



Tracking Volunteer Time

Boost Your Bottom Line: A Complete Accounting Guide

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Tracking volunteer time: sounds like another chore? Actually it can help you meet match requirements, improve your financial statement presentations, and reduce liability. In this article, CPA Dennis Walsh of North Carolina explains why and how to include volunteer time in your budgets and financials:

An all-volunteer suicide hotline was having a hard time raising funds. Its total budget was \$45,000, which paid for a small office, telephone lines, and advertising. It asked for operating support, overhead and other funds in its fundraising proposals. Unfortunately, many foundations and donors are allergic to those terms.

But when the hotline added up the time its volunteers spent answering phones, attending trainings and teaching others, it was able to show that it used 7,200 volunteer hours each year. Based on local wages for similar services, this came to over \$140,000 in financial support!

A lot of bang for the buck

As an accountant, I know that by portraying their group as a \$185,000 nonprofit, the hotline leaders showed the scope of what the organization contributes to the community and the tremendous support it gets. In this context, needing only \$45,000 to deliver this many hours of lifesaving support is a real bargain.

Unfortunately, much valuable information about volunteer time goes unrecorded and unreported. A hospice CFO told me that even though Medicare, a source of some of the hospice's income, requires volunteer time to be tracked, he had to dig back to his 2004 audit to find any reference to volunteer hours. He found that volunteers provided a remarkable 12 percent of direct patient hours. The hospice is missing an opportunity to strengthen its financial reports and show the extent of community participation in its activities.

Why track volunteer time?

1. We volunteers appreciate appreciation. We count what we value, so tracking is recognition that volunteer time is important. Recognition is a good investment; it pays off spectacularly.
2. Funders and donors want to know what resources your nonprofit already receives and from whom. "Our funders see volunteer inputs as a measure of effectiveness," says Donna Newton, director of the [Guilford Nonprofit Consortium](#), a network of 140 community-based nonprofits in Guilford County, North Carolina. "Reporting volunteer contributions is essential in securing funding."

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Why track volunteer time? (cont')

3. Funders, donors and the community want to know if you have the people in place to get the job done well. "This becomes a real problem when the nonprofit attempts to cost a program," according to Kevin Gray, a program officer with the [Weaver Foundation](#) in Greensboro, North Carolina. "Too often volunteer inputs are not factored in properly, giving a false sense of the true cost."
4. Volunteer time can help you meet requirements for matching funds. Certain grants stipulate that the nonprofit must match a percentage of grant funds and that the value of volunteer time may qualify toward satisfaction of the match requirement.
5. Documenting volunteer time can help protect volunteers and the nonprofit. Requiring volunteers to log activity creates a record that may become important evidence in defending the nonprofit or volunteers from allegations of misconduct. *Blue Avocado* contributor [Pamela Davis](#) of the [Nonprofits' Insurance Alliance of California](#) and [ANI-RRG](#), the country's leading policyholder-controlled insurers of nonprofits, shared this real life example:

While enjoying hors d'oeuvres at a special event, a guest was injured from slipping on a piece of cheese. The nonprofit had a safety policy that required volunteers to scan for such dangers, record arrival and departure times and the times they did safety reviews. "From this it was easy to show that the nonprofit was not liable for failing to maintain a safe environment," Pamela said. "It had taken very appropriate steps and was completely absolved of liability."

Can we include volunteer service in our financial statements?

Yes. You can certainly include them as notes to internal statements, for internal budgets and for many financial reports. But to include volunteer service in compilations, reviews and audits prepared by a certified public accountant, you must follow [generally accepted accounting principles \(GAAP\)](#). GAAP specifies rules for two situations. (See [Statement of Financial Accounting Standards \[SFAS\] NO. 116](#), recently redesignated as ASC Section 958-605-30-1 as part of the accounting standards codification)

The first situation that qualifies volunteer time for inclusion in external (audited or compiled) financial statements: the volunteer time creates or improves a nonfinancial asset, that is, property other than money or investments such as stocks. A common example is the construction of a facility with a volunteer workforce, regardless of whether skilled or unskilled labor is involved.

The second situation: Volunteer contributions must be recognized if they:

- require special skills
- are performed by persons possessing such skills
- would typically need to be purchased if not provided by donation

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Among such services, according to SFAS 116, are those of "accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen."

What financial value to give to volunteer time?

For volunteer service involving specialized skills, it is appropriate to value the services at the vendor's customary charge. For example, if you bring in a board trainer who charges \$150 per hour, this would be the appropriate hourly rate for valuing a pro bono session.

In some situations you will be able to obtain this information from the pro bono donor or from a similar business. In other instances you may need to estimate. Resources such as the [Bureau of Labor Statistics \(BLS\) website \(www.bls.gov/oes/current/oes_nat.htm\)](http://www.bls.gov/oes/current/oes_nat.htm) can help.

In the case of services that do not involve specialized skills, including much of the volunteer help nonprofits receive with program activities, office tasks, or special events, a composite hourly rate may be a reasonable indicator for estimating the value of services reported in annual reports, newsletters, and grant proposals. The nonprofit association [Independent Sector \(www.independentsector.org/volunteer_time\)](http://www.independentsector.org/volunteer_time) provides national and state [rates](#), updated annually from BLS data. The most recent (2010) national figure is \$21.36, which includes a 12 percent estimate for fringe benefit costs (Indiana (2009): \$17.61).

The following examples help illustrate these rules:

- Sandra, a real estate attorney with a \$300/hour billing rate, *donated legal services by representing you in the purchase of land* for a new office. Since these legal services are of a specific and substantive nature, they are required to be included in the financial statements, valued at \$300/hour.
- On the other hand, in her *role as a board member*, Sandra provides routine guidance on legal issues of a general nature. Because such legal advice would probably not have been purchased if Sandra were not available, they cannot be recognized in the financial statements.
- Sandra *donated eight hours helping paint your new office building*. Because her services help create or enhance a nonfinancial asset, the value is required to be recognized even though this does not involve a specialized skill.
- Sandra also *donates five hours per week delivering meals* to program recipients. Although such service would typically have to be purchased in the absence of volunteers, it does not meet the specialized skills requirement and cannot be included in the audit financial statements. However, this donation can be reported as supplemental information in the financial statement footnotes.

How can we easily document volunteer time?

One of the best ways to ensure that volunteer effort doesn't go unrecognized is to record donated service at the time it is performed. By doing so you capture volunteer contributions for financial reports, lessen the likelihood that volunteer effort falls through the cracks unnoticed, and help identify and objectively rank

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volunteer service deserving of special recognition. In addition, you may be better able to budget paid staffing and service outsourcing needs with the aid of such summarized information.

[Sample volunteer tracking forms are available through the Volunteer Network resources web page and on the web.]

So what does this look like in the financial statements?

Hometown Hospice Care (name changed) is a community nonprofit providing services regardless of patient ability to pay. The [financial statements excerpts below](#) illustrate the improved reporting of the agency's activities by including qualifying volunteer services in its Statement of Activities, and in addition, non-qualifying services in the footnotes. As you can see, the improved statements show the full scope of the organization's donations and its contributions to the community, and increase the percentage of expenses that are for program (rather than for management or fundraising).

FINANCIAL STATEMENT EXCERPT:

| Hometown Hospice Care Statement of Activities (excerpt) For the Year Ended December 31, 2008 | | | | |
|--|--|-------------|---|-------------|
| | <i>Before including volunteer time</i> | | <i>After including volunteer time</i> | |
| Support: | | | | |
| Contributions & grants | 250,000 | | 250,000 | |
| Donated services | - | | 120,000 | |
| Total support | 250,000 | | 370,000 | |
| Other revenue | 410,000 | | 410,000 | |
| Total revenue & support | 660,000 | | 780,000 | |
| Expenses | | | | |
| Program services | 520,000 | 80% | 640,000 | 83% |
| Management & general | 120,000 | 18% | 120,000 | 16% |
| Fundraising | 10,000 | 2% | 10,000 | 1% |
| Total expenses | 650,000 | 100% | 770,000 | 100% |

By reporting donated nursing and medical social worker services of \$120,000, total public support (before earned revenue) increases from \$250,000 to \$370,000, or 48%. We also see that inclusion of these services in program expense increases the spending efficiency ratio from 80% to 83%.

Hometown Hospice Care explains the nature of recognized services, as required by GAAP, in the following footnote to its financial statements:

Note 2: The organization recognizes contribution revenue for certain services received at the fair value of such services. Recognized services were provided by 5 medical social workers and 4 registered nurses as follows:

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Program services - Direct patient care:

| | | |
|-----------|---|---------------|
| Salaries: | | |
| | Medical social workers – 2,500 hours at \$20 per hour | \$50,000 |
| | Registered nurses — 2,000 hours at \$35 per hour | <u>70,000</u> |
| | Total donated services | 120,000 |

The agency chooses to add the following information to the preceding footnote:

In addition, the organization received the services of more than 60 volunteers, not recognized in the statement of activities because such services do not involve specialized skills. The current average value of volunteer services in the locality is \$15 per hour. The organization estimates the value of the following services at \$237,000.

| <u>Volunteer service</u> | <u>Hours</u> |
|--------------------------|---------------|
| Direct patient care | 5,000 |
| Family care | 3,000 |
| Home volunteers | 3,000 |
| Bereavement services | 2,000 |
| Children's programs | 1,000 |
| Transportation services | 800 |
| Office assistance | <u>1,000</u> |
| Total | <u>15,800</u> |

By adding this supplemental data, we see that Hometown Hospice Care has far greater volunteer support than indicated by the minimum GAAP disclosures alone.

The user of the financial statements takes away a better sense of the amount of public support for programs as well as the diverse range of volunteer supported activities.

Can volunteers deduct their time from their taxes?

No. But while your volunteers cannot take a tax deduction for the value of their time, be sure to inform them that out-of-pocket, documented expenses may be deductible on their individual tax returns. Volunteers may deduct the direct costs of operating their vehicles or the [standard charitable mileage rate](#) of 14 cents per mile as well as some other expenses. Volunteers should consult their tax advisor or refer to [IRS Publication 526, Charitable Contributions](#).

What would our nonprofit sector look like without dedicated volunteers? Many community-based nonprofits would soon disappear in a vacuum of human capital. Don't let this force go unrecognized!

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