



Nonprofit News

Compensation for Nonprofit Employees

National Council of Nonprofits

Many nonprofits engage volunteers to provide voluntary, uncompensated services. Many nonprofits also hire employees, whose compensation and working conditions are regulated by state and federal laws. Hiring any employee triggers a host of legal requirements, from filing with the state to report a "new hire," to determining the appropriate wages/compensation, to calculating "withholdings" from compensation for tax purposes. This webpage does not attempt to cover all these issues, but rather to debunk the myths that "all nonprofits only have volunteers."

We also want to encourage those managing nonprofits with employees to recognize that nonprofits compete with for-profit workplaces for talented workers, so setting the right level of compensation can make the difference between attracting and retaining qualified employees or, in contrast, suffering from high turnover and/or not being able to retain talented employees. While it's another myth that "*good benefits makes up for low compensation*," generous benefits are definitely an important factor in hiring talented employees.

HOW MUCH SHOULD A NONPROFIT PAY ITS EMPLOYEES?

Tax-exempt charitable nonprofits, like all other employers, are required to follow federal and state wage and hour laws that require employers to pay minimum wage. At the upper end, compensation must be "reasonable" and not "excessive," which is a fundamental requirement of maintaining tax-exempt status. It is helpful to know what the "going rate" is when you are hiring a new staff member by reviewing "comparability data:" salary and benefits information from other nonprofits in the same or a similar geographic area, with a similar budget and mission focus. Many state associations of nonprofits collect salary and benefit information via regular surveys, and produce state-specific reports that allow you to compare compensation of similar organizations, by job titles/responsibilities. These data may be free to members as a benefit of membership in a state association of nonprofits. There are also national compensation surveys available for purchase.

MINIMUM WAGE AND OVERTIME

Employees must be paid the legally mandated minimum wage, that can differ state-to-state; there is also a federal minimum wage rate. Employers should pay whichever is higher. If employees (not independent contractors - it's important to know the difference!) work over 40 hours in a work week, be aware that the nonprofit may owe those employees overtime compensation.

APPROVING EXECUTIVE COMPENSATION

It's a recommended "best practice" for the entire board of directors to be aware of, and *annually approve* the executive director/CEO's compensation. This topic is so important we've devoted an entire page of our website to it (<https://www.councilofnonprofits.org/tools-resources/executive-compensation>)! The definition of gross income for income tax purposes includes benefits, such as health insurance. Therefore, when analyzing an employee's "total compensation," fringe benefits, such as paid leave, and opportunities for professional development and continuing education, need to be taken into account.

CAN WE PAY NONPROFIT EMPLOYEES A BONUS?

Yes: Bonuses are considered to be part of the overall compensation received by an employee. But care should be taken on two fronts: First, compensation based on incentives, including bonuses, is carefully scrutinized by the IRS to ensure that no prohibited private benefit results. Be sure to

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understand the guidelines for bonuses and incentive based pay. Second, be sure to manage employees' expectations so that they realize bonuses are a discretionary add-on to regular salary, dependent upon budget limitations, and often provided in recognition of an employee's extra-efforts or exceptional performance-not automatic. See IRS guidance on incentive compensation.

PRACTICE POINTERS

- Compensation is more than just straight salary. The IRS considers "compensation" to include the total of all "income" received by the CEO, which includes, for example: contributions to retirement accounts, housing and car allowances, as well as insurance premiums paid by the nonprofit to benefit the executive director, and even club memberships if the membership primarily benefits the individual rather than the nonprofit. (See IRS Form 990 instructions)

- Learn why paying a commission or a percentage of funds raised to staff or independent contractors with responsibility for fundraising is considered unethical by many: Position Paper: Percentage Based Compensation (Association of Fundraising Professionals)

- Nonprofits report bonuses (including signing bonuses) and any compensation based on incentives, on Form 990, Schedule J, Part II, Column B 2 (ii). Remember: care must be taken to justify all compensation as reasonable and not excessive.

Nonprofits that file the IRS Form 990 or 990-EZ are required to report compensation, so for those nonprofits, it is easy for others to see what the nonprofit paid its highest paid staff members.

- Some executive director/CEO positions are governed by a contract for employment: Basics for negotiating contracts with CEOs/executive directors (Venable, LLP)

- Don't forget to withhold employment taxes from employees' paychecks. Not withholding employment taxes? Your board could be personally liable (Nonprofit Quarterly)

- Review salary and benefit reports that contain comparable data. State specific reports are often available from your state association of nonprofits, with discounts available for members. Several national survey reports are available for purchase (GuideStar, The Nonprofit Times, and Columbia Books are the leading reports), and free reports are available in a few regions from staffing firms and other sources.

BONUS

The National Council of Nonprofits has a number of resources available at no charge, including a free sample Policy for Board Approval of Compensation. Use the site's "search" feature to access a number of resources around this topic.

Article source:

<https://www.councilofnonprofits.org/tools-resources/compensation-nonprofit-employees>



Bucks and Montgomery Counties Salary Survey

Through the work of the Catalyst Center for Nonprofit Management, we are often asked about salary levels for Executive Directors and staff. We usually refer to any number of state and national surveys to assist organizations in their research.

Recently we have been asked if we could assist in creating a salary survey local to Bucks and Montgomery Counties. This is not a sophisticated evaluation tool, but rather a quick survey to provide some local context.

In order for this survey to have the most value, we would like as large a sample size as possible.

Please take a few minutes (we estimate 7 minutes) to complete the survey, and feel free to share with your colleagues. The survey responses are confidential. We will share the results, at no charge, with participating organizations if requested.

A link to the survey can be found at www.catalystnonprofit.com or by contacting Liz Vibber at 215-343-2727 or lvibber@bbco-cpa.com

The Organic Role of Libraries as Centers of Inclusiveness and Support

Steve Dubb, Nonprofit Quarterly

People may check out fewer books from libraries than they used to, but libraries have continued to grow as their role as community hubs deepens. Here at *NPQ*, we have profiled libraries that have become maker spaces, supported gardening, and rented out musical instruments. In some cities, librarians have been trained to administer Narcan to interrupt opioid overdoses. In Ferguson and in Baltimore, as those cities were in a state of unrest after the killings of Michael Brown and Freddie Gray, respectively, the libraries served as sanctuaries, remaining open to the community. They have, in some cases, even been affordable housing partners.

Yet another growing role, Emily Nonko reports in *Next City*, is in social service provision. Nonko notes that up to 30 libraries nationally, including in places like Chicago, Brooklyn, Denver, San Francisco, and Washington DC, have social workers on staff. A *Chicago Tribune* article last year mentioned that Justine Janis, a clinical social worker at the Chicago library, was leading a national monthly conference call of social service workers on library staff.

Nonko in particular focuses on efforts in San Francisco and Denver. San Francisco is considered to be the first major library system to put a social worker on staff, which it did in 2009. Denver's effort dates from 2015, when it hired Elissa Hardy. The program serving 434 library customers in 2015. In 2018, it reached 3,500 library patrons. For 2019, Denver Public Library budgeted for a team of 10, including four social workers and six peer navigators. The team, Nonko adds, supports all 26 branch locations.

Hardy explains the Denver program's rationale: "In social work we have this term called a 'protective factor.' The library is a protective factor for people, which is basically a place or a thing where we're helping to support people, and not change things negatively for them."

Certainly, anything that increases social supports is likely to improve public health. As the Brookings Institution and the Robert Wood Johnson Foundation have argued, the US underspends on social supports (and overspends on clinical care). In the *American Journal of Managed Care*, Ara Ohanian notes that, "On average, OECD [Org. for Economic Cooperation and Development] nations spend \$1.70 on social services for every \$1 on health services; whereas the US spends just 56 cents." Effectively, US peer nations spend 70 percent more on social care than healthcare, while the US spends 56 percent less on social care than healthcare, with social care dollars leading to more favorable health outcomes. Even within the US, Elizabeth Bradley and Lauren Taylor, writing for the Robert Wood Johnson Foundation, find that, "a 20 percent [increase] in the median social-to-

health spending ratio was equivalent to 85,000 fewer adults with obesity."

Libraries, of course, are just one piece of a larger puzzle, but they do make a difference. Leah Esguerra, who was the first clinical social worker hired by the San Francisco library system, tells Nonko that, "The idea was to reach out in a way that's compassionate." Now, Nonko explains, the San Francisco Public Library has a team of five that supports Esguerra. These social workers inform patrons about resources and services and have helped at least 130 people find stable housing.

One key lesson emanating from both San Francisco and Denver is that when possible, it pays to hire social service staff who have had lived experiences of homelessness and other adverse life challenges, as this helps the staff connect with patrons—relationship-building, of course, being a central part of the work. "It's empowering our staff members who are closest to the situation," says Rachel Fewell, central library administrator for the Denver Public Library. "Our peer navigators come up with the most innovative ways to meet the needs of our customers."

The impact, Nonko adds, "is starting to go beyond clients reached and cultures shifted within the library setting." In particular, Nonko points out that library social service staff are increasingly serving on public health committees and engaging in an advocacy role on behalf of their patrons. "These two disciplines, librarians and social work, come together so beautifully—we can look at these issues from two different angles," Hardy says. "We're getting out there, talking to these decision-makers, and advocating."

Resource Corner

BUILDING A STRONG FINANCIAL FOUNDATION: Financial Toolkit for Food Pantries

The toolkit offers a discussion of the foundational elements food pantries and other nonprofits need to have in place, such as basic record-keeping compliance issues, internal controls and financial statements. Subsequent chapters delve into more complex financial management topics including budgeting, cash flow, creating dashboards and how to use reports in planning.

Commissioned by HealthSpark Foundation and Authored by Bee, Bergvall & Co, Certified Public Accountants

Free Download:
<http://www.catalystnonprofit.com/resources-news/governance-tools/>



SAVE THE DATE!



Nonprofit University 2019

June 10, 2019

Nonprofit University is scheduled for Monday, June 10th at Bucks County Community College, Newtown PA.



This full-day conference will host **Eileen Heisman** of the **National Philanthropic Trust** as our Key-note presenter and will feature 16 workshops led by experts in the nonprofit field. Workshops are designed to highlight advance the skills and knowledge of nonprofit professionals and Boards of Directors.

Conference and registration information will be available later this spring through our website:

<http://www.catalystnonprofit.com/our-services/training-events/>

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Call for Presenters

Would you like to present at NPU 2019?

We are accepting workshop proposals until March 1, 2019.

This is an opportunity to exchange expertise, share project success and provide examples of best practice that will provide value and learning to participants.

Contact Liz Vibber for more information, lvibber@bbco-cpa.com

To subscribe to the Catalyst Center's monthly e-news, contact
Liz Vibber: lvibber@bbco-cpa.com or 215-343-2727

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