Social Accounting for Nonprofits
Two Models

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After giving an overview of the development of social accounting, this article presents two models of social accounting for nonprofits: the community social return on investment model and the expanded value-added statement. The discussion focuses on the process for establishing a comparative market value for nonmarket social outputs. The authors discuss these models and the comparative market value in relation to social accounting, an academic field that has evolved as part of a critique of financial accounting, especially its failure to analyze the impact of the organization on society and the natural environment. For the most part, scholars have not related social accounting to nonprofits. This article attempts to draw nonprofits into the field of social accounting. Both models address the social impact of nonprofits by including social inputs and outputs that accounting statements normally exclude.

THIS ARTICLE has two objectives: (1) to discuss social accounting as it applies to nonprofits and (2) to present two models of social accounting financial statements—the community social return on investment model and the expanded value-added statement—for nonprofits. Both of these models present examples of how nonmonetized social outputs can be given surrogate values and included with financial statements.

Social Accounting Tradition

Social accounting is based on a critique of the limitations of financial accounting, particularly the limited range of items that it considers, its exclusion of items that do not have an established dollar value (nonmonetized), and its focus on shareholders and other financing

providers to the exclusion of other stakeholders—employees, users or consumers of the service, society, government, volunteers, and members. When it originated in the early 1970s, scholars referred to this approach as either environmental accounting or social and environmental accounting (Bebbington, Gray, and Owen, 1999; Gray, Owen, and Adams, 1996; Mathews, 1997), because one of its concerns was the organization's impact on the natural environment. Gradually, the emphasis has shifted to a broader array of social concerns. We define *social accounting* as "a systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that are analyzed for the accounting statement" (Quarter, Mook, and Richmond, 2003, p. 3). This definition is consistent with others in the field (Estes, 1976; Gray, Owen, and Adams, 1996; Gray, Owen, and Maunders, 1987; Institute of Social and Ethical Accountability, 2001; Mathews and Perera, 1995; Ramanathan, 1976; Traidcraft, 2002). All the definitions emphasize the broadening of the domain of items under consideration and include a broader array of stakeholders.

Social accounting is based on a critique of the limitations of financial accounting

The most widespread application of social accounting involves the use of qualitative data and descriptive statistics to assess how an organization is meeting its stakeholders' expectations in executing its mission (New Economics Foundation, 1998; Sillanpää, 1998; Zadek, 1998). This approach—also referred to as a social or ethical audit—has been used by socially oriented businesses (such as the Body Shop, Ben & Jerry's, and Traidcraft), credit unions, and nonprofits. The approach was developed primarily by the New Economics Foundation and Institute of Social and Ethical Accountability (United Kingdom) and the Council on Economic Priorities and Social Accountability International (United States). However, it remains a supplement to the financial statements and may not even be viewed as accounting. Accountants prepare the financial statements; a consultant (not necessarily an accountant) prepares the social account.

Earlier, some U.S. accountants attempted to create social accounting financial statements that would broaden the domain of items considered and that also attempt to relate financial statements to a broader group of stakeholders (Abt and Associates, 1974; Estes, 1976; Linowes, 1972, 1973). However, relatively few organizations have taken up this work. Very recently, some have attempted to create financial statements for nonprofits—the social return on investment models of the Roberts Foundation in San Francisco (Roberts Enterprise Development Fund, 2001) and the models created by Benson (1999). In addition, since 1980, cooperatives in France and Italy have created a *cooperative balance,* a stakeholder-based balance sheet (Riahi-Belkaoui, 1984; Vaccari, 1997).

The models we present in this article follow in the tradition of creating financial statements that include a broader array of items (integrating the financial and the social), but we apply them to

nonprofits. For the purposes of this article, social items are those that are nonmonetized; that is, they do not involve a financial exchange on the market. This concept is of relevance to nonprofits because some serve their clients either without charge or with a nominal charge; therefore, financial statements do not track the benefits that the nonprofits create (Henke, 1989; Richmond, 1999). Moreover, even nonprofits with earned revenues are organizations with a social mission, so including their social benefits (in the broadest sense) within financial statements is important.

In our book, *What Counts: Social Accounting for Nonprofits and Cooperatives* (Quarter, Mook, and Richmond, 2003), we present an early model to assess nonprofit impact, the community social return on investment model, followed by three social accounting statements:

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- The socioeconomic impact statement, an adaptation of an income statement
- The socioeconomic resource statement, an adaptation of a balance sheet
- The expanded value-added statement, an adaptation of a value-added statement

We cannot discuss these models in detail in this article. Rather, the article discusses the issue of monetizing social outputs and illustrates how they can be presented within two of our models—the community social return on investment model and the expanded value-added statement. For a more detailed discussion of these matters, see the following: Quarter, Mook, and Richmond (2002, 2003); Richmond's doctoral thesis (1999); and our Web site (http://home.oise.utoronto.ca/~volunteer).

In general, the accounting profession has been restrictive about the circumstances in which it allows for monetizing of social items. Professional accounting organizations have studied issues related to the environment and a broader array of social matters (American Accounting Association, 1972a, 1972b, 1973, 1989; American Institute of Certified Public Accountants, 1977; Canadian Institute of Chartered Accountants, 1993; Institute of Chartered Accountants in England and Wales, 1992), but the change in practice has been slow. Nevertheless, accountants sometimes do make estimates. Human resource accounting assigns values to nonmonetized items (Flamholtz, 1985), and financial accountants make estimates, which lack precision, for inventories and the depreciation of assets. However, in general, conventional accounting has shunned assigning market values to nonmonetized items.

To some extent the accounting profession has recognized these limitations, but generally the profession has avoided departing from that framework and has ignored approaches that recognize the unique features of social organizations. The Financial Accounting Standards Board concluded in 1980 that measurement of performance of nonprofit organizations required information about the service efforts and accomplishments of the organization, together

with information about the amount and nature of net resources. It went on to state that "financial reporting should provide information about service efforts (how resources are used to provide different services) in the financial statements" (cited in Fountain, 2001, p. 2). The Financial Accounting Standards Board also recognized that a nonprofit organization reporting on performance ideally should provide information about service accomplishments as part of financial reporting. This pronouncement recognized the difficulties organizations face in measuring and reporting program accomplishments and acknowledged the need for more research to determine whether researchers might develop measurements of service effort and accomplishment that met the characteristics necessary for inclusion in nonprofits' financial statements.

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Community Social Return on Investment Model

The community social return on investment model is an early social accounting model that was developed to examine nonprofit value from the perspective of the community as a stakeholder. It led to the development of the expanded value-added statement that follows.

In the community social return on investment model, an organization's financial statements are restructured to represent an inflow and outflow of resources for a period of one year. This conceptualization is also compatible with the systems model for understanding how human service programs operate (Henke, 1989; Martin and Kettner, 1996). Table 1 depicts a one-year cycle, showing the flow of incoming resources (or inputs) into a training program to the outgoing resources (or outputs). Using the classic definition of *productivity* as the ratio of outputs to inputs (Brinkirhoff and Dressler, 1990), the model provides feedback to the organization on its productivity and stewardship of resources, as reflected by its ratio of social return on investment (see Table 1). By examining this yearly, the organization can use this information to assess how it spends resources to produce an impact on its community.

We applied the community social return on investment model to the Computer Training Center for fiscal year 1994–1995. The

Table 1. Template for a One-Year Community Social Return on Investment

Incoming Resources	*Outgoing Resources*
Revenues	Expenditures
Value of volunteer activities	Value of volunteer activities
	Value of outputs
	Primary
	Secondary
	Tertiary
Total	

Note: Return on investment is the ratio of incoming resources to outgoing resources.

Computer Training Center in Canada is part of a network of similar community-based agencies. The mandate of community-based training agencies is to provide employment-related training to the "severely employment disadvantaged," that is, people facing complex systemic and personal barriers to employment (Rans, 1989). Clients of these agencies include recent immigrants, older workers who have been laid off, mothers who have little work experience and are receiving income support, people with disabilities, youth who have not completed high school, women seeking entry into restricted trades, people in recovery from alcohol and drug dependency, and former criminal offenders.

A study in Ontario shows that over half of the community-based training agencies receive more than 75 percent of their funding from a single source

Although the total number of community-based training agencies is generally unknown, approximately 450 organizations were affiliated to this Canadian network (Ontario Network of Employment Skills Training Projects [ONESTEP], 1996a). On average, community-based training agencies have small budgets of approximately $335,000 (all figures are in Canadian dollars), a full-time staff of about four, and approximately 275 clients per year. The board of directors consists of volunteers from the local communities (ONESTEP, 1996b). A study in Ontario shows that over half of the community-based training agencies receive more than 75 percent of their funding from a single source, most frequently the federal government (ONESTEP, 1996b). Provincial ministries, the United Way, individual donors, and charitable foundations are other funders.

For this article, we focus on the Computer Training Center's social outputs and how it attributed comparative market value to those items. We consider outputs within three categories:

- Primary: direct effects of an organization's services on its clients
- Secondary: indirect effects on the clients
- Tertiary: effects on groups other than the clients (for example, the community)

The Computer Training Center had only primary and tertiary outputs, but Waterloo Cooperative Residence Incorporated (WCRI) used all three categories of outputs in the expanded value-added statement.

Agency's Expenditures

Although they were not strictly a social output, we viewed the agency's expenditures of $842,051 as an outgoing resource because salaries and external purchases return to the community. The agency's staff members used their salaries to make purchases, pay mortgages or rent, and sustain themselves and their families. Nonpersonnel expenditures represented purchases of supplies and equipment that the agency required for its service. Expenditures for the Computer Training Center were similar to its revenues; that is, it transferred the grants that it received from the government to the community. This is true of most public-sector nonprofits.

Value of Volunteer Activities

As Table 2 indicates, volunteers were both an incoming and outgoing resource. Like revenues, volunteers represented a contribution from the community that permitted the agency to undertake its service; like expenditures, volunteers were a contribution that the agency returned to the community. Arguably, the value of volunteers that was returned to the community was enhanced as a result of the experience with the agency. Volunteers develop skills through their volunteering experience that should be treated as value added. However, management of volunteers incurs costs. For the purposes of the statement in Table 2, we assumed that volunteer contributions that remained with the Computer Training Center at the end of the fiscal year offset the costs. Therefore, in the community social return on investment report, the value of volunteers as incoming and outgoing resources was the same.

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Like many nonprofits, the Computer Training Center did not track the hours its volunteers spent, so we asked staff to estimate them. The executive director estimated that ten volunteers on the business advisory committee and eight volunteers on the board spent 2,896 hours serving on five committees; interviews with board volunteers corroborated these estimates. We asked the director which value was closer to the skill level and tasks that the volunteers performed: a figure equivalent to his salary or the professional salary of the volunteers. He estimated the board members' average yearly salary to be $72,500 or $37.18 per hour (based on a standard measure of 1,950 hours of work in a year). The director then estimated the percentage of executive skill capacity that volunteers used to complete their tasks with the center: 20 percent of their professional capacity

Table 2. Community Social Return on Investment Statement for Computer Training Center, 1994–1995

Incoming Resources		*Outgoing Resources*	
Revenues	$837,614	Expenditures	$842,051
Value of volunteer activities	$65,853	Value of volunteer activities	$65,853
		Value of outputs	
		Primary	
		Employment acquisition	$599,320
		Enhancement	$113,988
		Secondary	
		N/A	
		Tertiary	
		Social savings from income benefits	$13,524
		Social savings from related services	$2,300
Total	$903,467		$1,637,036
Ratio of incoming resources to outgoing resources			1:1.81

for each of the committees (for 2,448 hours) and 35 percent of their professional capacity for the board of directors (for 448 hours). Using these figures, we calculated the values as follows:

Committee work: $37.18 × 2,448 hours = $9,106 × 20 percent = $18,203
Board of directors: $37.18 × 448 = $16,656 × 35 percent = $5,830

The program's two primary outputs on the clients were employment acquisition (skills training that led to jobs) and employment enhancement (successful completion of training that increased their chances of getting jobs)

Using the director's estimates, we calculated the total value of the volunteer contribution as $24,033.

The estimates used a combination of opportunity costs (how much the volunteer received for an hour's work in the workforce) and replacement costs (assessment of what the task was worth to the organization). However, these estimates appeared low to us because the volunteers were highly skilled professionals who were undertaking key tasks for the organization.

Because of the discrepancy between these points of view, the researchers assessed the value of the volunteer contribution as the average of the following two estimates:

Our estimate based on the assumption that the members of the board of directors and committees were using their full professional skills in their volunteer activities at the Computer Training Center (2,896 hours × $37.18 per hour × 100 percent, or $107,673)
The director's estimate that the members of the board of directors and committees were using only 35 percent and 20 percent, respectively, of their professional skills in their volunteer activities at the Computer Training Center, valued at $24,033

The average of these two estimates becomes $107,673 plus $24,033 divided by 2, or $65,853. We entered this amount into Table 2 both as an incoming and outgoing resource.

Employment Acquisition and Employment Enhancement

As we mentioned previously, according to the organization's stated mandate and the terms of its contracts (verified through interviews with graduates), the program's two primary outputs or direct effects on the clients were employment acquisition (skills training that led to jobs) and employment enhancement (successful completion of training that increased their chances of getting jobs). Three months after graduating, twenty-three out of thirty clients (77 percent) had found employment.

As Table 2 indicates, the value of employment for the twenty-three clients who found work was $599,320 (rounded up), estimated by aggregating graduates' wages (see James, 1987). We arrived at this figure by multiplying the graduates' average salary ($26,057.39), as recorded by the agency, by the number of graduates. To check on the agency's figures, we interviewed four graduates, who reported average salaries of $28,850.

We used the figure of $599,320 that the agency reported as the twenty-three graduates' total salaries as a comparative market value for the employment acquisition output of the Computer Training Center and entered this figure in the outgoing resources column of Table 2. The total of the employment acquisition category is understated because it does not include the value of employee benefit packages that graduates received. Two of the four graduates we interviewed reported receiving benefit packages but were unable to ascribe a value to them.

Another primary output of the Computer Training Center was employment enhancement, to which (as Table 2 indicates) we also assigned a comparative market value. Despite not necessarily achieving a paying job at the end of their training, the graduates of the program had developed new skills. If they had acquired these skills from a profit-oriented business, the clients would have paid for them, and the payment would be seen as a measure of their value. Because the clients did not pay for the service at the Computer Training Center, we applied a surrogate procedure to estimate its value to the seven graduates who did not become employed. First, we tried to find a similar private-sector training program but failed. Because we could find no private-sector equivalent, we estimated the employment enhancement output using the amount per client that the funder granted to the center to deliver the specialized training. In 1995–1996 the per-client grant was $16,284. We used this figure as the comparative market value per unit of training. For the seven graduates who did not find employment but whose employment chances were enhanced by training, we estimated the value to be $7 \times \$16{,}284 = \$113{,}988$.

As Table 2 indicates, the primary outputs of the Computer Training Center—employment acquisition and employment enhancement—have values of $599,320 and $113,988, respectively, or a total of $713,308. This value was a key component of the Computer Training Center's contribution to the community.

Savings from Income Benefits and Related Services

In addition to its primary outputs of employment acquisition and enhancement, the agency also had an effect on groups other than the clients—namely, tertiary outputs. We identified the Computer Training Center's tertiary outputs as the costs the community saved when graduates who became employed and earned a salary no longer required income support and other related benefits.

To place a financial value on these savings, we examined case files for the graduates and cross-checked this information with the interview data.

Because actual amounts were not available, we based the total income assistance in the year before entering the program on amounts that eight program clients (four 1994–95 graduates and four graduates of a later fiscal year) reported having received. Their average was $588 in the year before entering the program. If this group

is representative of the twenty-three clients who became employed as a result of training, the costs saved in their income benefits were $13,524 ($588 × 23).

For every dollar's worth of economic and social resources that entered the organization, $1.81 in economic and social value returned to the community

In addition to income assistance, the four 1994–1995 graduates we interviewed also reported receiving other benefits. However, graduates were frequently either unsure or not forthcoming about the types, amounts, or value of these goods and services. Based on the interviews, we assessed a modest value of $100 for additional benefits per client. For the twenty-three graduates who became employed, this amounted to $2,300 ($100 × 23) in further cost savings. We include both this amount and the $13,524 of savings from income benefits as outgoing resources in Table 2.

In total, the outgoing resources amounted to $1,637,036, or $733,569 more than the incoming resources. In other words, for every dollar's worth of economic and social resources that entered the organization, $1.81 in economic and social value returned to the community. This ratio means that the Computer Training Center's expenditures for technology, individual instruction, specialized equipment, and employment assistance for graduates as well as the volunteer support required to help with training and job opportunities were offset by the center's positive impact on the community. This positive impact includes the value of employment acquisition and enhancement, the costs saved in income and other benefits, and the enhanced quality of life for clients (and to some extent their families).

Expanded Value-Added Statement

The expanded value-added statement builds on the community social return on investment model and organizes the data into a financial statement format. It combines value added from financial sources obtained from audited financial statements with value added from social inputs. In this regard, the expanded value-added statement constitutes a unique contribution to the emerging field of social accounting, especially as applied to nonprofit organizations.

Value added is a measure of wealth that an organization creates by adding value to raw materials, products, and services through the use of labor and capital. Since the 1970s, the value-added statement has been in use in the United Kingdom and is a required financial statement in many European countries, New Zealand, South Africa, and Australia (Riahi-Belkaoui, 1999). In contrast to *profit,* the wealth created for only one group—owners or shareholders—value added represents the wealth created for a larger group of stakeholders. Thus, the value-added statement focuses on the wider implications of an organization's activities beyond profits or losses; in the case of nonprofit organizations, it focuses on implications beyond surpluses or deficits.

In the for-profit sector, value-added statements emphasize that the organization also employs people, contributes to societal costs through taxes, rewards investors and creditors for risking their funds,

and sets aside money to maintain its viability. In our proposed expanded version, it also emphasizes the organization's role in providing societal benefits that financial statements generally ignore because these are not monetized transactions.

We undertook the expanded value-added statement with the Waterloo Cooperative Residence Incorporated (WCRI), which supplies housing in dormitories and apartments for students of two major Canadian universities, Waterloo and Wilfrid Laurier. The nonprofit student-operated cooperative has a ten-member board of directors that student-members elect from their group.

Table 3, which presents the value added by WCRI, has three columns that refer to different sources of value added:

- Financial, representing information from audited financial statements only and which is also referred to as a restricted value-added statement
- Social, representing information about nonmonetized contributions and outputs for which accountants estimate market comparisons
- Combined, representing the total of the financial and social columns, also referred to as an expanded value-added statement

In order to calculate the amount of value added, the first step is to assess the organization's total outputs and assign a comparative market value to them. *Total outputs* are the results of an organization's activities to accomplish its mission, all of the services that it offers. Total outputs are subdivided into primary, secondary, and tertiary, reflecting how directly the associated items are connected to the organization's mission.

Primary Outputs

For the fiscal year we examined, WCRI's primary outputs were housing units and services, totaling $4,210,159. This amount consists of

Table 3. Expanded Value-Added Statement (Partial) for WCRI

Value Added Created		*Financial*	*Social*	*Combined*
Outputs	Primary	$3,964,031	$246,128	$4,210,159
	Secondary	$65,192	$424,808	$490,000
	Tertiary	—	$2,500	$2,500
	Total	$4,029,223	$673,436	$4,702,659
Purchases of external goods and services		$1,538,561	—	$1,538,561
Value added created		$2,490,662	$673,436	$3,164,098
Ratio of value added to purchases		1.62	0.44	2.06

Note: For the year ended April 30, 1999.

two parts: first, $3,964,031 of revenues WCRI received from such items as accommodation, food, and parking; and second, the value of social labor contributions and donated services, totaling $246,128. The social labor requires some explanation.

Social Labor. WCRI's social labor is the members' unpaid services to the cooperative; this reduces costs, creates opportunities for skills development, and enhances members' psychological sense of ownership. Social labor has an impact both on the market value of services and on the residents' manner of payment. WCRI's dormitory residents contributed forty hours of social labor a term. We reduced this figure by 50 percent to allow for inefficiencies and valued it at $8.00 per hour, an amount determined by the WCRI Market Subcommittee (1998). Therefore, the member contribution to the school term had an estimated financial value of $160 (40 hours × $8.00 × 50 percent). Without this contribution, residents of WCRI would have had to pay $2,360. With it, they paid only $2,200. On the restricted value-added statement, WCRI would have recorded only the portion received in cash ($2,200) as revenue and ignored the $160 for social labor. To record the true market value of the housing units and services in a value-added statement, WCRI must add to revenues we obtained from the audited financial statements an amount equivalent to the value of the social labor that members performed.

In order to calculate the amount of value added, the first step is to assess the organization's total outputs and assign a comparative market value to them

For fiscal year 1994–1995, the estimated total hours of social labor were 58,632. As noted, we discounted this total by 50 percent to compensate for inefficiencies. At $8.00 per hour, this resulted in a total comparative market value of $234,528 ($58,632 × 50 percent × $8.00).

Members of the board of directors contributed additional social labor. WCRI staff estimated that ten members each contributed ten hours per month, which at $8.00 per hour totaled $9,600. The total of these two figures is $244,128. This is the major part of the primary output listed within the social column of Table 3.

Donated Service. Donated service is a third component of WCRI's primary outputs. Although WCRI supplies services primarily to university student members of the cooperative, during the fiscal year we examined, it housed approximately fifty refugees who also donated services. Based on the student rate, the market value of these donated services was estimated at $14,000. However, WCRI charged immigration authorities at cost ($12,000), thereby forgoing a portion of revenues ($2,000) that it would have received at market value. In order to record the true market value of these services, we treat the difference between its market value and its cost ($2,000) as social value added and include it as part of the primary outputs in the social column. We treat this donated service as a primary output because it is directly related to the organization's primary service, the provision of housing. We classify it social value added rather than financial value added because, unlike the $12,000 WCRI received from the government, this amount never appears on the audited financial

statements. Yet it is part of WCRI's contribution to the community's need for social housing.

All of these items represent WCRI's contribution to its mission. When we add the amount of financial revenues ($3,964,031) to the estimate of social value added ($246,128), we arrive at the total of $4,210,159 in an expanded value-added statement.

Secondary Outputs

In addition to providing housing and related services, WCRI also produced secondary outputs such as cooperative development and skills training

In addition to providing housing and related services, WCRI also produced secondary outputs such as cooperative development and skills training. In order to include these in the value-added statement, we also assigned market values to them. Like the primary outputs, secondary outputs are divided between financial and social. The secondary outputs appearing in the financial column of Table 3 are the expenditures of $65,192 taken from audited financial statements on such cooperative development items as meeting expenses, newsletter, and education. This was relatively straightforward.

The more demanding step was to estimate the social value for skills training. This item would not appear in a restricted value-added statement but represents a genuine benefit (hence, added value) of the experience of living in WCRI; therefore, it appears in the social column of the expanded value-added statement. Members developed a variety of skills as a secondary benefit of living in the cooperative. These included independent living, as well as personal, organizational, and leadership skills. Skills development comes from a variety of experiences, and determining precisely what portion to attribute to living in the cooperative is problematic. However, by comparison to students living in typical campus dormitories or off-campus apartments, WCRI members acquire managerial skills and democratic experience. Members learn to run an organization with a $4 million budget and make decisions about both large and small matters.

In addition, through membership meetings students experience member control and participate in democratic processes in a highly personal context, in which their decisions affect members' living conditions and quality of life. Members must balance their self-interest with the interests of the community as a whole, requiring a maturity of judgment that students may find challenging.

Assigning a market value to these secondary outputs was not as straightforward as estimating the market value of social labor or donated service. Yet these were valuable benefits of living in the cooperative. We assigned these benefits a comparative economic value equivalent to the cost of taking two undergraduate university courses at $500 each. Yet we could not assign this benefit to all of WCRI's residents because our survey indicated that not all had participated actively in the cooperative's governance. Therefore, it seemed reasonable to assign these benefits to the 56 percent of residents who reported that they participated in management through the cooperative's meetings. Thus, the amount we calculated for the

market value of this portion of skills training was 56 percent of the total, or 460 students, multiplied by the cost of taking two university courses (at $500 each); this amounted to $460,000.

Our survey also identified a smaller number of students who were especially active in the cooperative's governance. We decided that the additional enhancement of their skills could be a benefit not just to the students themselves but also to the community at large. The residents who benefited most from this type of learning experience were the ten members of the board of directors and ten committee chairs and selected committee leaders. For these twenty students, we estimated the equivalent to be one additional theoretical and two practical courses in community development. Thus, the value we assigned to this output was three courses at $500 each, or $1,500, multiplied by twenty students, for a total of $30,000.

As a result of its achievements and leadership status, WCRI was able to transfer knowledge to other cooperatives, another component of social value added

To arrive at the total value added of skills training, we added the $30,000 to the estimated value of $460,000. This created a total social value added of $490,000 for skills training. However, to achieve these benefits, WCRI invested $65,192 (as shown in Table 3's financial column under secondary outputs). This amount represents such costs to the organization as meetings, education as it relates to living in and running a cooperative, and newsletter production. Thus, to calculate the net social value added of secondary outputs, we must adjust the estimated market value of skills training for financial expenditures. Therefore, we subtract the amount that WCRI spends ($65,192) from $490,000 to arrive at the net social value for secondary outputs of $424,808, as shown in the social column of Table 3.

To arrive at the value that WCRI's secondary outputs add, we added the expenditure of the organization on related items, as stated in the audited financial statements, to the estimated market value for skills training. This amount ($490,000) appears in the combined column and represents value added of secondary outputs for an expanded value-added statement.

All of the outputs discussed to this point are directly related to providing housing for WCRI residents. However, WCRI is part of the cooperative movement and provides services for other cooperatives. Because these are external to WCRI's services to its members, we label them tertiary outputs.

Tertiary Outputs

As a result of its achievements and leadership status, WCRI was able to transfer knowledge to other cooperatives, another component of social value added. In fiscal year 1994–1995, WCRI supplied free consultation services to three other cooperatives. These contributions were in the form of leadership development, cooperative consultation, and business consultation. To estimate a comparative value for these services, we multiplied the number of days involved by the

daily amount that the client cooperative would normally pay to a consultant. As Table 3 indicates, we estimated this amount to be five days at $500 per day, or $2,500. This amount appears as tertiary output in the social column and also in the combined column.

Total Outputs

Once we calculated the primary, secondary, and tertiary outputs, we added these together to arrive at the total outputs. In this case total financial outputs of $4,029,223 would appear in a restricted value-added statement. When the total social outputs of $673,436 are added to the total financial outputs, the total combined is $4,702,659.

Subtracting External Purchases

Returning to our earlier definition of value added as a measure of wealth that an organization creates by adding value to raw materials, products, and services through the use of labor and capital, we note that in order to provide those services, WCRI has purchased goods and services externally. We identified the cost of these purchases ($1,538,561) from the organization's audited financial statements.

Ratio of Value Added to Purchases

Another way of expressing value added is to show it as a ratio to purchases of external goods and services. This ratio relates back to the definition of value added, illustrating the value an organization adds to external purchases through the use of labor and capital. We established the ratio of value added to purchases, indicated in the final row of Table 3, by dividing the value added ("value added created") by the cost of external goods and services. This ratio indicates that for every dollar WCRI spent on goods and services, the organization generated $2.06 in value added. As noted, the expanded value-added statement includes a market estimate of nonmonetized items such as social labor, donated service, skills training, and consultation to the cooperative sector. If we had not included those items, the ratio of value added to purchases would have been 1.62, as the financial column indicates. Therefore, including nonmonetized items increases this ratio by more than 27 percent.

This ratio indicates that for every dollar WCRI spent on goods and services, the organization generated $2.06 in value added

Conclusion

Both the community social return on investment model and the expanded value-added statement illustrate how organizations can establish market values for their nonmonetized social outputs. By including social outputs, both statements tell a more complete story of the organization's performance than do conventional financial statements. These models are scratching the surface with respect to assessing the impact of nonprofits. However, they are part of an emerging line of work that is attempting to

rectify the limitations of conventional accounting statements for nonprofits (Benson, 1999; Roberts Enterprise Development Fund, 2001). Parallels exist between these models and the more established cost-benefit analyses that economists generate. For instance, using these approaches is simplest when monetizing outputs is possible. However, finding additional ways to establish fair market comparisons for nonmonetized inputs and outputs is essential.

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