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ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Restated Comparative Totals for 2017)



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Management's Discussion and Analysis

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Management's Discussion and Analysis

For the Year Ended December 31, 2018

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 26 rental and 61 ownership units located in the towns of Tisbury, Oak Bluffs, Edgartown, West Tisbury, and Aquinnah. Supporting programs include communications, rental management, and housing development. 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 2018, we completed a neighborhood of 9 rental apartments at Scotts Grove in West Tisbury and 2 ownership homes at Smalley's Knoll in Aquinnah. In addition, our development efforts have added 53 new units to our development pipeline that are in the planning, permitting or construction stages. Total net assets increased by 10% or \$1,461,960 from \$12,887,608 in 2017 to \$14,349,568 in 2018. Construction began in 2018 and is scheduled to be completed in 2019 for the renovation of 16-bedroom inns called the Hanover House in Tisbury that will be leased to the Martha's Vineyard Hospital for their low and moderate-income employees.

Our capacity has increased as a result of securing a fifth consecutive year of Community Investment Tax Credits from the Massachusetts Department of Revenue. Those credits raised \$293,824 in donations from 53 donors in 2018. In addition, our annual summer benefit brunch event raised \$287,458 in working capital from 109 guests in 2018.

Revenues of \$35,725 were collected from 61 homeowners in ground lease fees. Revenues of \$231,637 from 26 rental units were used to pay \$232,974 in expenses before depreciation and add \$50,658 towards capital and operating reserves from rental revenues and one-time project expenses from the Scotts Grove construction budget.

IHT's leveraged fundraising strategy has successfully raised a total of \$2.6 million by matching town grants, private donations, and state grants in the form of soft debt in 2018. Building on two capital fundraising campaigns launched in 2017 the Leadership Circle increased by nine new members each pledging \$100,000 or more over four years that has raised a total of \$900,000 in project funding in 2018. The Make It Happen Fund, a social impact investment fund, utilized \$1.8 million in low-cost, private, short-term revolving lines of credit from six family foundations to purchase the Hanover House Inn in Tisbury in 2018.

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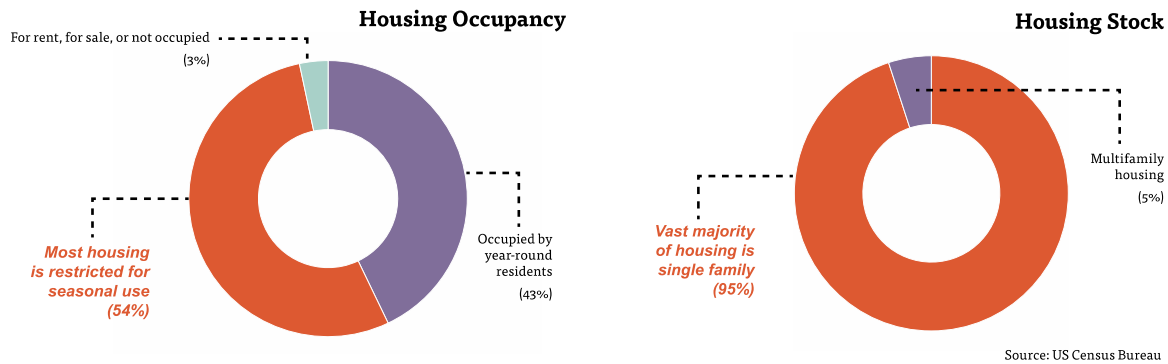
We continue to partner with town governments to secure available land and Community Preservation Act grant funding. We continue to explore new partnerships with private businesses and real estate developers, as well as non-profit organizations that have available land and/or financial resources for housing project 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.

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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 a total of 841 units (411 affordable and 329 workforces) over the past 25 years, this only represents 9% of the island's year-round housing stock. The six island town's Housing Production Plans have estimated that the Island needs a total of 1,147 additional housing units over the next 20 years (907 affordable and 241 workforces) to meet the goal of 20% of the island's year-round housing stock in order to address the current and projected demand.

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 three distinct lines of business, including housing development, communications, and rental management. Strategic objectives are developed for each line of business, supporting our overall mission. IHT's Vision 2020 goal is to raise \$24 million in funding to create 100 new homes (ownership and rental) to serve 300 residents and their families by the end of 2020. As of 2018, we completed 11 homes (a neighborhood of 9 rental apartments at Scotts Grove in West Tisbury and 2 ownership homes at Smalley's Knoll in Aquinnah), and our development efforts have added 53 new units to our project pipeline that are in the predevelopment or construction stages.

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 home ownership and own and manage in the case of rental properties.

The Dukes County Regional Housing Authority (DCRHA), a state-chartered housing authority, who manages the IHT's 26 rental units under contract on 5 scattered site properties serving very low, low and moderate-income households. The DCRHA performs accounting functions for the IHT rental properties 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 builds 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.

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Our project development pipeline with a total of 11 units completed and 53 units either in predevelopment or construction stages as of December 31, 2018, include:

	<u>2018</u>	<u>2017</u>
Predevelopment stage	53	57
In construction	16	11

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 is currently a 16 bedroom Hanover House Inn purchased in August of 2018 that is being renovated and repurposed as year-round rental housing in the Town of Tisbury for hospital employee housing through a 5-year lease with the Martha's Vineyard Hospital and a neighborhood of 6-townhouses within 3-duplexes on land on Greenwood Avenue in the Town of Tisbury purchased in September of 2017 in pre-development stage.

Projects in construction (in millions) as of December 31, 2018:

	<u>2018</u>	<u>2017</u>
Total projected cost of development in construction	\$2.7	\$3.7
Permanent loan commitments, grants and pledges	\$2.2	\$3.2
Aggregate percentage of completion of projects in construction	45%	20%

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 vacancy rates.

	<u>2018</u>	<u>2017</u>
Average rent increase	3%	3%
Average vacancy rate	4%	0%

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 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:	26 multi-family units
Average original cost per unit:	\$244,709
Average hard debt outstanding per unit:	\$ 57,075

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The majority of IHT rental properties generate positive cash flow. This performance is a result of properly capitalized reserves of \$120,422 and the DCRHA management efforts.

	<u>2018</u>	<u>2017</u>
Percentage of properties producing positive cash flow	58%	88%
Total excess cash generated by the positive properties	\$24,206	\$12,083
Total cash flow deficit funded by IHT during the year	\$31,819	\$1,957

The lower percentage of properties producing positive net cash flow in 2018 was due to a higher percentage of turnover costs than in the prior year.

Successful operations of IHT resulted in a contribution of \$50,658 in 2018 towards a total of \$120,422 in property capital and operating reserves.

Long-term debt and fees payable from excess cash total approximately \$2.85 million in the aggregate for IHT's entire rental portfolio, including approximately \$1.39 million in "soft" debt (debt which doesn't require mandatory monthly payments). The majority of this debt will mature at various dates through 2042.

Ground Leased Ownership Properties

IHT ground leases land with affordability restrictions to 61 homeowners in 5 towns on the island of Martha's Vineyard (Edgartown, West Tisbury, Tisbury, Oak Bluffs, and Aquinnah). These include 33 single-family and duplex homes that IHT developed for sale at below market prices during the period 2005-2018. 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. Loans are secured by the properties and are repaid when owners refinance or sell their house.

	<u>2018</u>	
<u>2017</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 contingent debt or "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.

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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, contingent or soft loans obtained from conventional lenders and governmental entities that support affordable housing, and the positive cash flow from our own operations:

	<u>2018</u>	<u>2017</u>
Restricted Grants	\$3.8M	\$1.8M
Unrestricted Contributions	\$707K	\$784K
New borrowings of long-term debt	\$554K	\$300K
Property sales	\$510K	\$0

IHT's Make It Happen Fund is a low interest, short-term revolving line of credit totaling \$2.2 million available from seven foundations. The fund is used for property acquisition. It is repaid from a combination of donations, grants or loan proceeds.

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 2021. During 2019, a cash flow surplus is projected in the amount of approximately \$248,000.

Human Resources

Our staff consists of 5 full-time equivalent employees with an average tenure of 4 years. Aggregate personnel costs grew by 5% compared to the previous year. 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 training effort we enable future leaders to develop internally.

The Executive Director is in charge of IHT's general management, fundraising, rental properties, communications and housing development program activities. The management team includes the following staff:

Project Development:	Derrill Bazy, Project Director
Project Analysis:	Faren Worthington, Project Analyst
Communications:	Breeze Tonnesen, Communications Director
Fund Development:	Christopher Anderson, Development Director
Fund Development:	Pam Scotts, Development Associate
Ground Lease Stewardship	Breeze Tonnesen, Program Manager

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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 13-member board of directors with committees that serve the board for each of our lines of business, including communications, fundraising, housing project development, rental property and ground lease management, as well as a governance and executive committee.

OVERVIEW OF FINANCIAL STATEMENTS

Key Accounting Policies

Our financial statements are subject to annual audits by independent auditors. 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 that is reflected as part of the change in net assets in the current year as retained earnings. The IHT also collects a monthly ground lease fee from each of its 61 homeowners.

Financial Statement Highlights

Our Statement of Consolidated 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 3.8 and 6.7 as of December 31, 2018 and 2017, respectively.

Cash and cash equivalents totaled approximately \$2,799,721 and \$2,401,134 at the end of 2018 and 2017, respectively. Of these amounts, \$1,461,799 and \$1,363,066 were not restricted for specific purposes or properties.

Housing development represents 87% and 86% of our total expenses for 2018 and 2017, respectively. The remaining 13% and 14% of our total expenses for 2018 and 2017, respectively consist of Fundraising, Communications, Rental Management, and General Management expenses that support our mission. Fundraising costs represent 4% and 3.4% of our overall management and general costs in 2018 and 2017 and provide a major part of our support and revenue.

Assets with donor restrictions arise from contributions and grants for development projects. In 2018 IHT received \$1,920,237 million in grants, and donations from private donors and local municipalities. These contributions were added to assets with donor restrictions and will be transferred to assets without donor restrictions over the property's compliance period (40 years) along with grants and donations received in previous years.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

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

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		
	2018	2017	2016
Liquidity Ratios:			
• Current ratio (1)	2.7	5.4	3.8
• # months' operating expense liquid (2)	20	21	21
Long-term Solvency Ratios:			
• Unrestricted net asset ratio (3)	73%	69%	68%
• Leverage (4)	0.36	0.18	0.26
Rental Profitability Ratios:			
• Debt Service coverage ratio (5)	1.16	1.21	2.4
• Profitability ratio (6)	15%	22%	25%
• Net operating income before interest, depreciation, amortization, and other non-cash expenses	36K	43K	35K
• Annual hard debt service requirement (principal and interest)	55K	57K	45K
• Required deposits to fund reserves	26K	14K	11K
• Capital reserves balance	120K	69K	55K
• # of rental units	26	17	17

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 two 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.

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The size of our rental portfolio has increased significantly over the past four years from 17 to 26 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 raised 50% or \$12 million towards the \$24 million fundraising goal. Currently 11 units of housing have been completed and 53 units of housing are under construction or permitted. Another 36 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 site suitability and development opportunities using geographic information system (GIS) mapping.

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 \$7 million over the past 14 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.

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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 agreements could lead to immediate repayment of loans and other financial obligations.

IHT mitigates its compliance risk by contracting the Dukes County Regional Housing Authority (DCRHA) who is an experienced rental property manager. The IHT regularly audits 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 donated 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)	\$93K	\$279K	\$279K	\$889K
Operating Leases (Office)	\$29K	\$0	\$0	\$0
Other Long-Term Obligation (Soft)	\$0	\$0	\$0	\$1.4M
	<hr/>			
Total	\$122K	\$279K	\$279K	\$2.3M

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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>2019</u>	<u>2020</u>
Unrestricted Donations Received	\$868K	\$852K
Project Grants Received	\$5.6M	\$7M
Developer & Lease Fees Received	\$135K	\$232K
Property Revenues Received	\$472K	\$522K
Other Revenues Received	\$70K	\$197K
Total Revenue Received	\$7.2M	\$8.8M
Workforce Compensation and Benefits	\$577K	\$605K
Office Cost Payments	\$56K	\$58K
Project Expenses	\$5.6M	\$7M
Property Expenses	\$356K	\$379K
Other Cost Paid	\$100K	\$100K
Total Expenses Paid	\$6.7M	\$8.1M
Net Cash Flow (Deficit)	\$497K	\$661K

The prior year's projection of cash flow for 2018 was within 6% of the actual cash flow for 2018.

2019 Outlook

Portfolio

IHT estimates spending \$5.6 million in 2019 on housing development projects, rental properties, and support services. Public grants and private donations totaling \$2.4 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 38% over 2018 levels due to 16 new rental units. Expense growth is managed by a budgeting process for each property in our portfolio.

We anticipate receipt of approximately \$100,000 in developer fees for two projects currently under construction. The renovation and repurposing of the 16-bedroom Hanover House Inn in the Town of Tisbury for year-round hospital worker housing will be completed and leased to the Martha's Vineyard Hospital by May 2019. A neighborhood of 6 townhouses on Greenwood Avenue in the Town of Tisbury will be completed and sold by December 2019.

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.

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The Executive Committee meets with management to ensure management has the 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



DAVISKELLY CERTIFIED
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Independent Auditors' Report

To the Board of Directors of
Island Housing Trust Corporation and Subsidiary

We have audited the accompanying consolidated financial statements of Island Housing Trust Corporation (a nonprofit organization) and Scotts Grove, LLC, a wholly-owned subsidiary (collectively, IHT), which comprise the consolidated statements of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated 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.

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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of IHT, as of December 31, 2018, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The management discussion and analysis on pages 1 through 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the representation of IHT's management and has not been subjected to the auditing procedures applied in the audit of the basic financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Supplemental Consolidated Schedule of Rental Program Expenses

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental consolidated schedule of rental program expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited IHT's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Davis Kelly LLC

Boston, Massachusetts
May 3, 2019

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Statement of Financial Position

December 31, 2018
(with Restated Comparative Totals for 2017)

	2018	2017
<i>Assets</i>		
Cash and cash equivalents	\$ 2,679,301	\$ 2,331,370
Cash - restricted	120,422	69,764
Accounts receivable	9,510	20,208
Prepaid expenses	3,224	14,694
Pledges receivable, net	3,319,634	3,784,289
Notes receivables	60,000	50,000
Housing project inventories	3,590,049	2,133,769
Deposits	-	14,549
Property and equipment, net	9,699,351	6,740,558
<i>Total assets</i>	\$ 19,481,491	\$ 15,159,201
 <i>Liabilities and Net Assets</i>		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 130,487	\$ 96,306
Notes and mortgages payable	5,001,434	2,175,287
<i>Total liabilities</i>	5,131,921	2,271,593
 <i>Net Assets</i>		
Without donor restrictions	9,192,270	7,570,308
With donor restrictions	5,157,300	5,317,300
<i>Total net assets</i>	14,349,570	12,887,608
 <i>Total liabilities and net assets</i>	 \$ 19,481,491	 \$ 15,159,201

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

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Statement of Activities

*For the Year Ended December 31, 2018
(with Restated Summarized Comparative Totals for 2017)*

	<i>Without donor restrictions</i>	<i>With donor restrictions</i>	<i>2018</i>	<i>2017</i>
<i>Revenues and other support:</i>				
Grants and contributions	\$ 832,841	\$ 1,500,000	\$ 2,332,841	\$ 2,351,889
Tax credit revenue	291,458	-	291,458	298,333
Sales of buildings	511,391	-	511,391	-
Less: cost of development projects	(747,801)	-	(747,801)	-
Net sales of buildings	(236,410)	-	(236,410)	-
Rental income	231,637	-	231,637	187,808
Ground lease income	35,725	-	35,725	35,400
Contributed goods and services	126,713	-	126,713	101,514
Interest income	4,007	-	4,007	4,349
Other earned revenue	4,939	-	4,939	20,153
Net assets released from restrictions	1,660,000	(1,660,000)	-	-
<i>Total revenues and other support</i>	<u>2,950,910</u>	<u>\$ (160,000)</u>	<u>2,790,910</u>	<u>2,999,446</u>
<i>Expenses:</i>				
Programs services	917,784	\$ -	917,784	539,721
Management and general	224,274	-	224,274	307,994
Fundraising	155,914	-	155,914	122,542
Special events	30,975	-	30,975	40,928
<i>Total expenses</i>	<u>1,328,948</u>	<u>-</u>	<u>1,328,948</u>	<u>1,011,185</u>
<i>Change in net assets</i>	<u>1,621,962</u>	<u>(160,000)</u>	<u>1,461,962</u>	<u>1,988,261</u>
<i>Net assets beginning of year, as previously stated</i>	8,435,090	\$ 3,854,054	12,289,144	9,481,286
<i>Prior period adjustment 2017</i>	-	-	-	819,597
<i>Prior period adjustment 2018</i>	(704,782)	1,303,246	598,464	598,464
<i>Beginning net assets, as restated</i>	<u>7,730,308</u>	<u>5,157,300</u>	<u>12,887,608</u>	<u>10,899,347</u>
<i>Net assets at end of year</i>	<u>\$ 9,352,270</u>	<u>\$ 4,997,300</u>	<u>\$ 14,349,570</u>	<u>\$ 12,887,608</u>

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

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2018

	<i>Program Services</i>			<i>Total Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Cost of Real Estate Sale</i>	<i>Special Events</i>	<i>Total</i>
	<i>Communication</i>	<i>Housing Development</i>	<i>Rental Management</i>						
Salaries and wages	\$ 47,977	\$ 122,343	\$ -	\$ 170,320	\$ 77,247	\$ 93,797	\$ 17,702	\$ -	\$ 359,067
Payroll taxes and fringe benefits	14,926	43,422	-	58,349	37,316	33,924	6,106	-	135,695
Professional fees	26,721	104,330	-	131,051	18,287	11,313	1,380	-	162,030
Conferences	-	-	-	-	5,397	-	-	-	5,397
Insurance	432	1,256	28,922	30,610	1,079	981	177	-	32,847
Occupancy	3,243	9,433	-	12,676	8,106	7,370	1,327	-	29,478
Grant	-	100,000	-	100,000	-	-	-	-	100,000
Event expense	-	-	-	-	-	-	-	30,675	30,675
Property expenses	-	2,681	-	2,681	-	-	23,511	-	26,192
Depreciation	-	-	174,084	174,084	1,741	-	-	-	175,825
Printing and postage	599	1,823	-	2,422	1,498	1,362	245	-	5,528
Administrative management	-	-	17,106	17,106	56,607	-	-	301	74,014
Property management fee	-	19,210	19,442	38,652	-	-	-	-	38,652
Cost of development	-	-	-	-	-	-	696,063	-	696,063
Interest expense	-	-	44,875	44,875	-	-	-	-	44,875
Repairs and maintenance	-	-	99,473	99,473	-	-	-	-	99,473
Office supplies	1,738	5,056	-	6,794	4,345	3,950	711	-	15,800
Software licensing	-	-	-	-	8,515	-	-	-	8,515
Property taxes	-	-	3,537	3,537	-	-	-	-	3,537
Telephone	532	1,546	-	2,078	1,329	1,208	217	-	4,833
Travel	885	2,573	-	3,458	2,212	2,011	362	-	8,042
Utilities	-	-	19,619	19,619	-	-	-	-	19,619
Filing fees	-	-	-	-	594	-	-	-	594
Total expenses by function	97,052	413,675	407,058	917,784	224,274	155,914	747,801	30,975	2,076,749
Less expenses included with revenues on the consolidated statement of activities									
Cost of development projects	-	-	-	-	-	-	(747,801)	-	(747,801)
Total expenses included in the expense section on the consolidated statement of activities	\$ 97,052	\$ 413,675	\$ 407,058	\$ 917,784	\$ 224,274	\$ 155,914	\$ -	\$ 30,975	\$ 1,328,948

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

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2017

	<i>Program Services</i>							
	<i>Communications</i>	<i>Housing Development</i>	<i>Rental Management</i>	<i>Total Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Special Events</i>	<i>Total</i>
Salaries and wages	\$ 44,208	\$ 119,361	\$ -	\$ 163,569	\$ 72,492	\$ 70,732	\$ -	\$ 306,792
Payroll taxes and fringe benefits	13,367	44,354	-	57,721	33,417	30,380	-	121,518
Professional fees	26,035	7,373	-	33,408	117,068	7,200	-	157,676
Conferences	-	-	-	-	4,023	-	-	4,023
Insurance	257	853	17,152	18,262	643	584	-	19,489
Occupancy	2,151	7,136	-	9,287	5,377	4,888	-	19,551
Grant	-	5,000	-	5,000	500	-	-	5,500
Event expense	-	-	-	-	-	-	38,854	38,854
Property expenses	-	-	5,975	5,975	-	-	-	5,975
Depreciation	-	-	105,866	105,866	3,982	-	-	109,848
Printing and postage	1,360	4,513	-	5,874	3,401	3,091	-	12,366
Administrative management	-	-	13,237	13,237	48,967	-	2,074	64,278
Property management fee	-	-	15,574	15,574	-	-	-	15,574
Interest expense	-	-	36,901	36,901	-	-	-	36,901
Repairs and maintenance	-	-	47,065	47,065	-	-	-	47,065
Office supplies	1,678	5,569	42	7,290	4,196	3,815	-	15,300
Software licensing	-	-	-	-	10,832	-	-	10,832
Property taxes	-	-	3,542	3,542	-	-	-	3,542
Telephone	454	1,507	1,384	3,346	1,136	1,032	-	5,513
Travel	361	1,198	-	1,559	903	821	-	3,283
Utilities	-	-	6,246	6,246	525	-	-	6,771
Filing fees	-	-	-	-	534	-	-	534
Total expense by function	89,872	196,865	252,984	539,721	307,994	122,542	40,928	1,011,185
Less expenses included with revenues on the consolidated statement of activities	-	-	-	-	-	-	-	-
Total expenses included in the expense section on the consolidated statement of activities	\$ 89,872	\$ 196,865	\$ 252,984	\$ 539,721	\$ 307,994	\$ 122,542	\$ 40,928	\$ 1,011,185

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

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Statement of Cash Flows

*For the Year Ended December 31, 2018
(with Restated Comparative Totals for 2017)*

	<u>2018</u>	<u>2017</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 1,461,962	\$ 1,988,261
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	175,825	109,848
Change in:		
Accounts receivable	10,698	(6,618)
Pledge receivables, net	464,655	(806,590)
Prepaid expenses	11,470	(14,526)
Housing project inventories	(1,456,280)	(308,222)
Deposits	14,549	50
Notes receivable	(10,000)	-
Accounts payable and accrued expenses	34,181	24,765
<i>Net cash provided by operating activities</i>	<u>707,060</u>	<u>986,968</u>
<i>Cash flows from investing activities:</i>		
Investment in property and equipment	<u>(341,047)</u>	<u>(384,776)</u>
<i>Net cash used in investing activities</i>	<u>(341,047)</u>	<u>(384,776)</u>
<i>Cash flows from financing activities:</i>		
Proceeds from mortgages and notes payable	-	(13,136)
Payments on mortgages and notes payable	<u>(18,082)</u>	<u>-</u>
<i>Net cash used in financing activities</i>	<u>(18,082)</u>	<u>(13,136)</u>
<i>Net change in cash, cash equivalents, and restricted cash</i>	<u>347,931</u>	<u>589,055</u>
<i>Cash, cash equivalents and restricted cash, at beginning of year</i>	<u>2,331,370</u>	<u>1,742,315</u>
<i>Cash, cash equivalents and restricted cash, at end of year</i>	<u>\$ 2,679,301</u>	<u>\$ 2,331,370</u>
<i>Supplemental Cash Flow Information</i>		
Interest paid	<u>\$ 44,875</u>	<u>\$ 36,901</u>
Non-cash investing/financing activity- financed property and equipment	<u>\$ 2,844,229</u>	<u>\$ 300,000</u>

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

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 1 - Organizations

Island Housing Trust Corporation and Subsidiary (IHT) 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. IHT was created as a non-profit housing developer to serve the Island towns, housing organizations and homeowners on Martha's Vineyard, Massachusetts. IHT is supported primarily by contributions of cash and property from Massachusetts residents and project grants from municipal and state governments.

IHT has the following programs:

- ***Communications*** - Build community awareness, understanding of, and support for Island Housing Trust's mission of building and preserving permanently affordable housing on Martha's Vineyard.
- ***Rental Management*** - Ensure that rental properties are well maintained, properly managed, and financially self-sustainable.
- ***Housing Development*** - Develop simple, durable, energy efficient housing, both rental and ownership, that are designed and built to be truly affordable to purchase or rent and maintain for generations.

Scotts Grove, LLC, a wholly owned subsidiary, is an entity created to develop nine low and moderate-income rental apartments in West Tisbury, Massachusetts, with funding received financing from the Commonwealth of Massachusetts Department of Housing and Community Development pursuant to the Housing Stabilization Fund Program (the HSF Program).

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The consolidated financial statements include the activity of IHT and Scott's Grove, LLC (collectively, IHT). All significant interorganization balances and transactions have been eliminated. The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The financial statement presentation follows the guidelines of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 "Not-for-Profit Entities- Presentation of financial statements of Not-for-Profit Entities."

Net Assets

Net assets, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 2 - Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both

Inventories

Inventories consist of held-for-sale housing that is recorded at the greater of cost or market value at the time of purchase or donation, unless deed restricted, plus construction costs incurred.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Cash Equivalents

For financial statement purposes, IHT 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 \$5,000 are capitalized as incurred. Depreciation is calculated on a straight-line basis as follows:

Property	39 years
Furniture	3 years
Equipment	5 years

IHT 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 AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 2 - Summary of Significant Accounting Policies (continued)

Contributed Goods and Services

IHT 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 contributed goods and services are offset by amounts included in expenses or property and equipment.

Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Tax credit revenue is recognized when qualifying donations for Community Investment Tax Credits are received pursuant to its agreement with the Massachusetts Department of Housing and Community Development (DHCD). Rental income and ground lease income are recognized as earned, in accordance with the underlying lease agreements. All leases are operating leases. Revenue from the sales of properties is recognized when the property is sold.

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

IHT 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, IHT 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. IHT is also exempt from Massachusetts state taxes. However, it is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. There was no unrelated business activity in 2018 or 2017.

Scotts Grove, LLC is a single member limited liability company that is disregarded for income tax purposes. Its financial activity is reported in the information return of IHT.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 2 - Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of IHT. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis of estimates of time and effort.

Notes Receivable

Notes receivable are reported at their outstanding principal balance, less an allowance for losses. Management's periodic evaluation of the adequacy of the allowance is based on its past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. Past due status is determined based on contractual terms. Notes are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The notes receivable at December 31, 2018 and 2017 are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. Interest on notes is recognized over the terms of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with IHT's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires IHT'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.

Recent Accounting Guidance

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. IHT has adopted ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 3 - Liquidity and Availability

As part of IHT's liquidity management plan, IHT invests cash in excess of annual requirements in money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserves. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet data, comprise of the following:

Cash and cash equivalents	\$1,461,799
Pledges receivable	\$ 258,160

Note 4 - Rental Agreement

IHT rents an office from the Dukes County Regional Housing Authority (DCRHA) in Vineyard Haven, Massachusetts under a monthly tenant-at-will lease agreement for \$2,493 per month. Total rent expense for the years ended December 31, 2018 and 2017, was \$29,478 and \$19,551, respectively.

Note 5 - Related Party Relationships

IHT has members of the Board of Directors who from time to time have transactions with other organizations that also do business and/or work for IHT.

- A. A member of the Board, who is also a homeowner, leases land on which their homes are located for an annual rate of \$600.
- B. A Board member is also Board member of the DCRHA, the Tisbury Affordable Housing Committee (TAHC), and Tisbury Planning Board (TPB). The DCRHA manages certain IHT properties, leases office to IHT, and/or decides on issues that may affect IHT. From time to time the TAHC and the TPB discuss and/or decide on issues that may affect IHT. For the years ending December 31, 2018 and 2017 IHT received grant funding from the Town of Tisbury of \$350,000 and \$469,650 respectively. The DCRHA was paid office rent totaling \$29,478 and \$19,551, respectively, and property management fees totaling \$38,652 and \$15,574, respectively, for the years ended December 31, 2018 and 2017. IHT also pays DCRHA \$1, annually, for land leases.
- C. A Board member is a Selectmen for the Town of Aquinnah from which IHT may receive funds. For the year ended December 31, 2018, IHT received grant funding from the Town of Aquinnah of \$100,000. No grant funding was received for the year ended December 31, 2017.
- D. 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 IHT. For the years ending 2018 and 2017 IHT received grant funding from the Town of West Tisbury of \$100,000 and \$515,000, respectively. During 2017, IHT also entered into a 51-year ground lease for 2.86 acres of land owned by the Town of West Tisbury, Massachusetts, at 565 Edgartown Road.
- E. A Board member has extended a line of credit for \$300,000. The outstanding balance at year-end is \$300,000. The unsecured loan has a term of five years as of July 27, 2018 at an interest rate of 1% per annum payable at any time before due. The payment terms are interest only, prior to the maturity date, at which outstanding amounts are due. The funds were used to purchase a property at 28 Edgartown Road in Tisbury, Massachusetts.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 6- Notes, Mortgages Payable and Lines of Credit

IHT has the following notes, mortgages payable, and lines of credit at December 31, 2018 and 2017:

Notes and Mortgages Payable	Collateral	2018	2017
30 year term with 6% interest maturing in November of 2032 with Martha's Vineyard Savings Bank. This note requires monthly payments of interest and principal of \$749 per month.	Halycon Way, West Tisbury, Massachusetts	\$ 86,404	\$ 90,390
30 year non interest bearing note with the Massachusetts Housing Finance Agency due in full on 2035. No installment payments are required on the note.	Halycon Way, West Tisbury, Massachusetts	100,000	100,000
There are three loans with the Resource, Inc. under the Housing Rehabilitation Loan Program. They are as follows:			
A) Non interest bearing note due June 22, 2028 forgivable at maturity with a balance of \$28,676 at year end.	Halycon Way, West Tisbury, Massachusetts	28,676	28,676
B) Non interest bearing note due May 29, 2029 forgivable at maturity date with a balance of \$200,000 at year end.	14 Village Court, Tisbury, Massachusetts	200,000	200,000
C) Non interest bearing note due August 31, 2030 forgivable at maturity with a balance of \$27,887 at year end.	Richmond Ave, Oak Bluffs, Massachusetts	27,887	27,887
25 year term loan at 5.25% interest maturing in 2039 with Rockland Trust. The term requires monthly payment of \$1,832 of principal and interest.	14 Village Court, Tisbury, Massachusetts	270,733	278,052
25 year term loan at 5.15% interest maturing in 2040 with Rockland Trust. The term requires monthly payment of \$867 of principal and interest.	12 Clam Point Road, West Tisbury, Massachusetts	125,263	128,568
25 year term loan at 5.25% interest maturing in 2042 with Rockland Trust. The term requires monthly payment of \$1,118 of principal and interest. There is no penalty for prepayment.	Water Street Apartments, Tisbury, Massachusetts	176,806	180,278

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 6- Notes, Mortgages Payable and Lines of Credit (continued)

Notes and Mortgages Payable (continued)	Collateral	2018	2017
<p>Three notes for rental projects with the Federal Home Loan Bank of Boston Affordable Housing Program (AHP) which are referred to as the AHP Subsidy. These are contingent loans that will forgiven after 15 years of operation of the Project. The Project will be subject to deed restrictions or other legally enforceable mechanism that incorporates the income-eligibility and affordability restrictions committed to the approved AHP Projects application. The notes are as follows:</p>			
<p>A) \$160,000 note secured by the property located at 12 Clam Point Road, West Tisbury, Massachusetts.</p>	<p>12 Clam Point Road, West Tisbury, Massachusetts</p>	<p>\$ 160,000</p>	<p>\$ 160,000</p>
<p>B) \$390,000 note secured by the property located at 6 Water Street, Tisbury, Massachusetts.</p>	<p>Water Street Apartments, Tisbury, Massachusetts</p>	<p>390,000</p>	<p>390,000</p>
<p>C) \$291,436 note secured by the property located at 14 Village Court, Tisbury, Massachusetts.</p>	<p>14 Village Court, Tisbury, Massachusetts</p>	<p>291,436</p>	<p>291,436</p>
<p>The Scotts Grove, LLC, a wholly owned subsidiary of IHT has the following debt obligations:</p>			
<p>A) Construction loan with the Rockland Trust for \$720,000 which was converted into permanent financing with a 25 year term at an interest rate of 5.15%. The terms are interest only prior to that date. The note is secured by the property located at 565 Edgartown Road, West Tisbury, Massachusetts which is known as Scotts Grove (the Project).</p>	<p>565 Edgartown Road, West Tisbury, Massachusetts, Scotts Grove Project</p>	<p>544,229</p>	<p>-</p>
<p>B) \$450,000 non interest bearing 50 year note payable to the Massachusetts Housing Finance Agency. The note is restricted for the financing of nine affordable rental apartments at 565 Edgartown Road, West Tisbury, Massachusetts which is known as Scotts Gove (the Project). There are no monthly payments required on the note due May 23, 2068.</p>	<p>565 Edgartown Road, West Tisbury, Massachusetts, Scotts Grove Project</p>	<p>450,000</p>	<p>-</p>

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 6- Notes, Mortgages Payable and Lines of Credit (continued)

Lines of Credit	Collateral	2018	2017
Once the lines of credit are accessed they are converted to loans.			
\$500,000 unsecured loan with the Rappaport Family Foundation with a 5 year term as of September 15, 2017. As of August 9, 2018 the interest rate is 1% per annum payable at any time before the due date of the loan.	None	\$ 500,000	\$ 300,000
\$1,000,000 loan with the Cardinal Brook Trust with a term of 2 years as of August 9, 2018 at an interest rate of 1% per annum payable at any time before its due. The terms are interest only prior to that date.	None	1,000,000	-
\$300,000 unsecured loan with the Robert L. Green Foundation with a 5 year term as of July 27, 2018 at an interest rate of 1% per annum payable at any time before due. The terms are interest only prior to the due date.	None	300,000	-
\$50,000 unsecured loan with the Plum Brush Private LLC with a term of 5 years as of September 21, 2018 at an interest rate of 1% per annum payable at any time before due. The terms are interest only prior to that date.	None	50,000	-
\$200,000 unsecured loan with the DMR Family Foundation with a term of 5 years as of October 2, 2018 at an interest rate of 1% per annum payable at any time before due. The terms are interest only prior to that date.	None	200,000	-
\$100,000 unsecured loan with Impact Assets with a term of 5 years as of August 16, 2018 at an interest rate of 1% per annum payable at any time before due. The terms are interest only prior to that date.	None	100,000	-
		<u>\$ 5,001,434</u>	<u>\$ 2,175,287</u>

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

Note 6- Notes, Mortgages Payable and Lines of Credit (continued)

Future maturities for the next five years and thereafter are as follows:

2019	\$	27,540
2020		1,029,035
2021		30,611
2022		32,273
2023		34,698
Thereafter		3,847,277
	\$	<u>5,001,434</u>

Note 7 - Donated Services, Materials and Facilities

Total of goods and services donated to IHT was \$126,713 and \$101,513 for the years ended December 31, 2018 and 2017, respectively. Of those amounts \$71,176 and 101,513 was for legal services for 2018 and 2017, respectively.

Note 8 - Concentration of Risk

IHT has concentrated its credit risk for cash by maintaining deposits in banks in excess of the Federal Deposit Insurance Company (FDIC) insurance. Accounts at the financial institutions are insured up to \$250,000. The maximum amount for the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by FDIC insurance is \$1,614,805 and \$1,563,150 at the end of 2018 and 2017, respectively. IHT has not experienced any losses in its accounts. IHT believes it is not exposed to any significant credit risk on cash balances within its accounts.

Credit risk for accounts and notes receivable is concentrated as well because substantially all of the balances are receivable from individuals located within the same geographic region.

Note 9 - Land Leases

IHT leases the parcels of land from DCRHA and the Town of West Tisbury, for an annual fee of \$1. IHT has a management agreement with DCRHA for the management of the property on the aforementioned land.

<u>Lot Size</u>	<u>Location</u>	<u>Term</u>	<u>Start date</u>
1.3	Halcyon Way, West Tisbury	51 years	July 9, 2002
1.5	12 Clam Point Road, West Tisbury	51 years	July 30, 2013
2.86	565 Edgartown-West Tisbury Road, West Tisbury	51 years	August 30, 2017

During 2018 and 2017, IHT acquired and sold various properties. The land is retained by IHT and subsequently ground leased to buyers or related homeowner association, as applicable.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 10 - Rental Income

IHT has five affordable housing rental properties which are managed by DCRHA. Rental income for the years ended December 31, 2018 and 2017 totaled \$231,637 and \$187,808, respectively. The expenses related to those properties are in the supplemental consolidated schedule of rental expenses.

Note 11 - Real Estate Sales and Acquisitions

Sale for the Year Ended 2018

801 and 803 State Road, Aquinnah, Massachusetts	\$255,695 and \$255,695
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Purchases for the Year Ended

Hanover House, 28 Edgartown Road, Tisbury, Massachusetts	\$1,850,000
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Note 12 - Rental Management Agreement

IHT contracted with the DCRHA to provide rental property management services to the rental properties owned by IHT.

Management Agreement

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

Rental income is to be allocated as follows:

- | | |
|----------------------------------|---------------------------|
| a. Administrative fees | 7% of gross rental income |
| b. Management fees paid to DCRHA | 8% of gross rental income |
| c. Capital reserve requirements | 3% of gross rental income |
| d. 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 AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 13 - Property and Equipment

At December 31, 2018 and 2017 property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Ground leased land	\$ 2,834,373	\$ 1,899,492
Land being developed	598,715	906,382
Buildings - rental properties		
Water Street	2,019,228	2,019,228
Halcyon Way	225,792	225,792
14 Village Court	1,090,974	1,090,974
Sepiessa	762,796	762,796
Scotts Grove	2,675,519	169,856
Equipment	9,636	9,636
Software	6,445	6,445
Office furniture	2,352	2,352
Total property and equipment	<u>10,225,830</u>	<u>7,092,953</u>
Accumulated depreciation	<u>(526,479)</u>	<u>(352,395)</u>
Net, property and equipment	<u>\$ 9,699,351</u>	<u>\$ 6,740,558</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$175,825 and \$109,848 respectively.

Note 14 - Tax Credits

DHCD and IHT entered into an agreement to issue Community Investment Tax Credits. DHCD allocates a maximum of \$150,000 in tax credits annually. In order to make use of the maximum allocation, IHT must secure qualified donations totaling \$300,000. All qualified donations by eligible taxpayers shall be applied against the total maximum allocation amount upon DHCD certification. The total amount of revenue earned from tax credits for the year ended December 31, 2018 and 2017 was \$291,458 and \$298,333.

Note 15 - Notes Receivable

IHT has five interest bearing notes from individuals for second mortgages on properties which were sold to them by IHT. The total notes receivable balance as of December 31, 2018 and 2017 was \$50,000. The notes are secured by the properties and payable when refinanced or at resale. IHT has \$10,000 non-interest loan due 120 days from the date of the loan December 21, 2018 with the MV Nonprofit Collaborative. Subsequent to year end, that note was forgiven.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 16 - Net Assets With Donor restrictions

The net assets with donor restrictions are restricted as to time and/or purpose. As of December 31, 2018 and 2017, net assets with donor restrictions totaled \$5,157,300 and \$5,317,300, respectively, and were restricted for the following projects:

	<u>2018</u>	<u>2017</u>
Kuehns Way	\$ 2,677,300	\$ 2,377,300
Scotts Grove	-	1,800,000
Main Street	40,000	-
Hanover House	490,000	-
Greenwood	350,000	-
Housing Development Projects	1,200,000	440,000
801 State Road	-	200,000
Farm Workers Housing	400,000	500,000
	<u>\$ 5,157,300</u>	<u>\$ 5,317,300</u>

Note 17 – Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the statement of financial position that sum to the total such amounts in the statement of cash flows.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 2,679,301	\$ 2,331,370
Restricted cash	120,422	69,764
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 2,799,723</u>	<u>\$ 2,401,134</u>

The restricted cash is restricted for use on the rental properties.

Note 18 - Contingency

IHT is a party to a lawsuit pending in pending in Land Court for the Town of Tisbury's Zoning Board of Appeals and Board of Health approval of 20 rental apartments at Kuehn's Way, Tisbury, Mass. IHT is represented by a law firm on a pro bono basis. IHT does not believe this action will have a material adverse impact on our organization and/or the project.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 19 - 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.

<i>Year Ended December 31, 2018</i>			
	<i>Pledge Balances</i>	<i>Discount</i>	<i>Present Value of Pledges Balances</i>
2019	\$ 2,387,445	\$ -	\$ 2,387,445
2020	561,150	4,105	557,045
2021	356,000	3,587	352,413
2022	27,474	4,743	22,731
<i>Total</i>	\$ 3,332,069	\$ 12,435	\$ 3,319,634

<i>Year Ended December 31, 2017</i>			
	<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>	\$ 3,794,805	\$ 10,516	\$ 3,784,289

Note 20 - Subsequent Events

FASB ASC 855-10 Subsequent events define further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with FASB ASC 855-10, IHT management has evaluated events from December 31, 2018 to May 3, 2019, which is the issuance date of this report. IHT has no subsequent events to disclose.

Note 21 - Prior Period Adjustment

Net assets without donor restrictions have been adjusted to reflect a cumulative adjustment to the book value from the dates of purchase and/or donation. The correction has no effect on the results of 2018 and 2017 activities. It was also determined that the net assets with donor restrictions were understated for the year ended 2017 for valuation errors prior to 2017. Therefore, the 2017 net asset values were re-classified from net assets without donor restrictions to net assets with donor restrictions.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

Note 21 - Prior Period Adjustment (continued)

Statement of Financial Position

Property and equipment, net	\$ 6,142,094
2017 prior period adjustment	598,464
Property and equipment, net	<u>\$ 6,740,558</u>
Net assets with donor restrictions, as previously stated	\$ 4,718,835
2017 prior period adjustment	598,464
Net assets with donor restrictions, as restated	<u>\$ 5,317,299</u>
Net assets without donor restrictions, as previously stated	\$ 8,435,090
2018 prior period adjustment	(704,782)
Net assets without donor restrictions	<u>\$ 7,730,308</u>
Net assets with donor restrictions	\$ 3,854,054
2018 prior period adjustment	1,303,246
Net assets with donor restrictions	<u>\$ 5,157,300</u>

SUPPLEMENTAL INFORMATION

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Supplemental Consolidated Schedule of Rental Program Expenses

For the Year Ended December 31, 2018

	<i>Rental Management</i>					
	<i>Halycon Way</i>	<i>14 Village Court</i>	<i>Sepiessa II</i>	<i>Water Street</i>	<i>Scott's Grove</i>	<i>Total</i>
Insurance	\$ 2,010	\$ 5,164	\$ 3,038	\$ 8,960	\$ 9,750	\$ 28,922
Depreciation	6,559	27,974	19,558	51,775	68,218	174,084
Administrative management	2,162	5,888	2,928	6,128	-	17,106
Property management fee	2,724	6,871	3,149	6,698	-	19,442
Interest expense	5,382	14,681	7,107	9,542	8,163	44,875
Repairs and maintenance	26,784	32,554	22,845	17,290	-	99,473
Utilities	405	2,080	131	13,507	3,496	19,619
Property taxes	412	1,152	628	1,345	-	3,537
Total expenses	\$ <u>46,438</u>	\$ <u>96,364</u>	\$ <u>59,384</u>	\$ <u>115,245</u>	\$ <u>89,627</u>	\$ <u>407,058</u>

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Supplemental Consolidated Schedule of Rental Program Expenses

For the Year Ended December 31, 2017

	<i>Rental Management</i>				
	<i>Halycon Way</i>	<i>14 Village Court</i>	<i>Sepiessa II</i>	<i>Water Street</i>	<i>Total</i>
Insurance	\$ 1,940	\$ 5,251	\$ 2,977	\$ 6,984	\$ 17,152
Office Supplies	-	-	-	42	42
Telephone	-	-	-	1,384	1,384
Depreciation	6,559	27,974	19,558	51,775	105,866
Administrative management	2,185	4,500	2,400	4,152	13,237
Property management fee	2,514	4,719	3,206	5,135	15,574
Property expenses	-	1,919	-	4,056	5,975
Interest expense	9,595	6,988	14,804	5,514	36,901
Repairs and maintenance	10,424	15,216	8,355	13,070	47,065
Utilities	154	1,700	215	4,177	6,246
Property taxes	412	1,150	618	1,362	3,542
Total expenses	\$ <u>33,783</u>	\$ <u>69,417</u>	\$ <u>52,133</u>	\$ <u>97,651</u>	\$ <u>252,984</u>