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ACCOUNTANTS
CREATING VALUE FROM NUMBERS

ISLAND HOUSING TRUST CORPORATION

Financial Statements

For the Year Ended December 31, 2017

ISLAND HOUSING TRUST CORPORATION

Financial Statements

Year Ended December 31, 2017

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DAVISKELLY CERTIFIED
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Independent Auditors' Report

To the Board of Directors
Island Housing Trust Corporation
P.O. Box 779
West Tisbury, MA 02575

We have audited the accompanying financial statements of Island Housing Trust Corporation. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, cash flow, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Island Housing Trust Corporation, as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Davis Kelly LLC

Boston, Massachusetts
April 22, 2018

ISLAND HOUSING TRUST CORPORATION

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ISLAND HOUSING TRUST CORPORATION

Management's Discussion and Analysis

For the Year Ended December 31, 2017

INTRODUCTION

Management's Discussion and Analysis (MD&A) is presented in five sections. The Executive Overview sections highlights key elements of the Island Housing Trust Corporation's (IHT) mission, goals performance and risk. The second section describes our mission and organizational structure as well as management's performance goals. The third section analyzes the resources available for our mission, for our mission, including liquidity, our tangible and intangible assets, workforce, and systems. The fourth section covers our financial statements and critical accounting policies. The final section identifies opportunities, risks, obligations and outlook.

EXECUTIVE OVERVIEW

The IHT is a leading not-for-profit developer and owner-manager of affordable housing properties on the island of Martha's Vineyard. Our portfolio consists of over 80 rental and ownership units located in the towns of Tisbury, Oak Bluffs, Edgartown, West Tisbury, and Aquinnah. Our mission is to support a diverse and vital community on the island of Martha's Vineyard by creating and sustaining permanently affordable housing solutions, both rental and ownership.

Our Vision 2020 goal is to create 100 new homes by the end of 2020 to serve 300 individuals and their families. During 2017, our development efforts added 68 new units to our development pipeline that are in the planning, permitting or construction stages. Total net assets increased by 18% or \$2,619,486 from \$11,941,250 in 2016 to \$14,560,736 in 2017. Construction began in 2017 and scheduled to be completed in 2018 for a neighborhood of 9 rental apartments at Scotts Grove in West Tisbury, along with two single-family houses that will be sold in Aquinnah.

Our capacity has increased as a result of securing a fourth consecutive year of Community Investment Tax Credits from the Massachusetts Department of Revenue. Those credits raised \$298,333 in donations from 58 donors in 2017. In addition, our annual summer benefit brunch event raised \$292,800 in working capital from 69 guests in 2017.

Revenues of \$35,400 were collected from 60 homeowners in ground lease fees. Revenues of \$187,808 from 17 rental units were used to pay \$147,117 in expenses before depreciation and add \$24,263 towards capital and operating reserves. Our development operations over the past few years and into 2018 are projected to be break-even with the completion of two construction projects in West Tisbury and Aquinnah.

IHT's leveraged fundraising strategy has successfully raised a total of \$2.7 million by matching town grants, private donations, and state grants in the form of soft debt in 2017. Two capital fundraising campaigns in 2017 were launched included the Leadership Circle and the Make It Happen Fund.

Seven founding members of the Leadership Circle each pledged \$100,000 or more over four years and have raised a total of \$2.1 million in project funding. The Make It Happen Fund, a new social impact investment fund, secured \$1.5 million in low-cost, private, short-term revolving lines of credit from two family foundations for property acquisition.

We continue to partner with town governments to secure available land and Community Preservation Act grant funding. We are exploring new partnerships with private businesses and real estate developers, as

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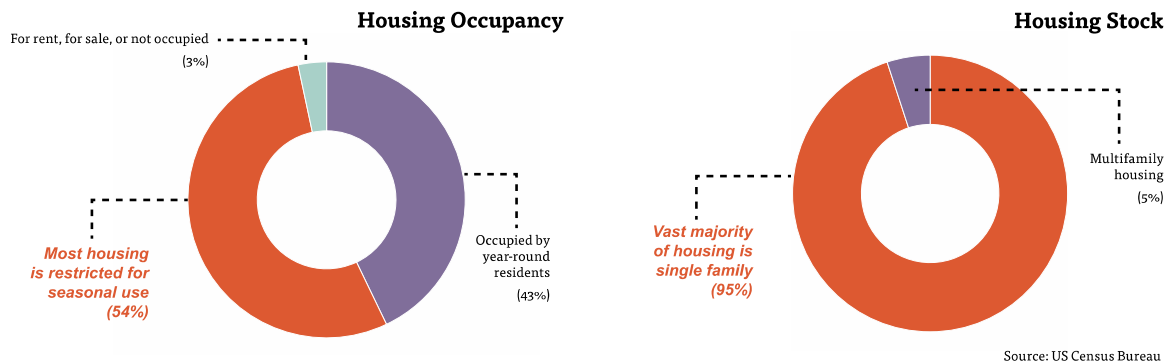
well as non-profit organizations that have available land and/or financial resources for housing development.

We have secured pro bono legal services from the Boston law firm of Nixon Peabody to defend a legal challenge from a group of abutters appealing the Town of Tisbury's zoning approval for a neighborhood of 20 rental apartments at Kuehn's Way. IHT does not believe it will have a material adverse impact on our organization.

Our future outlook is positive, given the momentum behind our Vision 2020, our growing housing production pipeline, health of our rental property portfolio, and new initiatives on the horizon. Uncertainties do exist however, principally connected with the ability to acquire land, permits, and the funds to complete future projects.

MISSION AND STRUCTURE OF THE ORGANIZATION

The island of Martha's Vineyard is a tourist destination with abundant natural resources. As such, the economy has a seasonality aspect which relies heavily on second homeowners and the real estate taxes they pay. Martha's Vineyard, which is part of Dukes County, is made up of six towns. Each has its own unique character and charm. Although an area known for wealth, 11.7 percent of the population lives below the poverty line according to the Federal Reserve Bank.



Seasonal homes represent 54% of the housing stock in Dukes County. 95% of the entire housing stock is single-family homes. In 2016, Dukes and Nantucket counties were rated the most expensive counties in the United States with a median home price of \$834,000. Over half of the 4,585 year-round homeowners and 70 percent of the 1,250 renters pay more than 30 percent of their income towards housing costs. Nearly 50 percent of renters are severely cost burdened, paying more than 50 percent of their income towards housing costs.

The island faces a severe shortage of available year-round housing for rental and homeownership opportunities in all income brackets. This is especially true for those earning in the low and moderate-income brackets. Despite significant work in the six island towns to create 842 affordable units over the past 25 years, this only represents 5% of the island's year-round housing stock. It is estimated that the Island needs 635 affordable rental units to address the current demand.

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The Island Housing Trust (IHT) is a certified Community Development Corporation and Community Land Trust, whose mission is to bridge the gap between Martha's Vineyard's high property values and families' ability to own or rent a home. The IHT utilizes a nationally recognized ground lease model with restrictions that keep homes permanently affordable. Ongoing support and stewardship services are offered to our homeowners and tenants. This hands-on approach helps safeguard against the threat of foreclosure and alerts IHT to possible financial difficulties.

Our operations are summarized into four distinct lines of business, including housing production, fundraising, communications, and assets management. Strategic objectives are developed for each line of business, supporting our overall mission. At our 2017 annual board retreat, IHT adopted our Vision 2020 goal of creating 100 new homes (ownership and rental) to serve 300 residents and their families by the end of 2020.

IHT acquires suitable properties to be developed for both ownership and rental housing by obtaining resources to build or rehabilitate the properties. IHT oversees the development process through completion of construction, and continues to own and ground lease the land with restrictions in the case of ownership housing and own and manage in the case of rental housing.

The Dukes County Regional Housing Authority (DCRHA), a state-chartered housing authority, who manages the IHT's 17 rental units under contract on 4 scattered site properties serving very low, low and moderate-income households. The DCRHA performs accounting functions for the property portfolio and provides waitlist management, income qualification, and rent-up services in compliance with rental restrictions.

Vision 2020

IHT's development goal is to increase the availability of year-round housing affordable to island residents within the six island towns on Martha's Vineyard by creating 100 new homes by the end of 2020. In partnership with many stakeholders, including island towns, the Martha's Vineyard Land Bank, island businesses, other non-profits, private donors and developers, and state housing agencies, the IHT identifies potential properties and evaluates their feasibility for new affordable housing construction or rehabilitation. This process includes identifying zoning and environmental constraints, design and build process, financing sources, and projecting development costs. The IHT has successfully developed projects on or under budget and earned developer fees that help to support ongoing development activities.

Our property development pipeline with a total of 68 units as of December 31, 2017, includes:

	<u>2017</u>	<u>2016</u>
Predevelopment stage pending governmental approval	57	20
In construction	11	8

Properties are in construction for about one year prior to when they are rented up or sold. The following table provides an overview of financing and development stage of our portfolio. There are currently 9 rental apartments on land leased by the Town of West Tisbury and 2 single family houses on land donated by the Town of Aquinnah that are under construction.

ISLAND HOUSING TRUST CORPORATION

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Projects in construction (in millions) as of December 31, 2017:

	<u>2017</u>	<u>2016</u>
Total projected cost of development in construction	\$3.7	\$1.6
Permanent loan commitments, grants and pledges	\$3.2	\$1.4
Aggregate percentage of completion of projects in construction	20%	100 %

Rental Properties

IHT manages its portfolio of rental properties in order to balance the needs of tenants for decent, safe, and energy efficient housing, while keeping rents affordable. Dukes County Regional Housing Authority (DCRHA) maintains a waitlist of 230 island resident households seeking year-round housing they can afford.

The table below identifies our recent trend of rent increases and our declining vacancy rates.

	<u>2017</u>	<u>2016</u>
Average rent increase	3%	2%
Average vacancy rate	0%	2%

Compliance with third-party regulations regarding rent and income levels at our properties is a complex task. Each property has a unique combination of state and local funding and permitting which carry various stipulations on the maximum rent and income levels. Our internal review process coupled with periodic tests by external auditors and regulators indicate that we have complied with these requirements.

Here is a summary of IHT rental properties:

Towns served:	West Tisbury and Tisbury
Types of housing:	17 multi-family units
Average original cost per unit:	\$227,000
Average hard debt outstanding per unit:	\$ 54,333

The majority of IHT rental properties generate positive cash flow. This performance is a result of properly capitalized reserves and the DCRHA management efforts.

	<u>2017</u>	<u>2016</u>
Percentage of properties producing positive cash flow	88%	65%
Total excess cash generated by the positive properties	\$8,066	\$6,626
Total cash flow deficit funded by IHT during the year	\$1,957	\$3,466

Successful operations of IHT resulted in a contribution of \$24,263 in 2017 towards a total of \$69,763 in property capital and operating reserves.

Long-term debt and fees payable from excess cash total approximately \$1.84 million in the aggregate for IHT's entire rental portfolio, including \$1.17 million in "soft" debt (debt which doesn't require mandatory monthly payments). The majority of this debt will mature at various dates through 2042. At that time the balance will be due or the loan extended in the case of soft debt regardless of the amount of available excess cash.

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Ground Leased Ownership Properties

IHT ground leases land with affordability restrictions to 60 homeowners in 5 towns on the island of Martha's Vineyard (Edgartown, West Tisbury, Tisbury, Oak Bluffs, and Aquinnah). These include 31 single-family and duplex homes that IHT developed for sale at below market prices during the period 2005-2017. Ground lease fees of \$50 per month or \$600 annually are paid by homeowner/lessees to help defray the cost of on-going monitoring, stewardship, and compliance. Currently there is a waitlist of 306 island resident households able to afford to purchase a home for between \$200,000 and \$300,000, but are unable to find anything for less than \$600,000 on the market.

IHT's Soft Second Loan program provides low interest loans for first-time IHT homebuyers.

	<u>2017</u>	<u>2016</u>
Number of loans outstanding	4	4
Amount of loans	\$50,000	\$50,000

LIQUIDITY AND CAPITAL RESOURCES

IHT draws upon a wide array of resources to fulfill our mission.

Cash Resources

Long-term debt is provided both through conventional mortgage loans, conventional and private lines of credit, and through "soft" debt (which doesn't require mandatory monthly payments) with below market rates of interest. Soft debt is generally repayable from the properties' excess cash flow over terms of 30 to 55 years.

Positive cash flow from operating activities is generally used to service debt.

The table below summarizes IHT cash resources obtained during the past two years. Our housing developments are financed by a combination of municipal and state grants, donations from private individuals and foundations, mortgage and soft loans obtained from conventional lenders and governmental entities that support affordable housing, and the positive cash flow from our own operations:

	<u>2017</u>	<u>2016</u>
Restricted Grants	\$1.8M	\$3.4M
Unrestricted Contributions	\$784K	\$1.1M
New borrowings of long-term debt	\$300K	\$575K
Property sales	\$0	\$225K

IHT's Make It Happen Fund is a low interest, short-term revolving line of credit in the amount of \$1.5 million available from two foundations. The fund is used for property acquisition. It is repaid from a combination of donations, grants or loan proceeds. In addition, IHT also has a revolving line of credit in the amount of \$260,000 with a bank to purchase any foreclosed ground lease ownership properties, if necessary.

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IHT projects its future cash flow for the next three years and updates these projections quarterly. The projections indicate that cash flow will be positive through 2020. During 2018, a cash flow surplus is projected in the amount of approximately \$382,000.

Human Resources

Our staff consists of 4 full-time equivalent employees with an average tenure of 4 years. Aggregate personnel costs grew by 33% compared to the previous year, mainly due to new positions and increased health care costs. Cost of living increases are based on the Boston CPI and in combination with merit increase are capped at 5%.

We provide educational opportunities for both on and off-site training sessions for all our staff covering various aspects of what we do in order to keep everyone engaged in our mission. Through this this training effort we enable future leaders to develop internally.

The Executive Director is in charge of IHT development and asset management activity. The management team includes the following leaders:

Project Development:	Derrill Bazy, Project Director
Communications:	Breeze Tonnesen, Communications Director
Fund Development:	Christopher Anderson, Development Manager
Ground Lease Stewardship	Breeze Tonnesen, Program Manager

Board Leadership

Our Board of Directors provides governance for IHT. Board members have significant prior experience in real estate development, construction, management and other related skills. Our Board of Directors was restructured during 2017. The result was a 11-member board of directors with committees that serve the board for each of our lines of business, including communications, fundraising, project development, stewardship and asset management, as well as a governance and executive committee.

OVERVIEW OF THE FINANCIAL STATEMENTS

Key Accounting Policies

Our financial statements are audited annually. A summary of significant accounting policies can be found in the accompanying notes to the financial statements.

Real Estate

Real estate is recorded at cost and buildings are depreciated over a 40-year estimated life. As required by U.S. GAAP, undiscounted net operating income over the remaining useful life of each property plus and estimated land value at the end of the compliance period is compared to the carrying value of real estate identify potential impairment. IHT has no known impairment.

Developer & Ground Lease Fees

IHT earns a developer fee from our development activities once development projects are completed. The IHT also collects a monthly ground lease fee from each of its 60 homeowners.

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Financial Statement Highlights

Our Statement of Financial Position reflects positive working capital (current assets minus liabilities). The pledged donations and grants will be used to pay next year's project construction costs and are included in current assets. Our current ratio (current assets divided by current liabilities) was 6.4 and 4.8 as of December 31, 2017 and 2016, respectively.

Cash and cash equivalents totaled approximately \$2,331,370 and \$1,696,815 at the end of 2017 and 2016, respectively. Of these amounts, \$600,289 and \$557,156 were not earmarked for specific purposes or properties.

Project development represent 86% and 93% of our total expenses for 2017 and 2016, respectively. Supporting services (the remaining 14% and 7% of our total expenses for 2017 and 2016, respectively) consist of management and general costs that indirectly support our mission. The variation in the percentage of funding spent on project versus support services is due to the cyclic nature of the development activities from one year to the next. Fundraising costs represent 3.4% and 3.6% of our overall management and general costs in 2017 and 2016 and provide a major part of our support and revenue.

Temporarily restricted net assets arise from contributions and grants for development projects. In 2017 IHT received \$1,866,008 million in grants, and donations from private donors and local municipalities. These contributions were added to temporarily restricted net assets and will be amortized into unrestricted net assets over the property's compliance period (40 years) along with grants and donations received in previous years. In addition, an award for \$900,000 in soft debt from state agencies is to support specific construction projects or general housing production.

IHT's revenue is generated in the form of developer fees, ground lease fees, and grants and donations.

Key Ratios

The following table sets forth selected, historical, and segment financial data for IHT's rental properties and should be read in conjunction with the Financial Statements of IHT and Notes thereto and Management's Discussion and Analysis.

	Actuals			
	2017	2016	2015	2014
Liquidity Ratios:				
• Current ratio (1)	5.4	3.8	4.1	3.7
• # months' operating expense liquid (2)	9.8	13	16	9.6
Long-term Solvency Ratios:				
• Unrestricted net asset ratio (3)	66%	68%	93%	94%
• Leverage (4)	0.18	0.26	0.24	0.27
Rental Profitability Ratios:				
• Debt Service coverage ratio (5)	2.1	2.4	2.5	2.6
• Profitability ratio (6)	22%	25%	16%	6.3%
• Net operating income before interest, depreciation, amortization, and other non-cash expenses	43K	35K	20K	1.7K
• Annual hard debt service requirement (principal and interest)	57K	45K	42K	6.4K
• Required deposits to fund reserves	14K	11K	9.7K	9K

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For the Year Ended December 31, 2017

	Actuals			
	2017	2016	2015	2014
• Capital reserves balance	69K	55K	40K	9K
• # of rental units	17	17	11	3

Ratio Definitions

- 1 *Current assets/ current liabilities (not including development loans for non-current development in progress)*
- 2 *Operating cash, cash equivalents and other liquid investments/ [total operating expenses – depreciation, amortization and other non-cash operating expenses] /12*
- 3 *Unrestricted net assets (including board-designated amount)/ total assets*
- 4 *Total liabilities/ total net assets*
- 5 *Operating cash flow plus interest expense paid/ current portion of long-term debt plus interest expense paid.*
- 6 *Unrestricted net operating income/ total unrestricted net revenue.*

IHT's liquidity ratios are high with a stable trend over the past four years reflecting an overall steady pace of new developments and associated income from developer fees and unrestricted donations. Management has increased levels of capacity in order to develop new rental and ownership properties resulting in an increase in support services and fewer months of operating expense liquidity.

IHT's leverage ratios reflect two trends: a) gradual reduction of unrestricted net assets resulting from depreciation of our buildings, and b) gradual increases in long-term debt associated with several new IHT rental projects that have been completed and rented within the past few years.

The size of our rental portfolio has increased significantly over the past four years from 3 to 17 rental units as a result of well capitalized development projects that are growing cash flow and reserves.

FUTURE OPPORTUNITIES, RISKS, OBLIGATIONS AND OUTLOOK

Opportunities

IHT's Vision 2020 goal is to create 100 new homes to serve 300 island residents and their families by the end of 2020. IHT has already raised 32% or \$7.6 million towards the \$25 million fundraising goal. Currently 31 units of housing are under construction or permitted. Another 37 units are in the predevelopment pipeline.

Partnering with island businesses, Martha's Vineyard Land Bank, and other non-profits, IHT is using a combination of available land, development expertise and financial resources to achieve its housing production goals. In collaboration with the Martha's Vineyard Commission and the six town governments, we are building the capacity to identify, analyze, and prioritize development opportunities using geographic information system (GIS) mapping.

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Risks

IHT routinely evaluates various business risks and uncertainties that can have an effect on our financial condition. It is not possible to contemplate every possible risk scenario. We use a variety of strategies, including:

- a) Reducing our exposure to certain risks through insurance,
- b) identifying multiple development options when acquiring real estate,
- c) using legal services for property title or zoning opinions.

There are certain financial risks that cannot be fully mitigated and are driven by external factors beyond our control. We have developed risk evaluation matrix in order to manage our risk proactively for each property we consider purchasing and developing. We assess the significance of each identified risk from the standpoint of likelihood, financial and reputational impact. We then develop strategies to mitigate risks based on this assessment. If the risk is considered too great, we will not pursue the project.

The following is a discussion of the key risks and uncertainties that we have identified through this process, and is by no means exhaustive.

CPA

IHT is concerned about the future of the Community Preservation Act (CPA) funding at the municipal level as a result of decreasing state matching funds. CPA generates nearly \$3.3 million annually island-wide. It has provided \$6.3 million over the past 13 years for our housing development projects. It is unclear what alternative sources of funding would replace them.

To mitigate this risk, the IHT has diversified its capital fundraising strategy by leveraging municipal CPA grant funding with private philanthropic donations and competitive state grant funding. As the scale of new developments increases, leveraging public grants with private donations will be critical should CPA funding decrease significantly. IHT is also beginning to raise financing through short-term low-interest revolving lines of credit from private foundations' program-related investments to purchase suitable properties on the market.

Competition

IHT welcomes other developers who possess depth and expertise in affordable housing production and desire to work on the island of Martha's Vineyard, which is federally designated as a difficult to develop area. However, there is a limited amount of funding available for affordable housing development as well as a limited amount of property available to be developed into affordable housing.

To mitigate competition risk, IHT works diligently to develop properties with qualified and experienced architects and builders that are well designed, health, durable and energy efficient. We design and build using the best construction methods available so they are affordable, not only to purchase or rent, but to own and maintain.

Compliance

The regulatory agreements which dictate income levels of our tenants, rental rates and other items are complex. Noncompliance with those agreement could lead to immediate repayment of loans and other financial obligations.

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IHT mitigates its compliance risk by contracting the Dukes County Regional Housing Authority (DCRHA) who is an experienced rental property manager. The IHT periodically verifies compliance of each of its properties with the underlying agreements. Additionally, third parties routinely test for compliance with laws and regulatory agreements.

Legal Proceedings

IHT faces legal challenges from time to time. Currently, one suit is pending in Land Court for the Town of Tisbury's zoning approval of 20 rental apartments at Kuehn's Way. We have mitigated this legal risk by securing pro bono legal services from the Boston law firm of Nixon Peabody. We do not believe it will have a material adverse impact on our organization.

Tabular Disclosure of Contractual Obligations

The following obligations are summarized from our financial statements:

	Due In			
	<1 Year	1-3 Years	3-5 Years	>5 Years
Long-Term Debt (P&I)	\$64K	\$193K	\$193K	\$612K
Operating Leases (Office)	\$29K	\$0	\$0	\$0
Other Long-Term Obligation (Soft)	\$0	\$0	\$0	\$1.8 M
Total	\$93K	\$193K	\$193K	\$2.4M

Cash Flow Projection

The following 2-year cash flow projection is forward-looking and actual results may vary from this projection. The following assumptions were made by management while developing this projection, including: a) current projects in development that are expected to proceed and reach the milestones that trigger release of developer fees based on anticipated timelines; b) Massachusetts Community Investment Tax Credits (CITC) that are anticipated to increase over the next five years pending renewed legislation; and c) compensation that is projected to increase by 3- 5% annually.

	<u>2018</u>	<u>2019</u>
Unrestricted Donations Received	\$785K	\$800K
Project Grants Received	\$4.5M	\$9M
Developer & Lease Fees Received	\$173K	\$351K
Property Revenues Received	\$232K	\$286
Other Revenues Received	\$120K	\$419K
Total Revenue Received	\$5.8M	\$11.8M
Workforce Compensation and Benefits	\$494K	\$518K
Office Cost Payments	\$57K	\$60K
Project Expenses	\$4.4M	\$9M
Property Expenses	\$230K	\$284K
Other Cost Paid	\$163K	\$175K
Total Expenses Paid	\$5.3M	\$10.4M
Net Cash Flow (Deficit)	\$500K	\$400K

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The prior year's projection of cash flow for 2017 was within 2% of the actual cash flow for 2017.

2018 Outlook

Portfolio

IHT estimates spending \$5.3 million in 2018 on housing development projects, rental properties, and support services. Public grants and private donations totaling \$3.5 million have been awarded or pledged over the next 3 years. The remainder will be financed with new long-term debt, which IHT has already obtained loan commitments.

Total rental income is estimated to increase by 17% over 2017 levels due to 9 new rental apartments. Expense growth is managed by a budgeting process for each property in our portfolio.

We anticipate receipt of approximately \$138,000 in developer fees for two projects currently under construction. Two single-family houses at Smalley's Know in the Town of Aquinnah are expected to be completed and sold by September 2018 for \$225,000 each. A neighborhood of 9 rental apartments at Scotts Grove in the Town of West Tisbury will be completed and rented-up by September 2018.

* * *

Management is responsible for the reliability and timeliness of information disclosed in this MD&A. Further, management is also responsible for ensuring the existence and effectiveness of systems, controls, and procedures to ensure that information used internally and disclosed externally is reliable and timely. The Executive Committee meets with management to ensure management has implemented the necessary systems, controls and procedures required to make MD&A disclosures. The Executive Committee recommends approval of the financial statements and MD&A to the Board of Directors. The Board of Directors of the organization provides an oversight role. Information is publicly disseminated after being approved by the Executive Committee and the Board of Directors. Questions concerning any of this information provided in this report or requests for additional information should be addressed to the Executive Director, Island Housing Trust, P.O. Box 779, West Tisbury, MA 02575.



Philippe Jordi, Executive Director
Island Housing Trust

ISLAND HOUSING TRUST CORPORATION

Statement of Financial Position

As of December 31, 2017

(With summarized comparative totals as of December 31, 2016)

	2017	2016
Assets		
Cash and cash equivalents	\$ 2,331,370	\$ 1,696,815
Cash - restricted	69,764	45,500
Accounts receivable	20,208	13,590
Pledges receivable, net	3,784,289	2,977,699
Prepaid expenses	14,694	168
Housing project inventories	2,307,563	1,379,744
Land held for development	304,447	-
Deposits	14,549	14,599
Notes receivables	50,000	50,000
Rental properties, net	3,778,110	3,877,393
Ground leased land	1,885,742	1,885,742
	\$ 14,560,736	\$ 11,941,250
Liabilities and Net Assets		
Liabilities		
Notes and mortgages payable	\$ 2,175,287	\$ 2,388,423
Accounts payable and accrued expenses	96,306	71,541
	\$ 2,271,593	\$ 2,459,964
Net Assets		
Unrestricted net assets	8,435,090	6,458,087
Temporarily restricted net assets	3,854,053	3,023,199
	12,289,144	9,481,286
	\$ 14,560,737	\$ 11,941,250

The accompanying notes are an integral part of these financial statements.

ISLAND HOUSING TRUST CORPORATION

Statement of Activities

For the Year Ended December 31, 2017

(with summarized comparative totals for year ended December 31, 2016)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total 2017</i>	<i>Total 2016</i>
<i>Revenues and other support:</i>				
Grants and contributions	\$ 269,049	\$ 2,082,840	\$ 2,351,889	\$ 3,730,065
Tax credit revenue	298,333	-	298,333	276,333
Sales of real estate	-	-	-	225,000
Rental income	187,808	-	187,808	139,938
Ground lease income	35,400	-	35,400	35,250
Contributed goods and services	101,514	-	101,514	2,549
Interest income	4,349	-	4,349	3,319
Other earned revenue	20,153	-	20,153	7,500
Net assets released from restrictions	1,251,986	(1,251,986)	-	-
<i>Total revenues and other support</i>	2,168,592	830,855	2,999,446	4,419,954
<i>Expenses:</i>				
Rental property programs	252,983	-	252,983	113,840
Programs and project development	552,288	-	552,288	465,258
Administration	205,914	-	205,914	154,915
<i>Total expenses</i>	1,011,185	-	1,011,185	734,013
<i>Change in net assets</i>	1,157,406	830,855	1,988,261	3,685,941
<i>Net assets at beginning of year</i>	6,458,087	3,023,199	9,481,286	5,795,345
<i>Prior period adjustment</i>	819,597	-	819,597	-
<i>Net assets, as restated beginning of the year</i>	7,277,684	3,023,199	10,300,883	5,795,345
<i>Net assets at end of year</i>	\$ 8,435,090	\$ 3,854,053	\$ 12,289,144	\$ 9,481,286

The accompanying notes are an integral part of these financial statements.

ISLAND HOUSING TRUST CORPORATION

Statement of Cash Flows

For the Year Ended December 31, 2017

(with summarized comparative totals for year ended December 31, 2016)

	2017	2016
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 1,988,261	\$ 3,685,941
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Prior period adjustment	819,597	-
Depreciation	109,848	58,950
Change in:		
Accounts receivable	(6,618)	4,023
Note receivable	-	(15,000)
Housing project inventories	(927,819)	(212,422)
Pledge receivables, net	(806,590)	(2,632,716)
Prepaid expenses	(14,526)	2,978
Deposits	50	(14,449)
Accounts payable and accrued expenses	24,765	35,370
	1,186,968	912,676
<i>Net cash provided by operating activities</i>		
<i>Cash flows from investing activities:</i>		
Investment in fixed assets	(10,565)	(2,010,661)
Investment in land held for development	(304,447)	1,212,190
Ground leased land	-	(581,089)
	(315,012)	(1,379,561)
<i>Net cash provided by (used in) provided by investing activities</i>		
<i>Cash flows from financing activities:</i>		
Proceeds from (repayment of) mortgages and notes payable	(213,136)	1,038,499
	(213,136)	1,038,499
<i>Net cash provided by (used in) financing activities</i>		
<i>Net change in cash and cash equivalents</i>	658,819	571,614
<i>Cash and cash equivalents, at beginning of year</i>	1,742,315	1,170,701
<i>Cash and cash equivalents, at end of year</i>	\$ 2,401,134	\$ 1,742,315

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 1 - Organization

Island Housing Trust Corporation (the Corporation) was organized on January 8, 2002 to own and lease land for the purpose of developing, building and maintaining affordable housing on Martha's Vineyard, Massachusetts. The Corporation was created as a non-profit housing partnership between Island towns, housing organizations and homeowners on Martha's Vineyard, Massachusetts. The Corporation is supported primarily by contributions of cash and property from Massachusetts residents and project grants from municipal and state governments.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, *Financial Statements of Not-for-Profit Organizations*. The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - consist of assets, public support and program revenues, which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets - include funds with donor-imposed restrictions, which permit the Corporation to expend the assets as specified, and are satisfied either by the passage of time or by actions of the Corporation. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds.

Permanently Restricted Net Assets - include resources, which have a permanent donor-imposed restriction, which stipulates that the assets are to be maintained permanently, but permit the Corporation to expend part or all of the income derived from the donated assets. There are no permanently restricted net assets at year end.

Inventories

Inventories consist of housing and land, and are recorded at the lower of cost and market value at the time of purchase or donation.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For financial statement purposes, the Corporation considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Major repairs and maintenance over \$1,000 are capitalized as incurred. Depreciation is calculated on a straight-line basis as follows:

Property	39 years
Furniture	3 years
Equipment	5 years

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financials and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Contributed Goods and Services

The Corporation records various types of in kind support including contributed facilities and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as "in kind support" are offset by amounts included in expenses or property and equipment.

The Corporation reports gifts of land, building and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. The Corporation reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. When a donor restriction expires, temporarily restricted assets are reclassified to unrestricted net assets. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Pledges Receivable

Pledges receivable represent amounts which are due from individual donors which are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year.

Promises to give with expected payment dates that extend beyond one year are discounted to their present value. Management believes that all pledges receivable are collectible, and therefore, no allowance for doubtful pledges has been established. If pledges are determined to be uncollectible in subsequent periods, they will be charged to activities at that time.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code (the Code), therefore no provision for federal income taxes has been made in the accompanying financial statements. In addition, the Corporation qualifies for the charitable contribution deduction under Section 170(b) (1) (a), and has been classified as an organization that is not a private foundation under Section 509(a) (1) of the Code. The Corporation is also exempt from Massachusetts state taxes.

Note 3 - Rental Agreement

The Corporation conducts its operations as a tenant-at-will in a facility located in Vineyard Haven, Massachusetts which requires monthly rent payments of in August of 2017 the rent was increased to \$2,030. Total rent expense for the years ended December 31, 2017 and 2016, was \$19,551 and \$15,882, respectively.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 4 - Notes and Mortgages Payable

The Corporation has the following notes and mortgages payable at December 31, 2017 and 2016:

- a) The Corporation has a non-interest bearing contingent loan with The Resource Inc. under the Housing Rehabilitation Loan Program for \$28,676 with a maturity date of July 22, 2028 secured by a Mortgage on the property located at Halcyon Way, West Tisbury, Massachusetts. If the sale of the property takes place prior to the maturity date, the outstanding principal shall be forgiven proportionate to the years remaining until the maturity date at a rate of 1/15th per annum.
- b) The Corporation has a non-interest bearing 30-year note payable in the amount of \$100,000 due to the Massachusetts Housing Finance Agency. The note is restricted for the financing of two units of affordable housing on Halcyon Way, West Tisbury, Massachusetts. There is no installment payment required on the note, which is due in full in 2035. Outstanding balance on the note was \$100,000 as of December 31, 2017 and 2016.
- c) The Corporation has a 30-year, 6% interest rate note payable with Martha's Vineyard Saving Bank secured by the Corporation's property located on Halcyon Way, West Tisbury, Massachusetts maturing in November 2032. The outstanding balance on the note at December 31, 2017 and 2016 was \$90,039 and \$93,471, respectively.
- d) The Corporation has a mortgage of \$295,000 with Rockland Trust with an interest rate of 5.25% for 25 years collateralized by the land with the buildings and improvements at 14 Village Court, Vineyard Haven, Massachusetts subject to certain financial covenants. The balance at December 31, 2017 and 2016 was \$278,052 and \$285,240, respectively.
- e) The Corporation has three promissory notes for rental projects with the Federal Home Loan Bank of Boston Affordable Housing Program (AHP) are referred to as the AHP Subsidy. These are contingent loans that will be forgiven after 15 years of operation of the Project. The Project will be subject to deed restriction or other legally enforceable mechanism that incorporates the income-eligibility and affordability restrictions committed to in the approved AHP application.
 - a. \$160,000 promissory note secured by the property located at 12 Clam Point Road, West Tisbury, Massachusetts, known as Sepiessa II - Rental Housing Project.
 - b. \$390,000 promissory note secured by the property located at 6 Water Street, Tisbury, Massachusetts.
 - c. \$291,436 promissory note secured by the property located at 14 Village Court, Tisbury, Massachusetts.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 4 - Notes and Mortgages Payable (continued)

- f) The Corporation has a non-interest bearing contingent loan with The Resource Inc. under their Housing Rehabilitation Loan Program for \$200,000 with a maturity date of May 29, 2029 secured by a mortgage on the property located at 14 Village Court, Tisbury, Massachusetts. If the sale of the property takes place prior to the maturity date, the outstanding principal shall be forgiven proportionate to the years remaining until the maturity date at a rate of 1/15th per annum.
- g) The Corporation has a loan with the Rockland Trust for \$160,000 financing on June 17, 2015 with a 25-year term at an interest rate of 5.15%. The terms are interest only prior to that date. The outstanding balance at December 31, 2017 and 2016 was \$128,568 and \$141,627, respectively. The note is secured by the property located at 12 Clam Point Road, West Tisbury, Massachusetts which is known as Sepiessa II – Rental Housing Project.
- h) The Corporation has a line of credit with the Rappaport Family Foundation for \$500,000. The outstanding balance at year-end is \$300,000. The unsecured loan has a term of 5 years as of September 15, 2017 at an interest rate of 1% per annum payable at any time before due. The terms are interest only prior to that date. The funds were used to purchase a property on Greenwood Avenue in Tisbury, Massachusetts.
- i) The Corporation has a line of credit with the Cardinal Brook Trust for \$1,000,000. No amounts were outstanding at year end.
- j) The Corporation has a line of credit with the Rockland Trust for \$250,000. No amounts were outstanding at year end.
- k) The Corporation has a loan with the Rockland Trust for \$185,000 with a 25-year term at an interest rate of 5.25%. The terms are interest only prior to that date. The outstanding balance at December 31, 2017 and 2016 was \$180,674 and \$184,490, respectively. The note is secured by the property located at 6 Water Street, Tisbury, Massachusetts which is referred to as the Water Street Apartments.

Future maturities of the loans for the next five years are as follows:

2018	\$	28,346
2019		30,611
2020		32,273
2021		34,025
Thereafter		<u>2,038,498</u>
	\$	<u>2,163,753</u>

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 5 - Related Party Relationships

The following is a list of the members of the Board of Directors who from time to time have relationships with other organizations that also do business and/or work for the Corporation:

- A. Tristan Israel, a Board member, is a Selectman for the Town of Tisbury from which the Corporation may receive funds. For the years ending 2017 and 2016 the Corporation received grant funding from the Town of Tisbury of \$508,290 and \$299,999, respectively.
- B. Wendy Swolinzky, Sheetal Reubens, Paul Moreau, Monica Miller, Elizabeth Loucks, and Matt Coffey are members or former members of the Board who are also homeowners and lease the land on which their homes are located for an annual rate of \$600.
- C. Dan Seidman, a Board member, is also Board member of the Dukes County Regional Housing Authority (DCRHA) and the Tisbury Affordable Housing Committee (TAHC). The DCRHA leases office to the Corporation and/or decides on issues that may affect the Corporation. From time to time the TAHC discusses and/or decides on issues that may affect the Corporation. For the years ending 2017 and 2016 the Corporation received grant funding from the Town of Tisbury of \$508,290 and \$299,999 respectively.
- D. Leon Brathwaite, a Board member is a Commissioner for the County of Duke County (CDC). From time to time the CDC discusses and/or decides on issues that may affect the Corporation.
- E. Jim Feiner, a Board member, is a member of the Chilmark Housing Committee (CTHC). From time to time the CTHC discusses and/or decides on issues that may affect the Corporation. For the years ending 2017 and 2016 the Corporation received grant funding from the Town of Chilmark of \$32,500 and \$0, respectively
- F. Juli Vanderhoop, a Board member, is a Selectmen for the Town of Aquinnah from which the Corporation may receive funds.
- G. Doug Ruskin, a Board member, is a member of the West Tisbury Finance Committee (WTFC). From time to time the WTFC discusses and/or decides on issues that may affect the Corporation. For the years ending 2017 and 2016 the Corporation received grant funding from the Town of West Tisbury of \$515,000 and \$100,000, respectively. The Corporation also entered into a 51-year ground lease for 2.86 acres of land owned by the Town of West Tisbury at 565 Edgartown Road in 2017.
- H. Cheryl Doble, a Board member, is a member of the Tisbury Community Preservation Committee (TCPC). From time to time the TCPC discusses and/or decides on issues that may affect the Corporation. For the years ending 2017 and 2016 the Corporation received grant funding from the Town of Tisbury of \$508,290 and \$299,999 respectively.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 6 - Donated Services, Materials and Facilities

The Corporation received contributions of property consisting of land and houses. Additionally, a number of volunteers have donated substantial amounts of their time to the Corporation. The Corporation received \$2,549 in donated legal services for 2016. In 2017, the total of goods and services donated to the Corporation was \$101,513, of which \$97,544 was for legal services.

Note 7 - Concentration of Risk

The Corporation maintains cash balances in bank deposit accounts, which at times may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash accounts.

Note 8 - Land Lease, Rental Income and Real Estate Sales and Acquisitions

The Corporation leases from Dukes County Regional Housing Authority (DCRHA), for a nominal fee, a 1.3 acre lot of land located on Halcyon Way in West Tisbury on Martha's Vineyard. The lease as of July 9, 2002 is for 51 years for a base rent of one dollar. The Corporation has a management agreement with DCRHA for the management of the property on the aforementioned land.

The Corporation leases from Dukes County Regional Housing Authority (DCRHA), for a nominal fee, a 1.5 acre lot of land located on 12 Clam Point Road in West Tisbury on Martha's Vineyard. The lease as of July 30, 2013 is for 51 years for a base rent of one dollar. The Corporation has a management agreement with DCRHA for the management of the property on the aforementioned land.

The Corporation leases from Town of West Tisbury for a nominal fee, a 2.86-acre lot of land located at 565 Edgartown-West Tisbury Road in West Tisbury on Martha's Vineyard. The lease as of August 30, 2017 is for 51 years for a base rent of one dollar.

During 2017 and 2016, the Corporation acquired and sold various real estate properties. The land of the properties sold were retained by the Corporation and subsequently given as a master ground lease to buyers or related homeowner association, as applicable.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 8 - Land Lease, Rental Income and Real Estate Sales and Acquisitions (Continued)

Purchase and sale activity is as follows:

Purchases for the Year Ended 2017

801 State Road, Aquinnah	330,200
Greenwood Ave, Tisbury, Massachusetts	300,000
	<u>\$ 630,200</u>

Sales for the Year Ended 2016

42 Richmond Ave, Oak Bluffs, Massachusetts	225,000
	<u>\$ 225,000</u>

Note 9 - Management Agreements for Rental Properties

Halcyon Way, West Tisbury

The Organization contracted with the Dukes County Housing Authority to provide rental property management services to for property referred to as Halcyon Way (the Apartments) located 21 Halcyon Way, West Tisbury, Massachusetts.

Management Agreement

The units are to be leased to qualified households with incomes at or below 80% of the area median income as defined by HUD. The maximum rent for the units shall not exceed HUD 75% median rents for the area.

Rental income is to be allocated as follows:

- | | |
|----------------------------------|----------------------------|
| a. Operating costs | |
| b. Administrative fees | 7% of gross rental income |
| c. Management fees paid to DCRHA | 10% of gross rental income |
| d. Capital reserve requirements | 3% of gross rental income |
| e. Operating reserve account | 5% of gross rental income |

The term of the agreement is for three (3) years and shall continue thereafter on mutually agreeable terms from year to year unless sooner terminated.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 9 - Management Agreements for Rental Properties (continued)

Sepiessa II Apartments, 12 Clam Point Road, West Tisbury

The Organization contracted with the Dukes County Housing Authority to provide rental property management services for property referred to as Sepiessa II Apartments (the Apartments) located off 12 Clam Point Road, West Tisbury, Massachusetts. The agreement is for three years with a start date of July 1, 2014 and shall continue thereafter on mutually agreeable terms from year to year unless sooner terminated.

Management Agreement

The units are to be leased to qualified households with incomes at or below 50% and 60% of the area median income as defined by HUD. The maximum rent for the units shall not exceed HUD 60% and 50% median rents for the area.

Rental income is to be allocated as follows:

- | | |
|----------------------------------|---------------------------|
| a. Operating costs | |
| b. Administrative fees | 7% of gross rental income |
| c. Management fees paid to DCRHA | 8% of gross rental income |
| d. Capital reserve requirements | 3% of gross rental income |
| e. Operating reserve account | 5% of gross rental income |

The term of the agreement is for three (3) years and shall continue thereafter on mutually agreeable terms from year to year unless sooner terminated.

The Corporation leases from Dukes County Regional Housing Authority (DCRHA), for a nominal fee, a 1.5 acre lot of land located on 12 Clam Point Road in West Tisbury on Martha's Vineyard. The lease is for approximately 50 years for a base rent of one dollar.

14 Village Court, Vineyard Haven

The Organization contracted with the Dukes County Housing Authority to provide property rental management services to for property referred to as Village Court (the Apartments) located 14 Village Court, Vineyard Haven, Massachusetts. The agreement is for three years with a start date of February 26, 2014 and shall continue thereafter on mutually agreeable terms from year to year unless sooner terminated.

Management Agreement

The units are to be leased to qualified households with incomes at or below 50% and 60% of the area median income as defined by HUD. The maximum rent for the units shall not exceed HUD 50% and 60% median rents for the area.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 9 - Management Agreements for Rental Properties (continued)

Rental income is to be allocated as follows:

- | | |
|----------------------------------|---------------------------|
| a. Operating costs | |
| b. Administrative fees | 7% of gross rental income |
| c. Management fees paid to DCRHA | 8% of gross rental income |
| d. Capital reserve requirements | 3% of gross rental income |
| e. Operating reserve account | 5% of gross rental income |

Water Street Apartments, Vineyard Haven

The Organization contracted with the Dukes County Housing Authority to provide property rental management services to for property referred to as located at 6 Water Street, Tisbury, Massachusetts which is referred to as the Water Street Apartments. The agreement is for three years with a start date of October, 2016 and shall continue thereafter on mutually agreeable terms from year to year unless sooner terminated.

Management Agreement

The units are to be leased to qualified households with incomes at or below 50% and 60% of the area median income as defined by HUD. The maximum rent for the units shall not exceed HUD 50% and 60% median rents for the area.

Rental income is to be allocated as follows:

- | | |
|----------------------------------|---------------------------|
| a. Operating costs | |
| b. Administrative fees | 7% of gross rental income |
| c. Management fees paid to DCRHA | 8% of gross rental income |
| d. Capital reserve requirements | 3% of gross rental income |
| e. Operating reserve account | 5% of gross rental income |

Note 10 - Tax Credits

The Massachusetts Department of Housing and Community Development (DHCD) and the Organization entered into an agreement to issue Certified Tax Credit. The DHCD allocates a maximum of \$150,000 in tax credits. In order to make use of the maximum allocation, the Corporation must secure qualified investments totaling \$300,000. All qualified investments by eligible taxpayers shall be applied against the total maximum allocation amount upon DHCD certification. The total amount of revenue earned which gave rise tax credits for the year ended December 31, 2017 and 2016 was \$298,333 and \$276,333.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 11 - Property and Equipment

At December 31, 2017 and 2016 property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
	\$ 4,128,763	\$ 4,118,198
Rental property	<u>18,434</u>	<u>18,434</u>
Office equipment	4,147,197	4,136,632
Accumulated depreciation	<u>(369,088)</u>	<u>(259,239)</u>
<i>Property and Equipment, net</i>	<u>\$ 3,778,110</u>	<u>\$ 3,877,393</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$109,849 and \$58,949, respectively.

Note 12 - Notes Receivable

The Organization has five interest bearing notes from five individuals for second mortgages on properties which were sold to them by the Organization. The total notes receivable balance as of December 31, 2017 and 2016 was \$50,000. The notes are secured by the properties.

Note 13 - Temporarily Restricted Net Assets

The temporarily restricted net assets consist of amounts that are restricted for specific purposes. As of December 31, 2017 and 2016, temporarily restricted net assets totaled \$3,854,053 and \$3,023,199.

Temporarily restricted net assets are restricted for the following projects

	<u>2017</u>	<u>2016</u>
Kuehn's Way	\$ 1,053,000	\$ 2,123,199
Scotts Grove	2,470,000	900,000
Aquinnah	<u>331,053</u>	<u>-</u>
	<u>\$ 3,854,053</u>	<u>\$ 3,023,199</u>

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 14 – Restricted cash for rental properties

The restricted cash of \$69,764 and \$45,500 for the years ended December 31, 2017 and 2016, respectively are held in reserve for the benefit of the properties managed by DCRHA as follows:

Halcyon Way	\$	18,515	\$	9,000
Sepiessa II		16,324		9,500
Village Court		13,951		12,000
6 Water Street		20,974		15,000
	\$	69,764	\$	45,500

Note 15 - Pledges Receivable

Pledges receivable are recorded after being discounted to the anticipated net present value of the future cash flows. The pledges have been discounted using rates that range from 0.4% to 4.6%. Pledges are expected to be realized in the following periods:

Year Ended December 31, 2016

	<i>Pledge Balances</i>	<i>Discount</i>	<i>Present Value of Pledges Balances</i>
2017	\$ 2,517,975	\$ -	\$ 2,517,975
2018	266,594	7,236	259,358
2019	130,810	7,005	123,805
2020	83,150	6,589	76,561
<i>Total</i>	\$ 2,998,529	\$ 20,830	\$ 2,977,699

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Year Ended December 31, 2017

	<i>Pledge Balances</i>	<i>Discount</i>	<i>Present Value of Pledges Balances</i>
2018	\$ 3,065,445	\$ -	\$ 3,065,445
2019	353,010	2,824	350,186
2020	290,250	4,105	286,145
2021	86,100	3,587	82,513
<i>Total</i>	<u>\$ 3,794,805</u>	<u>\$ 10,516</u>	<u>\$ 3,784,289</u>

Note 16 – Lawsuits Contingencies

The Organization faces a legal challenge from several neighboring abutters who have appealed the Town of Tisbury's zoning approval for a neighborhood of 20 rental apartments at Kuehn's Way. The management of the Organization believes that they have mitigated risk by securing pro bono legal services from the Boston law firm of Nixon Peabody and are of the opinion that the appeal will be dismissed by the Massachusetts Land Court in 2018. Therefore, nothing has been accrued in the financial statements.

Note 17 Prior Period Adjustments

During the year ended December 31, 2016 the Organization recorded an internal loan to themselves which was essentially an amount borrowed from a grant to the Organization from the Ziff Foundation with the permission of the donor.

The property on 30 Fisher Road which was acquired in 2013 by donation was not recorded at fair value which was determined to be \$334,700. An adjustment was made to record the fair value to that property.

The total prior period adjustment was \$819,597.

Note 18 - Subsequent Events

FASB ASC 855-10 Subsequent Events defines further disclosure requirements for events that occur after the balance sheet date but before financial statements are issued. In accordance with FASB ASC 855-10, the Organization's management has evaluated events from December 31, 2017 to April 22, 2018, which is the issuance date of this report. The Corporation has no subsequent events to disclose.

ISLAND HOUSING TRUST CORPORATION

Notes to the Financial Statements

For the Year Ended December 31, 2017

(With summarized comparative totals for the year ended December 31, 2016)

Note 19 – Schedule of Expenses

	<i>Rental Programs</i>				<i>Program/ Project Expense</i>	<i>General and Administration</i>	<i>2017 Total</i>	<i>2016 Total</i>
	<i>Halycon Way</i>	<i>14 Village Court</i>	<i>Sepiessa II</i>	<i>Water Street</i>				
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ 230,094	\$ 76,698	\$ 306,792	\$ 249,076
Payroll taxes and fringe benefits	-	-	-	-	91,139	30,379	121,518	73,796
Professional fees	-	-	-	-	121,717	35,207	156,924	37,471
Conferences	-	-	-	-	300	100	400	1,199
Insurance	1,940	5,251	2,977	6,984	1,753	584	19,489	18,293
Occupancy	-	-	-	-	10,639	8,912	19,551	15,882
Fundraising	-	-	-	-	29,141	9,714	38,855	27,147
Property expenses	-	1,919	-	4,056	4,980	-	10,955	50,355
Depreciation	6,559	27,974	19,558	51,775	-	3,982	109,848	58,949
Printing and postage	-	-	-	-	9,274	3,092	12,366	9,706
Administrative management	2,185	4,500	2,400	4,152	-	19,675	32,912	24,282
Property management fee	2,514	4,719	3,206	5,135	-	-	15,574	19,901
Interest expense	5,514	14,804	6,988	9,595	-	-	36,901	30,797
Repairs and maintenance	10,424	15,216	8,355	13,070	-	-	47,065	33,983
Office supplies	-	-	-	42	4,343	1,448	5,833	10,459
Software Licensing	-	-	-	-	8,124	2,708	10,832	12,441
Advertising	-	-	-	-	34,597	11,531	46,128	44,977
Telephone	-	-	-	1,384	3,097	1,032	5,513	4,282
Travel	-	-	-	-	2,162	721	2,883	4,748
Utilities	154	1,700	215	4,177	394	131	6,771	3,559
Property taxes	412	1,150	618	1,362	-	-	3,542	2,180
Filing fees	-	-	-	-	534	-	534	530
Total expenses	\$ 29,702	\$ 77,233	\$ 44,317	\$ 101,731	\$ 552,288	\$ 205,914	\$ 1,011,185	\$ 734,013