

LAW MEMO

The Dollar Value of Volunteers

The use of volunteers for routine day-to-day functions, special events and the critical role of board members is fundamental to the viability of most nonprofit arts organizations. As commendable and crucial as volunteer service is, reliance on volunteers brings many challenges. Among them is assigning economic value to their services.

Last year, according to the Independent Sector's national survey, 83.9 million adults volunteered for nonprofit organizations, representing the equivalent of more than 9 million full-time employees at a value of \$239 billion.

"The key is to develop an objective, defensible, unapologetic system that makes sense and is not overly burdensome to administrate."

Independent Sector, a national coalition of leading nonprofits, foundations and corporations, calculates the value of volunteer time by using the average earnings of all production and non-supervisory workers on private non-farm payrolls (as released by the Bureau of Labor Statistics) and increasing it by 12 percent for fringe benefits. That came to \$16.05 an hour in 2001, up from \$15.39 an hour in 2000.

Should your organization use the Independent Sector's method when calculating the dollar value of contributed services? How should the economic value of volunteer time be reported for internal purposes, on grant applications, in audited financial statements and on IRS Form 990? What records are needed to cover volunteers under your workers' compensation policy?

This issue of *Arts Law Memo* answers these questions and also lists "first choice" reasons for involving volunteers that do not involve money.

PHILOSOPHICAL CONCERNS

Understandably, some people object to the very idea of assigning an economic value to volunteer services. They argue that volunteering is intrinsically about giving. To put a dollar value on the volunteer's time, they say, is to infer that work is not valuable unless it is for pay and that even associating donated time with money cheapens the experience of binding people together to build a more vibrant community.

Susan J. Ellis, founder and president of Energize, Inc., a training, consulting and publishing company specializing in volunteerism, is more pragmatic. In her book *From the Top Down: The Executive Role in Volunteer Program Success*, she notes that "your board of directors and funding sources, both current and potential, are interested in what your resources are and how you use them — and donated time and materials are a very significant resource."

COMMON MISTAKES

Ellis encourages nonprofits to avoid the common trap of using the minimum wage or national median wage as a basis for quantifying the value of donated services. "The vast majority of volunteer assignments are worth a great deal more than the minimum wage and probably more than the median, too," she says.

According to Ellis, another common mistake is confusing the dollar value of the service with the earning power of the volunteer. Clearly, if a doctor cleans your pottery studio, the dollar value of her services has nothing to do with what she normally earns while on duty in the ER.

DETERMINING VALUE

Unfortunately, there is no absolute formula for determining what is a fair wage. The key is to develop an objective, defensible, unapologetic system that makes sense and is not overly cumbersome to administrate.

The first step is to find an appropriate salaried job category for each volunteer

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VLAA helps artists and arts organizations solve and avoid legal and accounting problems by:

- Making referrals to lawyers and accountants;
- Mediating arts-related disputes;
- Publishing *Arts Law Memo* and concise how-to guides;
- Sponsoring seminars and public forums;
- Arranging for guest speakers;
- Maintaining a reference library;
- Operating an arts space clearinghouse;
- Supplying model contracts and other arts law and business materials;
- Facilitating meetings;
- Conducting and disseminating research on issues affecting the arts;
- Contributing articles to publications;
- Collaborating on arts advocacy initiatives;
- Matching volunteers with arts organizations seeking board members; and
- Providing access to the national VLA network.

This issue was written by Sue Greenberg, VLAA's executive director. Special thanks to Susan Lee, Contemporary Art Partnership, and Josie McDonald, Springboard to Learning.

This publication is distributed with the understanding that VLAA is not engaged in rendering legal or accounting counsel. We urge you to seek professional services to address your specific needs.

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assignment. The Missouri Economic Research and Information Center, a division of the Missouri Department of Economic Development, posts average wages for hundreds of occupations on its web site (ded.state.mo.us/business/researchandplanning/indicators/wages). For example, the average hourly wage of a general office clerk is \$9.93 and the average hourly wage of a carpenter is \$17.28. Assigning a wage to some jobs, such as docents, may take a little creativity because they are not included in the state's database.

The next step involves adding the cost of fringe benefits, which would legitimately raise the rate considerably. Using a system developed by G. Neil Karn more than 20 years ago, some nonprofits add FICA, health insurance, pension, workers' compensation coverage, paid holidays and sick leave to calculate the total compensation package.

Accurately recording the volunteer's hours is the next challenge. Generally, volunteers have little interest in completing time sheets and, when they do, they tend to under-report their hours. The total number of hours will increase when recordkeeping practices are tightened, but supervisors need to balance accuracy with the overall goals of volunteer involvement.

Finally, create a master log, which includes the volunteer's name, job, assigned hourly wage, hours worked and total value (for the quarter and year to date). Additional columns might include valuation for grant applications and external financial statements, as discussed below.

Volunteer management software packages, such as VolunteerWorks (Red Ridge) and the more widely available (and expensive) fund raising software packages can help keep track of volunteers, but it is usually more practical to simply create a spreadsheet in Excel.

REPORTING FOR GRANTS

State and local arts councils recognize the importance of in-kind contributions, including volunteer time. In-kind contributions (both goods and

services) not only extend an organization's budget, but also reflect community involvement.

In Missouri, government grantmaking agencies will accept volunteer time as in-kind "matching funds" on their grant applications. Instructions vary. The Regional Arts Commission, which funds the arts in St. Louis City and St. Louis County, allows applicants to determine "which in-kind contributions are significant enough to be valued and recorded" and to assign a reasonable dollar value.

The Missouri Arts Council (MAC) instructs applicants not to include in-kind contributions in their budgets unless they are needed to match the request to the Council. Instead, applicants should describe the in-kind contributions in the narrative and budget breakdown sections of the application.

MAC guidelines say donated professional services should be valued at the professional's standard rate; all other services should be valued at the federal minimum wage (\$5.15 an hour). Organizations using in-kind services as part of their match are required to submit a MAC form, signed by the volunteer, to document the services.

The Illinois Arts Council encourages applicants to include the value of in-kind services in the community involvement section of its grant application narrative, but it does not allow the donated time to be used as "matching funds."

FASB NO. 116

In November, some United Way organizations were accused of inflating their finances. One of the questionable reporting practices involved how the agencies placed a value on volunteers' time.

According to the *New York Times*, the United Way of America directs its members to value volunteer time at \$14.83 an hour. Using that formula to report on its most recent campaign, the United Way valued donated time throughout the nation at \$267 million.

This amount presumably represents all volunteer services, including tasks

such as stuffing envelopes.

However, acceptable accounting practices put strict limits on exactly which services should be counted as contributed time when preparing external financial statements. The standards, issued in 1993 by the Financial Accounting Standards Board, the rule-making body for the accounting industry, are contained in FASB 116. The rules require that contributed services be recognized as support when one of two criteria are met:

1. The service provided by the volunteer either creates or enhances a nonfinancial asset. Examples include making major improvements to a building or constructing costumes.
2. The service requires specialized skills, is provided by volunteers with those skills and would otherwise be purchased by the organization if not provided by the volunteer. Obvious examples of specialized skills include services provided by lawyers, accountants and teachers.

Determining if the services would otherwise be purchased can be challenging. According to the authors of *Financial and Accounting Guide for Not-for-Profit Organizations*, "Probably the most important requirement is that the services being performed are an essential part of the organization's program.

"The key test is whether the organization would hire someone to perform these services if volunteers were not available. This is a difficult criterion to meet. Many organizations have volunteers involved in peripheral areas which, while important to the organization, are not of such significance that paid staff would be hired in the absence of volunteers. But this is the acid test: If the volunteers suddenly quit, would the organization hire replacements?"

The dollar value assigned to the contributed services, which meet the FASB 116 standards, should be included as income, usually as a separate line with other unrestricted contributions. On the expense side, the value of contributed time should be

to a particular program or to supporting services — administration or fund raising. If the volunteers were involved in constructing fixed assets, the dollar value assigned to the contributed service is generally capitalized rather than being charged to an expense category.

Contributed services — such as stuffing envelopes — that do not meet this criterion should be reported on financial statements, although they may be included in a footnote.

IRS FORM 990

Even though the reporting of donated services is called for in FASB 116, the IRS does not allow it to be included for tax reporting purposes. Instructions for completing Form 990, which must be filed by tax-exempt organizations with total income of \$25,000, specifically state that those amounts should not be included in Part I (Revenue, Expenses, and Changes in Net Assets or Fund Balances) or Part II (Statement of Functional Expenses).

However, Part III of the form provides an optional line to report the value of in-kind contributions.

Organizations may want their returns to include the value of donated services because 990s are open to public inspection and are posted on the web. The returns are scrutinized by individual donors and grantmakers, by the media and charity watchdogs, by researchers and policy makers and by other nonprofits.

WORKERS' COMPENSATION

To limit your organization's liability and to provide volunteers with a satisfying experience, consider obtaining appropriate insurance coverage. Some organizations purchase an accident and injury policy; others cover volunteers under their workers' compensation policies. Because volunteers rarely file claims, workers' comp coverage is usually quite affordable.

Workers' compensation is a no-fault system that provides replacement income and covers the medical expenses of employees who are injured on the job. In Illinois, companies with

First Choice Reasons for Involving Volunteers

Asking why your organization uses volunteers seems like such a basic question that it often goes unanswered. Or worse, volunteers are simply considered a strategy for saving money.

Susan J. Ellis bemoans this a "second choice" approach. She says it can cause problems with volunteer recruitment, retention and recognition; allocation of resources to support the work undertaken by volunteers; and evaluation of their contribution to your organization. Ellis encourages nonprofit, tax-exempt organizations to examine the more positive "first choice" reasons for involving volunteers — reasons that have nothing to do with the presence or absence of money. Among them are:

- Volunteers lend credibility because they are not salaried.
- Volunteer board members provide IRS-mandated oversight.
- Volunteers, as outsiders, can offer a broad point of view, fresh ideas and constructive criticism.
- Volunteers can extend your organization's sphere of influence.
- Volunteers can bring the luxury of focus to a project.
- Volunteers can add diversity — age, race, educational background, income — to your organization.
- Volunteers, particularly student interns, receive training that is valuable to your field.

one or more employees are covered by the workers' compensation law; in Missouri, companies with five or more employees are governed by the law. Smaller organizations can elect to comply voluntarily.

Any work-related illness or injury (except those that are intentionally self-inflicted or caused by illegal substance abuse) is covered by workers' compensation insurance. The law provides for medical care to cure the injury; payment for lost wages; and payment for permanent disabilities.

The fundamental concept that different jobs have different exposures to injury or illness led to the practice of classifying workers according to risk. Oil field workers, miners and roofers are among the highest-risk occupations; office workers are among the lowest. The risk classifications are the starting point for determining the premium amount for each type of job.

Most job classifications are determined by the National Council on Compensation Insurance (NCCI), which rates more than 700 types of jobs. To arrive at an initial estimated premium, each type of job is given a classification code and a premium rate expressed in cost per \$100 of pay.

For example, a clerical worker (NCCI Job Code 8810) may be assessed

48 cents per \$100 of pay, while a driver (NCCI Job Code 7380) may be rated at \$7.54 per \$100 of pay. The clerical worker earning \$25,000 would cost the company \$120 per year in estimated premiums, while the driver earning \$35,000 would cost \$2,639.

The initial estimated premium is then modified to account for the employer's safety record and several other factors. These calculations determine a company's "total estimated premium" for the coming year. At the end of the policy year, an auditor for the underwriter examines your payroll to determine the final "audited premium," which is the amount your organization ultimately pays.

Workers' compensation coverage for volunteers is optional. But to invoke coverage, the insured must specifically request that the policy include a voluntary compensation endorsement, which extends coverage to "non-compensated employees."

Your insurer will probably want to schedule the various job classifications to which your volunteers will be assigned and may want input into determining an appropriate hourly wage. Organizations are usually required to accurately track hours throughout the policy period in order to properly adjust policy premiums.

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RESOURCES

Workers' Compensation

Workers' compensation insurance is generally purchased through private firms or agents. Organizations that are unable to obtain insurance in the open market can purchase it from the Assigned Risk Pool, where rates will be approximately 20 percent higher. For more information, contact the Illinois Industrial Commission, 312/814-6611, or the Missouri Division of Workers' Compensation, 800/775-2667. When shopping for rates, make sure to check with several insurance carriers. To help find a competitively priced policy, the Missouri Department of Insurance has a toll-free number, 800/200-1697, to request a list of up to 30 companies with the lowest rates for your job classification.

Articles

"*The True Dollar Value of Volunteers*" by Neil G. Karn, *Journal of Volunteer Administration*. Vol I, Nos. 2 and 3, 1982

"*Volunteer Management Software*" by Steve McCurley (www.e-volunteerism.com) \$3.00 to download

Books

Financial and Accounting Guide for Not-for-Profit Organizations by Malvern J. Gross, Jr., Richard F. Larkin, Roger S. Bruttomesso and John J. McNally

From the Top Down: The Executive Role in Volunteer Program Success by Susan J. Ellis

Mission Accomplished: A Practical Guide to Risk Management for Nonprofits by Peggy M. Jackson, Leslie T. White and Melanie L. Herman, published by the Nonprofit Risk Management Center

These books and many others on arts law and business practices are available at the **St. Louis Volunteer Lawyers and Accountants for the Arts library** located within the Regional Arts Commission office, 3540 Washington, in Grand Center.