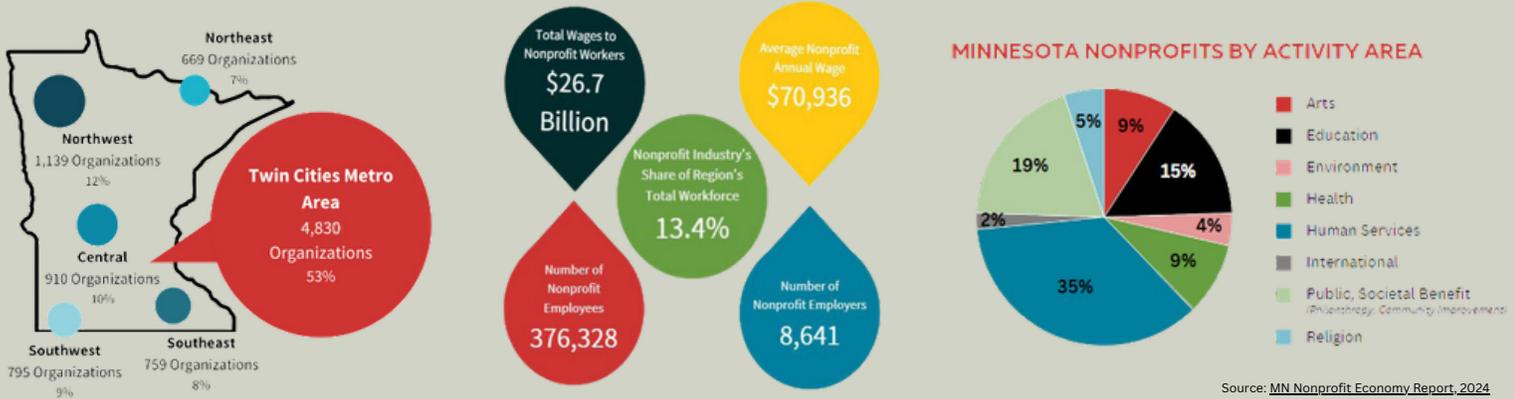


Understanding Nonprofit Operating Realities

Why some financial, impact, and sustainability questions are difficult for nonprofits to answer

Minnesota Nonprofit Sector Basics:



Detailed Financial Projections

Nonprofit finance can be complex, and sometimes a nonprofit's answers to questions about its finances can seem unclear. Here are some reasons why:

- Funding Uncertainty:**
Nonprofits often rely on diverse funding sources, including grants and donations that are often one-time or short-term, making future financial projections unpredictable.
- Risk Factors:**
External factors such as legislative changes, economic downturns, or unforeseen events can significantly impact financial projections, adding uncertainty to long-term planning.
- Limited Data:**
Nonprofits may lack historical data or market insights necessary for accurate long-term financial projections, especially for innovative or evolving programs.
- Mission Flexibility:**
Nonprofits prioritize fulfilling their mission over financial stability, which may involve adapting programs, size of staff, and services based on community needs rather than financial forecasts.
- Variable Revenue Streams:**
Income streams can fluctuate based on economic conditions, donor behavior, and changes in funding priorities, complicating long-term projections.

3

Factors driving nonprofit financial distress:

1. Increased expenses
2. Fluctuations in charitable giving
3. COVID relief funding is mostly distributed and spent

Source: MN Current Conditions of the Nonprofit Sector Report, 2024



Mission, Evaluation & Impact

When asking nonprofits about the impacts of their work, consider these factors:

Complexity of Social Issues:

Many nonprofit organizations address complex social issues such as poverty, education, or healthcare, which are influenced by various factors beyond their control. Isolating the effects of a single program amidst this complexity is difficult or impossible.

29%

of respondents said one of the biggest challenge in the last 12 months is increased demand for services

[Current Conditions of MN's Nonprofit Sector, 2024](#)

Root Causes & Prevention:

Nonprofit successes (especially in direct service) are often measured (and funded) in their ability to expand programming or serve more people in community. Yet these nonprofits are often working towards a world where they do not have to exist.

Prevention is difficult to prove, rarely are nonprofits rewarded when fewer people need their services and they close programming.

In addition, nonprofits often act as band aids to address issues that are caused by systemic inequities, and while they and their communities served may have unique perspective and solutions on the root causes, they are rarely afforded the resources needed to address them.

"Cost per person served"

This measurement, as part of a grant for basic human services is unhelpful because it oversimplifies the complex and individualized nature of the services we provide, where the intensity of care and resources required can vary greatly from person to person. This metric fails to capture the quality and long-term impact of services that are essential for achieving meaningful, lasting outcomes.

Long-Term Outcomes vs. Short-Term Outputs:

While nonprofits can measure short-term outputs like the number of meals served or children educated, demonstrating long-term outcomes such as improved livelihoods or increased literacy rates requires sustained effort and tracking over extended periods, which can be overly resource intensive. For example, a longitudinal study following a cohort of young students who participated in an educational program to look at their test scores, admittance to higher education, or career success would require significant staff time and costs. Additionally, there is often no control group from which to judge the program against.

Growth in client need is forcing us to choose to help or not based on capacity, and that capacity is affected by flat fundraising while experiencing increased need.

-Nonprofit Employee in Twin Cities
[Current Conditions of MN's Nonprofit Sector, 2024](#)



Mission, Evaluation & Impact

When asking nonprofits about the impacts of their work, consider these factors:

Data Limitations:

Nonprofits may lack the resources or capacity to collect comprehensive and reliable data. This can hinder their ability to measure outcomes accurately or demonstrate causality in formats that are traditionally accepted by dominant cultures.

Addressing these challenges requires a concerted effort by nonprofits, donors, researchers, and policymakers to develop more robust evaluation methodologies, invest in data infrastructure, and foster a culture of learning and transparency.



Efforts Towards a Solution

MCN and hundreds of nonprofits signed a [letter](#) to President Biden in October 2024 to ask for public quarterly data reports via the Bureau of Labor Statistics. Currently, nonprofit data comes out only every 5 years. All other industries are quarterly.

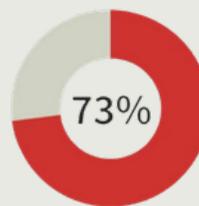
Nationally, nonprofits are the economy's third-largest employer, providing

12.8 million jobs

Time and Cost Constraints:

Conducting rigorous evaluations to demonstrate impact requires significant time, expertise, and financial resources, which many nonprofits may lack. In Minnesota, 70% of nonprofits have an annual budget size under \$500K. Balancing the need for evidence with the demands of day-to-day operations can be challenging.

Nonprofit ingenuity fills increasing gaps despite stagnated support



Although many nonprofits have been able to adapt to stagnant funding and donor support, many state the growing workload and increased expenses being incurred are not sustainable for employees and the organization as a whole.

Almost 3/4 of survey respondents reported demand for services as increased over the past 12 months.

When asked to elaborate, some discussed the increase in severity of core societal issues, such as food insecurity, homelessness, mental illness, lack of access to health care, and more.

Lack of Standardized Metrics:

Unlike in the business world, where financial metrics provide standardized benchmarks for success, measuring social impact is more subjective and lacks universally accepted metrics.

Risk Averse Culture

Sometimes creative solutions and strategies require a certain amount of risk-taking. When resources are scarce, risk is a privilege many nonprofits are unable to afford and instead nonprofits have no choice but to simply focus on strategies, programs, and services that have existed and demonstrated some acceptable measures of success.

Yet recognition needs to be made that traditional systems methods, strategies, and expectations are what got us here and we must be open to trying something new, even if it fails (which is a lesson in itself).



Efficiency Comparisons

The nuance, complexity, and context for each nonprofit varies widely and makes it difficult to answer these questions:

- Diverse Operations and Metrics:**
Nonprofits often have unique missions and operate in diverse contexts, making direct cost-effectiveness comparisons challenging. Different nonprofits, communities, cultures may use different metrics to measure effectiveness, making it difficult to standardize comparisons.
- Cost-effectiveness is an antiquated term.**
For far too long, nonprofits have been expected to do more with less.

Administrative or overhead costs – critical to ensuring organizational sustainability, compliance with regulations, ensuring volunteer boards understand proper oversight and regular review of financials, setting vision and strategic direction of the organization among many other core business needs – are undervalued.

Rather, nonprofits should be asked about the true costs of running a program, which includes staffing, administrative oversight, and other indirect costs in addition to direct costs.



- Encourages unhealthy competition:**
Running an effective nonprofit is challenging, but they exist because there are unique community needs, even in similar fields. What one community needs may be different than another, comparing nonprofits with “similar missions” assumes that community needs and services that address them are uniform when there is complexity and nuance in addressing social needs.

- Long-term vs. Short-term Impact:**
Cost-effectiveness evaluations may not capture the long-term impact or holistic value provided by a nonprofit's services. Some aspects of a nonprofit's impact, such as social or environmental benefits, are challenging to quantify and compare.
- Resource Variability:**
Nonprofits may have varying levels of funding, volunteer support, and access to resources, influencing their cost-effectiveness.



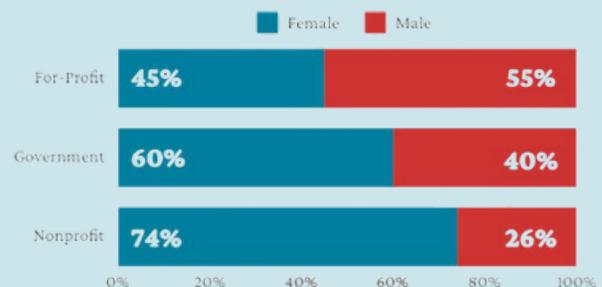
Solution Supported by MCN

MCN proudly supported HF 3587 to require pay transparency for jobs posted at organizations with 30+ staff, which passed in 2024 and went into effect Jan 1, 2025.

Though MCN's job board already required pay transparency, this statewide requirement not only helps close the gender and racial pay gaps, but also can help us all understand the true cost of running a nonprofit program – of which staff time is one of the most important pieces and should not be considered an “indirect cost.” Without staff, there is no program.

This legislation will help MN's nonprofit sector become even more equitable.

Gender Distribution by Sector (2023)



Source: MN Nonprofit Economy Report, 2024



Sustainability

Nonprofits are in the business of executing services and have interdependence and a reciprocal relationship with other sectors like foundations and government to meet a shared mission.

Diversification Challenges:

Relying on a single funding source poses risks, but diversifying revenue streams requires time and resources, which may not be readily available.

Uncertainty of Donor Behavior:

Nonprofits often rely on donations, grants, and other sources of funding, which can be unpredictable and subject to changes in donor priorities.

Evolving Funding Environment:

Funding streams can shift due to changes in government policies, economic conditions, or social trends, making it challenging to predict future sources of support.

Competitive Funding Landscape:

Securing future funding may depend on successfully competing with other organizations for limited resources, adding uncertainty to financial planning.

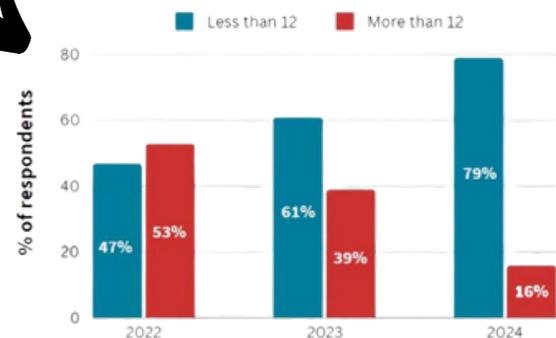
Mission vs. Funding Alignment:

Opportunities for funding, whether from philanthropy or government, are often only partially aligned with a nonprofit's mission. Nonprofits can be flexible and nimble in adapting their work to meet the needs of the community, but need to be careful to not stray from their core mission to obtain funding

In 2024, 79% of Minnesota nonprofits reported they can operate in the current environment for less than 12 months before exhibiting financial distress. In 2022, it was 47%.



How many months can you operate in the current environment before exhibiting financial distress?



Source: [Current Conditions of MN's Nonprofit Sector, 2024](#)

All the temporary pandemic funding and reserves were exhausted and we've had to make personnel and non-personnel cuts while serving more people.

-Nonprofit Employee in Ramsey County
[Current Conditions of MN's Nonprofit Sector, 2024](#)

Lack of Long-term Funding:

Nonprofits face the ongoing challenge of diversifying funding sources to ensure long-term sustainability, often relying on short term government grants alongside partnerships with foundations and donors. Despite these efforts, sustaining programs and organizations remains precarious, prompting the need for legislative support due to limitations in alternative funding avenues.

Why does this matter?

Nonprofits are often asked to do too much with too little, and often deal with misunderstanding, ever-changing funding, and growing output while receiving less input.

MCN created this resource to:



Support greater respect and understanding for nonprofits' time and capacity while seeking state funding and providing critical state infrastructure.



Help legislators understand the multitude of complexities and layers to successfully fund and run a nonprofit in Minnesota.



Provide a concrete resource for nonprofits so our sector colleagues can come prepared to the Capitol and answer questions with fidelity.

Nonprofits matter to communities

Nonprofits do the work government cannot do efficiently or in a culturally relevant, locally focused way.

Nonprofits operate in a complex, nuanced world. Therefore there is complexity and nuance on why these questions are tough for nonprofits to answer.

-Nonoko Sato
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Use the QR Code or link to view: [Legislator Guide: Questions to Ask Nonprofits Seeking State Funding](#)