Vollintine Evergreen Community Association (VECA) Tax Return for 2016
Report by Chuck Fox, VECA Treasurer
March 4, 2017

Introduction

The VECA 2016 federal tax return, a form 990, was submitted to the IRS on February 25, 2017. The 990 provides a financial snapshot of our organization that will be reviewed by the Managing Committee and the VECA board. It is public information, so anyone wanting to know more about VECA can obtain copies from the VECA website. We will also be providing the 990 to our mortgage lender. It is an important document.

The data used in the 990 tax return were generated from the revenue and expenses of the organization. Chuck Fox manages the Regions' checkbook which includes a number of programs such as Rental Houses and Apartments, the Welcome Center, and the VECA grassroots programs. Mike Kirby and Brian Floyd manage the Cadence checkbook for the V&E Greenline.

Each month Robbie McDermott enters the revenue and expense items into an accounting system and prints the monthly report, which Mike Kirby then converts into the monthly financial report (called the VAS) given to the VECA Board. Chuck Fox reviews the VAS with both the Managing Committee and the VECA Board. After the end of the year, VECA forwarded the raw data to accountant Wilma Vandermeer, who reclassified transactions, if needed, before preparing the 990 return.

Overall Conclusions

The report below reviews the 2016 Internal Revenue Service 990 tax return and also examines trends since 2009. The year 2009 was a low financial point for VECA, which resulted in volunteers taking over the administration and finances of organization from employees. The year 2009 was the last time that VECA had employees. Several findings emerge in this report:

- The yearly 990 report data below shows that over time VECA has improved its financial condition. This is especially impressive given the earlier financial difficulties of the organization and the fact that VECA now depends solely upon volunteers.
- The last few years indicate that VECA has entered a new normal; year-to-year revenues remain relatively stable with some minor improvements.
- However, in 2013 the refinancing of VECA mortgages required us to show income that came about because a lender reduced our mortgage principal. Our accountant declared that as income and it caused a revenue spike. This amount was reported in the 990 as miscellaneous income. It was done so the actual value of the properties would match the new mortgages. However, to reflect the normal income, we have added some charts that examine the data without miscellaneous income.
- VECA has financial policies and procedures that drive the way we handle our income and expense information. The VECA Board, VECA Treasurer, Managing Committee, and an accountant helps us report information correctly and in a timely manner.

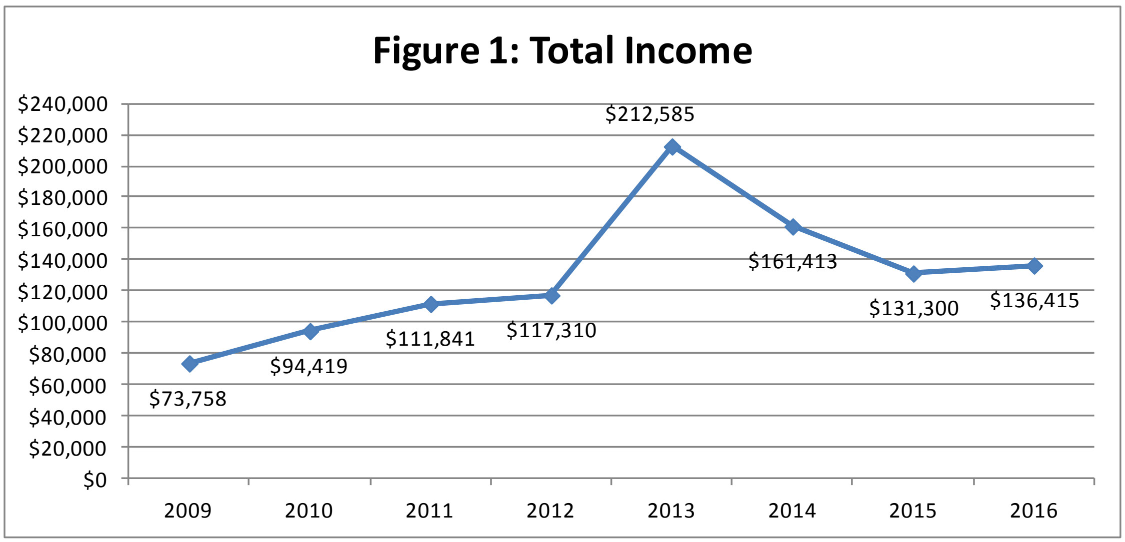
Our accountant reviewed this document and provided the following comments: "Extremely well written. Your explanation of variances is clear and easy to understand. I don't think you missed anything. I would not change a thing. VECA has certainly worked hard over the years to stabilize the organization."

Findings

The findings are reported in the next pages. The information includes income, mortgages, expenses, cash balance, and volunteers. The data reflects information from 2009 to 2016 and provides interesting trend information about VECA financials.

Figure 1 shows the total revenue from 2009 to 2016. It increased steadily from 2009 to 2012. It then showed a sharp increase in 2013 because of a grant for the V&E Greenline and the miscellaneous income described above. The data in 2015 show a decrease because the grant and 2012 miscellaneous income were one-time income items. A second grant for the V&E Greenline in 2014 kept the income higher the normal for that year.

Overall, Figure 1 is positive in that it shows increasing income over time. The decrease of income in 2014, 2015, and 2016 is not a negative since it reflects one-time revenues in 2013 and 2014. The overall small increase from 2015 to 2016 was due to increased donations from membership, donations for several grassroots projects related to public safety and greenspace, and a small grant for studying a blighted commercial center.



Next, Figure 2 shows the income without the miscellaneous income in 2013. When the miscellaneous income is removed, the pronounced spike disappears. The trend line shows a very healthy growth in income over time. The reduction in income for 2015 is accounted for in Figure 3 and is not a concern.

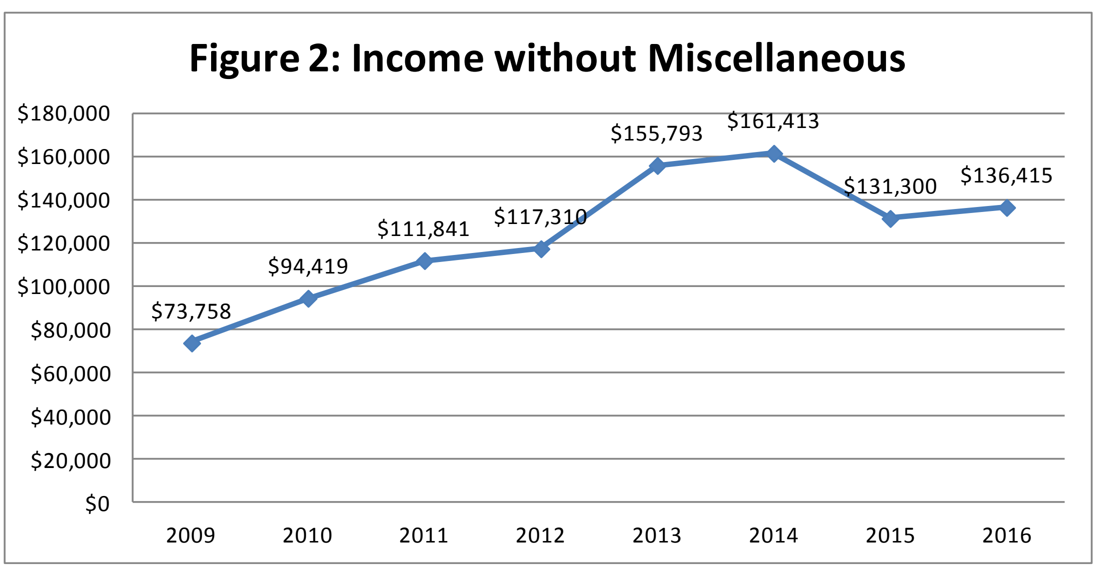
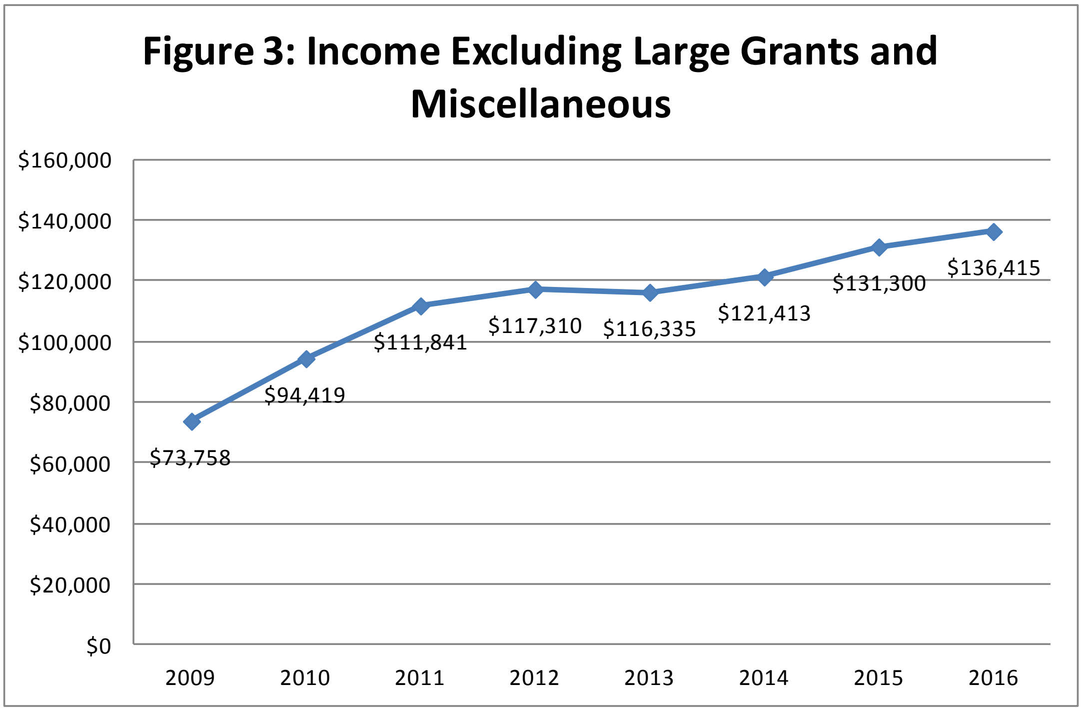
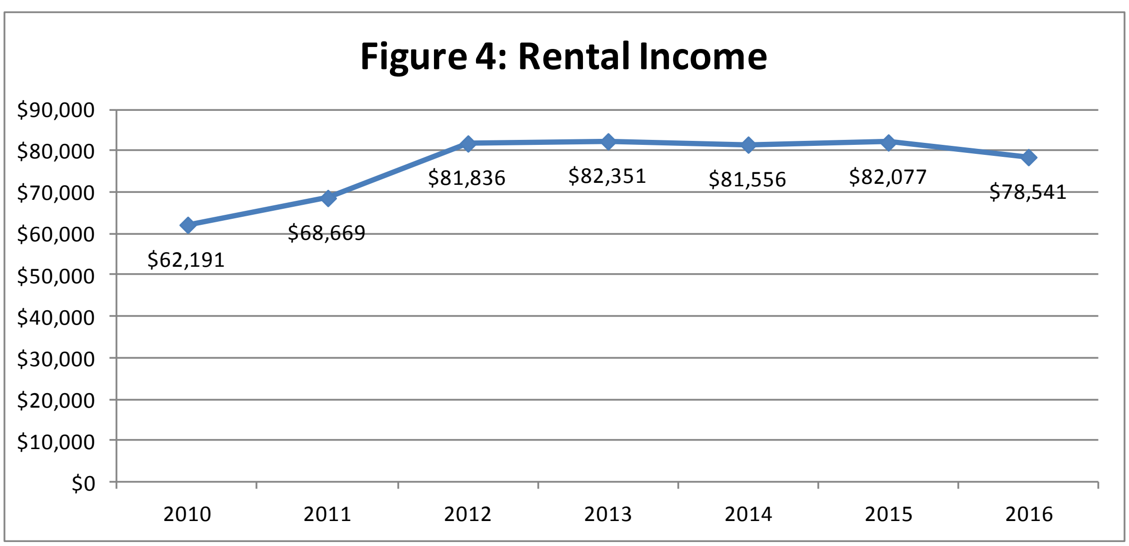


Figure 3 adds another correction for years 2013 and 2015 so we can more precisely measure what is normal income for VECA. The chart excludes the two large V&E Greenline grants for 2013 and 2014 and it also excludes the one-time miscellaneous income for 2013. The results show that normal income 2012 to 2013 was generally the same, and income since that time showed small but consistent increases.



VECA's largest revenue source is rent, which are primarily from VECA-owned apartments and houses. Figure 4 shows a steady increase in revenue from 2010 to 2012 and a leveling off from 2012 to 2015. The slight decrease in 2016 is due to the tenant at the Welcome Center moving out in May 2016. The leveling is entirely appropriate since it shows a consistency in collecting rents. The rental income is especially impressive in that two volunteers managed the rental housing and are responsible for this success of the program.



Another impressive change over time has been the liquidation of the unsecured notes that resulted from the problems with the housing programs when there were still employees at VECA. Figure 5 shows there are currently no unsecured notes.

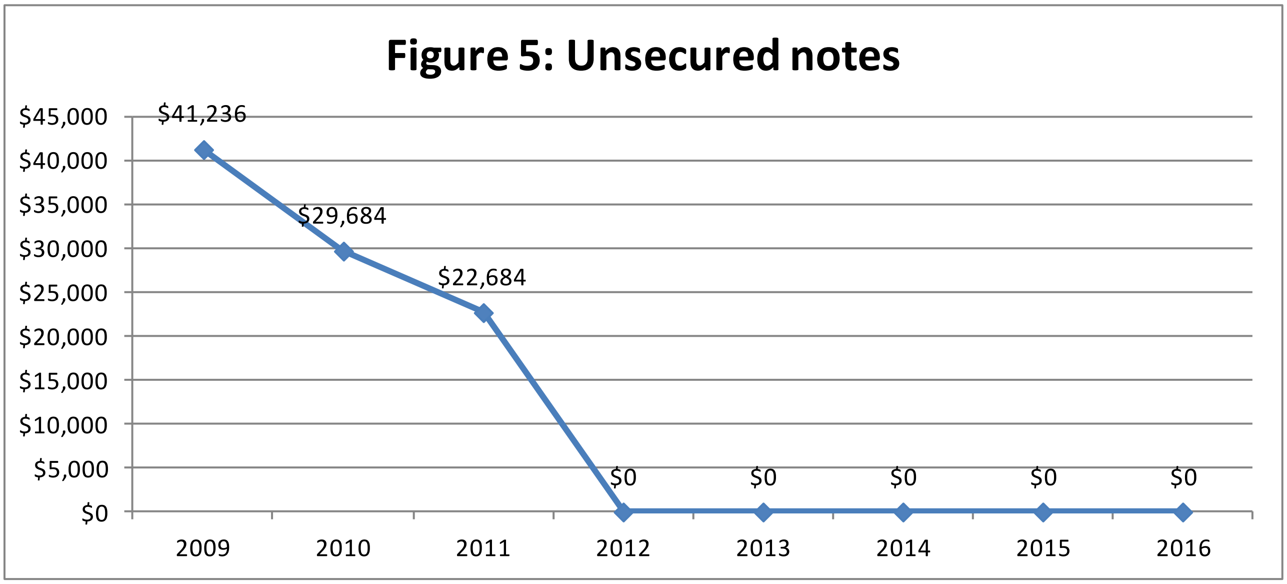
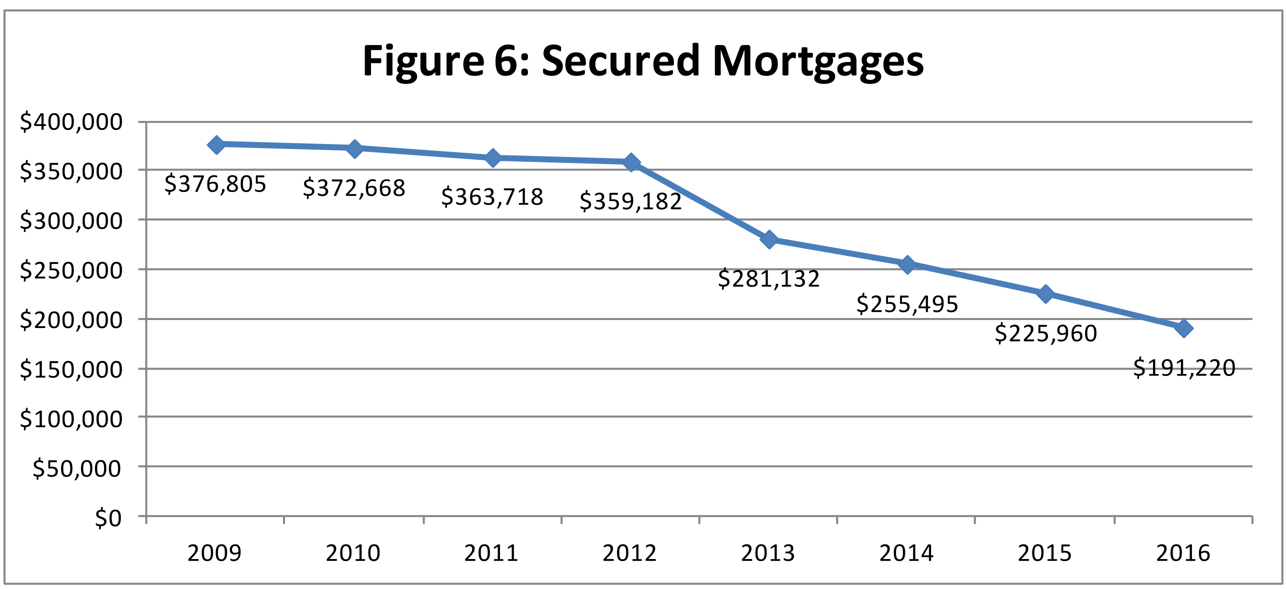
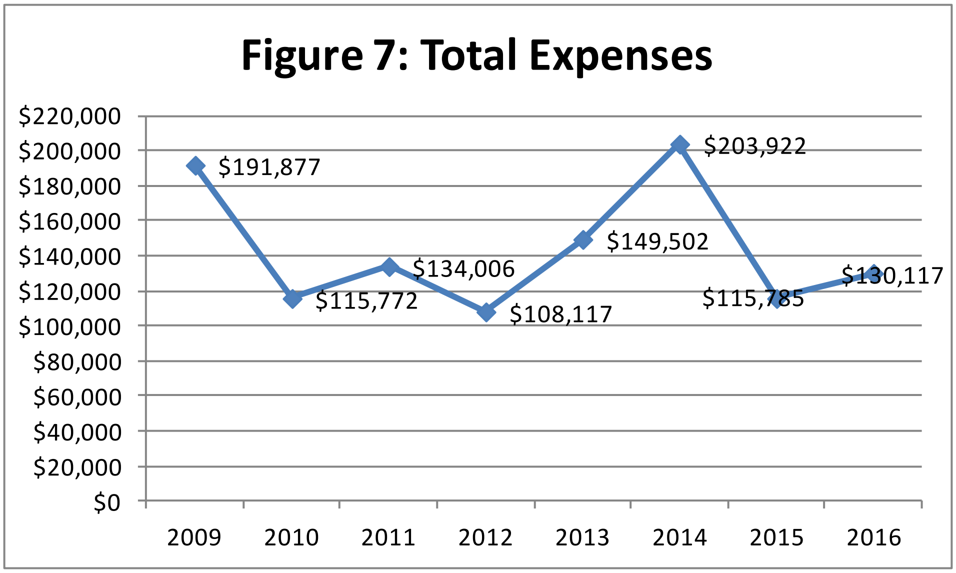


Figure 6 shows another impressive change over time, the reduction in the level of secured mortgages. VECA was paying interest only from 2009 to 2012 for the rental apartments and houses so as to not default on the main loan. The major reason for the dramatic reduction from 2012 to 2013 was the reduction of $59,000 of mortgage principal from Quantum Servicing. The reduction of secured mortgages from 2013 to 2016 shows that VECA is paying down principal on all of its mortgages. The data for 2013 and 2015 also reflect six second mortgages with Quantum Servicing having been paid off.

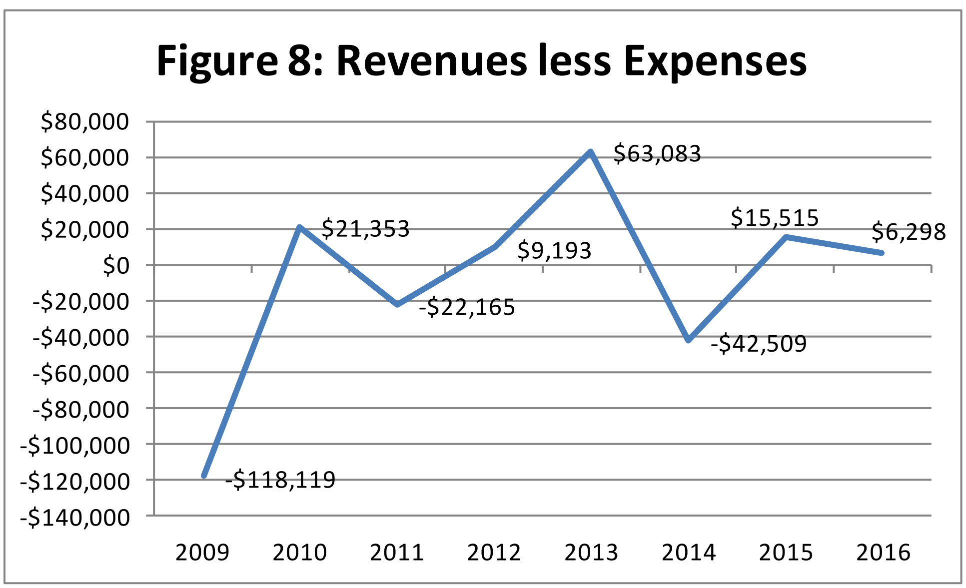
Comparing the data from 2009 to 2016 shows a 49 percent decrease of the mortgages. The yearly average change of $29,970 from 2013 to 2016 shows the new normal is a consistent yearly reduction in VECA's secured mortgages. The slightly higher reduction in 2016 is because the house mortgage for 1810 Hunter was paid off.



Next, the 990 provided ordinary expenses called Functional Expenses by the IRS. Figure 7 shows high expenses in 2009 which was the year after volunteers resumed control of the organization and inherited expenses generated by the organization when it had employees. Expenses were also high in 2014 as a result of grant expenditures and expenditures related to refinancing mortgages. Expenses for 2015 and 2016 were relatively low compared several earlier years of higher expenses, but consistent with six of the years in Figure 7.



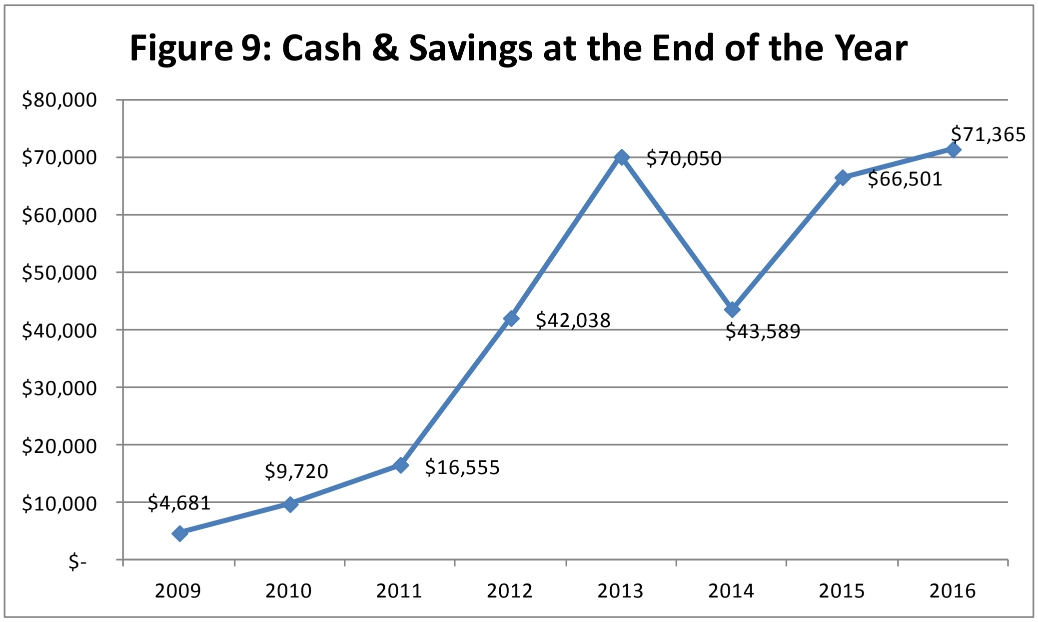
Next, we displayed the net income called revenue less expenses. This was obtained by subtracting the income from the expenses. Figure 8 shows reasonable variability over time. The worst year for VECA was in 2009 after the organization no longer had employees and there were many left over expenses. Even though there is a lot of variability from 2010 to 2016, the data shows normal changes. For example a grant may have been received in one year and spent in another, or funds were saved in one year for a mortgage pay down, but paid down in the next year.



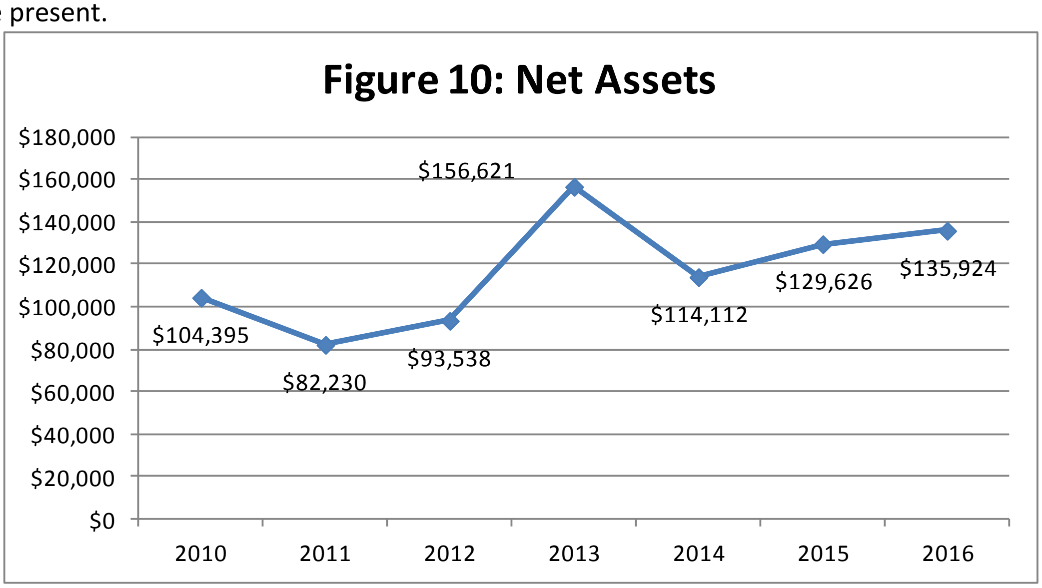
Cash and Savings at the End of the Year

We calculate the amount of money in our accounts on December 31 of each year. We will call this cash and savings on hand at the end of the year. It includes VECA's primary bank accounts – Regions for the rental houses and apartments, the Welcome Center and the VECA grassroots programs; and Cadence for the V&E Greenline. In addition, there was an earlier money market fund for VECA and currently there is an emergency fund at Vanguard for the V&E Greenline.

Figure 9 shows a significant improvement in the cash and savings position of VECA. In 2009 it was only $6,686 but by 2016 it had grown to $71.365. The cash and savings position for 2013 was artificially high since it included grant funds held over from the previous year that were spent in 2014. Why is cash and savings important? Having sufficient cash and savings provides the ability to respond to unforeseen circumstances. It also reflects good financial management.



Next, the 990 showed VECA's net assets. This was obtained by subtracting liabilities from assets. Figure 10 shows that net assets increased significantly from 2012 to 2013. One of the major reasons for this was the reduction of $59,000 of mortgage principle from Quantum Servicing and income from the grant funds for the V&E Greenline. If the data were adjusted to reflect the one-time impact of miscellaneous income, the figure would reflect a steady increase of net assets from 2011 to the present.



How can VECA have such an impressive financial performance without employees?

Figure 11 shows the number of volunteers that manage the organization, do financial analysis, manage the rental apartments and houses, maintain the V&E Greenline trail, and implement numerous programs such as blight reduction and public relations. The number of volunteers was relatively stable for 2011 to 2013 ranging from 224 to 278. The increase of volunteers for 2014 was unusually high because of the V&E Greenline which used many volunteers to provide matching in-kind work for a grant. It also recruited a number of youth groups that did clean-ups for both the trail and the V&E Artwalk. The increase of volunteers in 2016 came from the high energy Historic Committee that took on a number of neighborhood projects, including the Green Triangle and historic signage.

Even though it is lower than in 2014, the data for 2015 and 2016 show more volunteers than in the 2011 to 2013 time period. However, the data is further informed by examining volunteer hours in Figure 12.

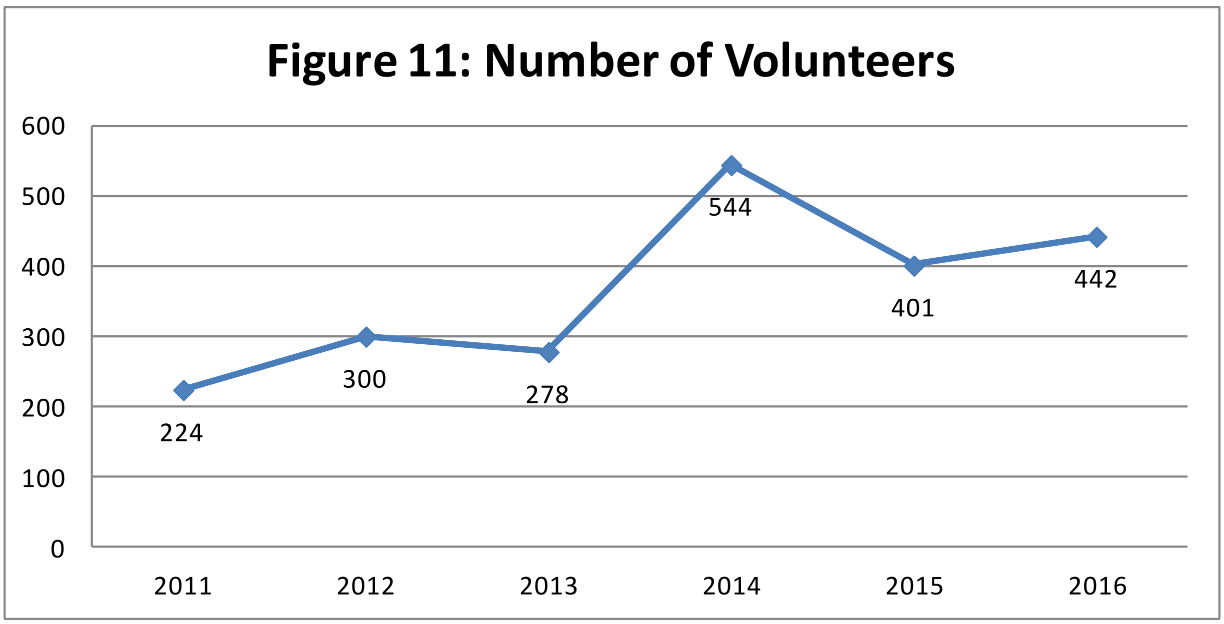
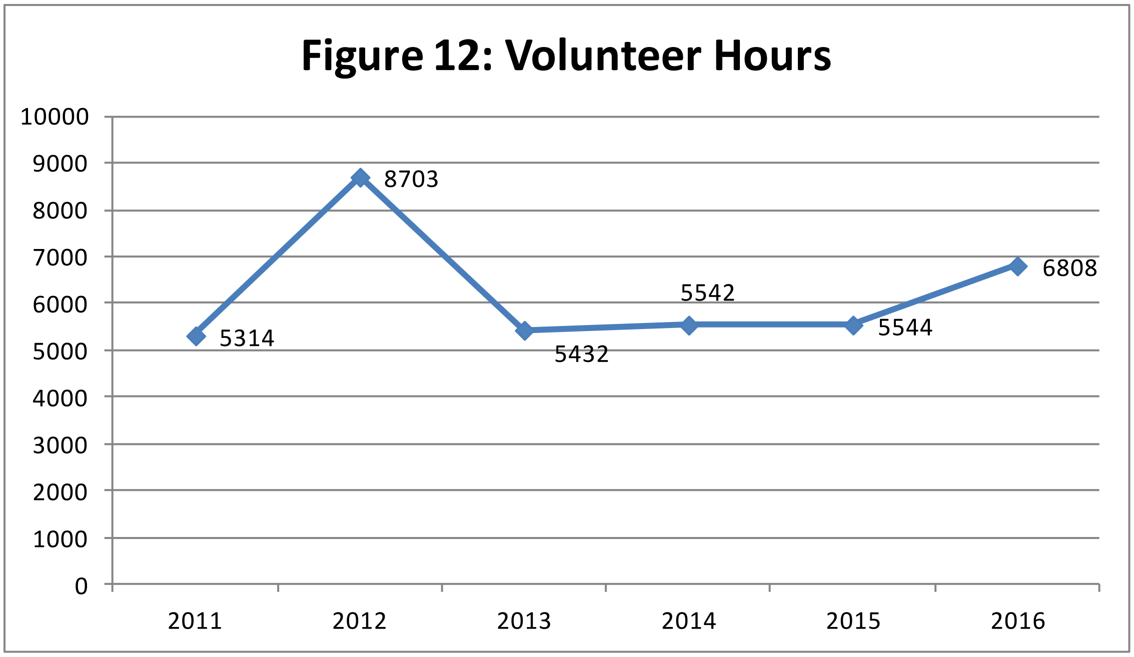


Figure 12 shows the number of volunteer hours. These numbers are not reported in the 990 but help us understand the data in Figure 11. The graph shows the number of volunteer hours were very similar for four of the five years. The year of 2012 was an outlier with larger volunteer hours to work on the capital needs of the organization. With the exception of 2012, the norm appears to be about 5,500 hours. However, the number of volunteer hours increased significantly in 2016 because of the efforts of the Historic Committee.

The 2016 volunteer hours of 6,808 are a lot and reflect extensive activity throughout VECA's programs. These hours translated to 170 work weeks or 3.3 work years. VECA prepares a yearly report that not only shows the volunteer hours by program, but also provides more detain on the nature of those activities.



Overall Observations

The 990 tax return suggests that VECA is generally doing a good job of complying with IRS requirements. Board members file conflict of interest statements with VECA. The board is given the 990 and this analysis of the 990 by the VECA Treasurer. Document retention and whistleblower policies are in place. The board documents all of its meetings with minutes, and active committees are also doing an effective job of submitting minutes. In addition, the VECA treasurer discusses the 990 with both the Managing Committee and the VECA board.

VECA is running programs that the board and neighborhood residents want, and it is finding a way to pay and manage those programs. The volunteers are to be congratulated for a great job undertaken with limited resources.

For more information or to provide comments, the reader should contact Chuck Fox, VECA Treasurer, 1680 Jackson Ave, Memphis, TN 38107, 901-276-1782, or VECA901@gmail.com.