Refocusing ON community

1994 Report

ON THE FINANCIAL HEALTH OF MINNESOTA'S NONPROFITS

MINNESOTA NONPROFITS ASSISTANCE FUND

a program of

The Minneapolis Foundation

The Minnesota Nonprofits Assistance Fund provides financial stability to Minnesota's nonprofits through loans, technical assistance and community leadership.

MISSION *Statement*

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Prepared by The Stevens Group for the Minnesota Nonprofits Assistance Fund.

FOREWORD AND ACKNOWLEDGEMENTS

It's been a rugged three years for Minnesota's nonprofits, years characterized by economic instability, management uncertainties, and fundamental shifts in a once-familiar external landscape. Still reeling from significant financial downturns, many nonprofits have used the last few years to take a long, hard look at their internal capacities and financial requirements.

The 1994 Report on the Financial Health of Minnesota's Nonprofits examines the financial impact that the last three years has had on the state's nonprofit organizations — and our findings are good news! Minnesota's nonprofits appear to have both adapted and recovered from the debilitating economic blows experienced in 1990-1991. The study's findings detail the level of internal adaptation and recovery and its conclusion points nonprofits toward a future where change is the constant and activity the variable. While continuing to maintain financial flexibility and integrity, this report urges nonprofits to **Refocus on Community**, to return to the outward focus of community well-being so fundamental to the heart of the nonprofit sector.

The Minnesota Nonprofits Assistance Fund (MNAF), as a program of The Minneapolis Foundation, is engaged daily in the inward capacity building and outward community refocusing of the nonprofit sector. Through loans and technical assistance delivered in a fast, friendly and efficient manner, MNAF helps nonprofits throughout the state keep their attention fixed on community service through uninterrupted financial stability. Many nonprofits know Kathleen Corley and Eric Stoebner, MNAF's principal loan officers. Behind the scenes, though, guiding and advising the fund through loan and leadership decisions, is a dedicated Committee of Advisors: Conley Brooks, Jr., Rodney Hare, Steven (Sid) Hartman, Sarah Lutman, Paul Norman, James Ryan, Susan Weinberg and Linda White-Anderson.

We owe a debt of gratitude again this year to the Otto Bremer and Northwest Area Foundations for their renewed funding of this project and to the 266 participating nonprofit executives whose skill, commitment and experience are documented in this report.

Together let us build community.

Susan K. Stevens

Susan Kenny Stevens
Administrator, Minnesota Nonprofits Assistance Fund

EXECUTIVE SUMMARY

Recovery from three years of economic downturn has begun for most of the state's nonprofit organizations. Recovery will be slower for some than for others, and for most, the likelihood of returning to business "1980's-style" is out of the question. Yet the prognosis is positive for Minnesota's nonprofits and for those who depend on the commitment and vitality of the sector for advocacy, education, cultural, economic or human services.

The 1994 Report on the Financial Health of Minnesota's Nonprofits, conducted by The Stevens Group for the Minnesota Nonprofits Assistance Fund, a program of The Minneapolis Foundation, studies the internal adaptation Minnesota's nonprofits have made to increasingly difficult financial times. Based on comparisons to a similar study in 1990, this report suggests that an overall strengthening of the sector has occurred. Financial practices have improved along with actual financial conditions. Overall, the sector's optimism has increased.

The report concludes that financial recovery appears to be under way. But while the study urges continued vigilance to future financial flexibility and integrity, the authors emphasize that financial health cannot be a substitute for activities and programs which result in a net benefit to society.

The report also suggests the need for a basic shift in perceptions about the future and, seeing change as a constant, offers five results-oriented strategies for the state's nonprofits.

We are pleased to present the following summary findings from this year's report:

> Aggregate income levels for the nonprofit sector have returned to an upward trend after hitting seven-year lows in 1991 and 1992.

> There is an overall increase in optimism within the sector. Respondents feel less financially vulnerable and report higher levels of organizational and personal vitality. Projections for 1997 income levels are, in some cases, 40 percent greater than current budgets. Yet economic recovery has not been uniformly experienced; some organizations are still vulnerable. This is more likely the case for nonprofit organizations with budgets under $500,000, arts organizations, and those in greater Minnesota.

> Organizations with budgets between $500,000 to $1,000,000 have been the most financially stable over the past several years compared to both smaller and larger budget sizes. They are also more likely to perceive themselves as financially and organizationally stronger.

> In comparing arts and human service nonprofits, arts organizations are younger; tend to be significantly smaller in staff and budget size; perceive themselves as financially less stable and with lower levels of organizational vitality; and are more likely to report insufficient access to funding. At the same time, arts nonprofits project a greater

increase in median income (25 percent) by 1997, compared to an 18 percent projected increase by human service nonprofits.

> Non-metro organizations report their organizational vitality, financial health and personal vigor at levels consistent with the whole sample. Yet, most are smaller and more vulnerable than the state's other nonprofits. Their median income has declined since 1989, but like the arts organizations, they project substantial income growth by 1997.

> In 1993 nonprofits earned approximately 63 percent of their income from government grants or contracts, ticket sales or client fees; with the 37 percent balance subsidized by foundation and/or corporate grants, individual donations and memberships, United Way, and other outside sources. One-third of Minnesota's nonprofits predict this mix to change substantially by 1997.

> Nonprofits appear to have adopted income-based spending practices over the last three years as evidenced by over 70 percent of respondents reporting surpluses rather than deficits in 1993. Still, the overall surplus margin for the industry was less than one percent for the same period, leaving a very small safety net for unforeseen circumstances.

> Many nonprofits predict high levels of organizational change within the next three years. More than half report that they will significantly redesign certain activities or will probably emerge as a very different organization in the future.

> Growth in the sector has created corresponding challenges for nonprofit managers. Growing demand for services without corresponding resources was the most frequently cited organizational problem, with outmoded financial systems mentioned as well.

> Governance continues to be an ongoing issue for nonprofits. Seventy-four percent of nonprofit managers report their boards to be "somewhat helpful" but state that it is still the executive director who is most involved in strategic decision making. Twenty-seven percent feel they do not have the right board to bring them through the challenges of the future.

> If Congress adopts a health care plan mandating employers to provide full insurance coverage for all full- and part-time employees, almost one-quarter of Minnesota's nonprofits would be unaffected. The other 76 percent would be unable to meet this coverage under current budget levels.

The 1994 Report on the Financial Health of Minnesota's Nonprofits is a tribute to the state's 10,000 nonprofit organizations who daily dedicate themselves to society's cultural and human services, contribute over $6 billion to Minnesota's economy, and still manage to adapt to the rapidly changing complexities of a competitive external environment.

This year's report tracks a seven-year period from 1988 to 1994, building on a similar study conducted by The Stevens Group for the Minnesota Nonprofits Assistance Fund in 1990. The 1990 report confirmed our hypothesis that while demand for their services had never been greater, most nonprofits had neither the financial nor strategic safety nets necessary to meet unanticipated economic downturns. Worse yet, 1990's report suggested that many nonprofits felt financial health was a function of budget size and saw no particular connection between internal spending practices and their subsequent ability to achieve financial stability.

As an antidote to these findings, the 1990 report presented seven characteristics of financial health as guidelines which many nonprofits have subsequently embraced.

The 1994 report, **Refocusing on Community**, documents the progress Minnesota's nonprofits have made since the first study was issued four years ago. This year's report, based on a 48-question survey and 266 respondents, moves beyond the earlier study's snapshot of survival and coping strategies and into a more upbeat picture of the sector's financial and organizational vitality.

This year's study began with three assumptions:

1. Minnesota's nonprofit sector is experiencing a period of unparalleled upheaval and change — change that can neither be denied, ignored or merely "coped with". The successful nonprofit must move beyond coping strategies by redefining its relationship both to constituents and to the outside financial environment.

2. Rapidly changing demands of the marketplace reinforce a nonprofit's need to understand, monitor and strategically forecast its financial destiny. For any nonprofit intent on programmatic stability, financial health and organizational capacity are no longer a goal to attain, they are a given.

3. The sector's current emphasis on outcomes and results is more than a passing fad. Tighter demands on money and continued pressures to increase service will produce not only greater accountabilities for nonprofits, but also the need to demonstrate the relationship between income and expenditures and the ultimate payoff for society. "Who's better off?" will be the operative question in a nonprofit's future.

The majority of this report deals with our findings about the financial and organizational vitality of the state's nonprofit organizations, findings which describe both current and comparative financial statuses and offer insight into management perceptions, attitudes and practices of today's nonprofit managers. This report concludes with five suggested steps for readying the nonprofit industry for the unforgiving winds of change.

SEVEN CHARACTERISTICS OF NONPROFIT FINANCIAL HEALTH

Financially healthy nonprofits

1. Have sufficient financial resources to ensure stable programming.
2. Have a ready source of internal cash, or access to cash, in times of shortfalls.
3. Are committed to income-based rather than budget-based spending.
4. Retain, at the end of each year, a positive cash fund balance.
5. Accumulate annual surpluses to use as a safety net in years when an unforeseen deficit does occur.
6. Have established, or plan to establish, an operating reserve to finance cash shortfalls and program growth.
7. Have boards of directors and management which hold themselves responsible for the financial stability of the organization.

This report starts, however, with a look at the 266 nonprofits upon whose responses this data is based. Table 1.1 presents a comparative profile of this year's participants grouped by field of service and geographical categories. Throughout the report the "metro" category refers to the seven counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. "Non-metro" defines the geographic location of nonprofits in greater Minnesota. Likewise, the categories "Health/Human Service" and "Arts/Humanities" are denoted as "Human Service" and "Arts" throughout this report.

In reviewing this and the other tables in the study, the reader is encouraged to refer to the Methodology section of this report for definitions, statistical references and more complete information about the universe sampled.

TABLE 1.1: 1994 STUDY PARTICIPANTS BY FIELD OF SERVICE AND LOCATION

FIELD OF SERVICE	1994 STUDY	1990 STUDY
Advocacy	21	27
Arts	49	34
Community/Economic Development	19	19
Education	23	15
Human Service	126	126
Other/no response	28	42
Total	266	263
LOCATION		
Metro	169	159
Non-metro	97	104
Total	266	263

Tables 1.2 and 1.3 provide representative snapshots of "typical" Minnesota nonprofits presented first by budget size and then by field of service. Although these tables are useful in highlighting notable differences between the organizational populations described, they are not meant to be a standard for industry comparison or performance. Nor should they be used to statistically extrapolate beyond the intent indicated.

Table 1.2 profiles the typical Minnesota nonprofit using four budget categories. As is true throughout the report, the median rather than the mean or average is used as the central tendency descriptor unless otherwise noted.

TABLE 1.2: 1994 PROFILE OF TYPICAL MINNESOTA NONPROFITS BY BUDGET SIZE

	LESS THAN $250,000 (n=126)	$250,000-$500,000 (n=25)	$500,000-$1,000,000 (n=41)	OVER $1,000,000 (n=74)
Age of organization	14 yrs.	18 yrs.	20 yrs.	24 yrs.
Tenure of executive director	less than 5 yrs.	less than 5 yrs.	more than 5 yrs.	more than 5 yrs.
1994 Staff (FTE's)	2	8	13	41
1990 Staff (FTE's)	2	6	11	37
Percentage change in staff ('90-'94)	0%	33%	18%	11%
1994 Median income	$107,500	$352,800	$722,300	$2,112,800
1990 Median income	$134,000	$362,600	$631,500	$2,305,800
Percentage change in median income ('90-'94)	-20%	-3%	14%	-8%
1997 Median projected income	$150,000	$450,000	$900,000	$2,500,000
Percentage change in income projected ('94-'97)	40%	28%	25%	18%
Operational surplus in at least 1 of past 5 years	yes	yes	yes	yes
Operational deficit in at least 1 of past 5 years	yes	yes	yes	yes
1993 Income mix *				
Government grants/contracts	23%	34%	40%	42%
Ticket sales/client fees/interest income	16%	14%	17%	21%
Foundation/corporate grants	18%	15%	15%	7%
Individual donations/membership	15%	12%	6%	5%
United Way	6%	7%	8%	5%
Other	22%	18%	14%	20%
Sufficient access to funding	no	no	yes	yes
Owns a cash reserve	yes	yes	yes	yes
Board of directors				
More active in policy setting	yes	yes	yes	yes
More active in fundraising	no	no	no	no
Right board for future	yes	yes	yes	yes
Number of members	11	14	14	18

*Based on dollar-weighted averages.

Table 1.3 further compares two primary subgroups referred to throughout this report, human service and arts organizations.

TABLE 1.3: 1994 PROFILE OF TYPICAL MINNESOTA HUMAN SERVICE AND ARTS ORGANIZATIONS

	HUMAN SERVICE (n=126)	ARTS (n=49)
Age of organization	21 yrs.	16 yrs.
Tenure of executive director	more than 5 yrs.	less than 5 yrs.
1994 Staff (FTE's)	15	2
1990 Staff (FTE's)	12	2
Percentage change in staff ('90-'94)	25%	0%
1994 Median income	$761,900	$200,000
1990 Median income	$624,100	$364,900
Percentage change in median income ('90-'94)	22%	-45%
1997 Median projected income	$900,000	$250,000
Percentage change in income projected ('94-'97)	18%	25%
Operational surplus in at least 1 of past 5 years	yes	yes
Operational deficit in at least 1 of past 5 years	yes	yes
1993 Income mix *		
Government grants/contracts	45%	10%
Ticket sales/client fees/interest income	17%	56%
Foundation/corporate grants	5%	22%
Individual donations/membership	4%	6%
United Way	6%	0%
Other	23%	6%
Sufficient access to funding	yes	no
Owns a cash reserve	yes	no
Board of directors		
More active in policy setting	yes	yes
More active in fundraising	no	no
Right board for future	yes	no
Number of members	13	11

*Based on dollar-weighted averages.

The majority of the 1994 survey focused on the financial condition of Minnesota's nonprofits. Using core questions from the 1990 report, this study was able to note historical trends in the sector's income and expense patterns, as well as track respondents' financial practices and perceptions. As the following data reveals, if income projections are on target, nonprofits are generally better off in 1994, both in perception and in reality, than they were in either the 1988-1990 period or, for that matter, over the last two years.

INCOME SOURCES AND STABILITY

Extrapolating from the 266 nonprofits surveyed, it appears that as of 1993, income for Minnesota's nonprofits has returned to an upward pattern. If 1994 income budgets are achieved, the sector as a whole will be at its highest level during the prior seven-year period. Yet, as Table 2.1 describes, recovery has not been experienced uniformly by all of Minnesota's nonprofits.

TABLE 2.1: MINNESOTA NONPROFITS' AGGREGATE AND SELECTED MEDIAN INCOMES, 1988-1990, 1992-1994

	1988	1989	1990	1992	1993	(PROJECTED) 1994
All respondents aggregate income	$238,464,900	$285,305,700	$303,146,700	$296,113,400	$337,983,100	$364,185,300
Percentage change		19.6%	6.3%	-2.3%**	14.1%	7.8%
All respondents median income	$406,000	$441,100	$480,000	$426,300	$428,400	$517,600
Percentage change		8.6%	8.8%	-11.2%**	0.5%	20.8%
Human service median income	$564,200	$610,800	$624,100	$686,200	$722,700	$761,900
Percentage change		8.3%	2.2%	10.0%**	5.3%	5.4%
Arts median income	$414,800	$413,300	$364,900	$192,200	$194,700	$200,000
Percentage change		-0.4%	-11.7%	-47.3%**	1.3%	2.7%
Metro median income	$500,000	$570,700	$634,300	$600,300	$648,400	$707,500
Percentage change		14.1%	11.1%	-5.4%**	8.0%	9.1%
Non-metro median income	$211,800	$244,300	$236,000	$183,500	$182,300	$160,000
Percentage change		15.3%	-3.4%	-22.2%**	-0.7%	-12.2%

**Represents change over two year period (1990-1992); no figures available for 1991.

> The median income for the state's human service agencies has increased steadily each year since 1988, leveling off at an approximate 5 percent annual gain in each of the last two years.

> Correspondingly, although projected to be up slightly in 1994, the median income for arts groups has declined considerably since 1988. The 1993 median income for Minnesota's arts organizations was 53 percent of what it was in 1990.

> The median income for non-metro nonprofits has been in decline since 1989.

Table 2.2 compares median income gains and losses for four selected budget ranges.

TABLE 2.2: RATES OF CHANGE IN MEDIAN INCOME OF MINNESOTA NONPROFITS OVER SELECTED SEVEN-YEAR PERIOD

BUDGET SIZE	1988	1989	1990	1992	1993	(PROJECTED) 1994
Under $250,000	$116,700	$135,800	$134,000	$81,600	$102,400	$107,500
Percentage change		16.4%	-1.3%	-39.1%**	25.5%	5.0%
$250,000-$500,000	$289,300	$332,100	$362,600	$269,600	$316,100	$352,800
Percentage change		14.8%	9.2%	-25.6%**	17.2%	11.6%
$500,000-$1,000,000	$553,000	$605,000	$631,500	$674,900	$694,800	$722,300
Percentage change		9.4%	4.4%	6.9%**	2.9%	4.0%
Over $1,000,000	$1,840,300	$2,083,600	$2,305,800	$1,812,200	$1,956,600	$2,112,800
Percentage change		13.2%	10.7%	-21.4%**	8.0%	8.0%

**Represents change over two year period (1990-1992); no figures available for 1991.

> Nonprofits in the $500,000 - $1,000,000 budget range have experienced the least amount of income volatility over the past seven-year period.

> Although achieving the greatest proportionate budget increases last year (1993), the median income of the smallest nonprofit budgets has been restored to only 76 percent of what it was in 1990.

> With the exception of those in the $500,000 - $1,000,000 range, in 1993 the budgets of all other nonprofits were between 13 and 23 percent less than when last surveyed in 1990.

Income mix, the strategic combination of support and revenue, is an important variable in many nonprofits' financial health. This year's study finds that the typical mix of income sources and allocations has only changed slightly since 1990.

> Federal, state and local governments continue to be the single largest income providers for the state's nonprofit sector. Seventy-one percent of responding organizations receive government funding. That funding represents approximately 42 percent of the sector's revenues. This is up from 34 percent of the sample taken in 1990.

> As in prior years, non-metro organizations receive a higher percentage of income from government funds in contrast to metropolitan organizations who earn a more substantial portion of their income and receive more foundation and corporate gifts.

> Earned income in the form of ticket sales and/or client fees continues to be the second largest source of income for Minnesota's nonprofits but has decreased slightly from 25 percent to 21 percent between 1990 and 1994.

> Foundation and corporate grants have contributed approximately 8 percent of the income base for the respondents in 1994, and 11 percent in 1990.

> Thirty-five percent of nonprofits represented in this study rely on United Way support. In both 1990's and 1994's surveys, United Way provided 5-6 percent of the sector's income.

When asked to predict changes in the aforementioned income structure, one-third of study participants projected substantial income changes by 1997. Government income sources are projected to decrease by 42 percent replaced by significant increases (up to 43 percent) in revenues and fees. Small increases are also projected from foundation, corporate and individual donors. Non-metro organizations were less likely to predict changes to their current income mix than metropolitan nonprofits.

SURPLUSES, DEFICITS AND RESERVES

The presence of a surplus, deficit or cash reserve fund is a simple indicator of a nonprofit's ability to weather ever-changing financial tides. This year's study reveals that as income trends appear to improve, nonprofits are once again able to achieve small surplus margins (0.8 percent in 1993; 1.1 percent projected for 1994) between realized annual income and expense.

Further findings suggest that:

- Sixty-four percent of the nonprofits reporting in 1994 have established a cash reserve fund for operational stability. That is an 18 percent increase over those reporting such a fund in 1990.

- Over 83 percent of this year's respondents earmark surpluses for operating reserves, while the others use these funds for purposes not originally budgeted.

- Nonprofits with budgets in the $250,000 to $500,000 range were significantly more likely to report a deficit than their larger or smaller counterparts.

- Only one percent of those responding reported deficits in each of the past five years; correspondingly, 18 percent of respondents reported operating surpluses in each of the last five years. The most frequent strategies to deal with deficits were: fund raising; using prior year's reserve; cutting expenses, including laying off staff; bringing the deficit forward into the next year's budget; and borrowing money.

In 1994, at least 70 percent of all respondents report periodic cash flow problems. The three chief reasons cited for cash shortages were: normal business cycles, delays experienced in government payments, and unanticipated emergencies. The most commonly used strategies for overcoming cash shortfalls were: borrowing from an internal fund (41 percent); requesting a loan from a bank or the Minnesota Nonprofits Assistance Fund (MNAF) (17 percent); attempting to speed collection of awarded grants or contracts (16 percent); or curtailing programming (16 percent).

FINANCIAL MANAGEMENT PRACTICES

Nearly all of this year's respondents view financial information as integral to the process of making program or organizational decisions.

- Senior managers review income and expense performance, in relation to budgets, at least monthly in 84 percent of the sample studied. Fifty-nine percent include the board in this review.

- Senior managers project year-end surpluses or deficits at least monthly in 44 percent of the responding organizations. The board is included in 23 percent of the cases.

- Cash needs are projected by senior managers at least once a month in 73 percent of the responding organizations. Over 11 percent do so weekly.

FINANCIAL ATTITUDES AND PERCEPTIONS

In 1994, respondents indicate realistic perceptions about their financial performance and health; perceptions that match the conditions represented by their financial data.

TABLE 2.3: 1994 PERCEPTIONS OF FINANCIAL HEALTH WITH COMPARISONS TO 1990

	1994	1990
Financially healthy and not presently vulnerable	32%	21%
Have been financially healthy to date, but feel vulnerable in the future	34%	44%
Have some financial problems, but expect to survive	33%	32%
Don't know how they will survive this year	1%	3%
	100%	100%

> In 1994, approximately one-third of all participants report a condition of financial health with no particular vulnerabilities for the future. Only one-fifth of respondents said the same in 1990.

> Over two-thirds of Minnesota's nonprofits currently acknowledge potential financial problems or feelings of vulnerability about the future, an improvement of 12 percent since 1990.

> Similarly, in 1990, eight organizations were concerned about survival. The number fell to three in 1994.

In other findings, organizations with budgets over $500,000 are more likely to describe themselves as financially healthy than those of smaller budget sizes. Likewise, over one-half (52 percent) of respondents report sufficient access to funding sources to meet their organization's financial needs. Forty-six percent reported similarly in 1990.

Furthermore:

> Ninety-three percent of respondents believe strong financial management will enhance their organization's mission.

> Eighty-six percent believe the board and/or the executive directors are responsible for the financial success or failure of the organization.

> Eighty-seven percent state they have sufficient financial knowledge and skills to successfully operate the organization. (Ninety-one percent reported similarly in 1990.)

- Only 55 percent describe surpluses as very important or essential. Twenty-five percent acknowledge the importance of an operating surplus but consider it impossible to acquire under current circumstances. An additional 20 percent (up from 16 percent in 1990) do not regard a surplus as important.

- Approximately one-third of 1994's respondents, primarily from organizations having budgets less than $500,000, believe their missions require spending more income than they have secured. Fifteen percent (down from 25 percent in 1990) believe that the role of the executive director is to serve their clients regardless of cost.

PERCEPTIONS ABOUT FOUNDATION FUNDING

Opinions regarding contributed income from the foundation community were solicited as part of this year's study.

When asked how they would use an unrestricted grant equal to 40 percent of their current budget, the largest group of respondents (32 percent) said they would implement a new program not currently feasible in their budget. The next largest response (18 percent) would use the grant to establish or increase cash reserves. Also cited, although less frequently, was the desire to invest in staff, facilities and endowments.

When asked to note the most critical organizational need for which they had been unable to receive funding, nonprofit executives most frequently mentioned the following:

- General operating funds
- Infrastructure improvement
- Staff expansion
- New programs
- Capital reserves and endowment

Those nonprofits who routinely or occasionally use foundation funding to supplement other income sources were asked which of the following funding types would be most beneficial. Their responses were:

Multiple year general operating support	48%
Program or project grants	41%
Operating reserve funding for cash flow purposes	6%
Endowment funding	5%
Total	100%

Over the last several years the shifting sands of the nonprofit landscape have taken a terrific toll on new and seasoned nonprofit managers, staff and board members. Whether in the start-up mode of operation or fully mature, many nonprofits discovered in the early 1990s that the rules they had come to know had now changed. Worse yet, in some cases, change extracted an energy-sapping toll on the spirit of the organization causing many to focus temporarily on self-preservation rather than community-focused behavior.

Since energy and spirit are vital to an organization's state of mind, this year's study posed several questions designed to ascertain the vitality of Minnesota's nonprofit sector.

MANAGEMENT AND STAFF VITALITY

This study first looked at basic benchmarks concerning organizational staffing. Table 2.4 describes the median number of staff reported in 1994 by participating nonprofits.

TABLE 2.4: MEDIAN MINNESOTA NONPROFIT STAFF SIZE, 1994, WITH COMPARISON TO 1990

	1994	1990	PERCENT CHANGE
All Nonprofits	7	5	40%
Field of Service			
Human Service	15	12	25%
Arts	2	2	0%
Location			
Metro	8	6	33%
Non-metro	4	3	33%

> Changes in nonprofit staffing have followed the general trend of the sector's income as depicted in Table 2.1.

> The largest staff in the survey numbers 948, and the median number employed by the state's nonprofit industry is seven people. In 1990, the largest staff was 862, and the median was five.

> On average, non-metro nonprofits are considerably smaller than their metro counterparts with the largest staff reported as 162 compared to 948 in the metro area. The largest non-metro staff size in 1990 was 136.

> Arts organizations have experienced neither the income growth nor the staff growth of the other nonprofits.

Even though staff sizes have increased overall over the past three years, volunteers are still vital to the nonprofit sector. Throughout the state, 8 percent of the respondents operate without paid professional staff members, relying exclusively on volunteers for program and management functions.

Over half of the executive directors surveyed have been in their jobs more than five years, and 27 percent have tenure in excess of ten years. This experience is similar for both metro and non-metro organizations. Yet, the executive director's tenure is three years or less in 36 percent of the state's metro and non-metro nonprofits, and 47 percent of the executives of the state's arts groups have tenure of less than three years. Regardless of their length of employment, 84 percent of the responding executives say they are "ready, willing and excited about the future."

EMPLOYEE HEALTH INSURANCE PRACTICES

At the time of this study a national health care plan was being seriously debated in Congress. To determine the effect of mandated health care on nonprofits in Minnesota, the survey asked a series of questions related to current health insurance practices as well as the effect of a national mandate on each nonprofit's budget.

> Seventy-seven percent of the responding nonprofit organizations offer health insurance coverage to their full-time employees. (When stratified by industry, the numbers are 51 percent of arts organizations and 87 percent for human service groups respectively.) Twenty-five percent of participating nonprofits offer coverage for part-time employees as well.

> Twenty-three percent of the organizations offering insurance for full-time employees pay 100 percent of employees' premiums and part or all of dependent coverage.

> Nineteen percent of those that offer health care plans pay 80 percent or more of the employee's premium, 22 percent pay between 50 and 79 percent of the employee's premium.

> Those nonprofits offering health insurance for part-time employees do so on the following basis: 13 percent pay the employee's total premium; 15 percent pay at least 80 percent of the premium; and 51 percent pay between 50 - 79 percent of an employee's individual premium.

When asked about the effect of a national health care plan on their budgets and agency projections, nonprofits answered accordingly:

No change will be required of us	24%
We will find the money someplace	24%
I have no idea how we will meet this expense	21%
We will need to rethink current staffing patterns	19%
I haven't thought about this yet	12%
Total	100%

BOARDS OF DIRECTORS

The study reflects a wide range of responses to the questions posed about nonprofit governing boards.

> Over 60 percent of respondents state their boards are more actively involved in policy setting and decision making than they were in the past. Organizations with budgets in the $500,000 to $1,000,000 range report this situation more frequently than those below that level. Yet, in a separate question, 19 percent of the total survey describe their boards as less active than in the past few years, with smaller budget and arts organizations reporting the least involvement.

> Although better than 40 percent of all study participants report their boards to be more active in fund raising than in the recent past, nonprofits in the $250,000 to $500,000 budget range found this to be significantly less true (22 percent).

> Furthermore, almost 27 percent of respondents, predominantly those with budgets $250,000 and under, do not believe they have the right board to bring them through the challenges of the future.

> Eighty-four percent felt that with outside training their boards could help the organization strategically approach and manage the future. Board training needs most frequently cited included: general clarification of roles and responsibilities, financial accountability and what it means to be a nonprofit organization.

PERCEPTIONS ABOUT ORGANIZATIONAL VITALITY

For the most part, respondents' perceptions of organizational vitality reflect their improved financial conditions. Table 2.5 indicates nonprofits' perceptions of organizational vitality by budget size.

TABLE 2.5: MINNESOTA NONPROFITS' PERCEPTIONS ABOUT ORGANIZATIONAL VITALITY

	OVERALL	UNDER $250,000	$250,000-$500,000	$500,000-$1,000,000	OVER $1,000,000
Organization operates smoothly, is fully positioned to meet challenges ahead	51%	41%	40%	64%	68%
Coping but probably not ready for any more challenges	42%	48%	56%	33%	32%
Despite vigorous efforts seem to be losing ground	3%	4%	4%	3%	0%
Barely surviving	4%	7%	0%	0%	0%
	100%	100%	100%	100%	100%

> Overall, more than one-half of Minnesota's nonprofits state they are operating smoothly and fully positioned to meet the challenges ahead. Organizations over $500,000 were more likely to state this response than nonprofits with smaller budgets.

> Yet over 40 percent of Minnesota's nonprofits describe themselves as "coping" but probably not ready for more (immediate) challenges. Again, the smaller budgeted organizations felt this way more frequently than those over $500,000.

> Although nonprofits in three of the four budget categories reported "losing ground", this represents only seven nonprofits in the sample.

> Only the smallest nonprofits state they are "barely surviving".

In other survey questions, nonprofits reveal a pervasive fatigue particularly on the part of those still struggling to overcome financial and related threats.

> "Lack of money" is the dominant staff or board meeting topic for more than one-quarter of 1994's respondents. (This number was 35 percent in 1990.)

> Six percent (16 nonprofits), mostly from the under $250,000 budget-sized respondents, describe themselves as "losing ground or barely surviving;" and 4 percent (10 organizations) project they will not be in business in 1997 or declined to answer the question.

When asked to list one single factor that would contribute most to increased personal vigor, these responses were mentioned in the following order of frequency:

> Increased organizational financial stability
> Opportunities for personal education, challenge and change
> Improved board of directors
> More commitment to the organization's mission from board, staff and community
> More appreciation and recognition from board, community and funders
> More personal time

READINESS FOR CHANGE

This year's study attempted to measure the nonprofit sector's readiness for change. There is ample evidence that many organizations have remained diligently attentive to the changing conditions around them while conscientiously attending to internal financial and management issues. However, our findings suggest that there are other organizations whose internal focus has not yet turned outward.

> Only 57 percent of respondents anticipate future changes in the nonprofit sector that may significantly impact their organization's vitality.

> Sixty-seven percent of the study participants anticipate organizational, program or financial changes within the next three years. One-third of respondents foresee no change to their organization's programs and finances during the next three years.

> Seventy percent of the respondents list their boards or executive directors as the most likely catalysts for future mission or organizational changes. Clients were seen as the catalyst for change by 9 percent, and foundations (.4 percent) and governments (4.9 percent) combined were viewed as catalysts for future change by about 5 percent of the organizations studied. Program, development staff and others account for the remaining 16 percent of most likely catalysts.

When asked to describe the smartest thing they had done in the last three years to increase their organization's capacity or vitality, respondents listed the following in order of frequency:

> Improved management
> Enlarged or improved staffing
> Expanded or improved program quality
> Acquired or made additions or improvement to facilities
> Improved the board of director's effectiveness
> Stabilized or increased funding

CONTINUING TENSION POINTS

Across the board, this year's respondents identified the following three issues as their organizations' most significant **ongoing problems**:

> Growing service demand without corresponding resources
> Shrinking public money to support programs
> Competition for resources from other nonprofits

However, access to foundation funding was listed as the most significant issue for organizations with budgets under $250,000; and hiring, motivating, and retaining qualified staff is one of the most pressing ongoing problems for larger organizations over $500,000.

Asked to describe their most formidable **ongoing financial problems**, respondents noted the following in order of frequency:

> Significant program growth resulting in outmoded financial systems
> Lack of board awareness
> Chronic lack of cash

By comparison, 1990's responses (in order of frequency) were:

> Chronic lack of cash
> Severe cuts in funding
> Significant program growth resulting in outmoded financial systems

CONCLUSIONS: THE ROAD TO RECOVERY

Recovery from three years of economic downturn has begun for most of the state's nonprofit organizations. Recovery will be slower for some than for others, and for most, the likelihood of returning to business "1980's-style" is out of the question. Yet, the prognosis is positive for Minnesota's nonprofits and for those who depend on the commitment and vitality of the sector for advocacy, education, cultural, economic or human services.

> Aggregate income for the nonprofit sector appears to have returned to an upward trend after hitting seven-year lows in 1991 and 1992.

> There is an overall increase in optimism in the sector. Respondents feel less financially vulnerable and report higher levels of organizational vitality. Projections for 1997 income levels are 18 - 40 percent higher than current budgets. Yet, economic recovery has not been uniformly experienced. Some organizations are still vulnerable. This is more likely the case for smaller organizations with budgets under $500,000, arts organizations and nonprofits in greater Minnesota.

> Organizations with budgets between $500,000 to $1,000,000 have been the most financially stable over the past several years compared to both smaller and larger budget sizes. They are also more likely to perceive themselves as financially and organizationally stronger.

> In comparing arts and human service nonprofits, arts organizations are younger; tend to be significantly smaller in staff and budget size; perceive themselves as financially less stable and with lower levels of organizational vitality; and are more likely to report insufficient access to funding. At the same time, arts nonprofits project a median 25 percent increase in income by 1997, compared to an 18 percent projected increase by human service nonprofits.

> Non-metro organizations report their organizational vitality, financial health and personal vigor at levels consistent with the whole sample. Yet, most are smaller and more vulnerable than the state's other nonprofits. Their median income has declined since 1988 but, like the arts organizations, they project substantial income growth by 1997.

"The trouble with the future is that it usually arrives before we're ready for it." Arnold H. Glasow

> In 1993, nonprofits earned 63 percent of their income from government grants or contracts, ticket sales or client fees with the remaining 37 percent subsidized by support from foundation and/or corporate grants, individual donations and membership, United Way and other sources. One-third of nonprofits predict this mix to change substantially by 1997.

> Nonprofits appear to have adopted income-based spending practices over the last three years as evidenced by over 70 percent of respondents reporting surpluses rather than deficits in 1993. Still, the overall surplus margin for the industry was less than one percent, leaving a very small safety net for unforeseen circumstances.

> Many nonprofits predict high levels of organizational change within the next three years. More than half report they will significantly redesign program activities or will possibly emerge as a different organization in the future.

> Growth in the sector has created corresponding challenges for management. Growing demand for services without resources to support program growth was the most frequently cited organizational problem. Outmoded financial systems were mentioned as well.

> Governance continues to be a major issue for nonprofits. Seventy-four percent of nonprofit managers feel their board is "somewhat helpful" but state that it is still the executive director who is most involved in strategic decision making. Twenty-seven percent report that they do not have the right board to bring them through the challenges of the future.

> If Congress adopts a health care plan mandating employers to provide full coverage for all full- and part-time employees, almost 25 percent of Minnesota's nonprofits would be unaffected. The remaining 76 percent would be unable to meet this mandate under current budget levels.

LOOKING TO THE FUTURE: ASSUMING THE READY POSITION

For many nonprofits the future represents a wholly different set of conditions not contained in the rule books of the past. Thus every nonprofit, regardless of size, location or type, needs to ready itself for change – not "a" change, but, what promises to be, a continuous volley of forehand and backhand transitions for the entire sector.

The federal debt and the public's aversion to higher taxes ensure that government spending will not easily return to prior levels. Likewise, the reshaping of private corporations, systemic changes in health care delivery and the re-thinking of philanthropic initiatives means that nonprofit institutions and the people connected to them will need to stay ever-poised for what is to come.

Although each organization will have its own individuated strategies for remaining internally healthy and externally vital, readying for change will no doubt involve adopting new habits for all. To get ready for a future predicated on change, we offer nonprofits five results-oriented strategies:

1. **Refocus on Community.** As society's original entrepreneurs, nonprofits have long filled gaps in community service left by both their private and public sector partners. To be well positioned for the future, nonprofits will need to keep a vigilant outward-focus to ensure that programs and subsequent management and financial decisions are driven by community needs rather than internal desires. Fidelity to mission is easily defended, yet even the best missions quickly calcify when pursued without attention to the marketplace. Results-oriented nonprofits will make client-focused rather than self-focused decisions.

2. **Invent the Future Before It Invents You.** The best way to predict the future is to invent it yourself. For nonprofits this means taking control of your destiny rather than becoming a victim of circumstance. The first step toward inventing the future is to anticipate changes in the external environment and take careful stock of internal vulnerabilities. This requires an openness to the possibility that past programs and practice may not be suitable to the organization's future incarnation. Collaborations, partnerships and shared administrative services are but the beginning of future reinventions for the results-oriented nonprofit.

3. **Stay Flexible and Ready for Change.** Flexibility will undoubtedly emerge as the virtue of the '90s. As one survey respondent put it, "I can sum up my twenty years in the nonprofit sector in five words: the finish line keeps changing."

Nonprofits positioned for the future will be flexible, take change in stride and build organizational cultures that are ready for change. Most important, results-oriented nonprofits will view change as the constant and their programs and activities as the variable in planning for future mission accomplishment.

4. **Develop Results-Oriented Budgets.** Nonprofits are not exempt from the current criticism pervading both government and philanthropic funders: "Who is better off because of our efforts?" Consequently, results-oriented budgeting, the relationship between the dollars in and results out, needs

"In a fight between you and the world,
bet on the world." Franz Kafka

FIVE STATEGIES FOR RESULTS-ORIENTED NONPROFITS

1. Refocus on Community
2. Invent the Future Before It Invents You
3. Stay Flexible and Ready for Change
4. Develop Results-Oriented Budgets
5. Set Energetic but Realistic Goals

to be added to existing program- and income-based budgeting techniques. Results-oriented budgets distribute costs over units of activity as well as units of results to arrive at the nonprofit's ROFI (Return on a Funder's Investment).

As more and more foundation and government funders adopt outcome expectations, nonprofits will need a new method to show the positive relationship between a funder's investment and the ultimate benefit of those dollars on the community.

5. Set Energetic but Realistic Goals. Entrepreneurial spirit has always been alive and well in the nonprofit sector. That spirit, coupled with the plethora of management techniques that have emerged over the last decade, provide nonprofits with an opportunity to "move and shake" their communities in an equally energetic but more informed manner. For some this will mean staking out new territory, for others simply adopting new methods. But for all, a spirit of realism about the available level of reliable, sustainable, financial support will be necessary to avoid the unforeseen pitfalls of the past.

The year 1994 is a unique moment in the lives of Minnesota's nonprofits — a time to pause from past economic pressures long enough to prepare for the future. No matter what the sector, where the location or whom the client, the goal of the well-positioned nonprofit will be the same: to ensure that all future investments of human and financial resources are measured against one objective. Does the work we are doing so vigorously and responsibly leave the community better off?

Nonprofit Universe. The 1992-1993 Nonprofit Almanac published by the Independent Sector estimates 10,039 nonprofits in the state of Minnesota. However, since these estimates include a preponderance of churches and organizations whose annual revenues are less than $25,000, our study uses the State of Minnesota's listing of 3,314 registered charitable nonprofits to derive its universe.

From this listing private foundations, athletic clubs and associations, civic organizations, hospitals, and development funds were excluded to arrive at a study universe of 1,379 organizations, 61 percent located in the seven-county metropolitan area and 39 percent located in the non-metro regions of greater Minnesota.

Survey questionnaires were sent to a random sample of 679 organizations throughout the state. The first 266, which met both 501(c)(3) status definitions and the geographic proportions of the greater population, became the study's data base. Under these circumstances, according to the Minnesota Center for Survey Research, overall study data will have a 95 percent level of confidence, with a sampling error of plus or minus 5.5 percent. Because of the reduced base, this report's sampling error for geographic data in the metro area is plus or minus 7 percent and plus or minus 9 percent in the non-metro areas. Due to sample size, findings in this report related to field of service or budget sub-groupings are not intended for universal extrapolation.

Use of the Median. Unless otherwise noted, the median response is used throughout this report in place of the average (mean) to indicate the group's central tendencies. By definition the median, as opposed to the mean, is the mid-point in a response range and thus eliminates both the highest and lowest responses. This approach avoids the potential for distorted results by minimizing the effects of the highest and lowest responses.

Time Frame. The data in this report spans a seven-year time frame, beginning at fiscal year 1988. The data for periods 1988, 1989 and 1990 were gathered from an earlier study so the universe sampled, although equal in size (263), will not be synonymous with the current year's study. Data reported for 1994 is projected by respondents and not actual. Likewise, the reader is reminded that all data contained herein was gathered on a "self-report" basis and thus may or may not correspond to audited information of any of the responding organizations.

Additional Information. This year's survey contained an addendum questionnaire designed exclusively for arts organizations. These questions and responses requested by The McKnight Foundation for a current initiative have been extracted from the data base and are not included in this study and report. In the compilation of both surveys, data from individual respondents is held in the strictest confidence.

ABOUT THE STEVENS GROUP

The Stevens Group, founded in 1982, provides consultation, training and loan fund services to nonprofits and foundations throughout the country. This study's principal authors, John Montilino and Susan Kenny Stevens, were ably assisted by Debra Ruegg, and by research assistants Lisa Anderson, Alphonso Clark, Nancy Schlesinger and Brenda Whitcomb.

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