

VOLUNTEERS:

BY JOHN PAUL DALSIMER

Nonprofit organizations pose accounting questions unique from those of the business community. A glance at almost any annual report of a major nonprofit organization demonstrates the problem with regard to the valuation and reporting of donated goods and volunteer services. Typically, accountants include a footnote to the financial statements that reads something like this:

No amounts have been reflected for donated services, since no objective basis is available to measure the value of such services. Nevertheless, a large number of volunteers have given significant amounts of their time to the organization's programs, fundraising campaigns, and management.

One national nonprofit organization whose financial statements contain exactly such a footnote states in the text of its annual report that it benefited from "the donated time of tens of thousands of volunteers."

Why have accountants permitted organizations to dismiss their obligation to keep accurate records for this major donated resource?

Too many nonprofits do not keep track of volunteer time and make little attempt to assign a dollar value to such time. Accountants have accepted this situation without questioning the validity of the omission or suggesting possible approaches to better documentation. Their concurrence, in turn, validates the attitudes of the nonprofits. It is possible to measure, on an objective basis, the value of such services. It simply requires keeping the right records and then recasting them into a conventional accounting format.

How can nonprofit organizations know the true cost of their services?



The contributions of volunteers like this woman at Special Olympics Pennsylvania can be valued.

ACKNOWLEDGING TRUE COSTS

Nonprofit organizations play a significant role in our society. Most are firmly established as part of our everyday life—hospitals, museums, professional associations, social service agencies, libraries, zoos, unions, colleges and universities—the list is endless. Apart from providing a wide range of important services, nonprofit organizations are also the incubators of many new social, philosophic, and even business ideas.

According to their own financial statements, nonprofit organizations contribute approximately \$300 billion annually to the U.S. economy. This clearly represents an impressive percentage of our national economic activity.

However, the actual financial impact of nonprofit organizations is far greater than normally reported because their financial statements fail to include another estimated \$125 to \$150 billion in donated volunteer time and materials.

Almost all nonprofits, including many government agencies, make use of unpaid staff, i.e., volunteers. They also may receive office space, printing, postage, and a variety of other donated or in-kind services. All of these are vital to program delivery, and all have a dollar value. But most often such resources are not mentioned in the financial statements except for the vague footnote already cited.

The omission of volunteer time and donated goods from a financial statement tends not only to undervalue but actually to *de-value* their impact. To report that it cost \$72,000 to winterize 100 homebound elderly persons' homes, without mentioning the \$40,000 worth of volunteer services or the \$20,000 worth of donated supplies may cause readers to reach some false conclusions about the actual cost of the service. From a management perspective, never having to "account" for the use of volunteers can result in wasting volunteer effort or in discounting its cost to the volunteer and its value to the organization.

The premise of this article can be summed up in the following formula:

Actual expenses *plus* the value of contributed time and materials equals the *true cost of service*.

Accountants can encourage organizations to develop the necessary record-keeping systems to determine how volunteer time and donated goods affect the cost of service delivery.

The determination of the fair

What Are They Worth?

market value of donated materials should not present a problem for an accountant. The AICPA audit guides do permit volunteer time and donated materials to be reported, although they do not require it.¹ The language used in the guides, however, almost discourages the recording of this type of support and expense.

INTERRELATIONSHIP OF VOLUNTEERS AND EMPLOYEES

One factor that has led to the lack of record keeping about volunteers is the erroneous assumption by accountants that volunteers are not managed effectively, that they work sporadically and operate at "arm's length" from the control of the organization. But an increasing number of agencies are using very up-to-date administrative techniques in running their volunteer programs. Clear job descriptions, screening before assigning (hiring), training, supervision, and even firing when necessary are all personnel management techniques being applied to volunteers as well as to salaried staff.

The law recognizes that a well-managed volunteer program establishes an employer-employee relationship, despite the absence of a salary. Agencies can be held liable for damages caused by a volunteer when that person is fulfilling his or her volunteer assignment, e.g., acting as that organization's "agent." While there may still be some question about the "control" of time and duties of certain categories of volunteer work, such as fund raising, most volunteer assignments are legitimately a part of direct service delivery. Volunteers are, in effect, the "nonsalaried personnel" department of an organization.

What is needed to complete the picture is an accurate record-keep-

ing system, which the accountant can help to develop. The system will be related to existing personnel data record keeping but with adaptations to the special demands of tracking volunteer time.

KEEPING TRACK OF DONATED TIME

How does an organization keep track of donated time? The method is very similar to the way it keeps track of paid time: by using time sheets of various kinds.² It is also important, for accounting purposes, to have all staff members (paid and unpaid) allocate their recorded time, at least by: (1) each major program or service category, (2) management and general administration, and (3) fund raising. This information will be needed later to prepare the financial statements and the report to

the Federal government (Form 990), both of which require that expenses be broken out into these categories (at a minimum).

Once accumulated volunteer hours have been recorded, their value can be calculated by multiplying hours by an appropriate hourly rate for each of the jobs performed.

One of the objections often raised about keeping track of volunteer hours is that it is difficult, if not impossible, to get volunteers in *all* categories to keep a record of the time they contribute. This may be true, but the solution is to aim for recording as much of the time as possible, not to ignore recording some because it is not possible to record all. The accountant or financial manager can begin to apply the valuation system described in this article to whatever number of hours has been gathered for volunteer service.



Special Olympics Pennsylvania

All staff members should allocate their recorded time, whether paid or unpaid.

TABLE 1/TRUE DOLLAR VALUE OF VOLUNTEERS WORKSHEET

Volunteer Job Title: _____

I. Equivalent Salaried Job Classification
 (Based on a comparison of the tasks and responsibilities described in the volunteer job description with those of an equivalent employee)
 Equivalent Salaried Job Title: _____

II. Annual Salary for Equivalent Salaried Classification: \$ _____

III. Value of Benefits Package:

FICA	\$ _____
Health Insurance	_____
Life Insurance	_____
Workers' Compensation Insurance	_____
Retirement	_____
Other Benefits	_____
Total Value of Benefits:	_____

IV. Annual Salary + Benefits Package =
 TOTAL ANNUAL COMPENSATION PACKAGE: \$ _____

V. Established Annual Work Hours for Agency: _____ hours/week x 52 weeks = _____ hours

VI. Hours paid but Not Worked Annually:

Annual Leave	_____ hours
Paid Holidays	_____
Paid Sick Leave	_____
Total Hours Paid/Not Worked:	_____

VII. Established Annual Hours — Hours Paid but Not Worked =
 ACTUAL WORK HOURS ANNUALLY: _____ hours

VIII. TOTAL ANNUAL COMPENSATION PACKAGE — ACTUAL WORK HOURS ANNUALLY =
 TRUE DOLLAR VALUE OF EACH HOUR OF VOLUNTEER TIME IN THIS JOB DESCRIPTION: \$ _____

DOLLAR VALUE OF VOLUNTEERS

Most administrators justifiably are concerned with measuring the "cost effectiveness" of agency projects—whether the funds and staff time expended are commensurate with the value of the service provided. Cost effectiveness is easy to prove for a volunteer program. The actual cost of paying the program staff, buying supplies, and paying other expenses is "leverage" money that produces many more hours of volunteer service than that same amount of money could have provided in hours of employee time. (However, this argument is valid only if the evaluation of the quality of volunteer service concludes that something meaningful was produced!)

In order to generate the most useful data, accountants should take the time to estimate the dollar

value as fairly as possible. They must *not* fall into the common trap of using the minimum wage or the national median wage as a basis for the computation. The vast majority of volunteer assignments are worth a great deal more than minimum wage and probably more than the median, too. Averaging the salaries of all the employees to determine an "average" hourly rate does not compare similar jobs nor include the cost of employee benefits.

The IRS is ambivalent in what information it wants from nonprofit organizations.

One other trap is to confuse the dollar value of the service provided by volunteers with the earning power of the persons who are doing the volunteering. If someone earns his or her living as a lawyer, teacher, or doctor and volunteers to write a brief, teach classes, or do blood tests for the organization—then it is justifiable to claim the donated services at the hourly rate normally charged by that volunteer. But if that same lawyer, teacher, or doctor volunteers to paint the rec hall, drive clients to a picnic, or play chess with residents—the dollar value of his or her volunteer work has nothing to do with his or her regular earning power. The value of each volunteer assignment must be assessed based on what it would cost to purchase that type of work in the marketplace.

The best system for determining the true dollar value of volunteer services has been proposed by G. Neil Karn of the Virginia Department of Volunteerism.³ He details his approach at great length, but here are his key points:

1. It is possible to find an equivalent salaried job category for every volunteer assignment, even if it means a little creativity and searching. Each volunteer assignment should be given its own dollar equivalency, without trying to find an average rate for all volunteers helping the program
2. The cost of paying an employee includes benefits that raise the total value of the "annual employee compensation package" considerably.
3. We routinely pay salaried staff for hours they do *not* work, while we credit volunteers only for hours they actually put in.
4. Volunteers should be "credited" with the dollar equivalent of the hourly amount an employee would earn for actual hours worked.

Table 1 shows the way to compute the actual value of volunteer services using the Karn method.

By using the volunteer job description for each assignment, it is possible to compare the tasks given to volunteers to those listed in the job descriptions for employees *somewhere*. This may require some research to identify

TABLE 2

Service Program X—salaries	3,600
Service Program X—benefits	400
Service Program Y—salaries	6,200
Service Program Y—benefits	600
Administration—salaries	900
Administration—benefits	100
Cash	8.00
Withheld payroll taxes	2,000
Benefits	100

paid job classifications. The local offices of the U.S. Department of Labor and the department of labor of each state maintain useful listings of job categories and pay scales in each geographic region.

For some volunteer jobs, the equivalent paid classification will be reasonably obvious. For example, a volunteer assigned to help with mass mailings and photocopying would be equivalent to an entry-level clerk or secretary position. A volunteer writing the newsletter would be equivalent to a public relations specialist or editor. In other cases, equivalencies must be interpreted, such as comparing a "friendly visitor" volunteer with a salaried outreach worker.

Also, the accountant should consider the qualifications of the volunteers. If someone comes with experience in the type of assignment he or she will carry, it is correct to compute that volunteer's dollar equivalent at higher than a "trainee" level. Similarly, if a volunteer has been with the organization for several years, that person's equivalent wage would be higher than a new volunteer's or employee's.

Once the equivalent paid classification has been identified, with its annual salary, the next step is to add together the *benefits* package: FICA, retirement, insurances, and other benefits. Adding this dollar amount to the salary gives the "Total Annual Compensation Package" for an employee in that position.

Now compute how many *hours* a year the organization has established as expected work hours. For example, 40 hours per week times 52 weeks per year equals 2,080 hours per year. Using this as a base, add up the hours for which employees are paid but do not work. These include annual leave (vacation),

paid holidays, and paid sick leave. For many organizations, the total can be more than 200 hours per year. Now subtract this total from the established number of work hours to arrive at "Actual Work Hours Annually."

Dividing the Actual Work Hours

Accountants assume erroneously that volunteers are not managed effectively.

Annually into the Total Annual Compensation Package gives the "True Hourly Value." It is *this* hourly rate that should be used in determining the dollar value of volunteer service. And as Karn says, this figure should be presented unapologetically!

DONATED MATERIALS

Donated materials and facilities also have a dollar value which, if "significant," should be recorded on the books. The definition of significant is not easy. The following is a possible guideline:

If, in describing a program, leaving out a specific element would be a distortion, confuse the explanation, or be misleading, then that specific element should be considered "significant."

An additional rationale for making the effort to document and value donated materials is for budget preparation. For example, if this year an organization receives



Shore Memorial Hospital, Somers Point, N.J.

Volunteer jobs should be described in detail. Above, emergency room volunteer with MD on duty.

TABLE 3

Service Program X—donated time	1,200	
Service Program Y—donated time	3,500	
Administration—donated time	400	
Contribution—donated time		5,800

\$1,400 in donated light bulbs and the donation is not recorded, at the time next year's budget is prepared a zero amount may be included in the maintenance line item for light bulbs. If the donation turns out to be a one-time contribution, an expense is underbudgeted that will have to be covered, and a dollar amount has been overlooked that must be included in current or

Never having to 'account' for the use of volunteers can result in wasting volunteer effort.

future fund-raising efforts. Donated assets such as furniture and fixtures should be capitalized and depreciated.

THE FINANCIAL RECORDS

How should the dollar equivalency amount of volunteer service be recorded in an agency's financial records? In the same way that the salaries of the paid staff are recorded. For example, Hometown Agency has several service programs, including Service Program X and Service Program Y. In a typical month, the entry to record the cost of staff would look like Table 2.

In most cases this entry would come directly from the Payroll Register, but I have displayed it in this format to make the example clear.

Hometown Agency also has volunteers working in these program areas and uses the "true dollar value equivalency" formula just presented above. The entry the bookkeeper would make in the General Ledger to record the value of the volunteers' contributed time would look like Table 3.

It should be noted that the value of the donated time is recorded as both an expense and a contribution. Yes, the effect on the "bottom line" is zero; the contribution is offset by expenses. But the *total of each category* is now correctly stated.

Why "correctly stated"? If the entry for donated time is not made, it would appear that the cost to run Service Program X was only \$4,000. But we know that it actually cost \$5,900 worth of human energy to carry out this program.

Hometown Agency also includes volunteer time on its financial statements. On the Statement of Support, Revenue, and Expenses (see Table 4), under "Public Support and Revenue" would be a line item for donated time. This amount would also be included in the section on "Expenses" but not as a separate item. On the Statement of Functional Expenses (see Table 5), the dollar figure would be itemized within "Total Staff Expenses."

TABLE 4/HOMETOWN AGENCY—STATEMENT OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES

Year Ended December 31, 19X2 with Comparative Totals for 19X1

	Current Funds		Total All Funds	
	Unrestricted	Restricted	19X2	19X1
Public support and revenue				
Public support:				
Contributions	\$352,000	\$47,000	\$399,000	\$360,000
Special events (net of direct costs of \$42,000 in 19X2 and \$30,000 in 19X1)	40,000	—	40,000	39,000
Donated time (note 1)	43,000	—	43,000	39,000
Total public support	435,000	47,000	482,000	438,000
Revenue:				
Membership dues	8,000	—	8,000	5,000
Investment income	8,000	2,000	10,000	7,000
Miscellaneous	2,000	—	2,000	2,000
Total Revenue	18,000	2,000	20,000	14,000
Total support and revenue	453,000	49,000	502,000	452,000
Expenses:				
Program services:				
Program X	76,000	—	76,000	64,000
Program Y	39,000	49,000	88,000	120,000
Professional education and training	29,000	—	29,000	45,000
Community services	50,000	—	50,000	45,000
Total program services	255,000	49,000	304,000	274,000
Supporting services:				
Management & general	37,000	—	37,000	33,000
Fundraising	67,000	—	67,000	60,000
Total supporting services	154,000	—	154,000	143,000
Total expenses	409,000	49,000	458,000	417,000
Excess (deficiency) of public support and revenue over expenses	44,000	0,000		
Fund balances beginning of year	162,000	22,000		
Fund balances end of year	\$206,000	\$20,000		

ATTITUDE OF THE INTERNAL REVENUE SERVICE

The IRS is ambivalent in what information it wants from nonprofit organizations. On

TABLE 5/HOMETOWN AGENCY—STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 1982 with Comparison Totals for 1981

	1982					1981			Total Expenses	
	Program Services	Program Services	Prof. Educ. & Trng.	Com. Int. Services	Total	Management & General	Fund-raising	Total	1982	1981
Salaries	25,000	22,000	25,000	28,000	148,000	38,000	38,000	167,000	155,000	195,000
Donated items (note 2)	15,000	20,000	—	—	15,000	8,000	—	13,000	43,000	39,000
Employee benefits	2,000	3,000	2,000	2,000	7,000	2,000	3,000	5,000	6,000	10,000
Payroll taxes, etc.	1,000	2,000	1,000	1,000	6,000	1,000	2,000	3,000	4,000	8,000
Travel	—	—	—	—	—	—	—	—	—	—
Expenses	53,000	47,000	28,000	29,000	177,000	24,000	11,000	35,000	280,000	253,000
Professional fees	4,000	3,000	3,000	3,000	11,000	5,000	2,000	7,000	9,000	17,000
Supplies	2,000	2,000	1,000	1,000	7,000	7,000	5,000	12,000	16,000	25,000
Telephone	2,000	2,000	1,000	1,000	7,000	3,000	1,000	4,000	5,000	8,000
Printing	2,000	2,000	1,000	1,000	7,000	7,000	1,000	8,000	8,000	12,000
Postage	2,000	2,000	1,000	1,000	7,000	3,000	2,000	5,000	7,000	12,000
Rent	3,000	3,000	3,000	3,000	12,000	3,000	2,000	5,000	22,000	22,000
Rent (not included)	1,000	2,000	—	—	3,000	2,000	—	2,000	3,000	6,000
Travel	—	—	—	—	—	—	—	—	—	—
Telephone	3,000	2,000	1,000	1,000	7,000	2,000	2,000	4,000	6,000	9,000
Printing	2,000	3,000	4,000	2,000	11,000	2,000	1,000	3,000	20,000	24,000
Miscellaneous	1,000	1,000	1,000	2,000	5,000	2,000	2,000	4,000	5,000	12,000
Other	—	—	—	—	—	—	—	—	—	—
Depreciation	24,000	22,000	16,000	19,000	29,000	80,000	65,000	145,000	138,000	198,000
Amortization	2,000	5,000	3,000	1,000	11,000	7,000	2,000	9,000	20,000	17,000
Other	2,000	2,000	2,000	2,000	8,000	3,000	2,000	5,000	8,000	11,000

the one hand, Part VII ("Other Information") Form 990, asks the question: "Did your organization receive donated services or the use of materials, equipment or facilities at no charge or at substantially less than fair rental value?" If the answer is "yes," there is a line on which the value of such items may be indicated. This means that the IRS recognizes the prevalence and importance of this type of donation to nonprofits, though it makes the reporting of such data optional.

On the other hand, clear instructions state that the amount reported for donated services and materials may not be included elsewhere on Form 990 as part of the organization's "support" or "expense." This perpetuates the concept that only transactions involving cash should be used in measuring the financial results of a nonprofit organization.

Considering the facts mentioned above, it is easy to conclude that volunteer time and donated goods are important components of the

budget and financial records of most nonprofit organizations. Accountants should question their nonprofit clients about the extent of volunteer services and donated goods received to be certain that these figures are not underreported or even overlooked. Accountants are in the position to advise their nonprofit clients on ways to record, value, and report such meaningful data. ■

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accounting accessible to those with limited resources. He served for nine years on the Pennsylvania Commission on Charitable Organizations, which determines if charitable organizations may solicit funds in Pennsylvania. He is the author of Self-Help Accounting: A Guide for the Volunteer Treasurer.

The following are published by the American Institute of Certified Public Accountants: *Hospital Audit Guide (1980), Audits of Colleges and Universities (1975), Audits of Voluntary Health and Welfare Organizations (1974), Audits of State and Local Governmental Units (1974), Audits of Certain Nonprofit Organizations (1981).* The last guide listed was published to cover all nonprofit organizations not covered in the previously issued guides.

*Susan J. Ellis and Katherine H. Noyes, *Proof Positive: Developing Effective Volunteer Recordkeeping Systems*, Philadelphia: Energize Books, 1980.

*G. Neil Karn, "The True Dollar Value of Volunteers," *The Journal of Volunteer Administration*, Vol. 1, No. 2, Winter 1982-83, pp. 1-17, and Vol. 1, No. 3, Spring 1983, pp. 1-19.

†For a more complete discussion of the issues raised in this article, including such subjects as budgeting for volunteer programs, see Susan J. Ellis, *From the Top Down: The Executive Role in Volunteer Program Success*, Philadelphia: Energize Books, 1986.