

Volunteer Valuation -- Incorporating Volunteer Capacity into Nonprofit Financial Reporting: A Research Service Learning Project

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Abstract

The objective of this project is to evaluate options that allow Nonprofit Organizations (NPOs) to:

- Incorporate contributions of volunteers into an NPO's accounting system;
- Provide recommendations for auditing assertions of volunteer contributions;
- Incorporate volunteer hours into the financial reporting process;
- Demonstrate increased and sustained capacity to both internal and external stakeholders;
- Incorporate different rates for different volunteer work;
- Tie results with the Unified Chart of Accounts since it is compatible with Generally Accepted Accounting Principles, United Way, Internal Revenue Service Form 990, and the United States Office of Management and Budget federal grant reporting; and
- Show how including volunteer hours in financial statements helps Grantmakers understand an NPO's true capacity.

The process presented in this paper allows NPOs to reduce the costs associated with hiring an auditor while achieving best practices. This allows NPOs to value their volunteers and demonstrate their successful and sustainable capacity building efforts to stakeholders. When NPOs can demonstrate their true capacity, this increases opportunities to obtain additional funding, including those types of funding which require audits. The opposite of a vicious cycle, it is a capacity cycle that leads to greater output, outcomes, impact, and capacity building.

Keywords: Nonprofit Organizations; Accounting; Auditing; Governance; Research Service Learning, Unified Chart of Accounts

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1. Introduction

“Volunteers don’t get paid, not because they’re worthless, but because they’re priceless.”

-- Sherry Anderson

The objective of this graduate research service learning project is to evaluate options that allow Nonprofit Organizations (NPOs) to:

- Incorporate contributions of volunteers into an NPO’s accounting system;
- Provide recommendations for auditing assertions of volunteer contributions;
- Incorporate volunteer hours into the financial reporting process;
- Demonstrate increased and sustained capacity to both internal and external stakeholders;
- Incorporate different rates for different volunteer work;
- Tie results with the Unified Chart of Accounts (UCOA) since it is compatible with Generally Accepted Accounting Principles (GAAP), United Way, Internal Revenue Service (IRS) Form 990, and the United States Office of Management and Budget (OMB) federal grant reporting; and
- Show how including volunteer hours in financial statements helps Grantmakers understand an NPO’s true capacity.

This project is conducted in collaboration with The Chapin Foundation, The Waccamaw Community Foundation, and The Frances P. Bunnelle Foundation. In addition, participating NPOs each represent a different type of NPO in the sense that their missions address different “industries.” Working with multiple NPOs allows the results of this project to be directly applicable to participating NPOs, and generally applicable to a multitude of NPOs with varying missions. Participating NPOs include:

- ECHO – Eastern Carolina Homelessness Organization
- Family Justice Center of Georgetown County
- Grand Strand Humane Society of Myrtle Beach
- Habitat for Humanity of Georgetown County

- Palmetto Works Community Development Corporation and Georgetown County's Social Entrepreneurship Committee, a sub-committee of the Human Services Collaborative
- Smith Medical Clinic of Pawleys Island

The output of this project will help future Coastal Carolina University Advanced Auditing and Fraud Examination classes and the participating Foundations assist NPOs in:

- Obtaining affordable audits and reviews;
- Demonstrating cost-effective techniques that may be utilized by NPOs when creating policies and procedures at startup;
- Adding to the internal control process as they grow; and
- Achieving compliance with best practices for financial accountability, fundraising, and board governance that facilitate the link between philanthropic leadership, charitable resources, and civic influence with community needs and opportunities.

With this and each past and future graduate research service learning project, the **common goal** is to provide cost effective methods for NPOs to achieve best practices and demonstrate these efficiencies to their donors and clients.

2. Project Background

In 2011, the Advanced Auditing class at Coastal Carolina University surveyed South Carolina Nonprofit Organizations (NPOs) regarding their accounting, auditing, and governance practices to determine their strengths, weaknesses, and future needs. In 2012, the Advanced Auditing class at Coastal Carolina University produced a stepwise menu of policies and procedures for NPOs of four different sizes to follow. Each menu adds additional policies and procedures to facilitate organizations as they grow. The objective of the stepwise menus is to centralize and standardize "back-room operations" of NPOs in South Carolina. All stepwise menus mentioned in the 2012 published policies and procedures white paper meet state and federal legal requirements in addition to aiding the organization in achieving state and national best practices (Maguire, 2013). All applicable policies and procedures in the aforementioned white paper are recommended for all NPOs (Maguire, 2013).

In 2013, the Advanced Auditing class at Coastal Carolina University determined testing tasks for NPOs to self-assess compliance to the previously published stepwise menu of policies and procedures. Whereas the 2012 project addressed the design of internal controls, this project addressed the operation of internal controls. The self-assessment tasks were developed to improve effectiveness and efficiency of both internal and external audits, in addition to achieving best practices. The self-assessment testing tasks applicable are also recommended for all NPOs utilizing this paper's research (Maguire, 2014).

In 2013, the Fraud Examination class at Coastal Carolina University conducted a financial asset mapping and gap analysis of all NPOs in Horry and Georgetown Counties of South Carolina. The project analyzed tract level census data, conducted a geographical mapping and financial analysis, and identified locational and financial gaps. The goal of these projects is not only to help local NPOs standardize and grow, but also to help reduce the costs to build connections between the nine existing NPO sectors in Horry and Georgetown Counties (Maguire, 2014).

In 2014, the Fraud Examination class at Coastal Carolina University, in collaboration with several local NPOs, designed a nonprofit restaurant to minimize fraud while building capacity. The objective of the project was to evaluate options and make recommendations that allow nonprofit restaurants to utilize the appropriate Policies and Procedures (P&P) menu and self-assessment processes from previous projects, make operational choices that minimize the potential for fraud, make recommendations that take full advantage of opportunities to demonstrate financial accountability to donors and grant makers, and choose an approach that meets their commitment to achieving best practices while maximizing the benefit to both program trainees and the surrounding community. The project evaluated options and made recommendations for nonprofit restaurants in the areas of education and training, target customers, location, food concepts, suppliers, and types of payment (Maguire, 2014).

3. IRS Form 990

NPOs are subject to various financial reporting formats, the first of which is IRS Form 990 Return of Organization Exempt From Income Tax. As of the 2010 Tax Year, all NPOs with revenues greater than \$50,000 are required to file IRS Form 990 on an annual basis (Internal Revenue Service, 2013).

Based on 2011 statistics, 43% (354 of 826) of registered NPOs in Horry County filed Form 990, while 46% (134 of 286) filed in Georgetown County. For the state of South Carolina the filing rate was 19% (4,317 of 22,250) and for the United States overall 367,146 of the 1,565,497 registered NPOs, or 23%, filed Form 990. These statistics show that over half of the NPOs in Horry and Georgetown Counties have revenues of less than \$50,000, even though the Form 990 filing rate is greater than that of South Carolina and the United States (National Center for Charitable Statistics at the Urban Institute, 2013).

4. OMB Cost Matching/Sharing

The United States Office of Management and Budget (OMB) sets standards for the administration of federal grants. In its Circular A-110, Cost Matching or Sharing is defined as the “portion of project or program costs not borne by the Federal Government (Circular A-110 Revised, 1999).” Volunteer services furnished by skilled and unskilled labor may be counted as cost sharing or matching if the service is integral and necessary to the program. Circular A-110 articulates further that all contributions must meet the following criteria:

- Verifiable from recipient’s records
- Not included as contributions for other federally-assisted program
- Necessary and reasonable for accomplishment of program objectives
- Allowable under the applicable cost principles
- Not paid by the Federal Government under another award
- Provided in approved budget
- Conform to other provisions, as applicable

(Circular A-110 Revised, 1999).

5. Audited Financial Statements

Audited Financial Statements may be required for NPOs. Many private foundations require or expect audited financial statements. Several states require audited financial statements on funds provided by state agencies.

They are required when \$500,000 or more of Federal funds is expended in a single year (\$750,000 starting in 2015). Many States (26) require audited statements in order to engage in fundraising activities (National Council of Nonprofits, 2014).

There are no state law requirements for NPOs in South Carolina. However, they are required to file an annual report which includes a specific and itemized report of revenues and expenses and balance sheet disclosures containing total assets and total liabilities. Penalties for failure to file can result in up to a \$2,000 fine. Fraudulent filings can result in a \$10,000 fine and 5 years in prison (South Carolina Code of Laws, 2014).

6. Volunteer/Volunteerism

Volunteers are essential components of NPOs. The University Of South Carolina College Of Liberal Arts' Institute for Public Service and Policy Research defines a volunteer as "...an individual who performs hours of service for public agency [or organization] for civic, charitable, or humanitarian reasons, without promise, expectation or receipt of compensation for services rendered... (Young, 2014)." It is widely believed that volunteers are vital to help organizations "add value to services, promote social harmony, and create public trust (Young, 2014)." "Volunteers provide enthusiasm, extra resources and, many times, much needed skills (Young, 2014)."

In South Carolina there are 14,428 NPOs that employ around 150,000 individuals, or 9% of the state's workforce. They account for almost \$18.2 billion in annual revenue and combined are the state's 5th largest employer (SCANPO, 2014). Residents of South Carolina donate, on average, about 6.4% of their discretionary income (The Chronicle of Philanthropy, 2012). In the United States, one in four adults (26.5%) volunteered through an organization in 2012. 64.5 million Americans volunteered nearly 7.9 billion hours in 2012. The estimated value of this service is nearly \$175 billion (Corporation for National and Community Service, 2012).

7. Tying Volunteers to Building Capacity

Capacity building refers to activities an NPO conducts that focus on fulfilling its mission.

According to the Fieldstone Alliance (2006), these activities include but are not limited to strategic planning, technology upgrades, operational improvements, and board development. In order for an organization to achieve organizational capacity there are six components to consider during planning and development. These six components include: Mission, vision, and strategy; governance and leadership; program delivery and impact; strategic relationships; finance; and internal operations and management. Aside from NPO management working to achieve organizational capacity, there are a number of outside sources that can provide assistance in building capacity such as research groups, academic institutions, or community support organizations (Fieldstone Alliance, 2006).

To build volunteer capacity there are a number of steps that an NPO can take. First, the NPO can conduct a needs assessment in which current members of the NPO provide information about projects that could use volunteers and what types of skills the NPO could use. The next step is to recruit motivated volunteers by posting a detailed description of the volunteer duties and skill requirements. Even though individuals are volunteering their time, they should still be interviewed to make sure they meet the requirements for the program. NPOs must also decide the appropriate method for managing their volunteers. The method depends on the commitment required for the volunteer position. Volunteers should be met with and assessed regularly and a trusted volunteer could be given a leadership position for a particular project. It is important to retain information about volunteers so the NPO does not lose track of them. This can be done by simply creating a spreadsheet of volunteer information. To keep volunteers and to determine what motivates them, they should also be recognized for their help by hosting events or using thank you notes (NYC, 2014). Appendix B (available from the author) contains step by step descriptions on how an organization can use volunteers to do more with less. It also contains the definition of building capacity with organizational activities that can enhance an NPO's ability to expand.

When an NPO evaluates its capacity building efforts, ideally it will consider outputs, outcomes, and impacts. Outputs are the easiest of the three to measure. Outputs are a count of the activities performed, such as the number of animals placed, the number of patients treated, or the number of meals served. Outcomes then consider how the outputs have affected the NPO's beneficiaries.

An example of an observable output is the reduction of hunger in the population that was served the above counted meals. Impact is the most difficult of the three types of evaluation to measure. Impact takes observable outcomes and attempts to measure how much of the effects are caused by the NPO's activities. Impact measurement implies that other influences in the community remain unchanged during the evaluation period. All three evaluation measures are difficult to calculate. However, research suggests that when an NPO attempts to track these measures, the tracking process itself leads to additional impact of the NPO in the surrounding community (Stannard-Stockton, 2010).

8. Justification for Increased and Sustained Capacity

Reporting volunteer contributions and capacity can lead to additional funding. Donors and grant giving organizations want to know the resources, and their sources, that an NPO already receives. They view this as a measure of the effectiveness of the NPO, as they want to ensure that there is enough support to accomplish the NPO's mission. Volunteer time can also contribute to the requirements for matching funds. As with the OMB, some grants require that the NPO match a percentage of the grant funds, and the value of volunteer time may qualify toward satisfaction of this matching requirement (Walsh, 2009).

When an NPO is competing for grants and other financial resources, it is important to show the entire scope of the resources available to the NPO. This is especially true for NPOs that rely heavily on volunteers. Without the inclusion of volunteer data in grant proposals, donors will have an inaccurate view of the resources and capabilities of the NPO. By translating volunteer hours into a dollar value, the NPO shows the existing community support in financial terms. To accomplish this, there needs to be an adequate system for documenting volunteer hours, along with the corresponding wage rates, put in place. This system should allow the NPO to record volunteer time as it is received, ensure that the data is not misplaced, and identify future staffing needs (Help with Grants, 2014).

9. FAS 116 & FAS 117

Statement of Financial Accounting Standards (FAS) 116 is a statement that pertains to the accounting standards for entities that receive or make contributions.

Contributions received are recognized as revenues at their fair value and contributions made are recognized as expenses at their fair value. If an entity is uncertain about the fair value of a contribution it may be an indication that recognition is not appropriate. “Conditional promises to give, whether received or made, are recognized when they become unconditional, that is, when the conditions are substantially met (FASB, 2014).” Contributions of services can only be recognized if nonfinancial assets are enhanced and the services require special skills that would be purchased if they were not donated. The programs for which the donated services were used must be described when disclosed. FAS 116 is effective for NPOs with over \$5 million in total assets and over \$1 million in annual expenses (FASB, 2014).

FAS 117 contains the standards for general-purpose external financial statements created by NPOs. The notes to nonprofit financial statements must include information about the services provided by the organization, the nature of their assets and liabilities, and how they obtain and spend their resources. For-profit organizations provide a balance sheet, income statement, and a statement of cash flows. Respectively, NPOs must provide a statement of net position, a statement of activities, and a statement of cash flows. Three classes of net assets and their changes must be displayed in the statements – permanently restricted, temporarily restricted, and unrestricted. Similar to FAS 116, this statement is effective for NPOs with more than \$5 million in total assets and more than \$1 million in annual expenses (FASB, 2014). Appendix C (available from the author) contains links to these accounting standards as well as additional information and resources.

10. Unrelated Business Income Tax

All NPOs must be cognizant of unrelated business income tax, more commonly known as UBIT. The sole fact that an NPO is tax exempt does not mean that the NPO is always exempt from paying taxes to the Internal Revenue Service. Unrelated business income is “income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption (IRS.gov, 2014).” Of course, not all income from activities unrelated to an NPO’s mission is considered unrelated business income worthy of taxation.

The IRS specially exempts volunteer labor, convenience of members, selling donated merchandise, and certain bingo games as activities excluded from the UBIT calculation. The IRS describes volunteer labor as, "...substantially all the work is performed for the organization without compensation. Some fundraising activities, such as volunteer operated bake sales, may meet this exception (IRS.gov, 2014)." Next, it describes convenience of members income as, "any trade or business is excluded that is carried on by an organization described in section 501(c) (3) or by a governmental college or university primarily for the convenience of its members, students, patients, officers, or employees. A typical example of this is a school cafeteria (IRS.gov, 2014)." Finally, it describes selling donated merchandise as, "...selling merchandise, substantially all of which the organization received as gifts or contributions. Many thrift shop operations of exempt organizations would meet this exception (IRS.gov, 2014)." Other examples of unrelated income that an NPO would likely not include are: "dividends, interest, other certain investment income, royalties, certain rental income, certain income from research activities, and gains or losses from the disposition of property (IRS.gov, 2014)."

If an NPO has greater than or equal to \$1,000 of gross unrelated business income, it is required to file a form 990-T. Furthermore, an NPO must pay an estimated tax if it expects UBIT to be greater than or equal to \$500. An estimated tax is paid on a quarterly basis and the estimated calculation can be found on the Form 990-W. The Internal Revenue Service Publication 598 and the Form 990-T Instructions have additional information regarding this topic if an NPO is unsure of certain income classifications (IRS, 2014).

11. Unified Chart of Accounts

"The Unified Chart of Accounts (UCOA) for nonprofit organizations is a chart of accounts freely available to any nonprofit organization, accountant, or consultant (Lewis, 2012)." NPOs can map their chart of accounts to UCOA to create more consistent financial statements and financial information for the IRS, the Federal Office of Management and Budget, GAAP, the United Way, and other standard reporting formats. By converting to UCOA it allows consistency between all NPOs, no matter the industry (Lewis, 2012).

The concept of UCOA originated in 1974 when Russy Sumariwalla created the "Illustrative Chart of Accounts, UWA Accounts Coding System (UWAACS)."

Since then it has changed several times, most recently in 2000 by the California Association of Nonprofits' Quality Reporting Project Task Force, when they officially created what is known today as UCOA. UCOA implements standard accounts that can be used by any organization. "UCOA is a framework for functional accounting of your organization's finances (Implementing Functional Accounting with UCOA, 2014)." With a simplified way of reporting it allows internal audiences such as management and the board to make better and faster decisions, and it allows external audiences such as funding sources and the IRS to be able to have a better understanding of the NPO as a whole (Implementing Functional Accounting with UCOA, 2014).

UCOA breaks out the accounts based on balance sheet and income statement accounts. The balance sheet accounts are assets, liability and equity/fund balances accounts. The income statement accounts are revenue, routine expense and other expense accounts. All of these basic accounts are then further broken down into specified account titles (Implementing Functional Accounting with UCOA, 2014). For further information please see Appendix C (available from the author).

Volunteer jobs recorded in UCOA can potentially be included in financial statements as revenues and expenses. For revenues, the UCOA accounts employed include 4110-Donated Professional Services – GAAP and 4120-Donated Other Services – non-GAAP. For expenses, UCOA accounts include 7580-Donated Professional Services – GAAP and 7590-Donated Other Services – non-GAAP (NCCS, 2014). The market value of the donated services should be recognized in the period in which they were provided. Examples of professional services include accountants, attorneys, doctors, veterinarians, craftsmen, and tradesmen (FASB, 2014).

One goal of this project is to map the individual charts of accounts for Eastern Carolina Homelessness Organization (ECHO); Grand Strand Humane Society of Myrtle Beach; Habitat for Humanity of Georgetown County; Palmetto Works Community Development Corporation and Georgetown County's Social Entrepreneurship Committee, a sub-committee of the Human Services Collaborative; and Smith Medical Clinic of Pawley's Island into the Unified Chart of Accounts.

Please refer to Appendix A (available from the author) for more information, or please contact the author if you would like the complete UCOA mapping workbook for all of the NPOs involved in this project.

12. Bureau of Labor Statistics

The Department of Labor is broken down into eight divisions, one of which is the Bureau of Labor and Statistics (BLS). The BLS was originally called the Department of Interior when it was first created in 1884. It transferred to the Department of Labor in 1913. The BLS conducts research that impacts economic and social policymaking, labor market and politics, and important decisions within business and financial communities. The main goal of BLS is to collect data for topics such as employment, compensation, productivity, and the trends of each (Wallechinsky, 2014).

The Bureau “generates the much-watched Consumer Price Index (CPI), used to calculate inflation, and the Producer Price Index. They also track import/export movement and how money is spent within the household (Wallechinsky, 2014).” Under the BLS, the Occupational Employment Statistics (OES) program “produces employment and wage estimates annually for over 800 occupations (OES, 2014).” The estimates are then further broken down into the rates for the nation, all 50 states, and metropolitan and nonmetropolitan areas. In addition, specific industry rates are available (OES, 2014). Please refer to Appendix C (available from the author) for additional resources and information on the national and the South Carolina state wage rates.

One way the Bureau obtains their information is by conducting the National Compensation Survey. This survey looks at employee salaries, wages, and benefits. From this survey the Bureau produces the Employment Cost Index (ECI) (National Compensation Survey, 2014). Another way they obtain their information is through the use of the Current Population Survey conducted by the Bureau of Census. This monthly survey “...provides a comprehensive body of data on the labor force, employment, unemployment, persons not in the labor force, hours of work, earnings, and other demographic and labor force characteristics (Labor Force Statistics from the Current Population Survey, 2014).”

The second goal of this project is to determine an acceptable source of hourly wages for all volunteer job descriptions provided by Eastern Carolina Homelessness Organization (ECHO); Grand Strand Humane Society of Myrtle Beach; Habitat for Humanity of Georgetown County; Palmetto Works Community Development Corporation and Georgetown County’s Social Entrepreneurship Committee, a sub-committee of the Human Services Collaborative; Smith Medical Clinic of Pawley’s Island. Table 1 below provides an example using volunteer positions utilized by Habitat for Humanity of Georgetown County. Please refer to Appendix B (available from the author) for a complete listing of all volunteer positions utilized by the participating NPOs, with job codes, job descriptions, national hourly wage rates, and South Carolina hourly wage rates.

Table 1: Mapping Volunteer Job Descriptions to BLS

Habitat for Humanity				
SOC:	Volunteer Positions	Job Description	Nat'l Average Hourly Pay	SC Average Hourly Pay
	Construction:			
47-2061	Regular Crew Members	Assist in building homes, paint walls and equipment	\$18.89	\$14.59
47-2061	Occasional/Per Diem Volunteers	Assist in building homes, paint walls and equipment	\$18.89	\$14.59
43-6014	Administrative Volunteers	Assist with bidding, purchasing, problem solving	\$14.42	\$12.58
	ReStore:			
41-2011	Cashiers	Receive and disburse money	\$9.82	\$8.84
13-1161	Pricing and Merchandising	Determine resale market prices	\$16.50	\$10.37
49-2094	Technology	Assess and repair electronic equipment	\$19.25	\$17.39
49-9071	Furniture Rehab	Repair used furniture , paint, wax	\$14.40	\$11.94
	Administrative:			
43-3031	Finance Department	Assist Controller with accts payable in/out and pmts	\$16.80	\$15.06
43-9021	Volunteer Office (Data Entry Keyers)	Enter contact information in the Access database	\$14.27	\$13.31
	Development:			
20-2031	Fundraiser Committee Chairs	Coordinate all aspects of the fundraising event	\$40.74	\$53.49
11--1131	Fundraiser Event	Work the day of the event only	\$22.36	\$27.05
	Board of Directors:			
11--1021	Board of Directors	Provide oversight/determine and formulate policies	\$85.77	\$73.43

13. How Others Show Volunteer Value

NPOs must find an appropriate rate to value the hourly time of their volunteers. As of 2013 the national estimated value of volunteer time was \$22.50 per hour. This value ranges depending on the state, with the estimated value for volunteer time in South Carolina at \$20.15 per hour. The value of a volunteer's time is difficult to quantify because of the intangibles they provide and the range of projects and time they spend helping the NPO (Independent Sector, 2014).

It is important to value volunteer time because it can be included in the annual reports as well as in the budget and financial statements. NPOs can promote value-based measures by producing a Volunteer Annual Report in which volunteer hours are outlined for each program along with their dollar value. In the financial statements, volunteer contributions and activities can be included in the expenses or revenues section (Embuldeniya and Goulbourne 2002). An organization should assign each position within their program an appropriate wage and classification and multiply the hours contributed by the wage. This information can also simply be disclosed in the financial statements.

The best way to ensure that volunteer time is accurately included in the financial statements is to record services when they are performed. If they are documented in a timely manner, as soon as the services are provided, they will be available for preparation of the financial statements without effort going unnoticed or losing any information (Walsh, 2011).

14. How to Audit Volunteer Value with Policies & Procedures and Internal Control Self-Assessment Papers

NPOs can refer to previous Advanced Auditing and Fraud Examination graduate class white papers to help audit volunteer value and to address the audit risks discussed below. Past papers that would be of most assistance are South Carolina Nonprofit Policies & Procedures and Best Practices for Nonprofits' Internal Control Self-Assessment. The South Carolina Nonprofit Policies & Procedures project assembled a menu of policies to assist NPOs of all sizes in South Carolina to achieve best practices. It was the first step in addressing the concerns of NPOs expressed in the first, NPO governance survey project. Policies required by law and sources of best practices can be found in the paper (Maguire, 2013).

The Best Practices for Nonprofits' Internal Control Self-Assessment project compiled a menu of steps to allow NPOs to self-assess their operations of internal controls and policies, no matter the size of the organization (Maguire 2014). The goal is to provide assistance to NPOs, such as adopting the Unified Chart of Accounts (UCOA) and incorporating it into their self-assessment process.

Audit risks for the NPOs involved in this project include assertions in the areas of existence/occurrence, completeness, rights and obligations, valuation/allocation, and presentation and disclosure. Examples of audit risks present for all NPOs involved include accurately valuing donated services and volunteers, complying with donor-imposed restrictions on physical property, rights to property being used by the NPO, and ensuring that all grants and donations are properly recorded in the full amount. Additional concerns include not overstating program service expenses and not understating administrative expenses, as well as ensuring that unallowable costs are not charged to grants. NPOs want to avoid misclassifying employees as volunteers, and misclassifying volunteers as employees. Related-party transactions should be properly disclosed. Lastly, when measuring outputs, an NPO does not want to overstate the number of patients, animals, members, etc. served, as well as the services actually being performed (Arens, Elder, and Beasley, 2014).

15. Incorporating Volunteer Value in Financial Statements – Integration of Findings

This project proposes an integrated approach to record and reflect volunteer value and capacity. In order to demonstrate the effect of the process discussed in this paper, an example has been created. In the example, two distinct types of volunteers are utilized by the NPO, skilled workers and unskilled workers. Table 2 below provides an illustration of the process.

Table 2 – Example of Volunteer Valuation across NPO Financial Reporting Formats

	Per Hour Charge	Hours	Amount	Purchased Services	UCOA*	GAAP	OMB Matching	990 - No Audit**	990 - Audit***
Skilled	\$100	1,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Unskilled	\$10	2,000	\$20,000	\$20,000	\$20,000	-	\$20,000	\$20,000	\$20,000
Amount reportable on NPO FS				\$120,000	\$120,000	\$100,000	\$120,000	0	\$100,000

*Skilled - Donated Professional Services – GAAP

Unskilled - Donated Other Services - Non-GAAP

**Both reported on line 82b of Form 990 for informational purposes only

***\$100,000 reported in Part IV of Form 990 - Reconciliation of GAAP-IRS

\$20,000 reported on line 82b of Form 990 for informational purposes only

The first column in Table 2 starts the process with obtaining the BLS rates for all workers. For our example, we used \$100 an hour for skilled workers, such as veterinarians, and \$20 an hour for unskilled workers, such as cat petters. Then we multiplied those rates by 1,000 hours and 2,000 hours for veterinarians and cat petters, respectively. These hours, in the second column of Table 2, would be tracked by the NPO over the reporting period. Multiplying BLS rates by total tracked hours is how the volunteer value is calculated. So in our example, veterinarians donate \$100,000 worth of services, and cat petters donate \$20,000 worth of services.

Next we demonstrate how the veterinarians' and cat petters' services are reported in the financial statements if the services were purchased, for UCOA, for GAAP, for OMB matching, on Form 990 without an audit, and on Form 990 with an audit. If the NPO purchased the services, the total value would automatically be incorporated in the financial statements because it is a cash expense for the NPO.

UCOA is the linchpin for the whole process of incorporating the volunteer value into the financial statements. It records how volunteers build and sustain an NPO's capacity by providing a mechanism that is compatible with all NPO financial reporting format requirements (NCCS, 2014).

Following FAS 116 and 117, only the veterinarians' services are recorded in the financial statements for GAAP. As discussed earlier, there is a UCOA account called Donated Professional Services – GAAP under which the veterinarians' services would be recorded. The cat petters' services are recorded in the non-GAAP account Donated Other Services, and therefore are not incorporated into GAAP reporting.

OMB matching allows the NPO to receive federal grants based on the total number of volunteer hours tracked. The volunteered services must be integral and necessary to the NPO. Skilled services are considered professional services while unskilled services are not. However, both can be defined as integral to the NPO's mission and therefore included in the matching calculation. The rates used for BLS are the same as the rates used for OMB matching (OMB, 2014). All of the \$120,000 of donated services by the veterinarians and the cat petters can be included in the cost sharing (The JMML Foundation, 2006).

Under federal reporting standards, NPO's that expend \$500,000 or more in federal awards in a fiscal year are required to have a single audit. Under South Carolina reporting standards NPO's are not required to have an audit (National Council of Nonprofits, 2014). If the NPO is soliciting funds in the state, and they are not an exempt organization, they are required to file IRS Form 990. They must also include specific and itemized revenue and expense statements, and balance sheet disclosures (South Carolina Legislature, 2013). An independent audit can be quite expensive for NPOs, but we have discussed several ways to reduce the amount of billable hours charged by the auditor.

For the Form 990, without an audit, an NPO can only record the \$120,000 of veterinarians' and cat petters' services on line 82b, which is for informational purposes only. If an NPO obtains an independent audit it allows them to receive more grants, because many organizations that give grants (including the federal government) seek audited NPOs (National Council of Nonprofits, 2014). For the Form 990 with an audit, an NPO can include the \$100,000 of veterinarians' services in the Reconciliation of GAAP – IRS in Part IV, with the numeric reconciliation of net assets in Part XI. The \$20,000 of cat petters' services still can be reported on line 82b for informational purposes only (Ordeneaux, 2011).

In the first paper, Study on Non-Profit Organizations in South Carolina, one of the questions asked was which type of audit or review of the financial statements did your organization have done, if any, in the last fiscal year? 61% of the respondents had an independent audit performed and the average cost was \$9,370. However, NPOs acquiring audits by independent CPAs had higher budgeted revenues than that of those with independent CPA reviews, board member reviews and no audits.

12% of respondents stated that a review of the financial statements was performed by an independent auditor at an average cost of \$1,953 (Maguire, 2012). An audit is expensive, but an NPO can lower its auditor's billable hours using the two previous papers and using the UCOA mapping provided.

The process presented in this paper allows NPOs to reduce the costs associated with hiring an auditor while achieving best practices. This allows NPOs to value their volunteers and demonstrate their successful and sustainable capacity building efforts to internal and external stakeholders. When NPOs can demonstrate their true capacity, this increases opportunities to obtain additional funding, including those types of funding which require audits. The opposite of a vicious cycle, it is a capacity cycle that leads to greater output, outcomes, impact, and capacity building.

16. Recommendations

Working in collaboration with The Chapin Foundation, The Waccamaw Community Foundation, and The Frances P. Bunnelle Foundation, the output of these multi-stage research service learning projects will assist NPOs achieve best practices in their "back room operations" now and as they grow. Achieving compliance with best practices for financial accountability, transparency, and board governance, the output of these projects facilitate the link between philanthropic leadership, charitable resources, and civic influence with community needs and opportunities.

The recommendation for the future is to continue to conduct research for NPOs that will provide education on how to achieve best practices. Research with the participation of Master of Accountancy graduate students at Coastal Carolina University provides the opportunity to assist the NPOs in several areas. Through the research, assistance can be provided to help NPOs achieve best practices for corporate governance, accounting, and auditing, and reduce the costs of attaining these goals.

This research process is intended to assist South Carolina NPOs achieve compliance with best practices for financial accountability, fundraising, and board governance.

Essentially, by strengthening the financial knowledge and practices of South Carolina NPOs, donors will have more confidence, NPOs will have the ability to obtain the funding needed to reach their goals, achieving efficiency in “back-room operations” will increase effectiveness in “front-room operations,” NPOs can build capacity, and continue providing charitable services to our communities. This research provides a mutual benefit to both Coastal Carolina University and the South Carolina NPO community.

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