board), while others may have a three-year term with one renewal option (totaling to six years).

1 year	7%
2 years	7%
3 years	29%
6 years	22%
8 years	14%
9 years	7%
No limit	14%
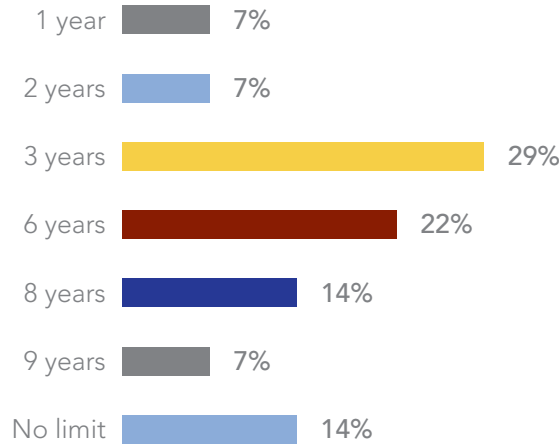
The frequency of board meetings ranges from three to 12 times per year.

27% 20% 26% 27%

Monthly

Every two months

Quarterly

Three times per year

BOARD OF DIRECTORS

The responding organizations' boards of directors primarily approve policies and procedures. Other functions include:

Approve policies and procedures	61%
Enforcement and discipline, verifying compliance standards are followed	15%
Review policies and procedures	8%
Monitoring and auditing	8%
Overseeing compliance efforts	8%
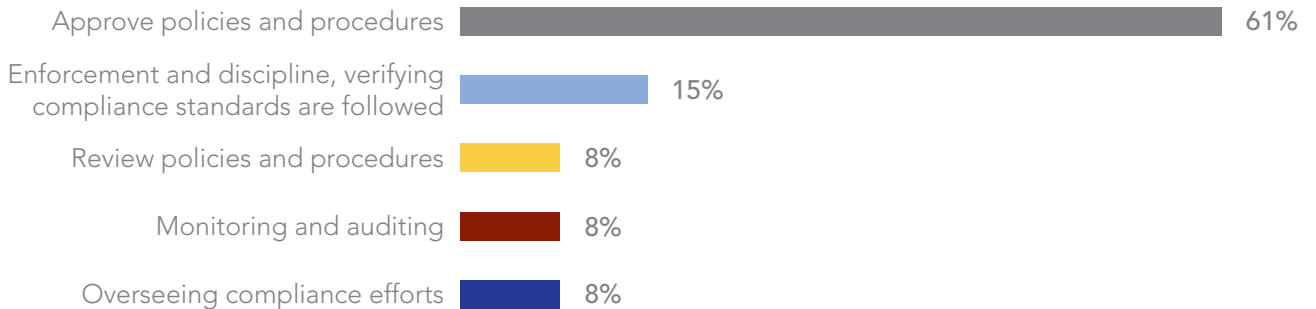
On a scale of 1 to 5, with 5 being the strongest, the respondents rated their level of confidence that their board understands their organizations' biggest risks at **3.88**. The respondents rated their level of confidence that their board understands its role in risk management at **3.67**.
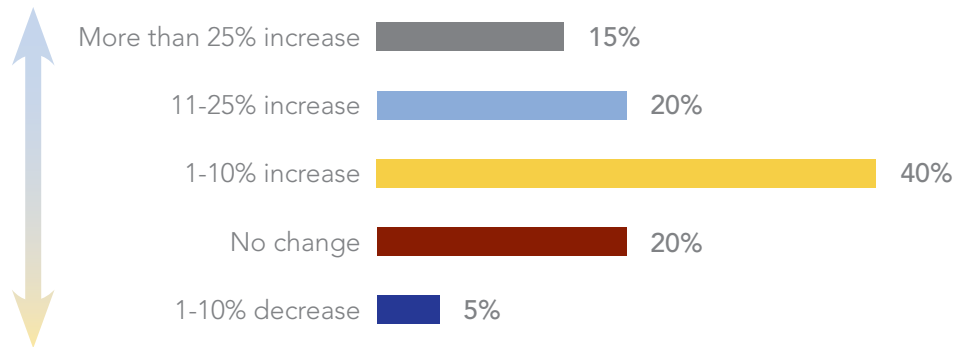
3.88 out of 5
board understands the organization's biggest risks

3.67 out of 5
board understands its role in risk management
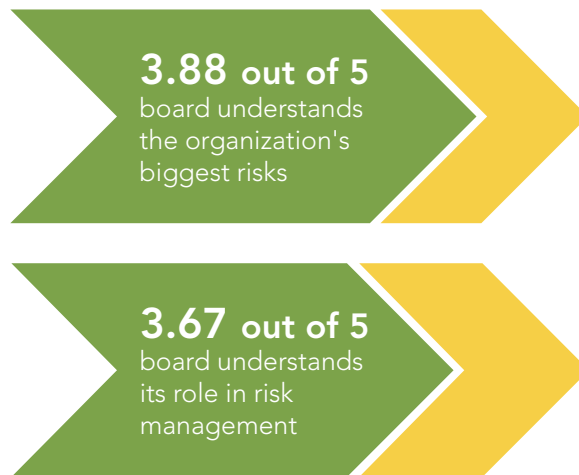
93% of responding organizations have conducted long-range strategic or financial planning.

20% of the survey respondents indicated their demand for services had no change, which is comparable to last year (22%).

The same proportion of respondents as last year saw a slight to moderate increase for demand for services. 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.

| Category	Percentage
More than 25% increase	15%
11-25% increase	20%
1-10% increase	40%
No change	20%
1-10% decrease	5%

85% of the organizations are able to meet the current demand for services. Of those organizations not able to meet the current demand, their biggest obstacles include funding and lack of space (e.g. limited number of rooms for patients.

DEMAND FOR SERVICES

Most respondents anticipate an increased need or demand for services next year. None of the respondents anticipate a decreased need or demand next year.

- Increased need/demand
- No change
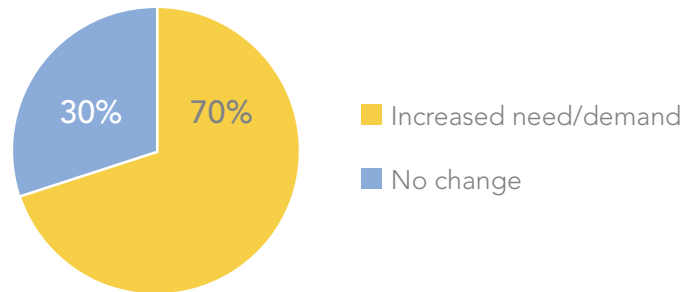
It seems the constant challenge facing nonprofits is the demand for services is increasing faster than the funding. This is once again evidenced in our survey results. On the above illustration, 70% of respondents indicated an increased demand for services, but the graph below indicates that only 35% of the respondents expect donation/funding levels to increase year to year, compared to 50% last year.

Increased donations/funding	35%
No change	45%
Decreased donations/funding	20%
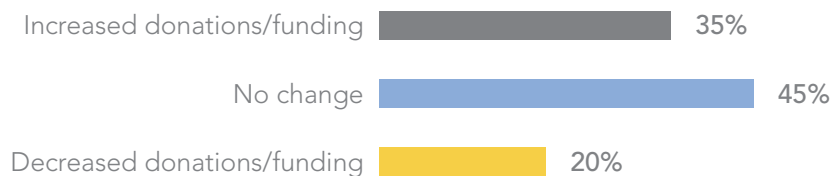
One-quarter of the respondents expect to significantly change the ways they raise and spend money. It seems like a decent number of nonprofits are looking for new fundraising methods.

FUNDRAISING

40%

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 an 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. More information on cybersecurity can be found on page 14.

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 to catch up.

Only 10% of organizations are discussing or planning for an earned income/ social entrepreneurship venture.

15% 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

Membership dues

Fundraising events

About half of the survey respondents currently have seven or more months of operating cash on hand. 85% of participating organizations maintain three months or even more of operating cash on hand, which is a strong indicator of the financial discipline of many of Kentucky and Southern Indiana's nonprofits.

2 months	15%
3 months	20%
4-6 months	20%
7-12 months	30%
More than 12 months	15%
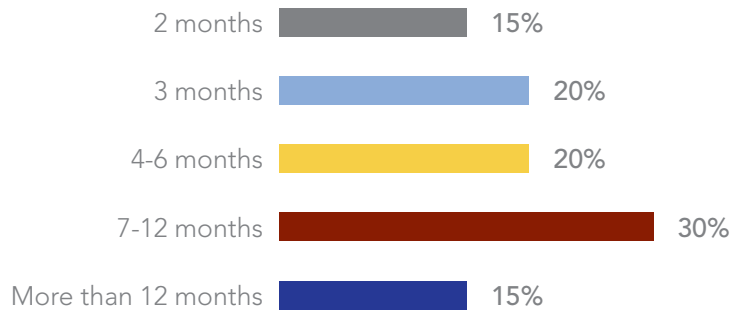
Only 15% of the respondents ended the last fiscal year with a deficit. This is the first time since 2014 that we saw a decrease in deficit year-ends. Perhaps the effects of the Great Recession are finally behind us.

85%

15%

■ Ended with a deficit
■ Ended without a deficit

'17 '16 '15 '14   '17 '16 '15 '14
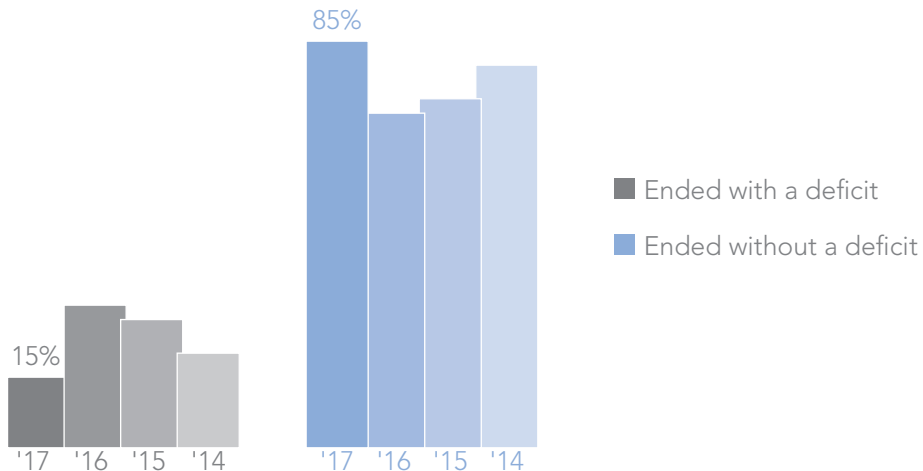
COLLABORATION

It is interesting to see that 75% of the respondents are considering collaborating to increase services, while none of the respondents are considering merging with another organization in the near future. Last year, 8% of the survey resondents considered merging with another organization, while a slightly increased 10% considered this in 2015.

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.

25%   75%

■ Considering collaborating with another organization
■ Not considering collaborating
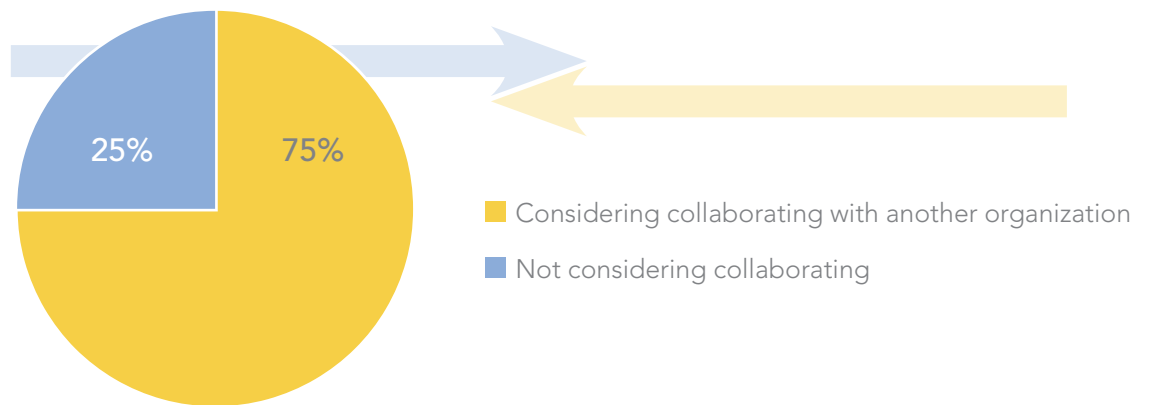
SOFTWARE & TECHNOLOGY

89%

of responding organizations indicated they receive everything they need to run their organization to the best of their ability from their current software. This is a large increase from last year, in which only 62% of respondents indicated they received everything needed to run their organization from their current software.
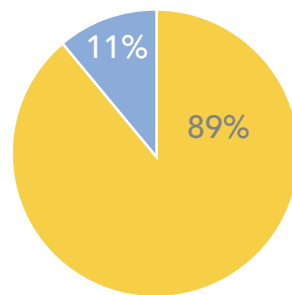
- **■ Receive everything needed to run the organization from current software**
- **■ Do not receive everything needed to run the organization from current software**

All of the survey respondents indicated that they receive value from their current accounting software. They would not change anything about their software.
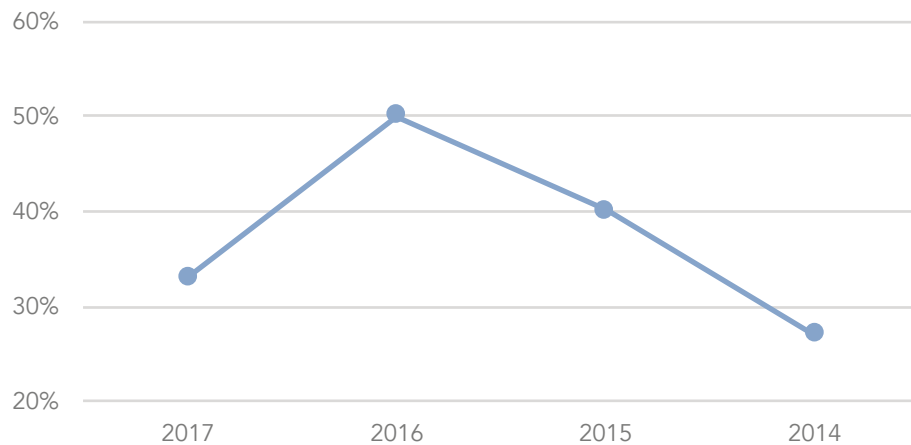
MOBILE TECHNOLOGY

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 two-thirds of respondents indicating that their organization is not leveraging the full operational advantages of current technologies. The following graph illustrates the trend over the last few years.

**Organizations Leveraging the Full Operational Advantages of Current Technologies**

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

MOBILE TECHNOLOGY

78%

of respondents plan to utilize mobile technology in the next year.
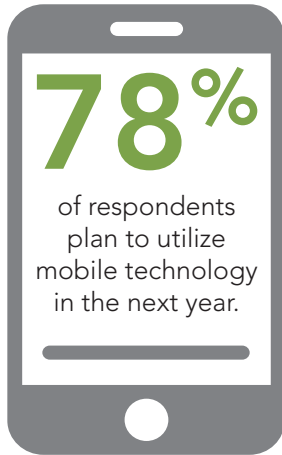
We believe that organizations realize the importance of mobile technology integration, as reflected by the surge in numbers since 2014.

Year	Percentage
2017	78%
2016	75%
2015	80%
2014	67%
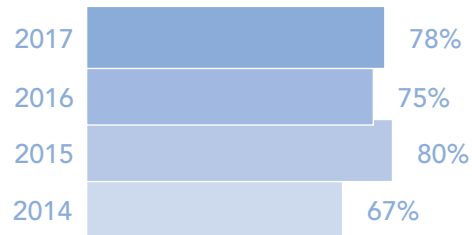
The demand for access to operational information and applications through mobile technologies, such as smartphones and tablets, is surging as staff preferences spill over into the business workforce. The massive growth in the adoption of these technologies in the nonprofit sector has many business managers 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.

INSURANCE & CYBERSECURITY

100% of the survey respondents have directors and officers (D&O) liability insurance. Two-thirds of the respondents have other liability policies as well. 61% of the respondents indicated that their insurance policies cover cybersecurity.

D&O insurance covers directors and officers for claims made against them while serving on a board of directors and/or as an officer. This insurance covers claims resulting from managerial decisions that have adverse financial consequences.

International Risk Management Institute, Inc.

Two-thirds of the responding organizations have a cybersecurity plan and/or safeguard policies in place. Some of the organizations indicated their plans, which are tested periodically, are through their management company or outsourced IT company. When asked who is responsible for accountability to the cybersecurity plan, the responses varied:

**Outsourced IT company**   **Chief Executive Officer**   **Finance department**

Management company   **Chief Financial Officer**   **Internal IT staff**

                                  Chief Operating Officer   **Human resources**

CYBERSECURITY AWARENESS

Only 63% of responding organizations train their employees on cybersecurity protection and awareness. These days, every company is at risk of falling victim to a cyber attack through ransomware and phishing scams. Nonprofit organizations should make sure their employees not only know how to recognize a phishing email, but also alert their security team in order to analyze the email. Learn more at deandortontech.com/user-awareness-training.

- ■ Train employees
- ■ Do not train employees
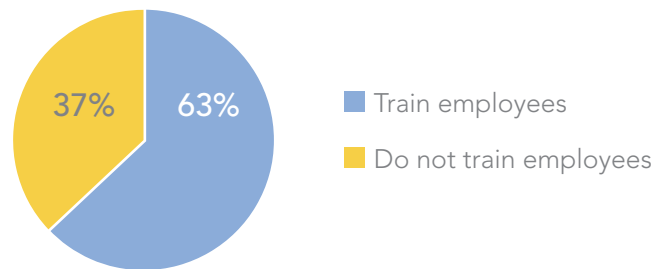
Training methods used include:

Management company trains employees

Employees are trained at time of hire and during annual training

IT managers regularly attend conferences and participate in webinars

Organization forwards updates from outsourced IT company

When asked who is responsible for training employees, the responses varied:

- Management company
- Chief Executive Officer
- Chief Operating Officer
- Supervisors
- General counsel
- IT manager
- Outsourced IT company

INTERNAL AUDIT

Only 63% 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 of Directors. 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

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 knowing 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.

Contact us for more information on implementing a hotline in your organization.

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 different from results over the last two years. In 2016, the most attractive vehicle for best practices content was e-newsletters, while roundtable meetings were most popular in 2015. Webinars won the contest this year.

47%

27%

26%

Webinars on critical topics

E-newsletters with valuable content

Roundtable meetings with similar organizations
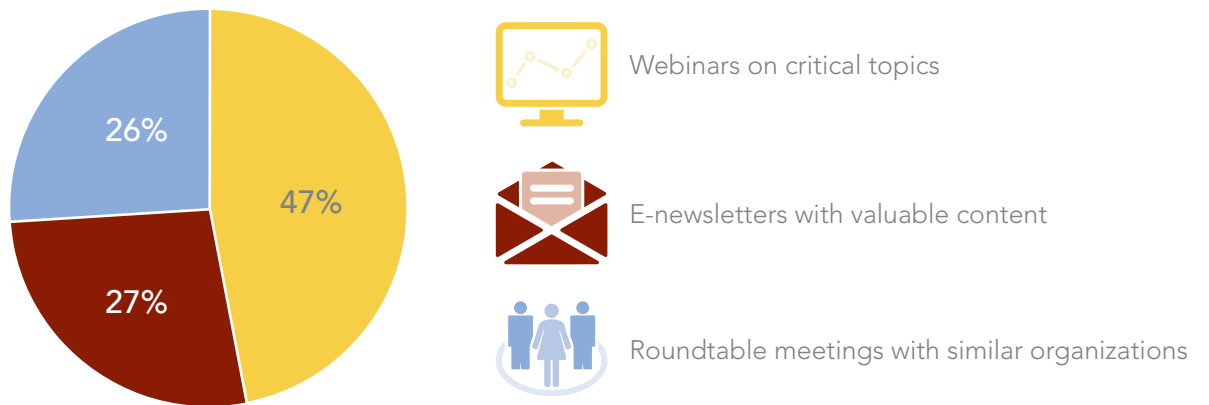
CHALLENGES

The survey respondents indicated that there are a variety of challenges ahead of them, most notably regarding the main topics identified below:

FUNDING & GROWTH

Fundraising
Acquiring and retaining talent
Staff and volunteering training
Staff resources

Endowment creation
Alumni engagement
Membership dues
Increasing space for programs

MANAGEMENT

Mergers and acquisitions
Board reorganization
Succession planning

Software changes
Branding awareness
Annual meeting attendance

LEGISLATIVE

Government regulation
Healthcare payment reform
Medicaid waiver

Changes in Medicaid funding
Affordable Care Act repeal
Tax reform outcome

EXTERNAL EXPERTISE

All external expertise that an organization pays for should provide value. Every dollar that an organization spends should be scrutinized with a cost benefit analysis. The most critical areas where external expertise could help improve operations are:

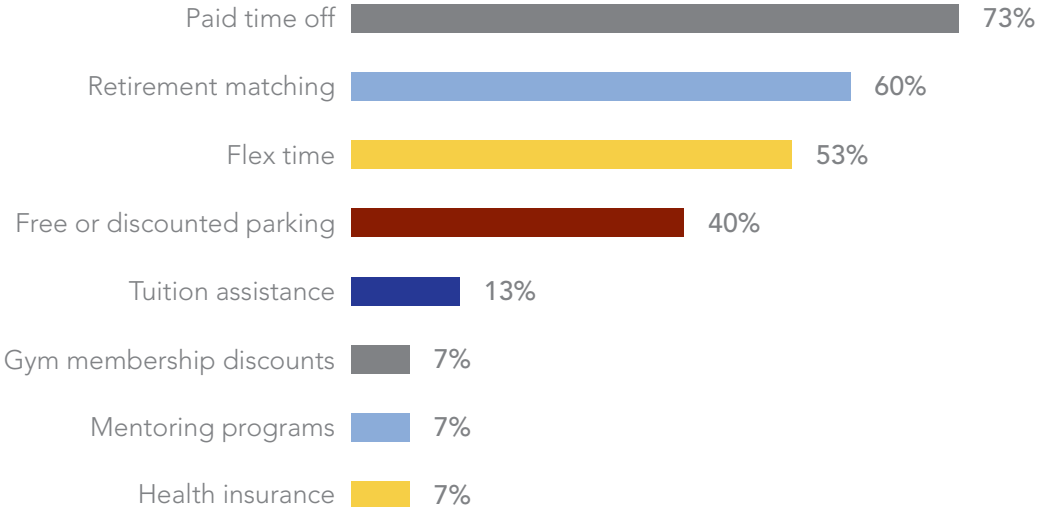|	
Fundraising	Annual meeting format
Board training and management	Policy review
Staff recruiting and training	Best practices
Human resources and culture development	Software
Culture development	Accounting
Strategic planning	Legal
Succession planning	Information technology

EMPLOYEE BENEFITS

Only 7% have a difficult time retaining employees, which is a significant decrease from last year's survey results (20%).

With the for-profit job sector increasing, it was interesting to see that employee retention has not been an issue for organizations throughout Kentucky, at least in the past three years.

93%
do not have a difficult time retaining employees

Nonprofits typically use incentives or deferred compensation, such as bonuses and retirement plans, to provide value to employees, beyond the salary or hourly wage they are paid. 40% of the survey respondents provide incentives or deferred compensation to their employees.

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

Benefit	Percentage
Paid time off	73%
Retirement matching	60%
Flex time	53%
Free or discounted parking	40%
Tuition assistance	13%
Gym membership discounts	7%
Mentoring programs	7%
Health insurance	7%

CONCLUSION

Clearly, this important sector of our society still 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.

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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.

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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.