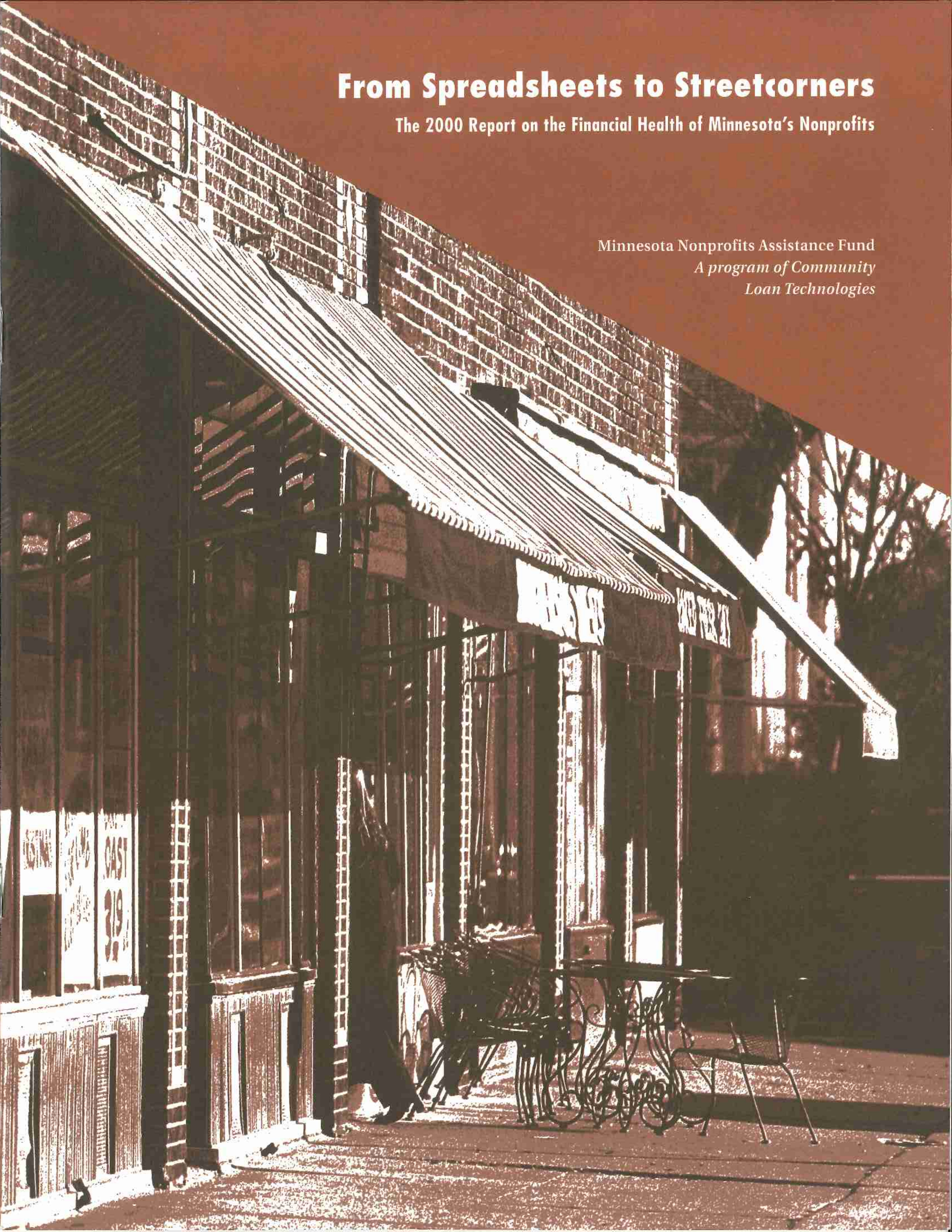
From Spreadsheets to Streetcorners

The 2000 Report on the Financial Health of Minnesota's Nonprofits



Minnesota Nonprofits Assistance Fund
A program of Community Loan Technologies

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Foreword and Acknowledgements

In 1990, the Minnesota Nonprofits Assistance Fund decided to undertake the first-of-its-kind study to look at the financial and organizational condition of nonprofits throughout Minnesota. At that time, little information existed on this vital but then-hidden sector. What we discovered was a group of committed, passionate organizations that too frequently didn't have the financial or internal resources to be viable in the long run.

By the time of our next study in 1994, however, nonprofits in the state had "shown their stuff" with a tenacity and resiliency that weathered even the tough economic times of the early '90s. With increased professionalism and a greater awareness of the need for solid financial management, nonprofits were facing the future with a sense of optimism, coupled with stronger financial positions from which to serve their communities.

While nonprofit financial health appears to be stronger than ever, there is an urgent sense that community demand is greater than current resources.

The challenge presented by this year's study is, in many ways, not that different from our first two studies; namely, the ongoing tension between balancing community needs with the internal capacity to meet those needs. While nonprofit financial health appears to be stronger than ever, there is an urgent sense that community demand is greater than current resources. More than ever before, nonprofits must creatively respond to their communities without losing sight of either their mission or their ability to sustain that mission. It is an exciting and incredibly worthwhile challenge.

Fortunately, in the time since our first study, nonprofits have gained a more prominent place on society's collective radar screen. Just last fall, for instance, the Minnesota Council of Nonprofits released a study examining the role of nonprofits in the state economy, and the Minneapolis *Star Tribune* ran a substantial article on the state's largest 100 nonprofits entitled "The Other Booming Economy." Nonprofits are being rightfully recognized for the vital role they play in our life together as a community.

We are indebted to the Bush Foundation and the Otto Bremer Foundation for their generous funding of this project, and to our study advisors who gave willingly of their time and energy: Marcia Avner, Public Policy Director for the Minnesota Council of Nonprofits; Sarah Lutman, Senior Director of Content Initiatives for Minnesota Public Radio; John Kostishack, Executive Director of the Otto Bremer Foundation; and John Molinaro, Director of Community Initiatives for the West Central Minnesota Initiative Fund. Our deepest thanks, of course, belong to the 266 nonprofit executives who graciously shared their experience with us in this survey.

From spreadsheets to streetcorners, Minnesota's nonprofit sector is a vital part of our community.

Emmett D. Carson

Emmett D. Carson
President, Community Loan Technologies

Executive Summary

In the midst of rapidly changing financial conditions, the majority of respondents report that their client or audience base has increased.

From Spreadsheets to Streetcorners: The 2000 Report on the Financial Health of Minnesota's Nonprofits examines a random sample of 266 nonprofit organizations from across the state. The study, conducted by The Stevens Group at LarsonAllen for Community Loan Technologies' Minnesota Nonprofits Assistance Fund, builds on two previous studies conducted in 1990 and 1994. As in prior years, this year's survey respondents represent a broad cross section of industries, organizational sizes, and geographic locations.

We are pleased to present the following summary findings from the 2000 report:

- **Growing Service Demand without Corresponding Resources**
  While survey participants experienced a net increase in median income over the past ten years, the overall decade has been one of erratic gains and losses. In the midst of rapidly changing financial conditions and pressures, the majority of respondents nonetheless report that their client or audience base has increased. Not surprisingly, then, survey participants report that their most significant ongoing challenge is growing service demand without corresponding resources.

- **Increased Human Service Programming**
  More than half of human service groups report that demand for service has been somewhat or significantly impacted by federal or state devolution and/or welfare reform. As a result, most have created new programs or expanded their current programming. The greatest perceived impact to date was reported by larger size respondents.

- **Increased Percentage of Individual Donations, Decreased Percentage of Foundation and Corporate Grants**
  Since 1994, individual donations and memberships increased as a percent of total aggregate income (from 5.3 percent in 1994 to 10.3 percent in 1998) while foundation and corporate grants decreased slightly (from 8.5 percent in 1994 to 7.0 percent in 1998). Other sources of income reported by participants were relatively unchanged from those reported in 1994, with government grants and contracts representing the single largest source of income (41 percent), followed by client fees and/or ticket sales (22 percent). The remaining 20 percent of income was comprised of earned income ventures, United Way funding, investment and endowment earnings, fundraisers and special events, and rental income.

- **Improved Perceptions of Financial Health**
  Perceptions of financial health have improved over the past five years, with nearly half of survey participants reporting that they are financially healthy and not presently vulnerable, compared to less than one-third of survey respondents in 1994. This change in perception corresponds to an overall increase in projected income as respondents enter each new fiscal year and the fact that fewer organizations report cash flow problems.

- **Governance Concerns**
  Governance continues to be an ongoing issue for survey respondents. Less than half of participants report that the majority of their board members contribute

financially to the organization. Two-thirds of respondents rated their board as "less than excellent" in terms of programmatic expertise, ability to network in the broader community, marketing and public relations expertise, and the ability to fundraise and/or give money. Nearly one-third of respondents believe they do not have the right board to bring them through the challenges of the future.

- **Staff Recruitment and Retention Challenges**
  While median staff size has increased over the past five years, 40 percent of respondents report that their ability to recruit and retain qualified staff has been affected by a disruption in their financial condition. Metro groups and small to mid-size groups were more likely to report staffing difficulties as compared to their non-metro or larger counterparts. Respondents identified the inability to hire and retain qualified and motivated staff as one of their top three ongoing challenges.

- **Technical Assistance Implementation Shortcomings**
  The majority of survey respondents have utilized outside technical assistance in the past few years, yet nearly half report they do not have sufficient staff to implement the advice they receive. Areas of unmet technical assistance needs include fundraising; computer systems and technology; marketing and audience development; and planning for the future.

- **Value-Added Collaborations**
  Given the pressures of increased service demand and staffing challenges, survey respondents are finding creative ways to provide services. More than three-fourths of survey participants currently engage in collaborations with other nonprofits, primarily for program, space, and marketing purposes. The perceived benefits of these collaborations include enhanced programmatic quality, increased efficiency of service delivery, cost savings, and an improved ability to fundraise.

- **Competition for Funds**
  While collaboration is prevalent among survey respondents, so too is a keen sense of competition with other nonprofits for resources. Total foundation giving in Minnesota has increased, for instance, yet so too have the number of nonprofits competing for the same pool of funding. As a result, foundation contributions as a percentage of total income actually decreased slightly over the past five years. Respondents identified competition for resources with other nonprofits as one of their top three ongoing challenges.

- **Staying Strong in a Rapidly Changing Environment**
  Looking to the future, participants believe that the greatest challenge facing Minnesota's nonprofits will be to maintain a strong financial position in what they perceive to be a rapidly changing funding environment. Their greatest perceived opportunity? Increased community need and the subsequent demand for service, which respondents believe they are uniquely poised to meet. Slightly more than half of respondents project that they will significantly expand their programming and services over the next five to ten years.

Introduction and Profile of Respondents

The **2000 Report on the Financial Health of Minnesota's Nonprofits** starts with a look at the 266 nonprofits upon whose responses this data is based. Table 1 presents survey respondents by field of service and geographic location. Throughout this 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/Culture" are denoted as "Human Service" and "Arts" throughout the report.

In reviewing this and 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: 2000 Study Participants by Field of Service and Location

	Number of Respondents
Field of Service	
Advocacy	21
Arts and Culture	36
Community/Economic Development	24
Education	26
Health/Human Service	143
Other*	16
Total	266
Location	
Metro	145
Non-metro	121
Total	266

** Includes environment, animal welfare, youth and general ministry*

Table 2 provides a basic profile of 2000 survey respondents compared to 1994 participants. As is true throughout this report, the median, rather than the mean or average, is used as the central tendency descriptor unless otherwise noted.

Table 2: Profile of 2000 Respondents Compared to 1994

	2000 (n=266)	*1994 (n=266)*
Median age of organization	24 years	19 years
Median tenure of executive director	6 years	n/a
Median staff (FTEs)[1]	6.0	3.5
Median income[2]	$603,866	$427,676
Five year % change in median income (from 1994-1998)[3]	41%	n/a
% reporting operational surplus in last fiscal year	71%	70%
Median surplus margin	0.5%	9.6%
Income mix[4]		
Government grants/contracts	40.6%	41.5%
Client fees/ticket sales/admissions	22.1%	20.9%
Individual donations/memberships	10.3%	5.3%
Foundation/corporate grants	7.0%	8.5%
Earned income ventures	5.4%	n/a [5]
Investment/endowment earnings	2.9%	n/a [5]
United Way	2.8%	5.0%
Fundraisers/special events	2.8%	1.5%
Rental income	2.1%	n/a [5]
Other	4.0%	17.4%
	100.0%	100.1% [6]
Cash flow problems in last 3 years	47%	70%
Board of Directors		
Median number of members	13	13
Median tenure	4 years	n/a
Right board for the future	67%	73%

1 Staff size as reported by 2000 participants for 1999 and 1994.

2 Financial data as reported by 2000 participants for FY 1998 and FY 1994.

3 Percentage change not adjusted for inflation.

4 Dollar weighted percentages based on aggregate responses.

5 Included in "Other" category in 1994 survey.

6 Does not equal 100.0% due to rounding.

Tables 3, 4, and 5 provide profiles of survey respondents by budget size, field of service, and geographic location. 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 3: Profile of 2000 Respondents by Budget Size

	Less than $250,000 (n=109)	*$250,000 - $499,999 (n=31)*	*$500,000- $999,999 (n=39)*	*Over $1,000,000 (n=87)*
Median age of organization	17 years	19 years	25 years	34 years
Median tenure of executive director	5 years	7 years	5 years	10 years
1999 median staff (FTEs)[1]	2.0	7.0	8.7	55.0
1994 median staff (FTEs)[1]	1.0	3.5	6.0	41.0
1998 median income[2]	$112,349	$363,000	$729,297	$3,525,789
1994 median income[2]	$76,446	$242,782	$528,499	$2,872,681
Five year % change in median income (from 1994-1998)[3]	47%	50%	38%	23%
% reporting operational surplus in 1998	62%	74%	71%	79%
1998 median surplus margin	8.7%	3.5%	9.2%	1.3%
% reporting operational surplus in 1994	64%	70%	65%	78%
1994 median surplus margin	7.9%	4.9%	12.3%	2.8%
1998 income mix[4]				
Government grants/contracts	25.1%	28.3%	30.7%	41.9%
Client fees/ticket sales/admissions	14.0%	21.4%	17.6%	22.6%
Individual donations/memberships	18.3%	19.7%	16.6%	9.5%
Foundation/corporate grants	16.4%	8.2%	15.0%	6.3%
Earned income ventures	5.2%	4.1%	2.5%	5.6%
Investment/endowment earnings	4.0%	1.9%	3.1%	2.9%
United Way	3.9%	3.9%	3.7%	2.7%
Fundraisers/special events	7.0%	5.5%	4.9%	2.6%
Rental income	1.2%	0.9%	2.9%	2.1%
Other	5.0%	6.1%	3.2%	4.0%
	100.1%[5]	100.0%	100.2%[5]	100.2%[5]
Cash flow problems in last 3 years	57%	52%	44%	35%
Board of Directors				
Median number of members	11	14	16	15
Median tenure	4 years	3 years	3 years	5 years
Right board for the future	65%	71%	41%	78%

[1] *Staff size as reported by 2000 participants for 1999 and 1994.*

[2] *Financial data as reported by 2000 participants for FY 1998 and FY 1994.*

[3] *Percentage change not adjusted for inflation.*

[4] *Dollar weighted percentages based on aggregate responses.*

[5] *Does not equal 100.0% due to rounding.*

Table 4: Profile of 2000 Human Service and Arts Respondents

	Human Service (n=143)	*Arts (n=36)*
Median age of organization	25 years	29 years
Median tenure of executive director	6 years	5 years
1999 median staff (FTEs)[1]	13.0	3.0
1994 median staff (FTEs)[1]	9.0	1.3
1998 median income[2]	$1,072,584	$219,897
1994 median income[2]	$842,877	$139,123
Five year % change in median income (from 1994-1998)[3]	27%	58%
% reporting operational surplus in 1998	72%	64%
1998 median surplus margin	3.2%	5.8%
% reporting operational surplus in 1994	71%	61%
1994 median surplus margin	5.7%	0.7%
1998 income mix[4]		
Government grants/contracts	42.7%	21.6%
Client fees/ticket sales/admissions	22.3%	31.8%
Individual donations/memberships	9.3%	8.7%
Foundation/corporate grants	6.2%	20.9%
Earned income ventures	4.6%	4.5%
Investment/endowment earnings	2.3%	5.7%
United Way	3.3%	0.3%
Fundraisers/special events	2.7%	3.3%
Rental income	2.3%	1.8%
Other	4.2%	1.5%
	99.9%[5]	100.1%[5]
Cash flow problems in last 3 years	43%	36%
Board of Directors		
Median number of members	13	13
Median tenure	4 years	4 years
Right board for the future	68%	69%

[1] *Staff size as reported by 2000 participants for 1999 and 1994.*

[2] *Financial data as reported by 2000 participants for FY 1998 and FY 1994.*

[3] *Percentage change not adjusted for inflation.*

[4] *Dollar weighted percentages based on aggregate responses.*

[5] *Does not equal 100.0% due to rounding.*

Table 5: Profile of 2000 Metro and Non-metro Respondents

	Metro (n=145)	Non-Metro (n=121)
Median age of organization	23 years	26 years
Median tenure of executive director	6 years	7 years
1999 median staff (FTEs)[1]	8.0	4.3
1994 median staff (FTEs)[1]	5.8	3.0
1998 median income[2]	$752,298	$420,756
1994 median income[2]	$528,499	$247,211
Five year % change in median income (from 1994-1998)[3]	42%	70%
% reporting operational surplus in 1998	73%	70%
1998 median surplus margin	8.5%	17.8%
% reporting operational surplus in 1994	73%	66%
1994 median surplus margin	16.9%	5.0%
1998 income mix[4]		
Government grants/contracts	31.9%	58.0%
Client fees/ticket sales/admissions	26.0%	14.3%
Individual donations/memberships	13.9%	3.2%
Foundation/corporate grants	9.5%	2.1%
Earned income ventures	5.5%	5.1%
Investment/endowment earnings	2.8%	3.0%
United Way	3.6%	1.3%
Fundraisers/special events	1.6%	5.3%
Rental income	0.7%	4.8%
Other	4.5%	3.0%
	100.0%	100.1%[5]
Cash flow problems in last 3 years	50%	43%
Board of Directors		
Median number of members	14	12
Median tenure	4 years	4 years
Right board for the future	57%	78%

[1] *Staff size as reported by 2000 participants for 1999 and 1994.*

[2] *Financial data as reported by 2000 participants for FY 1998 and FY 1994.*

[3] *Percentage change not adjusted for inflation.*

[4] *Dollar weighted percentages based on aggregate responses.*

[5] *Does not equal 100.0% due to rounding.*

Income Sources and Stability

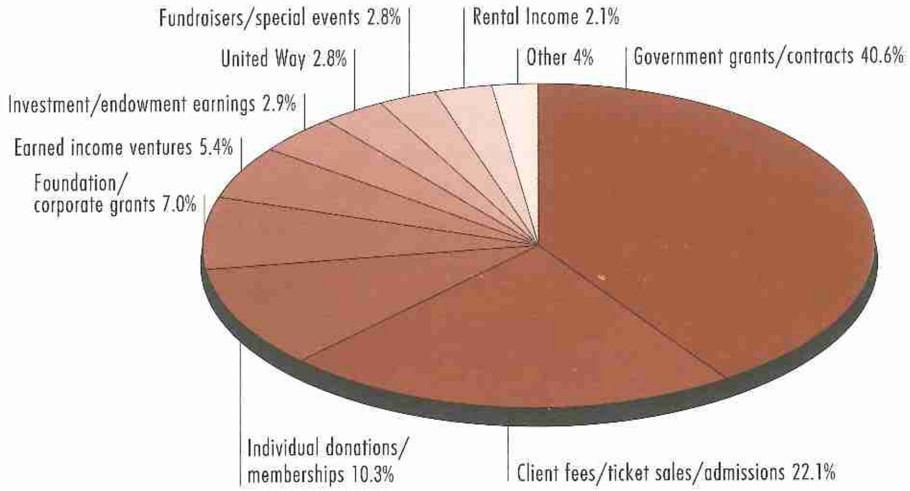
Since 1994, individual donations and memberships increased as a percent of total aggregate income (from 5.3 percent in 1994 to 10.3 percent in 1998), while foundation and corporate grants decreased slightly as a percent of total income (from 8.5 percent in 1994 to 7.0 percent in 1998). Other sources of income reported by participants were relatively unchanged from those reported in 1994, with government grants and contracts representing the single largest source of income (41 percent), followed by client fees and/or ticket sales (22 percent). The remaining 20 percent of income was comprised of earned income ventures, United Way funding, investment and endowment earnings, fundraisers and special events, and rental income.

- Although 1994 respondents projected a decrease in government funding and an increase in client fees and/or ticket sales, funding levels in these categories remained relatively unchanged over the past few years for respondents overall. Foundation grants, expected to increase, declined slightly as a percent of total income.
- As projected by 1994 survey respondents, individual donations and memberships increased during the past five years, from five percent of total income in 1994 to ten percent in 1998. During this same period, United Way support declined from six percent of total income in 1994 to three percent in 1998.
- Arts groups reported a significantly higher percentage of income from client fees and/or ticket sales and foundation and corporate grants than the overall group, while non-metro groups reported a much higher percent from government grants and contracts.
- The larger the respondent, the higher the reported income from government grants and contracts and the less overall income from contributed support.

In the next three to five years, the majority of participants do not expect significant changes in their sources of income beyond increases in foundation and corporate support, individual donations and memberships, and fundraising events.

Since 1994, individual donations and memberships increased as a percent of total aggregate income, while foundation and corporate grants decreased.

Figure 1: 1998 Sources of Income by Dollar Weighted Percentage of Aggregate Responses



As shown on Table 6, survey respondents' median income increased from $406,000 in 1988 to $603,866 in 1998, representing an overall increase of 16.8 percent after adjusting for inflation. Growth was strongest in the past five years, during which participant median income grew by more than 33 percent after adjusting for inflation. Nevertheless, gains and losses were erratic from year to year and among varying subgroups.

- Overall median income increased from $406,000 in 1988 to $603,866 in 1998. Adjusted for inflation, this represents a 16.8 percent change.
- Respondents experiencing the largest percentage gains in income over the past five years were arts groups, non-metro respondents, and those with budgets less than $500,000. The least growth was experienced by human service groups and organizations with budgets more than $1 million.

Over the past five years, participant median income grew by more than 33 percent after adjusting for inflation.

Table 6: Total Respondents' Median Income 1988-1990, 1992-1998

	1988	1989	1990	1992*	1993	1994	1995	1996	1997	1998	1988-1998
Total Respondents											
Median income	$406,000	$441,100	$480,000	$426,300	$428,400	$427,676	$479,439	$540,589	$570,439	$603,866	
Percentage change		8.6%	8.8%	-11.2%	0.5%	-0.2%	12.1%	12.8%	5.5%	5.9%	48.7%
GDP Deflator (% change)		4.2%	4.2%	7.3%	2.6%	2.4%	2.4%	2.0%	1.9%	1.2%	31.9%
Net change		4.4%	4.6%	-18.5%	-2.1%	-2.6%	9.7%	10.8%	3.6%	4.7%	16.8%

*No figures available for 1991; represents change over two year period (1990-1992)

Figure 2: Respondents' Median Income by Field of Service and Location, 1994-1998 (Not adjusted for inflation)

Arts groups reported the most significant decline in percentage reporting a deficit, from a high of 43 percent in 1995 to 29 percent in 1998.

Surpluses, Deficits, and Cashflow

Nearly three-fourths of respondents reported a surplus for 1998, a percentage which remained relatively unchanged over the past five years. Surplus margins, however, have declined over the past five years.

- Seventy-one percent of respondents reported a surplus for 1998; over the last five years, that number has fluctuated between 65 and 71 percent.
- Arts groups and organizations with budgets less than $250,000 tended to be less likely to report having a surplus than respondents overall, although arts groups also reported the most significant decline in percentage reporting a deficit, from a high of 43 percent in 1995 to 29 percent in 1998.
- The surplus margin reported for 1998 was 0.5 percent for respondents overall, down significantly from the 9.6 percent surplus margin reported for 1994. Arts groups and organizations with budgets more than $1 million consistently reported narrower surplus margins over the past five years than the overall group.
- While participants' primary use of surpluses has remained the same from the 1994 survey to this year's study (to establish a reserve), the number of respondents that consider a surplus essential to attain each year dropped from 55 percent in 1994 to 33 percent in 2000. Those who consider a surplus important but impossible under current circumstances increased from 25 percent in 1994 to 37 percent in 2000.

Nearly half of participants reported having periodic cash flow problems during 1999, down from 70 percent in 1994. Respondents most likely to experience cash flow problems were groups with budgets less than $500,000 and metro area respondents. The most commonly used strategies for overcoming cash shortfalls included, listed in order of frequency: cutting non-essential expenses; using a cash reserve; delaying bill payments; increasing fundraising; transferring money from another fund; and requesting a loan from a bank or the Minnesota Nonprofits Assistance Fund.

Budgeting and Financial Management Practices

The majority of respondents report that the chief influence in their organization's budgeting and planning practices is last year's budget, with two-thirds of income projected to be certain or reasonably certain as groups enter each new fiscal year.

- Sixty-four percent of participants consider last year's budget as the most influential factor in their budgeting and planning process, followed by community need (26 percent) and philanthropic funding patterns (four percent). Other factors mentioned, though with less frequency, were new government programs and strategic planning.
- Respondents consider 66 percent of their projected income to be certain or reasonably certain as they enter each fiscal year. Groups with budgets between $500,000 and $1 million report close to three-fourths of projected income to be certain or reasonably certain.

Less than one-third of total respondents have borrowed money in the last three years, with seven percent of organizations reporting that they were unable to access a loan or line of credit despite efforts to do so.

- Thirty-two percent of participants borrowed funds at some point in the last three years, the primary reasons for which included: purchase of a building or equipment; to stabilize cash flow; and to seize an opportunity or start a new program. Groups least likely to borrow funds were those with budgets under $250,000, 13 percent of which have borrowed money in the last three years.
- Seven percent of total respondents (18 organizations) report they were unable to access a loan or line of credit in the last three years, citing reasons including: the lender lacked confidence in their ability to repay; the lender required a personal guarantee despite all else offered; the lender was uncomfortable working with nonprofits; and board or staff considered a loan inappropriate for a nonprofit.

Financial Attitudes and Perceptions

As shown on Table 7, this year's participants report improved perceptions of financial health compared to those reported in previous studies.

- Forty-five percent of 2000 respondents report they are financially sound and not presently vulnerable, up from 32 percent in 1994 and 21 percent in 1990.
- Eighteen percent of 2000 participants report they have financial problems but expect to survive, down from 33 percent in 1994 and 32 percent in 1990.
- Subgroups reporting the highest perceptions of financial vulnerability were non-metro groups and those with budgets under $250,000.

Forty-five percent of respondents report they are financially sound and not presently vulnerable.

Table 7: 2000 Participants' Perceptions of Financial Health with Comparisons to 1994 and 1990

	2000	*1994*	*1990*
Financially healthy & not presently vulnerable	45%	32%	21%
Financially healthy to date, but feel vulnerable in future	35%	34%	44%
Some financial problems, but expect to survive	18%	33%	32%
Don't know how they will survive this year	2%	1%	3%
	100%	100%	100%

Forty-two percent of participants believe they have sufficient unrestricted income to develop the programs most important to their organization.

- The majority of the largest budget groups (over $1 million) report sufficient unrestricted funds. However, only one-third of the smallest budget groups report sufficient unrestricted funds.
- Thirty-six percent of non-metro groups report sufficient unrestricted income, compared to 46 percent of metro groups.

Nearly two-thirds of respondents consider their executive director to be most responsible for their organization's financial success or failure.

- While 62 percent of participants believe their executive director is most responsible for the financial success or failure of the organization, 22 percent believe the board of directors holds the primary responsibility. The remainder consider their program or financial staff, volunteers, or members to have primary responsibility for their organizations' financial condition.

Facilities

As shown on Figure 3, 50 percent of respondents rent the space in which they deliver the majority of their programs, 39 percent own their facilities, while the remaining 11 percent use donated space.

- The majority of participants with budgets over $500,000 own their space, while the majority of those with budgets less than $500,000 rent. One-fourth of respondents with budgets less than $250,000 use donated space.
- Less than one-third of arts respondents own their facilities compared to 48 percent of human service groups. Forty-six percent of non-metro respondents own their facilities compared to 33 percent of metro groups.

Figure 3: Percentage of 2000 Respondents Owning Facilities (n=266)

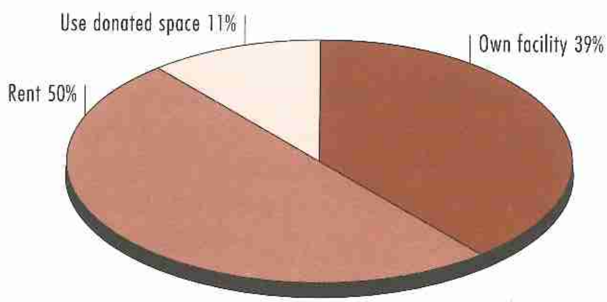


Figure 4: Percentage of Human Service Respondents Owning Facilities (n=143)

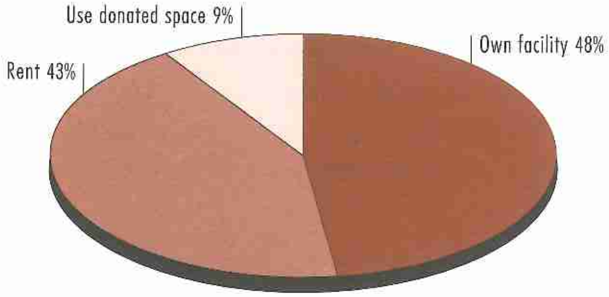


Figure 5: Percentage of Arts Respondents Owning Facilities (n=36)

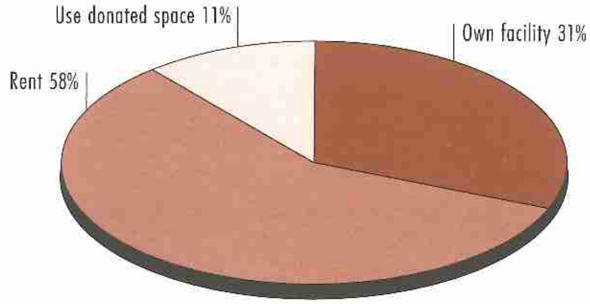


Figure 6: Percentage of Metro Respondents Owning Facilities (n=145)

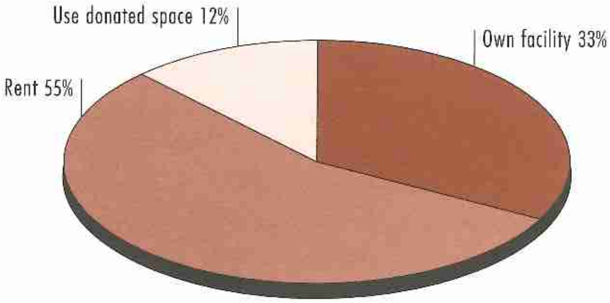
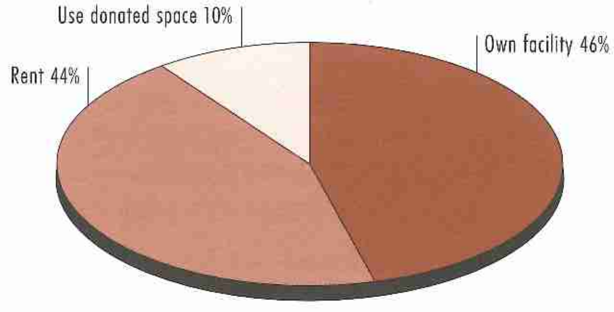


Figure 7: Percentage of Non-metro Respondents Owning Facilities (n=121)



Organizational Vitality, Staffing, and Governance

Nearly one-third of respondents state they do not have the right board to bring them through the challenges of the future.

Governance

Governance continues to be an ongoing issue for many survey respondents, with nearly one-third of respondents stating they do not have the right board to bring them through the challenges of the future.

- While nearly 90 percent of participants report their board is active at the policy-setting level and understands the organization's income and expenses, only 49 percent of participants report the majority of their board members contribute financially to the organization.

- As shown on Table 8, fewer than half of participants rate their board as "excellent" in terms of financial and/or business expertise, and the ability to network in the local community. Less than one-third of participants rated their board as excellent in terms of programmatic expertise, ability to network in the broader community, marketing and public relations expertise, and the ability to fundraise and/or give money.

- Participant recommendations for board training included the following topics, listed in order of frequency: clarification of board roles and responsibilities; understanding board financial accountability; and what it means to be a nonprofit.

Table 8: 2000 Participants' Perceptions of Board of Directors

	Excellent	*Adequate*	*Poor*
Programmatic expertise	29%	62%	9%
Financial and/or business expertise	48%	44%	8%
Marketing/public relations expertise	18%	54%	27%
Ability to fundraise and/or give money	14%	41%	45%
Ability to network in local community	42%	47%	11%
Ability to network in broader community	26%	49%	25%

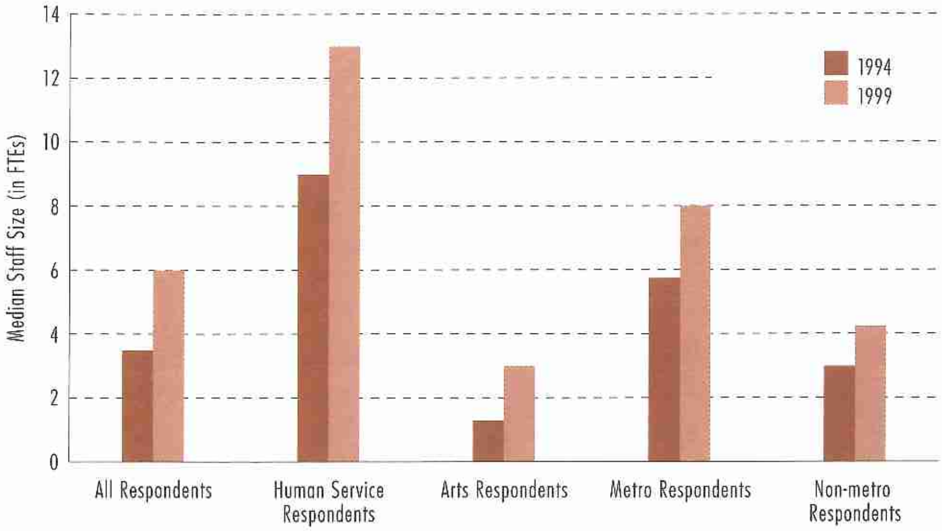
Staffing

While median staff size has increased by more than 70 percent over the past five years, 40 percent of respondents report that their ability to recruit and retain qualified staff has been affected by a disruption in their financial condition. In fact, respondents identified the inability to hire and retain qualified and motivated staff as one of their top three ongoing challenges.

- As shown on Figure 8, respondents reported a median staff size of 6.0 FTEs in 1999, compared to 3.5 FTEs in 1994. The largest median staff size for 1999 was reported by human service groups (13 FTEs), followed by metro respondents (8 FTEs), non-metro respondents (4.3 FTEs), and arts groups (3 FTEs).

- Participants with budgets less than $250,000 and those between $500,000 and $1 million report more problems hiring or retaining staff due to financial disruption than other budget-size groups. Likewise, metro groups were more likely to report staffing challenges as compared to non-metro groups.

Figure 8: 2000 Respondents' Median Staff Size, 1994 and 1999



Changing Service Demands

The majority of participants report an increase in their client and/or audience base over the last five years, with more than half of human service groups reporting that demand for service has been somewhat or significantly impacted by federal or state devolution and/or welfare reform.

- Seventy-eight percent of participants report their client and/or audience base has expanded since 1994. Nevertheless, seven percent of participants (19 organizations) report they have been unable to expand their programming because they lack the necessary capacity; these are primarily non-metro respondents and those with the smallest annual budgets.
- While a majority of participants remain unaffected by for-profit competition, nine percent of human service groups report a decrease in services and income as a result of for-profit competition, as did 12 percent of groups with budgets over $1 million.

Given the pressures of increased service demand and staffing challenges, survey respondents are finding creative ways to provide services. More than three-fourths of participants currently collaborate with other nonprofits, primarily for program, space, and marketing purposes. The perceived benefits of these collaborations include enhanced programmatic quality, increased efficiency of service delivery, cost savings, and an improved ability to fundraise.

More than three-fourths of participants collaborate with other nonprofits, primarily for program, space, and marketing purposes.

Technical Assistance

While most participants report their organization has received technical assistance in the last two years, many also report they lack the necessary resources to implement it.

- Nearly three-fourths of participants report they have sufficient access to technical assistance, and 80 percent believe that it has helped their organization become more effective. At the same time, 49 percent of participants report they do not have sufficient staff in place to implement the technical assistance they receive.

- Areas in which a majority of participants believe their organization requires additional technical assistance include the following, listed in order of frequency: development and fundraising; computer systems and technology; marketing and audience development; and planning for the future.

Organizational Vitality

As shown on Table 9, respondents were closely split between those who report that their organization operates smoothly and is positioned to meet future challenges, and those who report that they are "coping" but not ready for more challenges. Respondents' most significant ongoing problems were identified as follows, listed in order of frequency:

- Growing service demand without corresponding resources;

- Inability to hire and/or retain qualified and motivated staff; and,

- Competition for resources from other nonprofits.

Table 9: 2000 Participants' Perceptions of Organizational Vitality Compared to 1994

	2000	*1994*
Operating smoothly & positioned to meet challenges ahead	49%	51%
Coping but not ready for more challenges	46%	42%
Despite vigorous efforts, seem to be losing ground	4%	3%
Barely surviving	1%	4%
	100%	100%

Looking to the Future

Participants consider the greatest overall future challenge for Minnesota's nonprofits will be to maintain a strong financial position amidst what they perceive to be a rapidly changing funding environment. Most frequently mentioned challenges include the following:

- Maintaining a strong financial position amidst a rapidly changing funding environment;
- Increased competition for staff, board, and volunteer resources;
- Rapidly changing community needs;
- Increased need for communicating and marketing nonprofit services and missions;
- Keeping up with technological advances; and,
- Pressure to collaborate.

The majority of respondents believe their organization will significantly expand programming and services over the next five to ten years.

The majority of respondents believe their organization will significantly expand programming and services over the next five to ten years. Nearly half of participants consider their executive director to be the primary catalyst for mission or programmatic change in their organization. Other change agents include boards of directors (29 percent), clients (10 percent), other staff, volunteers or individual donors (seven percent), government funders (six percent), and foundations (one percent).

Participants consider the greatest overall future opportunity for Minnesota's nonprofits to be increased community need and subsequent demand for services, which respondents believe they are uniquely poised to meet. Most frequently identified opportunities include the following:

- Increased community need and subsequent demand for services;
- A robust state and national economy;
- Minnesota's strong tradition of civic involvement and community spirit; and,
- Current funder and community support for collaborative undertakings.

Conclusions

More than ever before, nonprofits must creatively respond to their communities without losing sight of either their mission or their ability to sustain that mission.

The challenge presented by this year's study is, in many ways, not that different from our first two studies; namely, the ongoing tension between balancing community needs with the internal capacity to meet those needs. While nonprofit financial health appears to be stronger than ever, there is an urgent sense that community demand is greater than current resources. More than ever before, nonprofits must creatively respond to their communities without losing sight of either their mission or their ability to sustain that mission.

- **Growing Service Demand without Corresponding Resources**
  While survey participants experienced a net increase in median income over the past ten years, the overall decade has been one of erratic gains and losses. In the midst of rapidly changing financial conditions and pressures, the majority of respondents nonetheless report that their client or audience base has increased. Not surprisingly, then, survey participants report that their most significant ongoing challenge is growing service demand without corresponding resources.

- **Increased Human Service Programming**
  More than half of human service groups report that demand for service has been somewhat or significantly impacted by federal or state devolution and/or welfare reform. As a result, most have created new programs or expanded their current programming. The greatest perceived impact to date was reported by larger size respondents.

- **Increased Percentage of Individual Donations, Decreased Percentage of Foundation and Corporate Grants**
  Since 1994, individual donations and memberships increased as a percent of total aggregate income (from 5.3 percent in 1994 to 10.3 percent in 1998) while foundation and corporate grants decreased slightly as a percent of total income (from 8.5 percent in 1994 to 7.0 percent in 1998). Other sources of income reported by participants were relatively unchanged from those reported in 1994, with government grants and contracts representing the single largest source of income (41 percent), followed by client fees and/or ticket sales (22 percent). The remaining 20 percent of income was comprised of earned income ventures, United Way funding, investment and endowment earnings, fundraisers and special events, and rental income.

- **Improved Perceptions of Financial Health**
  Perceptions of financial health have improved over the past five years, with nearly half of survey participants reporting that they are financially healthy and not presently vulnerable, compared to less than one-third of survey respondents in 1994. This change in perception corresponds to an overall increase in projected income as respondents enter each new fiscal year and the fact that fewer organizations report cash flow problems.

- **Governance Concerns**
  Governance continues to be an ongoing issue for survey respondents. Less than half of participants report that the majority of their board members contribute

financially to the organization. Two-thirds of respondents rated their board as "less than excellent" in terms of programmatic expertise, ability to network in the broader community, marketing and public relations expertise, and the ability to fundraise and/or give money. Nearly one-third of respondents believe they do not have the right board to bring them through the challenges of the future.

- **Staff Recruitment and Retention Challenges**
  While median staff size has increased over the past five years, 40 percent of respondents report that their ability to recruit and retain qualified staff has been affected by a disruption in their financial condition. Metro groups and small to mid-size groups were more likely to report staffing difficulties as compared to their non-metro or larger counterparts. Respondents identified the inability to hire and retain qualified and motivated staff as one of their top three ongoing challenges.

- **Technical Assistance Implementation Shortcomings**
  The majority of survey respondents have utilized outside technical assistance in the past few years, yet nearly half report they do not have sufficient staff to implement the advice they receive. Areas of unmet technical assistance needs include fundraising; computer systems and technology; marketing and audience development; and planning for the future.

- **Value-Added Collaborations**
  Given the pressures of increased service demand and staffing challenges, survey respondents are finding creative ways to provide services. More than three-fourths of survey participants currently engage in collaborations with other nonprofits, primarily for program, space, and marketing purposes. The perceived benefits of these collaborations include enhanced programmatic quality, increased efficiency of service delivery, cost savings, and an improved ability to fundraise.

- **Competition for Funds**
  While collaboration is prevalent among survey respondents, so too is a keen sense of competition with other nonprofits for resources. Total foundation giving in Minnesota has increased, for instance, yet so too have the number of nonprofits competing for the same pool of funding. As a result, foundation contributions as a percentage of total income actually decreased slightly over the past five years. Respondents identified competition for resources with other nonprofits as one of their top three ongoing challenges.

- **Staying Strong in a Rapidly Changing Environment**
  Looking to the future, participants believe that the greatest challenge facing Minnesota's nonprofits will be to maintain a strong financial position in what they perceive to be a rapidly changing funding environment. Their greatest perceived opportunity? Increased community need and the subsequent demand for service, which respondents believe they are uniquely poised to meet. Slightly more than half of respondents project that they will significantly expand their programming and services over the next five to ten years.

Methodology

The **2000 Report on the Financial Health of Minnesota's Nonprofits** used the Minnesota Attorney General's listing of 3,218 charitable organizations registered and located in Minnesota to derive its universe. From this listing, hospitals, athletic clubs and associations, civic organizations, private foundations, and development funds were excluded to arrive at a study universe of 2,577 (compared to a study universe of 1,379 for the 1994 study). From this study universe, a random sample of 1,150 nonprofits, stratified by metro and non-metro locations, was selected to receive survey questionnaires. Surveys contained a total of 47 questions and solicited both factual and perceptual data.

A total of 266 valid surveys were received and included in survey results. Under these circumstances, according to the Minnesota Center for Survey Research, the overall statistical validity for survey data is 95 percent with a confidence level of plus or minus 5.7 percent for the total group and plus or minus 8.2 percent for the metro/non-metro subsets. Due to reduced sample sizes, findings related to field of service or budget subgroups are not intended for universal extrapolation.

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 is the mid-point in a response range and thus avoids the potential for distorted results by minimizing the effects of the highest and lowest responses.

Throughout this 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/Culture" are denoted as "Human Service" and "Arts" throughout the report.

The data in this report spans a five year time frame, with the most recent financial data reported for participants' fiscal years completed in 1998. Because the data for years 1988 through 1993 was gathered from two earlier studies, these studies' samples, though roughly equivalent in size, will not be synonymous with the current year's study. The Gross Domestic Product (GDP) Deflator was used to calculate the impact of inflation on participant income over time.

The reader is reminded that all data contained in this report was gathered on a "self-report" basis and thus may or may not correspond to audited information of any of the responding organizations.

About the Authors

The Stevens Group at LarsonAllen provides financial and management services to nonprofits and foundations throughout the country. The Stevens Group, represented by lead research consultants Lisa Venkatrathnam and Susan Moore, conducted the **2000 Study on the Financial Health of Minnesota's Nonprofits** as well as the 1990 and 1994 studies upon which this report is also based.

Other studies conducted by The Stevens Group include: the 1988, 1989, 1990, and 1995 *Community Foundation Expense Report;* the 1991, 1992, and 1993 *Report on the Investment Results and Practices of Community Foundations;* the 1996 *Study on the Financial Health of Alberta's Charitable Organizations;* the 1997 *Study on the Financial Health of Illinois' Nonprofits;* and the 1998 *Study on Upper Manhattan Arts and Cultural Institutions.*

About Community Loan Technologies and the Minnesota Nonprofits Assistance Fund

In May 1998, The Minneapolis Foundation created Community Loan Technologies as a supporting organization to house its loan programs. The organization's mission is to be a local and national innovator in developing loan technology to strengthen the financial capacity of nonprofit organizations and the economic vitality of disadvantaged communities.

The Minnesota Nonprofits Assistance Fund (MNAF), a program of Community Loan Technologies, provides loans, practical financial advice and educational opportunities to nonprofits throughout Minnesota. Since its founding in 1980, MNAF has made more than 1,150 loans totaling $30 million. MNAF also provides one-on-one technical assistance to hundreds of nonprofit organizations and has trained more than 1,000 nonprofit staff and board members through group seminars such as "Smart Money Management," "From Funding to Financing," and "Step-by-Step Bookkeeping."

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