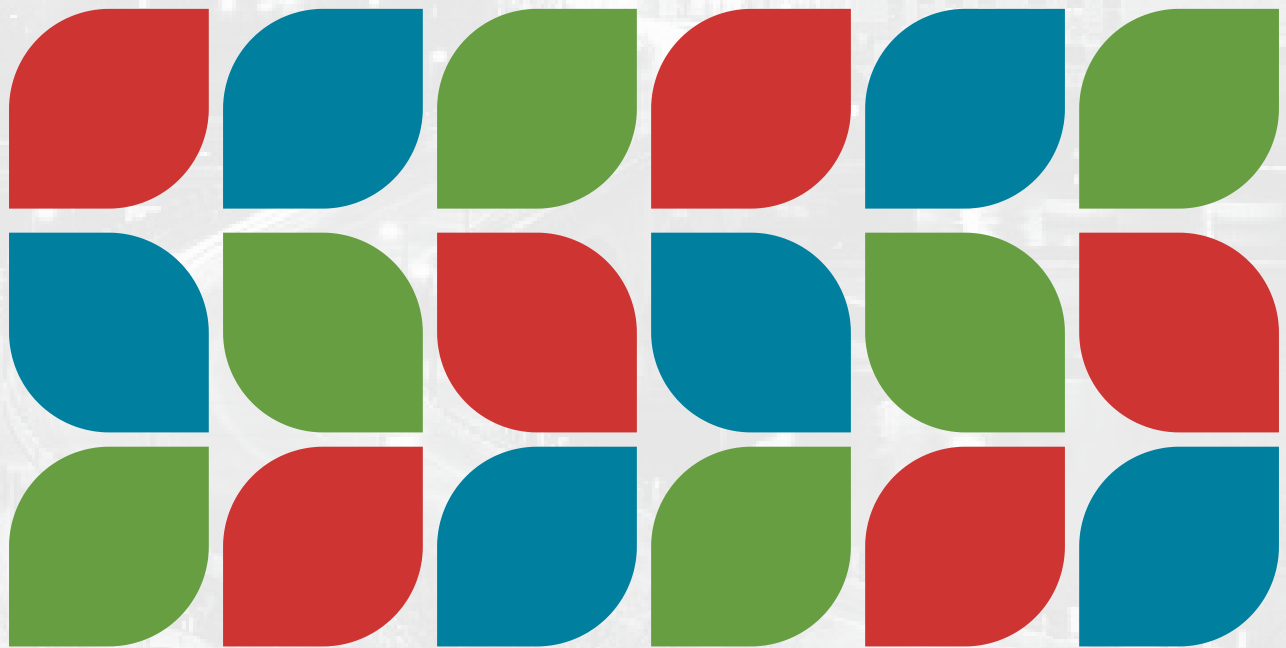


2024

Current Conditions of Minnesota's Nonprofit Sector



September 2024

This report shares results from a survey the Minnesota Council of Nonprofits (MCN) conducted in 2024 from May to June (255 responses), to gauge current conditions for nonprofits. This survey builds from a special report series MCN developed in response to the COVID-19 pandemic that tracked nonprofit well-being over time throughout the pandemic, international movements for racial justice following the murder of George Floyd by Minneapolis police, economic challenges, and other events.

Between March 2020 and June 2024, 2,345 nonprofit leaders responded to eight surveys MCN has conducted. Reports summarizing key trends, impacts, and outlook from previous surveys include:

- May 2020
- July 2020
- December 2020
- May 2021
- December 2021
- October 2022
- September 2023
- June 2024 (this report)

Each of these reports, as well as MCN's annual and longitudinal Minnesota Nonprofit Economy Reports, are available at: <https://minnesotanonprofits.org/resources-tools/sector-research>

Report Purpose

The primary goal of surveying nonprofit leaders is to provide a broader context for organizations to place their individual situation in perspective for decision-making and communications with their boards of directors, supporters, and staff.

MCN shares this information with nonprofits, policymakers, funders, media, and the general public to help them understand how the current environment has affected the nonprofit sector and actions these organizations have taken. Findings continue to underscore the crucial importance of multi-year general operating support from donors, providing flexible resources for nonprofits to creatively respond to the needs and priorities of their communities.

About the Minnesota Council of Nonprofits

The Minnesota Council of Nonprofits (MCN) is the statewide association of more than 2,200 Minnesota nonprofit organizations. Through its website, publications, workshops and events, cost-saving programs and advocacy, MCN works to inform, promote, connect and strengthen individual nonprofits and the nonprofit sector.

Report Authors

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Context Setting

Nonprofits provide real solutions that collectively drive toward shared goals of a healthy, cooperative, and just society. The nonprofit sector is a substantial contributor to Minnesota's economy – with nearly 9,000 nonprofit organizations employing about 376,000 workers that generated \$108 billion in economic activity in 2023 while providing essential services to Minnesota's communities. From food banks to charter schools to theatres and hospitals, nonprofits touch the lives of almost every Minnesotan and make up 13 percent of the state's total workforce. For more information about the role and contributions of nonprofits to Minnesota's economy, access MCN's Minnesota Nonprofit Economy Report series available at <https://minnesotanonprofits.org/resources-tools/sector-research>.

Key Findings

#1: Financial Stability is Threatened for a Vast Majority of Nonprofits

Nonprofits continue to face challenges with financial stability. When asked “How many months before your organization operate in the current environment before exhibiting financial distress?”, 79% reported “less than 12 months”. This is a stark jump from 47% who answered “less than 12 months” in 2022. Based on our respondents, three factors drive the continuous financial distress, including (1) increased expenses, (2) fluctuations in charitable giving, and (3) COVID relief funding being mostly distributed and spent.

#2: Nonprofit Ingenuity Fills Increasing Gaps Despite Stagnated Support

73% of respondents reported that demand for services has increased over the past 12 months. When asked to elaborate, some organizations stated that there was more awareness of their organization and others discussed the increase in severity of societal issues (i.e., homelessness, mental illness, food insecurity, etc.). Since funding and/or staffing has remained stagnant, many nonprofits are forced to adapt to the increase in demand for services with the resources they currently have. Although nonprofits are adapting, many state that the growing workload and increased expenses are not sustainable for the workers and the organization.

#3: Nonprofits are Actively Working Towards Creating a Healthy, Cooperative, and Just Society

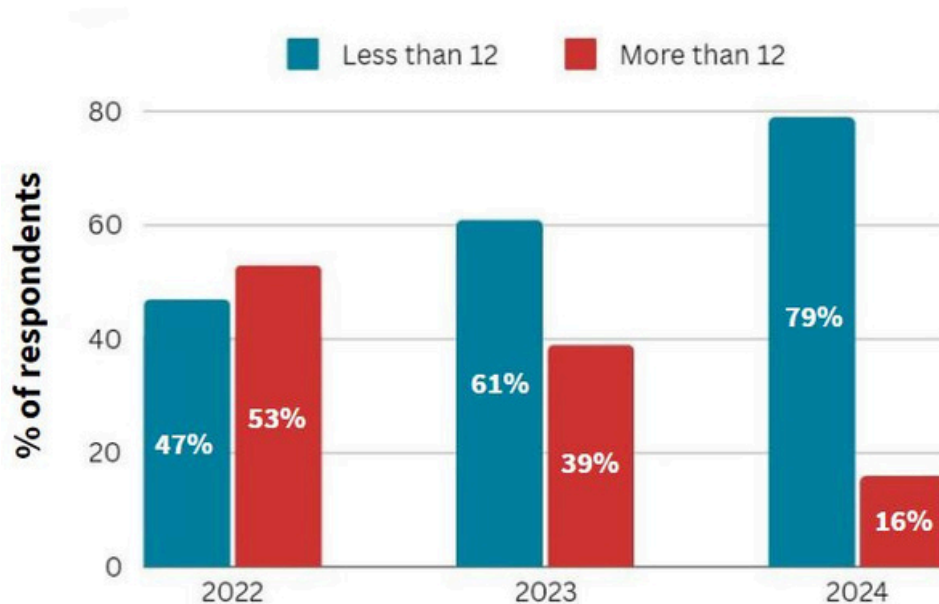
When asked if their organization is actively working towards racial equity, 83% of the respondents said “yes”. Some of the major successes that organizations celebrated included (1) securing funding for racial equity work, (2) developing or expanding on programming and initiatives, and (3) creation or expansion on internal policies and practices. 80% of respondents also reported engaging in advocacy work in the last year. This work includes participating in coalitions, promoting voting, contacting elected officials about topics related to their mission, and more. Across both racial equity work and advocacy work, respondents discussed funding and capacity as their biggest barriers.

Key Finding #1

Financial Sustainability is Threatened for a Vast Majority of Nonprofits

Across all financial health related questions, it was clear that many nonprofits are struggling with financial stability. 79% of respondents reported they have less than 12 months left before exhibiting financial distress. This reflects a steady increase over the past few years and a significant increase from last year's data; 61% of respondents stated they have less than 12 months on reserve in 2023 and 47% in 2022.

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



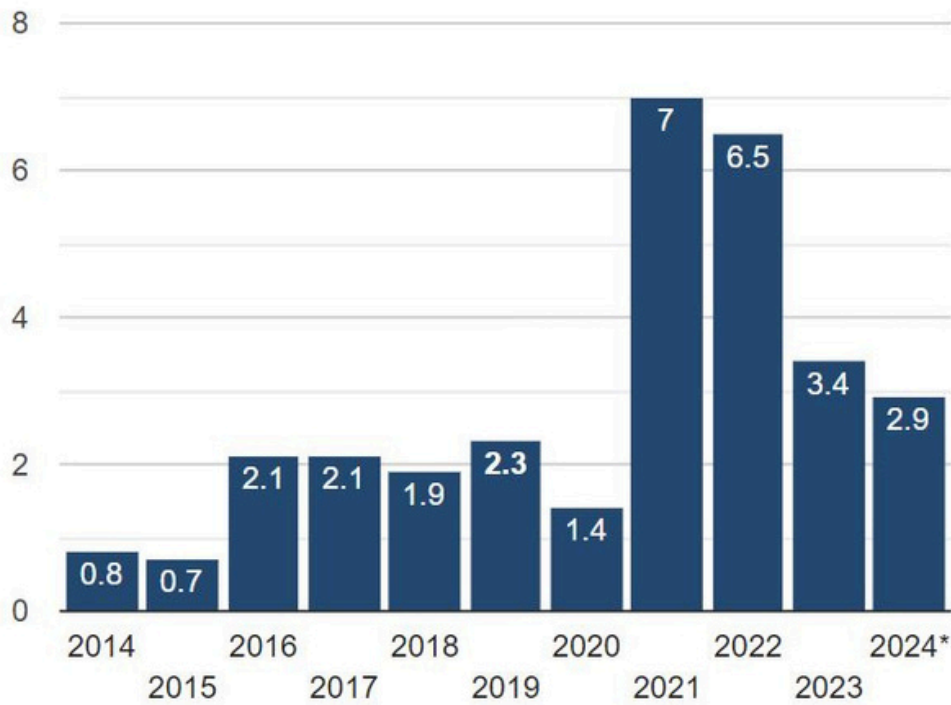
Based on the short answer questions throughout survey, there are three factors driving financial distress is the growth in operations.

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

Increased expenses: 66% of respondents reported increased expenses over the past year, and an additional 27% reported an anticipated increase in expenses. There are several reasons why groups are experiencing significantly increased costs, including:

- Growth in programing in response to increased demands for services: 73% of respondents reported experiencing increased demands for services over the past 12 months, and 67% of respondents reported increasing the volume of programming or services delivered in that same time.
- Inflation: The annual inflation rate for the United States ranged from 1-3 percent over the past twenty years, but the pandemic years saw significant increases, as high as 8% in 2021 (US Inflation Calculator, 2024). While inflation has tapered off in recent years (3% in 2024 through July), costs are still significantly higher than they were five years ago. Depending on their activity area, nonprofits can incur expenses as any other business (rent, supplies, services, staff) and therefore have seen their overall costs go up.

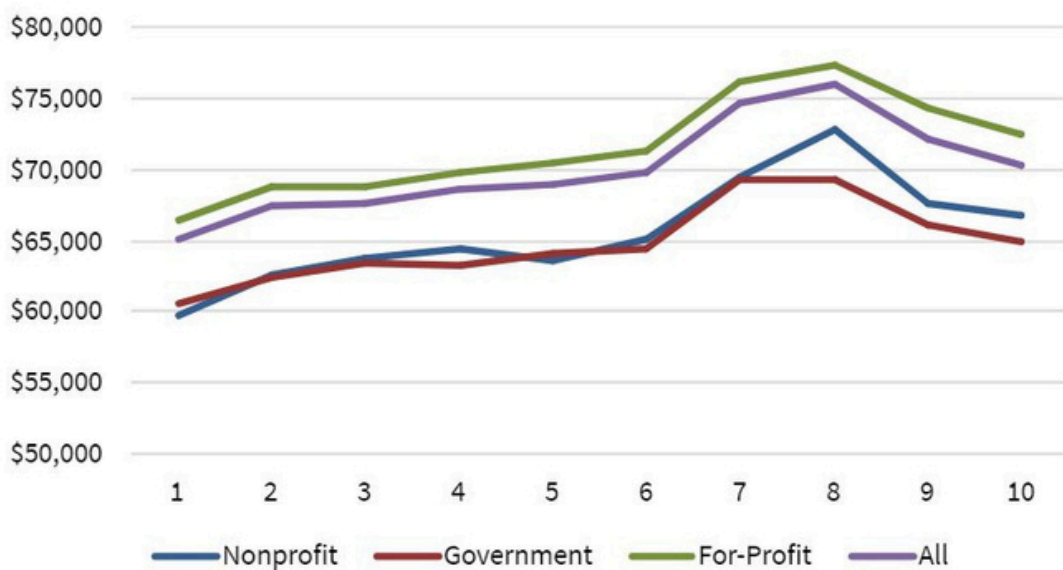
Chart: United States Annual Inflation Rates (2014 to 2024)



Source: <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

Increased staff salary and benefits: Staff are often a nonprofit's largest annual expense, with salary and benefits often totaling half or more of total spending. 72% of nonprofits reported that they increased salaries and benefits over the past 12 months, which is likely a significant driver in the increase in overall expenses. While many groups have reported increasing staff salary and benefits, the impacts of significantly increased inflation rates during the pandemic years continue to affect wages. All three sectors (nonprofit, government, and for-profit) saw a drop in inflation-adjusted average annual wages from 2021 to 2022 and onward, reflecting the challenges employers face across sectors in keeping their wages in step with the continued impacts of high inflation (2024 Minnesota Nonprofit Economy Report).

**MN Average Annual Wages by Sector,
Excluding Hospitals & Higher Education
(2023 USD)**



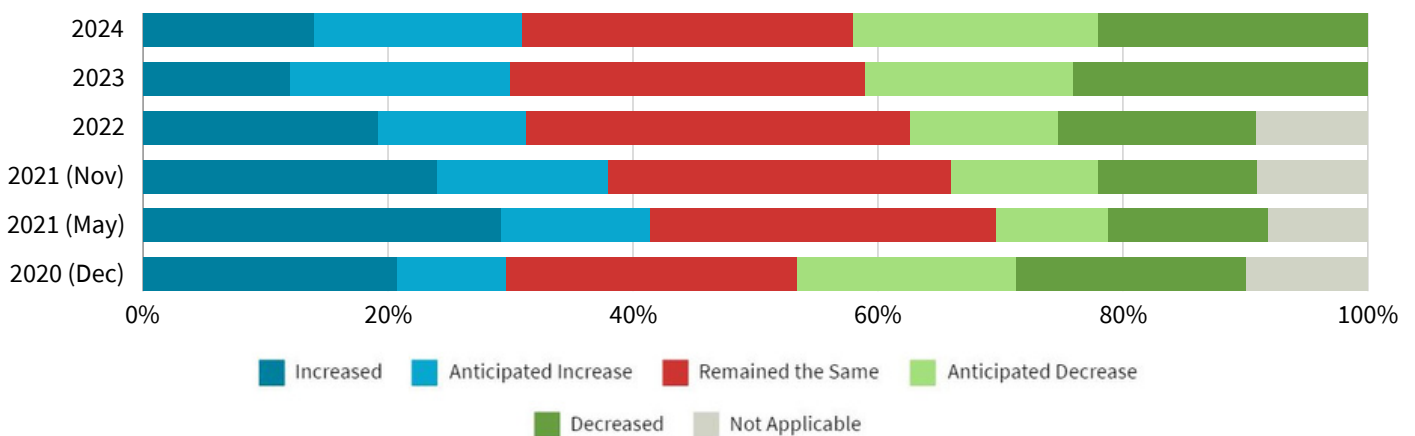
In the last 12 months we have been able to bring up staff salaries, increase fundraising (mostly grant applications), and been able to serve more underrepresented groups in our community.

- Respondent from Public, Social Benefit sector based in Ramsey County

Fluctuations in charitable giving: Increased expenses are not the only driving factor that's threatening the financial sustainability of nonprofits. On the national landscape, Giving USA reports giving by individuals increased by 1.6% since 2022 but when adjusted for inflation, individual giving decreased by 2.1% (Giving USA, 2024). Within Minnesota, the following charts demonstrate changes in charitable giving by individuals, foundations, and corporations over the past five years, as reported by respondents to MCN's current condition survey series. Both graphs reveal a spike in charitable giving in the early years of the pandemic (2021 in particular) with nearly one-third of respondents indicating they saw increased donations. Both graphs also reveal a general retrenchment in 2023, with nearly one-third reporting decreased charitable donations from individuals and one-fourth reporting decreased giving by foundations and corporations. About half of respondents indicated they saw no change in charitable giving in 2024 compared to 2023, and about one-fourth reported seeing decreased giving – all of which likely means that charitable giving in 2024 has been lower for the majority of nonprofits than what they had experienced in the height of the pandemic.

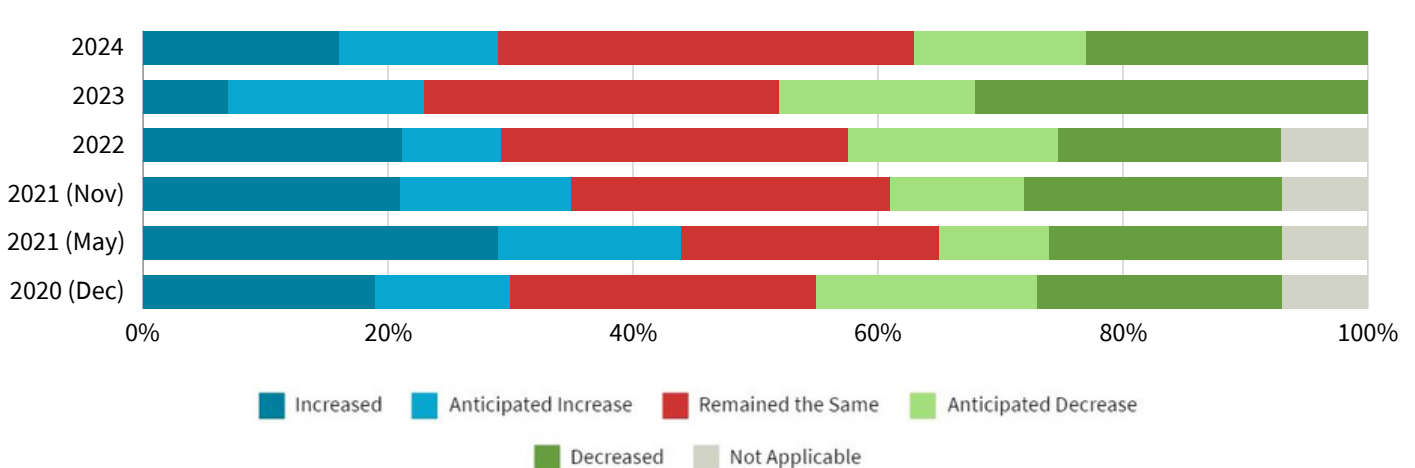
5 Year Trends in Grants from Foundations or Corporate Giving

Respondents to MCN's Current Conditions Survey



5 Year Trends in Donations from Individuals

Respondents to MCN's Current Conditions Survey

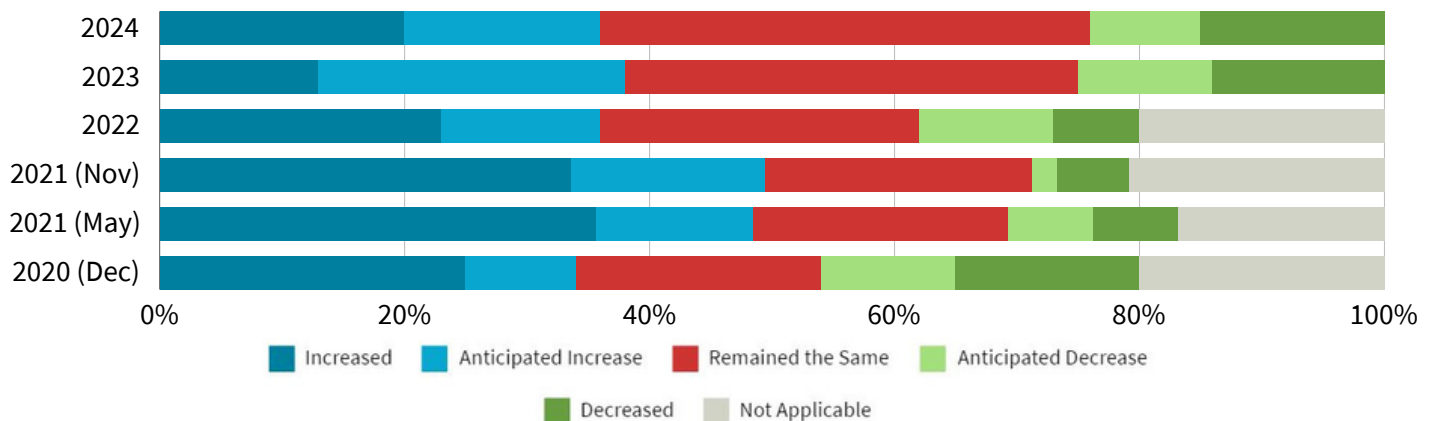


COVID relief funding is mostly distributed and spent: Relief funding offered a critical lifeline during the pandemic, bringing billions of dollars to organizations in all three sectors in Minnesota. In fall 2021 over 30% of nonprofits reported to MCN that COVID-19 relief funding received in the previous 18 months accounted for over 20% of their organization's annual revenue (Minnesota Council of Nonprofits, 2021). Through the American Rescue Plan Act (ARPA), over \$8.5 billion in federal funding for COVID-19 relief was distributed through a variety of channels (Minnesota Council of Nonprofits, n.d.). Nearly 14,000 Minnesota businesses (including nonprofits) received forgivable Paycheck Protection Program loans administered by the Small Business Administration from 2020 to 2021 (Eischens & Winter, 2020). The Employee Retention Credit collectively brought millions of dollars to eligible businesses, including nonprofits, as a credit against certain employment tax payments paid between March 13, 2020 through September 30, 2021 (Aanestad, 2022, pg 5).

While relief programs such as these offered crucial support for organizations in the height of the global pandemic, most if not all funding has now been distributed and expended. The following chart shows a similar theme to the previous trends noted about individual giving and grantmaking from foundations and corporations. Government funding increased significantly in 2021 for over one-third of respondents to MCN's current conditions survey series. In 2023 and 2024, a number of groups reported decreased funds, and nearly half of respondents indicated funding from the government had remained the same from the prior year. With one-time relief funding concluding, many organizations are now left to draw on reserves as they navigate continued operating losses driven by increased expenses and fluctuations in revenue.

5 Year Trends in Grants/Funding from Government

Respondents to MCN's Current Conditions Survey



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

- Respondent from the Health sector based in Hennepin county

Changing Environment for State Grantmaking:

The state of Minnesota not only increased grant funding during the pandemic to provide one-time emergency relief funding to nonprofits, Minnesota's 2023 legislative session presented a historic opportunity to take a fresh look at the state's responsibilities and methods. Leveraging the momentum of an unprecedented \$17 billion surplus for the biennium budget, the state of Minnesota made commitments to bolster oversight and expand access to state funding for eligible groups over the following two years, including specific work to address inequities (Minnesota Council of Nonprofits, n.d.). Several key investments in the nonprofit contracting area were built into the state's budget and are currently unfolding:

- **Addressed grants administration oversight by expanding capacity at the Office of Grants Management (OGM):** This centralized office housed in the Department of Administration is responsible for creating policies for grant oversight and training grants management staff at 27 state granting agencies.
- **Created an Office of Equity in Grants:** This new office housed within OGM is designed to advance equity by increasing the state's capacity to provide the ongoing needs for effective resources, training, policy guidance, data collection, and data analysis to support state granting agencies in addressing equity issues in and through grantmaking processes.
- **Conduct a feasibility study for a state-wide grants management platform:** The 27 granting state agencies currently use 13 different grants management systems, and 14 have no grants platform. A common multi-agency platform could allow agencies to review a nonprofit's past performance contracting with other agencies when considering new grants and increase the state's knowledge and efficiency in grantmaking, increase transparency and data availability on state grants to nonprofits, and save applicants valuable time and resources when applying for state grants. OGM is currently conducting a feasibility study on the possibility of a statewide grants management platform, and findings are expected in the Fall of 2024.
- **Increased funding for direct appropriations and competitive grantmaking:** An estimated \$5 billion of the \$17 billion projected surplus is allocated for ongoing appropriations (including to an estimated 286 organizations) and a significant majority of the rest will be in one-time state spending.

More information is available at <https://minnesotanonprofits.org/public-policy/state-grant-reform>

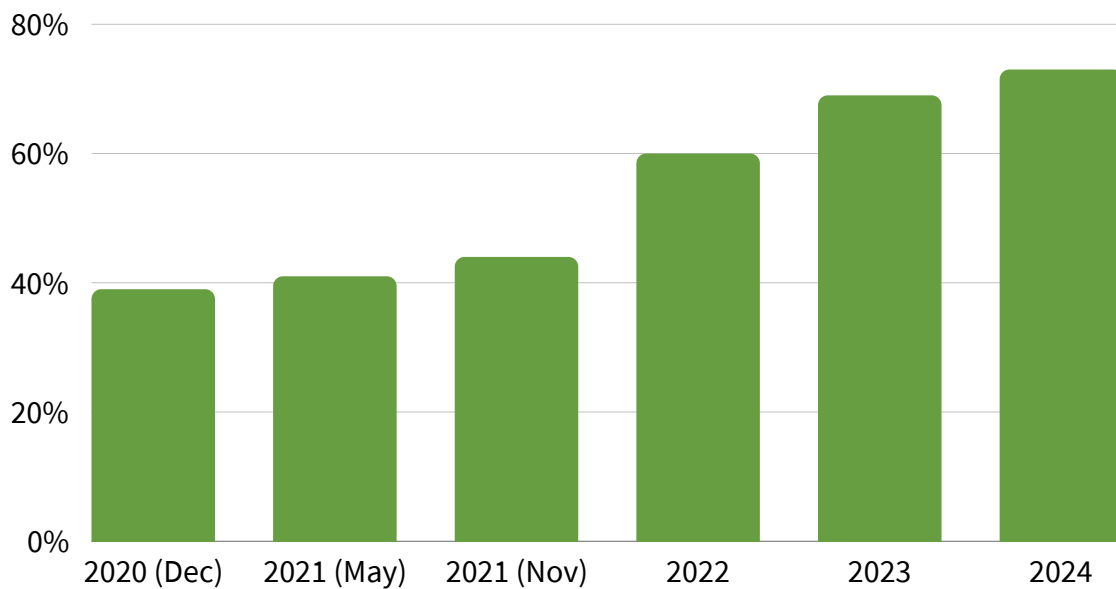
Key Finding #2

Nonprofit Ingenuity Fills Increasing Gaps Despite Stagnated Support

Since 2020, MCN has been asking nonprofits what changes they've been experiencing in terms of demand for services. Compared to other reports since 2020, this year's survey showed the highest number of respondents (73%) reporting that demand for services had increased over the past 12 months. Additionally, demand for services was the highest reported factor that has increased out of the other 13 factors included in this survey. This rise in the number of nonprofits reporting increased demand for services is notable as it counters any notion that the impacts of the COVID-19 pandemic and economic downturn have abated. Rather, we are seeing the need for what nonprofits provide continuing to increase over time.

5 Year Trends Percentage of Respondents Reporting Increased Demand for Services

Respondents to MCN's Current Conditions Survey



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

– Respondent from Human Services based in the Twin Cities Metro counties

When asked to elaborate on the biggest challenges over the past 12 months through narrative, 29.4% of respondents discussed the increase in demand for services as one of the biggest challenges they faced within the past year:

- Many of the respondents stated that there was more awareness of the services they provide and did not specify how this came to be.
- Others talked about how growth in the severity of societal issues have increased the demand for services at their nonprofit. For example, three respondents discussed increases in the need for mental health services. According to data from the CDC, rates of mental illnesses, like depression, have slowly trended upwards in Minnesota over the past few years (America's Health Ranking, n.d.). Mental health providers across the country are reporting that there is a sense of urgency to provide care for the increased numbers of individuals seeking mental health services (Stringer, 2024). The broader patterns of increasing demand for mental health services are then reflected in nonprofits that support or provide mental health services. Other specific nonprofit activity areas that reported seeing an increased need for services include immigration services, refugee support, housing, and food insecurity.

We continue to serve more people in all of our programs so additional funds are meeting huge need but covering overhead is hard. We continue to have cash flow stress which is fatiguing management (who the agency can't afford to replace). We're mission focused and do awesome work but I stress about keeping the doors open.

– Respondent from Human Services based in rural counties throughout Greater MN

The increase in demand for services while funding and/or staffing remain stagnant has caused nonprofits to become more resourceful in adapting to the increased workload, and many respondents shared the negative impacts of this adaptation. Many nonprofits reported difficulty in balancing between expanding their workplace hours and capacity to meet demands, attempting to keep staff morale high with heavy workloads, and the importance of maintaining the quality of their services. Respondents discussed that the increase in demand for services, despite adjusting their approach, led to reduced access and availability to their services. While many nonprofits are continuing to show adaptability, this is viewed as a short-term patch to the problems and many respondents recognized that this is not sustainable.

Key Finding #3

Nonprofits are Actively Working Towards Creating a Healthy, Cooperative, and Just Society

After the murder of George Floyd, an unarmed Black man, by Minneapolis police in May 2020, many individuals and organizations committed to working toward equity, particularly racial equity. Millions of dollars have been pledged and spent toward this goal for the past four years. Many wonder what progress has been made, what efforts persist, and what the future might hold.

The influx of attention and energy in the movement toward racial equity has led to a backlash and changes in policies. Two prominent rulings since 2023 have caused concern around explicit work toward racial equity. The U.S. Supreme Court on June 29, 2023 reversed decades of precedent and ruled to significantly limit the use of race in college admissions in response to cases brought against the University of North Carolina and Harvard University (Totenberg, 2023).

On June 3, 2024 the 11th Circuit U.S. federal court of appeals ruled against Atlanta-based Fearless Fund (American Alliance for Equal Rights v. Fearless Fund Management, LLC, 2024), a grantmaking foundation whose Fearless Strivers Grant Contest open to Black women entrepreneurs, siding with American Alliance for Equal Rights who initiated the lawsuit (and have initiated a handful of others across the nation, including against the Minnesota Board of Social Work regarding racial quotas (The American Alliance for Equal Rights, n.d.). While the Council on Foundations and Independent Sector filed an amicus brief in December 2023 “calling the courts to dismiss the lawsuit and rule in line with the First Amendment that philanthropies and individuals have a constitutional right to donate to charitable causes that align with their values,” ultimately the courts sided with AAER. The U.S. federal court of appeals found Fearless Fund’s grant program was likely in violation of the Civil Rights Act’s prohibition against racial discrimination in making and enforcing private contracts. In response, several prominent for-profit companies and funders are softening their commitments to this work, even though the case only applies to private contracts in the 11th circuit (Alabama, Georgia, and Florida)*.

**Note: MCN stresses that the ruling in the Fearless Fund case does not pertain to Minnesota. If you are considering changing a program due to these rulings, MCN urges you to connect with an attorney who can help you determine how to continue to meet the equity goals of the program.*

Despite some national headwinds against efforts toward racial equity, the vast majority of Minnesota nonprofits remain committed to this work. 83% of respondents reported “yes,” to a question about whether their organization is actively working towards racial equity (10% said “no”, and 7% said “prefer not to say”). Three themes emerged in the long-narrative responses to the questions: “What is some work or successes in implementing work toward racial equity goals in your organization in the past 12 months? Who are the main drivers in this work (e.g. leadership, board, staff, constituents served)? What resources and supports have been or would be helpful to your organization in implementing and sustaining this work?”

1. Funding: Some respondents noted the important role that funding plays in supporting racial equity work, and some were successful in finding funding specifically for this work. Respondents discussed utilizing the funding to put more efforts towards creating programs/events for racially marginalized groups, increase in the number of scholarships for BIPOC individuals seeking their services, and funding for hiring outside consultants for DEI trainings for staff. Others utilized funding to ensure their compensation policy is equitable for staff and contractors (i.e., guest artists, speakers, outside consultants, etc.).

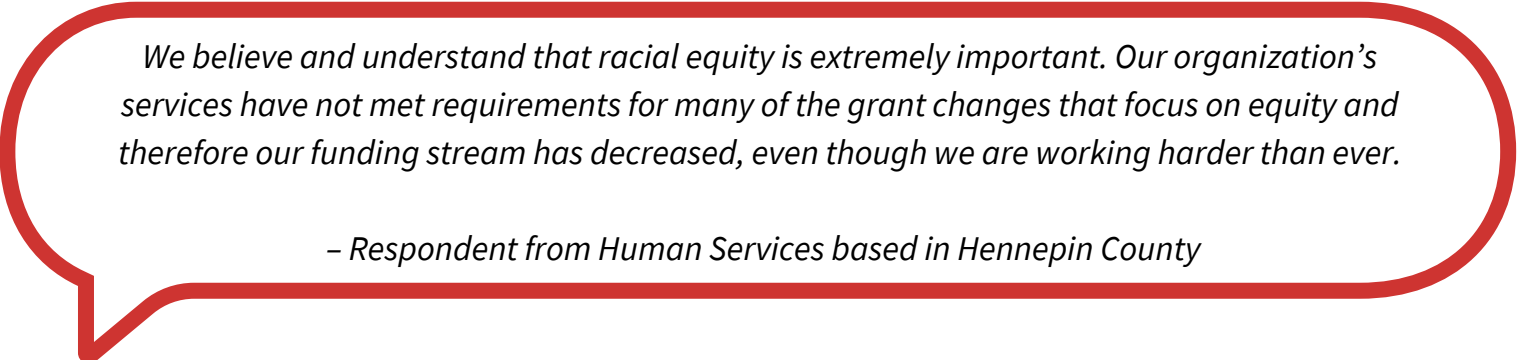
2. Programming and initiatives for the communities the nonprofit serves: Respondents discussed the importance of building relationships with the racially diverse community members they serve, this includes community that directly benefits from the nonprofit’s services or community that live within the range of where the nonprofit provides services. Learning directly from individuals helped tailor programming to match community’s needs and ability to provide culturally specific services. Other respondents discussed how they offered racial equity training for their community members. Finally, respondents discussed hosting celebrations to uplift diverse cultures in their community.

3. Creation or expansion of internal policies and practices: Respondents shared examples of the internal work related to policies and practices that the organization has taken over the past year. The first way many organizations addressed racial equity is through the creation or expansion upon diversity, equity, and inclusion (DEI) statements. These re-grounded DEI statements then helped guide how the organization approached and prioritized initiatives. For example, one nonprofit utilized their DEI framework to advocate for hiring a Spanish translator so the nonprofit can better serve and expand services to the Spanish-speaking community. Other respondents discussed ongoing and required trainings for the organization’s staff. Finally, other respondents discussed efforts to diversify their staff, board members, or volunteers.

Only 10% of respondents stated that their organization is not working towards racial equity. Some reported that they struggle with pushing this work because the location their nonprofit is based in does not have high racial diversity. While others report that they do not look at race and therefore do not need to work towards racial equity.

Barriers to racial equity work: Nonprofit respondents indicated two main barriers in their work toward racial equity:

1. Funding: Respondents noted lack of funding was one of the biggest barriers to their ability to commit to racial equity work. Beyond the organizations that discuss struggling to keep the organization running, many stated that it is very difficult to get funding because of the limitations from funders. Since many organizations struggled with funding, this prohibited them from seeking outside consultants for DEI training or support, expanding on programming, or providing scholarships for their programming. Other ways in which funding posed barriers for nonprofits seeking to make meaningful progress toward racial equity include: Some grant opportunities have targeted audiences that end up excluding some nonprofits, funding was a small amount and/or a one-time payment and did not acknowledge the reality that racial equity work takes time and is ongoing, and the competitiveness for the small amount of grants that target racial equity work.



We believe and understand that racial equity is extremely important. Our organization's services have not met requirements for many of the grant changes that focus on equity and therefore our funding stream has decreased, even though we are working harder than ever.

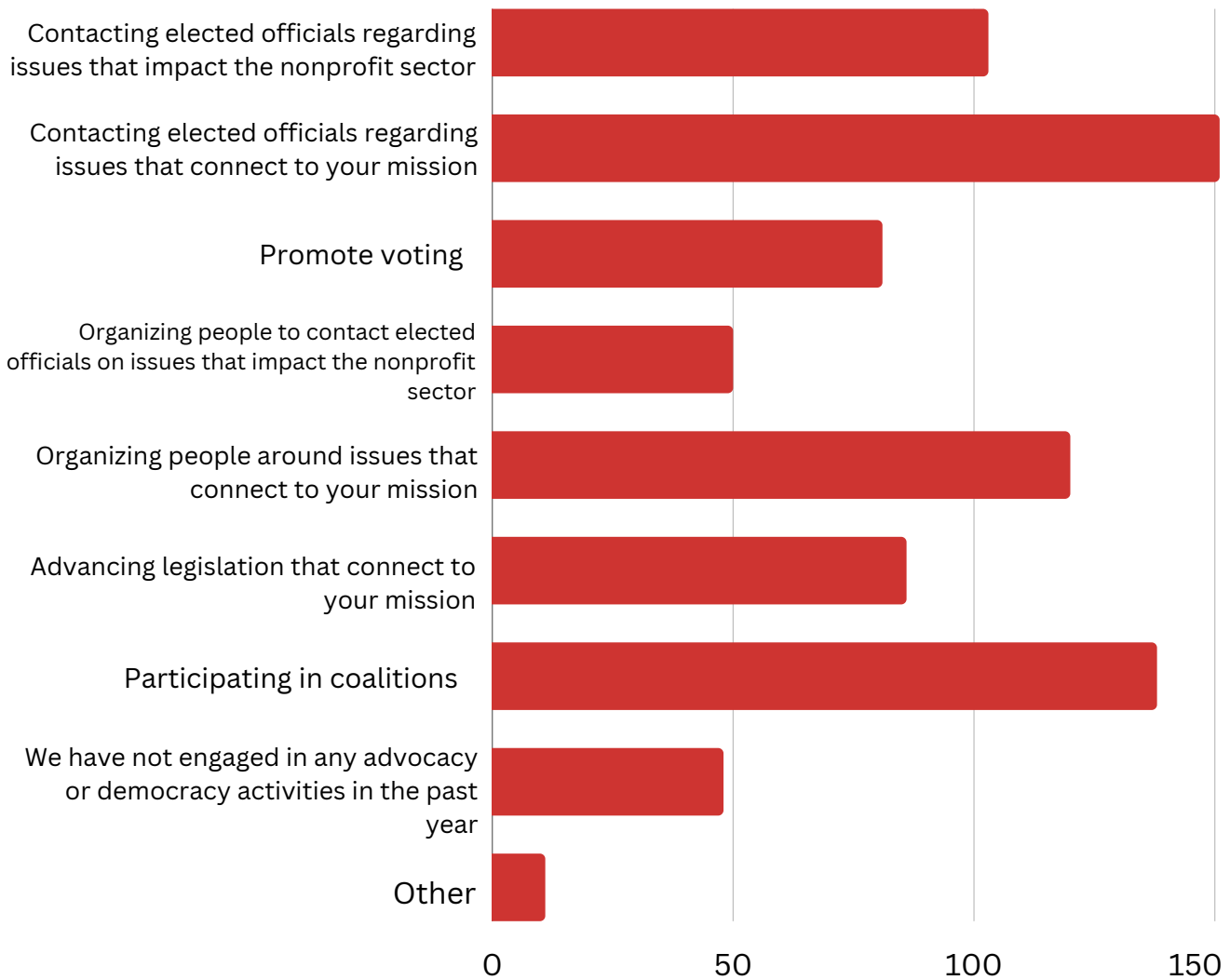
– Respondent from Human Services based in Hennepin County

2. Capacity: Many nonprofits expressed a desire to work toward racial equity but felt they lacked the time, energy, capacity, and financial resources to meaningfully engage. Some organizations discussed the board or other staff members not wishing to prioritize racial equity work, which therefore caused more effort on staff heading this work. Many discussed the lack of priority when most/all staff are at capacity in their workload. Therefore, many stated that they could not sustain momentum of the work. Other factors like funding and consistent turnover in staff continued to deplete the capacity of staff to drive racial equity work.

Nonprofits report increased engagement in advocacy work

80% of respondents reported engaging in advocacy work in the last year. When asked what advocacy or civic engagement activities organizations have participated in over the past year, 151 contacted elected officials regarding issues that connect to the organization's mission (nearly 60% of all respondents), 138 participated in coalitions, 120 organized people around issues that connects to the organization's mission, and 103 contacted elected officials regarding issues that impact the nonprofit sector. These numbers show that Minnesota's nonprofit sector is widely engaged in the critical work of sharing their expertise and experiences with lawmakers, and that we must continue to support each other in this work.

What advocacy or civic engagement activities has your organization engaged over the last year?



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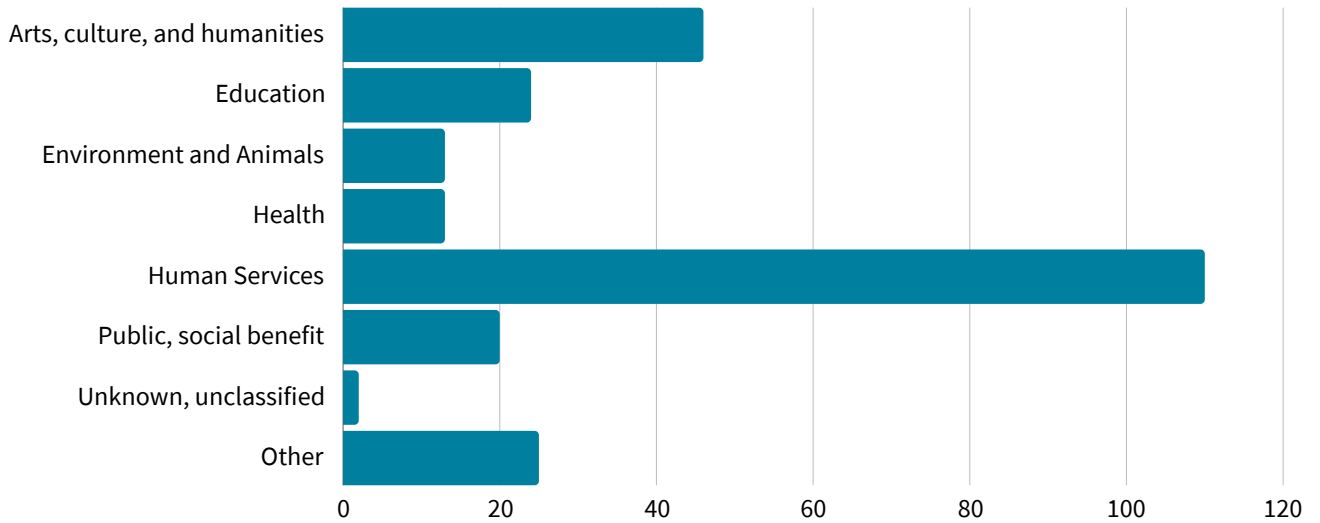
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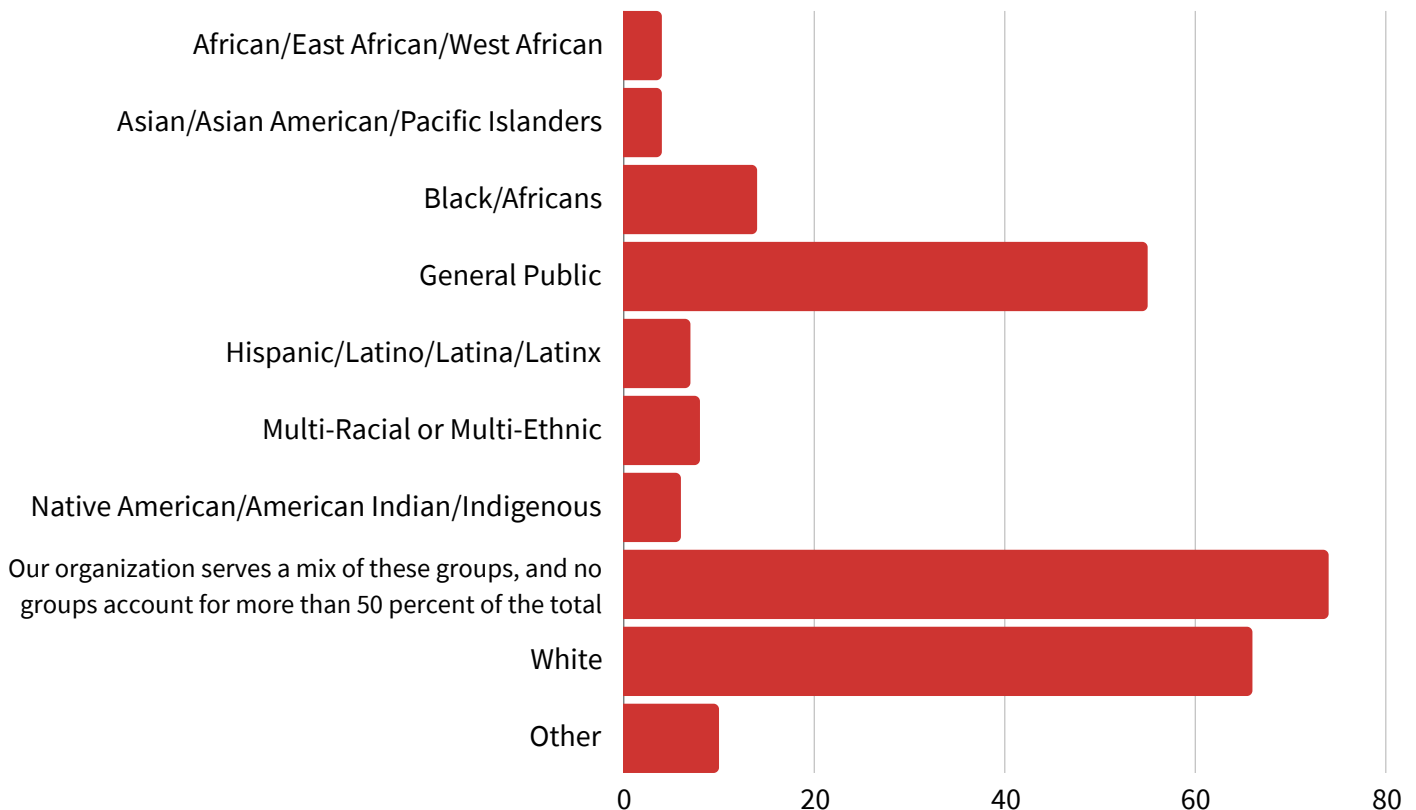
About the Respondents

This report shares results from a current conditions survey at the Minnesota Council of Nonprofits (MCN) conducted in 2024 from May to June (255 responses).

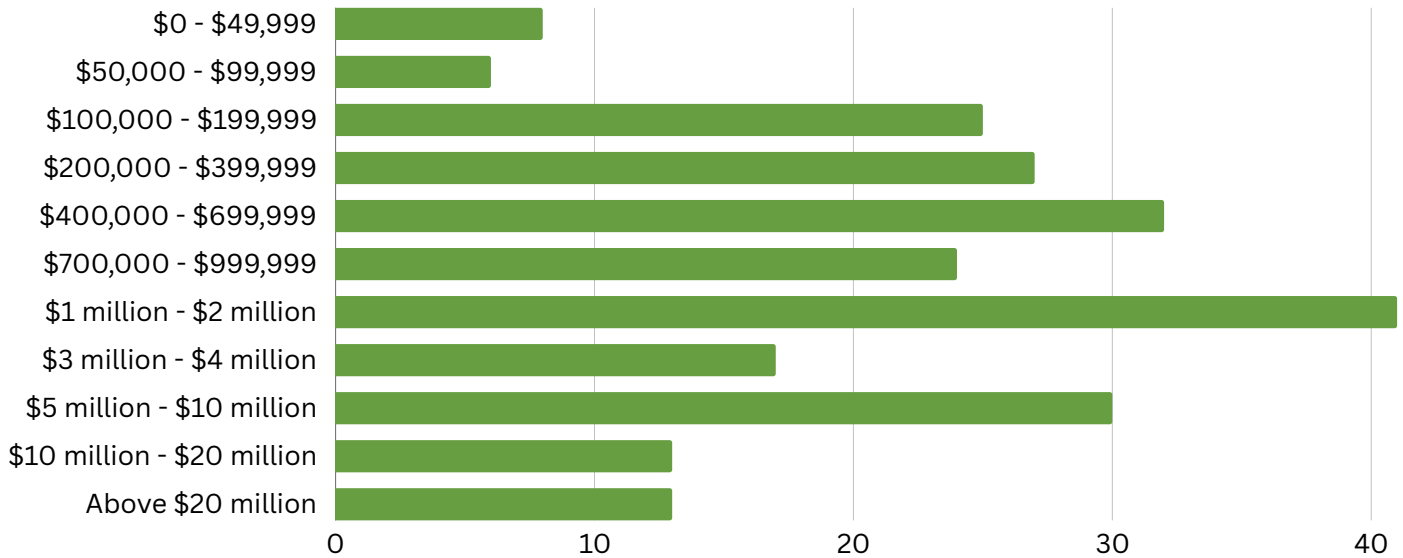
Which activity area best describes your organization's work?



Who are your organization's primary beneficiaries?



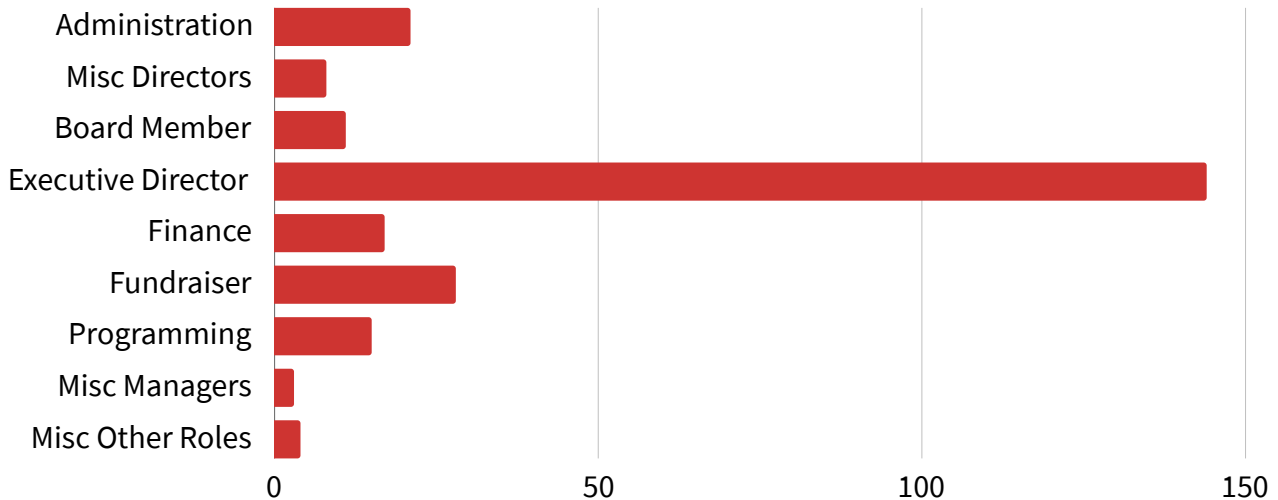
What is your organization's budget size?



Which county are you located in?

Atkin	1	Douglas	1	Murray	1	Winona	4
Anoka	1	Goodhue	2	Olmsted	2	Wright	1
Beltrami	5	Hennepin	51	Ramsey	35	7 County Metro	8
Blue Earth	5	Isanti	1	Rice	1	Multiple	57
Carver	1	Itasca	2	Roseau	1	Statewide	15
Cass	1	Kandiyohi	1	Sherburne	1		
Clay	1	Lake	2	St. Louis	17		
Cook	1	Mahnomen	1	Sterns	1		
Crow Wing	3	Martin	2	Waseca	1		
Dakota	4	Mille Lacs	1	Washington	4		

Which best describes your role in the organization?



About MCN

The Minnesota Council of Nonprofits (MCN) is a 2,200+ member strong network of nonprofits and allies. We are a trusted ally and advocate, providing relevant workshops and programming, timely sector research, state and federal advocacy, and a strong member network and benefits.

Visit our website or follow us on social media to discover how MCN can support your mission and professional development.

Our mission is to inform, promote, connect, and strengthen individual nonprofits and the nonprofit sector.



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