

Letters to the Editor

To the Editor:

G. Neil Karn's article, Money Talks: A Guide to Establishing the True Dollar Value of Volunteer Time (Winter 1982-83 and Spring 1983), was very interesting. As a CPA who has been involved with several nonprofit organizations as a board member, an organizer, and as my clients, I found the approach suggested intriguing. The "equivalency model" is not unusual. However, the "true value assessment process" is a new and clever idea, particularly the concept of compensating for the fact that volunteers only report hours worked. Obviously, benefits should be added to salary in calculating the annual compensation, but the computation of "actual work hours annually" is an innovative suggestion.

But the idea is incomplete. Nowhere is it recommended that the value of the volunteer hours should be reported in the organization's financial statements. At this point, let me make the comment that many nonprofit organizations do not use their accountants well--neither internal staff accountants nor their outside CPA. Reality suggests a nonprofit organization's finances have always been important, not just in today's world of hard economic times, but financial matters have too often been ignored as "too business-like." Talk with your accountant. Discuss Neil Karn's article, ask other questions, be sure you understand your agency's financial statements.

Why should the value of volunteer hours be reported? To present a complete and fair picture of your organization. If volunteer time is not

included, how can anyone know its full value? Of course, it also presents its full cost. A typical "accounting" entry could be:

Contributions--		
volunteer time		xxxx
Program cost--		
volunteer time	xxxx	

You may feel that since this entry must balance, it has no effect on the "bottom line"--the net comparison of revenues and support versus expenses--and that it, therefore, "washes out." But such an entry will have an effect on the comparison of total contributions and program expenses or fundraising expense. This is an important factor to many charitable rating organizations and several State regulatory departments. For instance:

	<u>Nonprofit A</u>	<u>Nonprofit B</u>
<u>Revenue:</u>		
Contributions--cash	\$100,000	\$100,000
Contributions--volunteer time	Not reported	50,000
	<u>100,000</u>	<u>150,000</u>
<u>Expenses:</u>		
Program (cash)	60,000 60%	60,000
Program (volunteer time)		50,000 }73%
Fundraising	<u>35,000 35%</u>	<u>35,000 23%</u>
	<u>95,000</u>	<u>145,000</u>
<u>Excess of revenue over expenses</u>	<u>\$ 5,000</u>	<u>\$ 5,000</u>

By not reporting volunteer time contributions, Nonprofit A's fundraising expenses equal 35% of revenue. But Nonprofit B is able to show fundraising as only 23% of revenue simply by recording the contributions of volunteers.

There are guidelines for CPAs as to whether the value of volunteer time should be recorded. The American Institute of Certified Public Accountants has issued an audit guide on Audit of Voluntary Health and Welfare Organizations. The guide recognizes the importance of volunteer hours to a nonprofit organization. However, it acknowledges that these services are not usually recorded as contributions and expenses because of the difficulty in establishing a dollar value of volunteer time. Neil Karn has provided a solution to the problem. The audit guide does say, where significant, volunteer time should be recorded if:

1. *The services performed are a normal part of the program or supporting services and would otherwise be performed by salaried personnel.*

2. *The organization exercises control over the employment and duties of the donors of the services.*

3. *The organization has a clearly measurable basis for the amount.*

Services which generally are not recorded as contributions, even though such services might constitute a significant factor in the operation of the organization, include the following:

1. *Supplementary efforts of volunteer workers, which are provided directly to beneficiaries of the organization. Such activities may comprise auxiliary activities or other specific services which would not otherwise be provided by the organization as a part of its operating program.*

2. *Periodic services of volunteers needed for concentrated fundraising drives. The activities of volunteer solicitors are not usually subject to a sufficient degree of operating supervision and con-*

trol by the organization to enable it to have a proper basis for measuring and recording the value of the time devoted. However, if individuals perform administrative functions in positions which would otherwise be held by salaried personnel, consideration should be given to recording the value of these services.

3. Professional personnel engaged in research and training activities without pay or with a nominal allowance. This type of work, although usually performed in connection with grants made by the organization to other agencies, universities, or institutions for specific research projects, is normally under the direct supervision and control of the granting organization. Accordingly, it is ordinarily considered not practicable to compute a value for these services.

The financial statements should disclose the methods followed by the organization in evaluating, recording, and reporting donated services and should clearly distinguish between those donated services for which values have been recorded and those for which they have not been recorded.

The end result of accounting for volunteer time is a more meaningful and complete financial picture of an organization. It also allows for comparison with other organizations (though this may not be desired).

Let me close this rather long letter with the strong suggestion to talk with your accountant. Be sure you understand the financial results of your organization. Remember you can't get lost if you don't have a roadmap. You will be in a better position to react to either good or bad financial news, if you know where you are.

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Dear Editor:

I note in the Winter 1982/83 issue of the Journal of Volunteer Administration, on page 1, reference to the second part of the article "Money Talks: A Guide to Establishing the True Dollar Value of Volunteer Time." I have discovered that I do not seem to have the Spring 1983 issue which, I understand, contains part 2 of this rather important article. I would appreciate it very much if you could send me a copy in the event that my copy seems to have got lost enroute.

I might add that I do appreciate the new format of the Journal and especially the larger print that is used making the document even more inviting to read! My congratulations to those persons who have been part of this new development.

Sincerely,

Mary L. Stewart (Miss)
Co-ordinator
Volunteer Services
Ontario Hospital Association

The Journal is pleased to publish these letters and encourages readers to write and express their views. Join in supporting or debating the opinions of our authors--your perspective is worth sharing!