COVID & Nonprofits: new COVID Impact Report

Oversight and reform of state grants: what to expect in 2023 legislative session

What to know about the Employee Retention Credit

Setting fair and accurate compensation with new salary & benefits data

What's Next?
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Our Mission
MCN works to inform, promote, connect, and strengthen individual nonprofits and the nonprofit sector.

Together with our 2,300 members, MCN helps nonprofits accomplish their missions for a healthy, cooperative, and just society.

04
From MCN’s executive director: Boards, are you leading with good governance?

05
What you need to know about the Employee Retention Credit

06
COVID & Nonprofits: the latest MCN COVID Impact Report

08
On the move: nonprofit news & advancements

09
Responsive approach to Indigenous-led problem solving and philanthropy

10
Oversight and reform of state grants: what to expect in 2023 legislative session

12
New nonprofit data to set fair and accurate compensation
Over the past few years, I have participated in no fewer than 20 different meetings or conversations about why boards are… well, terrible. Vu Le from Nonprofit AF put it succinctly:

“How could boards not be crappy? We are talking about a structure where groups of volunteers who barely know one another, see one percent of the work, often don’t reflect the communities we serve, and who may have little to no experience running nonprofits, being given vast power to supervise leadership and determine values, policies, and practices. Why did we think this weird structure would work?”

Since there are countless articles about boards gone bad, let’s flip the script and celebrate the good in board governance.

Boards as partners
I almost cried the first time a board member asked me “What do you need? We are here for you.” Great partnership with boards can look like ensuring the ED’s needs are considered when recruiting new members or electing leaders. They respect that staff were hired for their expertise and ensure they are the ones leading in the work. They become a trusted thought partner. They are invested in the growth of leadership and set them up for success. When board members shed this long-standing belief that they “supervise” or hold ultimate power over the organization, magical things can happen!

Boards that represent communities served
Diversity of expertise, skills, and lived experiences brings so much value in shaping the mission and vision of the organization. The best strategic boards I’ve worked with consisted of people who are or were directly affected by the work of the organization. They were the best ambassadors externally and took immense pride in giving back to the organization, which meant better engagement and support. Related: diversity also applies to how boards govern – there are many kinds of organizations, and therefore, board structures vary as well. Find what works best for your organization.

Boards that understand their role
The majority of complaints I’ve heard from EDs about boards revolve around micromanagement, undermining leadership, lack of trust, and the time/energy it takes to “manage up.” Clear and consistent communication is key. Volunteer board members have limited time and so do staff. Set expectations in advance around roles, responsibilities, and time commitment. Learn how to read nonprofit financials and ask only for information that is absolutely needed to meet their fiduciary responsibilities. Trust staff to do the day-to-day work they were hired to do and co-develop strategies. And please, give the ED regular feedback about their performance and make sure staff who are impacted by their leadership have a voice – too many leaders receive no guidance until something goes wrong and then suddenly, they are micromanaged.

Boards that hold each other accountable
No matter what, an inherent power dynamic exists between board and staff. Protect your leaders and speak up when your peer board members are harming staff and the organization. Set board policies that require regular updates to bylaws and implement term limits.

Boards that lead by example
Another complaint by staff – boards consistently lag behind staff on equity work. Equity work is hard and messy. Too much emphasis is placed on being perfect or on external perception of the organization to do the “right thing.” I’m so grateful to MCN’s board, who speaks truth to power, takes initiative, and are bold. They are unafraid to look within by updating policies and procedures with an equity lens, asking how our values are reflected in our financials, and implementing equity frameworks and toolkits in committee work. We are better because of their equity leadership.

Boards that embrace radical change
This certainly isn’t for all boards, but I’ll leave you all with these final thoughts. Why are we still using Robert’s Rules of Order that is steeped in white supremacy? Are there effective ways to decolonize and dismantle current structures of boards? Who in power decided that boards should demonstrate 100 percent financial giving, placing more value on money over time, expertise, or personal experiences? Are there ways for boards to model distributive leadership?

When frustrations with boards dominate conversation with EDs (and trust me they do), isn’t it time for us to use our nonprofit powers of creativity, adaptability, and forward-thinking to also challenge existing board structures? I think the answer is yes.

In community,
Nonoko
Did you know your nonprofit may be eligible to receive up to $26,000 per employee through the Employee Retention Credit (ERC), even if you also received a forgivable Paycheck Protection Program loan?

We believe many Minnesota nonprofit employers are eligible for this credit, and that the credit could bring hundreds of thousands of much-needed relief dollars to the nonprofit sector at a time when other COVID relief has ended.

What is the ERC?
The ERC is a refundable tax credit created in March 2020 under The CARES Act to encourage employers to retain their employees on payroll during the height of the coronavirus pandemic. The ERC provides an eligible employer with a 2020 & 2021 tax credit allowed against certain employment tax payments paid March 13, 2020 through September 30, 2021.

For 2020, the maximum credit is $5,000 per employee for the year; for 2021, the maximum credit is $7,000 per employee per quarter for the first three quarters of the year, or up to $21,000 per employee for the year, or $26,000 total if eligible for all six quarters spanning 2020 - 2021.

Who is eligible?
Eligible employers are businesses, including nonprofits, whose operations were fully or partially suspended due to governmental orders in response to COVID-19 OR that had a significant decline in gross receipts compared to 2019.

“Sometimes nonprofits qualified for the ERC because of government-ordered ‘full or partial suspensions’ that limited travel, meetings, or commerce. Other times, nonprofits qualified because of suffering a certain reduction in gross receipts compared with the same quarter of 2019,” notes the National Council on Nonprofits.

How does my nonprofit claim the credit?
Since nonprofits are ‘tax exempt’, you may not think of your organization as being eligible to receive a tax credit, but nonprofits with paid employees do pay some taxes. Nonprofit employers submit Form 941 to the IRS quarterly for the purpose of reporting income taxes, Social Security tax, or Medicare tax withheld from employees’ paychecks and to pay the employer’s portion of the Social Security or Medicare tax. If you use a third party administrator to process payroll, chances are they prepared your 941s automatically with each quarter.

Employers can claim the ERC on the Form 941 filed with the IRS for each quarter for which they are eligible. If you did not claim the ERC on your originally filed Form 941, you can claim the credit retroactively by filing Form 941-X (as an amended filing).

If you believe your organization may be eligible, consult with your accounting or tax professionals, as well as payroll services, that are familiar with the tax credit and next steps for submitting amended filings to the IRS. There are several independent firms who specialize in processing the amended employment tax filings for businesses, though nonprofits beware! Many of them charge a percent of the anticipated credit as a fee ranging from 7.5 percent to as high as 20 percent and require payment before the credit has been received.

Three questions to ask your CPA about the ERC from the National Council of Nonprofits:
1. Did we claim the Employee Retention Credit (ERC) in 2020 and/or 2021?
2. If not, were we eligible in either year, based on either of the two ways to qualify?
3. If we were eligible and didn’t claim the credit, can we retroactively claim the credit by filing Form 941-X now for one or both years?

Did receiving PPP loans disqualify my nonprofit from also claiming the ERC?
“Originally, yes; but Congress retroactively removed that prohibition at the end of 2020. The only catch is that you can’t claim both the PPP and ERC for the same employment expenses.”

When is the deadline?
It depends. Form 941-X, the amended tax filing, generally must be filed within three years from the date the original return was filed, or two years from the date the payroll taxes were paid.

MCN is seeking to better understand what barriers nonprofits may be facing in accessing the ERC and is working to expand access for eligible groups. Please complete this brief form to share your feedback with us.
What’s next for nonprofits: new data on COVID’s continued impact on Minnesota nonprofits

by Kari Aanestad, associate director and Monica Jarvi, nonprofit research intern

About the report
MCN is pleased to share our sixth Minnesota Nonprofit COVID-19 Impact Report, with responses from 283 Minnesota organizations to a survey collected July-August, 2022. Since March 2020, MCN has conducted six surveys and issued six follow-up reports summarizing key trends, impacts, and outlook for Minnesota’s nonprofit sector. All six reports are available online.

The primary purpose of these impact reports is to provide a broader context for organizations to put their individual situation in perspective for decision-making and communications with their boards, supporters, and staff, and to share with policymakers, funders, and the general public to help them understand how the current environment has affected nonprofits.

The following is a snapshot of MCN’s newest report. Download the full impact report, and view previous versions, on MCN’s website.

What happened and what’s next?
It’s been 30 months since the onset of the global pandemic caused by COVID-19. Almost immediately nonprofit leaders made and sustained incredible shifts in programming and operations. The murder of George Floyd by Minneapolis police in May 2020 placed Minnesota in the epicenter of international calls for racial justice. Leaders and organizations across all sectors challenged themselves and others to live into values striving toward equity, critically examine systemic inequities, and lead reforms.

These adaptations born of disruptions are slowly becoming integrated practices as nonprofits adopt updated policies, practices, and procedures that more clearly reflect organizational values, formalize hybrid work arrangements, continue offering expanded tele-services, and more. All of this work happened simultaneous to nonprofits facing increased demand for services, increased expenses, decreased staffing, and loss of revenue.

As relief funding dries up and a new normal settles in, many groups face an uncertain financial future and continued high community demand.

Key Finding: Increased demand for services and decreasing resources lead to workforce challenges
Demand for nonprofit services increased during the ongoing COVID-19 pandemic. Nonprofits are trying to meet these needs while facing difficulty hiring and retaining staff due to the financial climate and competition from government and private sectors.

“Hiring and retention challenges, our inability to keep salaries apace with the corporate sector, and the ongoing stress of remaining staff implementing programs and continuing to innovate is making it difficult to move our organization forward as much as we would like.”

Key Finding: Lasting impacts of COVID-19
Minnesota nonprofits supported the changing needs of their communities in response to COVID-19, demonstrating leadership and flexibility. While nonprofits across the state have shown tremendous resilience, the people behind this undertaking are experiencing high levels of burnout.

Key Finding: Inflation and stagnated funding
Government relief funding played a pivotal role in the nonprofit sector’s ability to function. Forgivable Payroll Protection Program loans were the most commonly accessed form of relief by nonprofits. Philanthropic organizations also increased funding. As relief funding dries up and private giving responds to a plummeting stock market, organizations are facing decreased funding.

“Inflation combined with recession is really challenging us. We rely on small ($25, $50, $100) donations and they are not coming in but going to gas, food, clothing, school supplies for families this year. Costs of providing our programs and services is up, staff costs and benefits are up. All of this is causing great distress for us and will for the foreseeable future.”
Nonprofits are experiencing increases in demand for services, expenses, and programming, while facing decreases in staffing levels and ability to provide services.

60 percent of respondents had an increase in demand for services; this number increased from previous reports.

**Top community challenges mentioned include:**
- Increased costs via inflation.
- Pandemic disproportionately impacted communities of color, caregivers, and low-income people.
- Spikes in homelessness, mental health issues, and domestic violence.

Funding revenues remain relatively stagnant, making increased needs difficult to meet. Grant funding from charitable foundations returned to pre-2020 grantmaking levels.

### Nonprofits continue adapted services and operations.

Flexible, fully-remote, and hybrid work arrangements continue to be explored. Additionally, nonprofits continue to offer programs and services online even as they resume in-person programming.

- 23 percent said hybrid work will remain.
- 31 percent said virtual services and programs will be an ongoing offering.

### How can nonprofits care for and retain staff while remaining financially viable?

Meeting worker expectations for compensation is difficult in the current financial climate without shifts in funding that meets high inflation and cost-of-living increases.

- 84 percent said burnout has had at least some impact on their organization’s ability to retain staff; almost half said it has had a ‘great impact.’
- 37 percent have or will decrease staffing.

<table>
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<tr>
<th>Changes to staffing experienced in the last 2.5 years:</th>
<th>54% workforce shortages / hiring challenges</th>
<th>51% Staff turnover / retention challenges</th>
<th>20% Eliminating staff positions</th>
<th>17% Hiring or salary freeze</th>
<th>10% Involuntary furloughs</th>
<th>4% Cutting salaries or benefits</th>
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### Inflation, stagnated funding, increased expenses, and poor financial returns on investments.

As relief funding dries up and private giving responds to a plummeting stock market, many organizations fear decreased funding in the years to come.

While half of respondents ended FY 2021 with a surplus, only 24 percent anticipate doing the same in FY 2022, with nearly one third anticipating ending 2022 with an operating deficit.
Global Minnesota announced Phillip Hansen has been selected as its new president.

Pathways, A Healing Center named Erika Backberg as its new executive director.

The Minnesota Council of Nonprofits’ welcomed Josh Halicke as central Minnesota regional coordinator and Jessie Luévano as policy analyst for the Minnesota Budget Project.

Jeremiah Hawkins has been named senior director of children and family services for Catholic Charities of St. Paul and Minneapolis.

End in Mind Project welcomed Sheryl Ramstad to its board of directors. Ramstad is chief external relations officer at Hennepin County Medical Center.

Heather Shiell joined Opportunity Partners as vice president of advancement in July 2022.

The Animal Humane Society announced three new board members: Dr. Constance St. Germain, provost and senior vice president of academic affairs at Capella University; Kelly Lindberg, senior vice president and chief marketing and experience officer at Medica; and Todd Solow, partner at Norwest Equity Partners.

Jack’s Caregiver Coalition welcomed Jeff Myhre as deputy executive director for operational sustainability.

Little Free Library welcomed Kate Russell as senior director of advancement.

Kevin Dostal Dauer, director of international health, safety, and compliance at the University of Minnesota, joined the Xperitas board.

The Sexual Violence Center named three new members to its board of directors, Deborah Gleason, founder of The Information Tamer consulting, Katy Herchson, senior manager for human rights, responsible sourcing & sustainability at Target, and Alana Schoneborn, licensed alcohol and drug counselor at the Hazelden Bettyford Foundation.

The Alzheimer’s Association Minnesota-North Dakota announced Michael Scholl joined its board of directors; he serves as chief compliance officer and executive vice president of corporate relations at Starkey.

Submit Your Announcements

MCN member organizations are invited to submit your organization’s awards, staffing announcements, and other news to Laura Dunford. MCN cannot guarantee that all announcements will make it into Nonprofit News.
Responsive approach to Indigenous-led problem solving defines
The Northland Foundation’s responsive philanthropy

by John Wurm, membership and communications director

Each year, nonprofits across Minnesota make incredible contributions to our state’s high quality of life. The Minnesota Nonprofit Mission Awards were created specifically to honor these contributions. Since 1987, MCN has been showcasing the work of Minnesota’s outstanding nonprofits through the Nonprofit Mission Awards in the categories of Innovation, Anti-Racism Initiative, Advocacy, and Responsive Philanthropy.

We are honored to celebrate the 2022 Mission Award recipient for Responsive Philanthropy, The Northland Foundation.

The Northland Foundation is a publicly supported foundation serving seven Northeast Minnesota counties and five Native nations, with a mission to support a thriving region by investing in people and communities.

The foundation recognizes that the Indigenous land we work and live on generated tremendous wealth and resources at the expense of Native nations, and that the roots of disparities are directly linked to the numerous attempts to disrupt Indigenous communities and threaten their survival. Yet, Indigenous people carry the skills and knowledge to both survive and thrive, and we have a great deal to learn from Indigenous community solutions. In this spirit, Northland’s Maada’ookiing Initiative came to life. Maada’ookiing (“distribution” in Ojibwe) launched in 2022 after two years of planning, community engagement, and development.

The Northland Foundation started down this path several years ago, guided by a Board of Trustees directive to strengthen relationships with Indigenous communities and increase access to resources. Since, grant funding to Indigenous-led entities increased from two percent to nine percent. Further demonstrating this commitment, Northland’s first COVID-19 emergency response funds were directed to Native nations, recognizing the pandemic’s heavy impact on Native communities.

Northland’s leadership team first met with Tribal Council leaders from the five Native nations to share the desire to work more closely together toward stronger partnerships and increased investments. Afterward, Northland hired an Indigenous consultant to create a Native-led design team and facilitate a process to learn in depth about community needs, both on and off reservation land. Native representatives, including Tribal Council leaders or appointed delegates along with urban and rural community leaders, were invited to share knowledge of Indigenous community strengths and ideas on how Northland could become a better partner while increasing resources to Native communities.

From these collaborative sessions, Maada’ookiing took shape as an Indigenous-led initiative offering grassroots grants to individuals. In November 2020, a nine-member Maada’ookiing Board representing the five Native nations, as well as rural and urban community members, was convened to drive the initiative. The Maada’ookiing Board set the funding priority areas, provided direction on the grant program development, and has full decision-making power with Maada’ookiing grant funding.

Individuals can apply for up to $2,500 to implement community-focused projects. Since the grant program launched in May 2021, Northland has awarded 44 grants totalling over $108,000. Projects funded include efforts to preserve and share language, engage youth around cultural teachings, support sobriety using Indigenous rooted events, and more. The program is unique in Northeast Minnesota and demand has been incredibly strong. Requests are considered by the Maada’ookiing board three times a year with deadlines in February, May, and September.

Maada’ookiing grantees participate in classes on birch bark crafts and healing salve. Photo credit: The Northland Foundation.

Through the Maada’ookiing initiative, The Northland Foundation fostered an Indigenous-designed, Indigenous-led approach to philanthropy, demonstrating the effectiveness of listening, engaging, and co-creating with community. MCN was pleased to present the foundation with the 2022 Minnesota Nonprofit Mission Award for Responsive Philanthropy. Learn more about The Northland Foundation.
MCN welcomes changes to prevent and properly prosecute fraudulent activity, but we have strong concerns that legislators in the upcoming session may overcorrect in ways that are actually harmful to nonprofits’ work.

During the 2022 legislative session, a provision was proposed and included in an omnibus bill that would have prevented many small Minnesota nonprofits from receiving state funds for at least two years, and would have required them to complete costly audits every year after. MCN and our advocacy network vehemently advocated against this proposal (props especially to the Living at Home Network for their effective advocacy!), was able to stop the provision from becoming law.

We expect to see many provisions in 2023 that are aimed at ensuring the state’s dollars are used properly. If 2022 was any indication, those provisions will likely include increased administrative reporting burdens on nonprofits who are already regulated by a number of stakeholders and for whom public financial information is readily accessible (MN State Attorney General’s Office, IRS Charity Lookup, IRS Masterfile of Exempt Entities, Candid.org, etc.). If provisions are developed without input from nonprofits or with consideration of how nonprofits will be impacted, it’s likely the provisions will be at best ineffective and at worst harmful.

How the state oversees grants to nonprofits will be a major discussion at the Legislature. There are two main reasons why.

First, the state’s Office of the Legislative Auditor, an entity that provides the legislature with objective audit and evaluation reports, has announced a forthcoming report in early 2023 focusing on the extent the state has established comprehensive policies for administering grants to nonprofits. The report is not evaluating nonprofits’ use of dollars, but rather the state’s oversight of those dollars through state agencies like the Department of Human Services, Department of Employment and Economic Development, MnDOT, and others.

The report will include recommendations for changes to how state agencies administer grants – we are hopeful this report will highlight some best practices that agencies can adopt, and call out practices that should be long gone like retroactive reimbursement payment structures that pose barriers for nonprofits who cannot afford up front costs.

Second, we expect to see legislation proposed in response to the immense fraud that is part of the Feeding Our Future scandal. We are genuinely looking forward to working with lawmakers to streamline application and reporting processes in 2023. The attention on these practices could be a great opportunity to remove or lessen barriers to government funding. At the same time, we are concerned that lawmakers will go overboard in their attempts to ensure “perfect” procedures and compliance, creating undue burdens on nonprofits. We will need you to advocate with us against these proposals!

To prepare, let’s look at one part of how the state oversees nonprofits: the life cycle of a state grant to a nonprofit here in Minnesota.

How a law becomes a grant
The grant is born long before we see the Request for Proposals! At some point, advocates tell the legislature that certain funding is needed and the legislature takes action. These advocates could be constituents (people who live in a legislator’s district), staff at state agencies, and you, nonprofit staff! This is why we’re always urging you to get to know your legislators – nonprofits informing policymakers about needs in the community is vital to this process.

The legislature does its thing and a successful end result is a state statute, or law, that authorizes an agency to administer the funds (have oversight of), and appropriates (gives) funds to an agency. Sometimes funds are allocated for a certain purpose, but not designated to specific organizations. Sometimes an organization is directly named in the legislation, in which case the statute authorizes the grant directly to that organization and directs an agency to appropriate the funds. And sometimes a state agency is actually a pass-through for federal funds that have nothing to do with state legislation.

Administering state grants
Let’s look at the first option where state statute authorizes an agency to administer funds for a certain purpose, the most common way the state administers grant dollars to nonprofits. Okay, the agency has the money and approval to use it and a lot of discretion as to how they do so. Staff at the state agency determine logistics of the grant and
seek applications through a competitive process by putting out a Request for Proposals (RFP).

In general, the ultimate grantee of these funds does not have any input on how the law is written, what questions are on the application, the criteria a nonprofit must meet to be eligible, how outreach is done, criteria for selecting grantees, or the metrics by which success will be measured. Imagine a world where nonprofit staff who will be doing the work of the grant are consulted by the legislature and the state agency about those pieces. Easier said than done, certainly, but MCN will continue to push the state in that direction.

A 2007 OLA report found that the state grants system was “fragmented and inconsistent” and did not provide “adequate accountability” and oversight of nonprofits. As a result of that report, the state created the Office of Grants Management (OGM), which has a goal of “standardizing, streamlining, and improving” the state’s grantmaking practices. However, the vast majority of the grantmaking systems across state government remain decentralized. The result is that it’s difficult to say the state’s grant system works a certain way, because agencies have disparate practices. One agency could have a very simple application, while another requires unnecessary and lengthy information. More often than not, agencies also decide on their own reporting requirements, which even with the best of intentions can be burdensome or fail to capture the full story of the nonprofit’s work.

There are also pieces that agencies do not have discretion over. For example, each agency must comply with the OGM’s policy of reimbursement as the preferred form of payment. OGM policy is that advanced payments can only be made if the state agency is “confident that the grantee will be able to account for the grant funds.” This OGM policy negatively impacts small nonprofits, new nonprofits, and nonprofits that have not sought state funding before. This work is not easy for state agencies either, which are dealing with shifting fiscal challenges they can’t control, changing political dynamics, and a complex web of external state and federal requirements.

As you can see, how the state partners with nonprofits through grants and contracts is complicated. How we advocate for or against change to this process is also complicated, with decisions being made at the legislature, at the Office of Grants Management, and at each separate state agency.

Looking at the 2023 legislative session, we expect a few legislators to dive into the deep end on these issues, and MCN with our advocacy network will be there (with your support!) with information, guidance, and input from the nonprofit sector. Other legislators will propose blanket measures that would create harm to nonprofits, seeking a headline rather than nuanced changes.

Our nonprofit sector is unusual in that we welcome outside oversight of our work – we need the trust of the community and of government in order to advance our missions.

We want clear rules, boundaries, and guidelines so that we can demonstrate that we’re abiding by them carefully. And yet, we are a varied sector. The oversight for a $10,000 state contract does not need to be the same as that for a $10 million contract.

MCN will be back at the Capitol this coming session, amplifying your ideas and concerns, proposing positive changes, and advocating against harmful legislation to nonprofits that may arise. Thank you for your partnership in advocacy so that we can ensure upcoming reforms are done in a way that support nonprofits and don’t create more barriers to accessing critical government funding.

Thank you, nonprofits, for supporting Minnesota voters in the 2022 Election!
New data to aid in setting fair & accurate nonprofit compensation

With the current economy and competitive hiring environment, a persistent challenge for nonprofits is how to set fair and reasonable salaries and benefits for both existing team members and skilled job seekers nonprofits are competing with other sectors to hire.

Now available from MCN, the new **2022 Minnesota Nonprofit Salary and Benefits Survey** features compensation and benefits data from 470 nonprofits throughout Minnesota, serving as a reliable research tool to help your nonprofit comply with IRS regulations and maintain fair and competitive compensation practices.

This report is one the nation’s longest-running nonprofit compensation reports and includes salary information for 77 common nonprofit job titles, providing data segmentation by nonprofit budget size, activity area, and geographic region. Additionally, the report explores nonprofit benefit offerings, including health plans, paid time off, retirement plans, and life insurance, as well as a brief snapshot of workforce recruitment and retention trends.

The report is available in a convenient print book format, as well as a web access option that gives you the ability to pull segmented reports for your specific staff needs. As always, MCN nonprofit members may also use available member publication vouchers to order the print book (not available for use with the web access). Regular member discounts also apply for both formats. Learn more about the **2022 Minnesota Nonprofit Salary & Benefits Survey** and order yours today!