



Island Housing Trust Corporation
and Subsidiaries

Consolidated Financial Statements and
Supplemental Information

December 31, 2019



Kevin P. Martin & Associates, P.C.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

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December 31, 2019

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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Island Housing Trust Corporation and Subsidiaries (a nonprofit organization), (the Organization), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 consolidated 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019, 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.

Emphasis of Matter

As discussed in Note 1(o) to the consolidated financial statements, the Organization has adopted ASU No. 2016-18, *Statement of Cash Flows - Restricted Cash* and ASU 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to that matter.

Other Matters

Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The management's discussion and analysis is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the representation of Organization's management and has not been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Braintree, Massachusetts

April 18, 2020

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

For the Year Ended December 31, 2019

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Management's Discussion and Analysis

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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 41 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 2019, we completed the repurposing or adaptive reuse of the Hanover House Inn at 28 Edgartown Road in Vineyard Haven into a 12-bedroom/bathroom shared housing or single room occupancy in the main house and 3 apartments in the accessory carriage house that were leased to the Martha's Vineyard Hospital for their low and moderate income employees. In addition, our development efforts have added 55 new units to our development pipeline that are in the planning, permitting or construction stages. Total net assets increased by 8% or \$1,260,452 from \$14,349,568 in 2018 to \$15,610,022 in 2019. Construction began in 2019 and is scheduled to be completed in 2020 for the renovation of an 8-bedroom inn called the Perlman House in Vineyard Haven into 7 rental apartments, the construction of 6 ownership townhouses within 3-duplexes on Greenwood Avenue in Vineyard Haven, and the purchase and repurposing of an existing house and guest house into three ownership homes on Daggett Avenue in Vineyard Haven.

Our capacity has increased as a result of securing a sixth consecutive year of Community Investment Tax Credits from the Massachusetts Department of Revenue. Those credits raised \$360,000 in donations from 62 donors in 2019. In addition, our annual summer benefit brunch event raised \$306,168 in working capital from 164 guests in 2019.

Revenues of \$36,350 were collected from 61 homeowners in ground lease fees. Revenues of \$508,972 from 41 rental units were used to pay \$395,614 in expenses before depreciation and added \$72,150 towards capital and operating reserves.

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 2019. Building on two capital fundraising campaigns and the launching of a third in 2019, the Leadership Circle increased by 3 new members each pledging \$100,000 or more over four years that has raised a total of \$300,000 in project funding in 2019.

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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. The Martha's Vineyard Future Financing, a social impact investment fund launched in 2019, utilized a \$1.8 million low-cost participation loan involving 5 private investors and MassHousing, serviced by the Martha's Vineyard Bank, to pay-off six Make It Happen Fund investors to provide low-cost permanent financing for the Hanover House rental property.

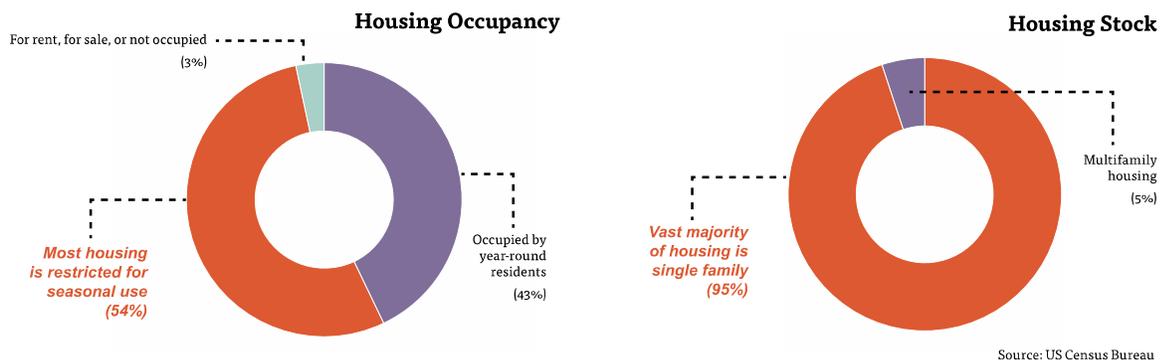
We continue to partner with town governments to secure available land and Community Preservation Act grant funding. We continue to explore new partnerships with private businesses and real estate developers, as well as non-profit organizations that have available land and/or financial resources for housing 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. The legal challenge was resolved in favor of the Town of Tisbury's zoning approval in March of 2020.

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, as well as the potential impacts of the outbreak in the first quarter of 2020 of the novel strain of coronavirus (Covid-19), which are unknown at this time.

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 2019, Dukes and Nantucket counties were rated the most expensive counties in the United States with an average home price of \$1,121,601 in Dukes County. 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

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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 a total of 841 units (411 affordable and 329 workforce) over the past 25 years, this only represents 9% of the island's year-round housing stock. The six island towns' 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 workforce) to meet the goal of 20% of the island's year-round housing stock in order to address the current and projected demand.

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 production, communications and rental management. Strategic objectives are developed for each line of business, supporting our overall mission.

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 properties.

The Dukes County Regional Housing Authority (DCRHA), a state-chartered housing authority, 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 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.

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 2019, we completed 26 homes (a neighborhood of 9 rental apartments at Scotts Grove in West Tisbury, 2 ownership homes at Smalley's Knoll in Aquinnah, and the renovation of the Hanover House Inn into 12-bedroom/bathroom shared living and 3 apartments), and our development efforts have added 55 new units to our project pipeline that are in the predevelopment or construction stages.

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Our project development pipeline with a total of 55 units either in predevelopment or construction stages as of December 31, 2019, includes:

	<u>2019</u>	<u>2018</u>
Predevelopment stage	42	37
In construction	13	16

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 an 8-bedroom Perlman Housing Inn purchased in May of 2019 that is being renovated and repurposed into 7- rental apartments in Vineyard Haven, a neighborhood of 6-townhouses within 3-duplexes on land on Greenwood Avenue purchased in September of 2017 that is under construction in Vineyard Haven, and the purchase and repurposing of an existing house and guest house into three ownership homes on Daggett Avenue in Vineyard Haven.

Projects in construction (in millions) as of December 31, 2019:

	<u>2019</u>	<u>2018</u>
Total projected cost of development in construction	\$2.5	\$3.5
Permanent loan commitments, grants and pledges	\$1.9	\$3.4
Aggregate percentage of completion of projects in construction	70%	48%

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 204 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>2019</u>	<u>2018</u>
Average rent increase	0%	3%
Average vacancy rate	1.6%	4%

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:	29 multi-family & 12 SRO units
Average original cost per unit:	\$ 227,000
Average hard debt outstanding per unit:	\$ 77,352

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The majority of IHT rental properties generate positive cash flow. This performance is a result of properly capitalized reserves of \$213,049 and the DCRHA management efforts.

	<u>2019</u>	<u>2018</u>
Percentage of rental properties producing positive cash flow	87%	58%
Total excess cash generated by the positive rental properties	\$21,243	\$24,206
Total cash flow deficit funded by IHT during the year	\$ 5,798	\$31,819

The lower percentage of rental 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 \$92,627 in 2019 towards a total of \$213,049 in property capital and operating reserves.

Long-term debt and fees payable from excess cash total approximately \$5 million in the aggregate for IHT's entire rental portfolio, including approximately \$3 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 41 single-family and duplex homes that IHT developed for sale at below market prices during the period 2005-2019. 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 391 island resident households able to afford to purchase a home for between \$200,000 and \$400,000, but who are unable to find anything for less than \$700,000 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>2019</u>	<u>2018</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 through conventional mortgage loans, conventional and private lines of credit, and 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.

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

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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>2019</u>	<u>2018</u>
Restricted Grants	\$748K	\$3.8M
Unrestricted Contributions	\$1.4M	\$707K
New borrowings of long-term debt	\$1.8M	\$554K
Property sales	\$275K	\$510K

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. The outstanding balance for the Make It Happen Fund as of 12/31/19 is \$300,000.

IHT's Martha's Vineyard Future Financing is a low interest, 10-year participation loan totaling \$1.8 million serviced by the Martha's Vineyard Bank involving 5 private investors and MassHousing.

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 2022. During 2020, a cash flow surplus is projected in the amount of approximately \$280,226.

Human Resources

Our staff consists of 5.5 full-time equivalent employees with an average tenure of 6 years. Aggregate personnel costs grew by 11% compared to the previous year due to cost of living and merit increases, along with increased hours. 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's general management, fundraising, rental properties, communications and housing development program activities. The management team includes the following staff:

Housing Development:	Derrill Bazy, Project Director
Housing Development:	Faren Worthington, Project Analyst
Communications:	Breeze Tonnesen, Communications Director
Fundraising:	Christopher Anderson, Development Director
Fundraising:	Pam Scotts, Development Associate
Management:	Breeze Tonnesen, Program Manager
Management:	Garri Saganenko, Office Assistant

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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 relevant 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 development, rental property and ground lease management, as well as a governance, audit and executive committees.

OVERVIEW OF THE 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 39-year estimated life. As required by U.S. GAAP, undiscounted net operating income over the remaining useful life of each property plus estimated land value at the end of the compliance period is compared to the carrying value of real estate to 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 2.3 and 2.8 as of December 31, 2019 and 2018, respectively.

Cash and cash equivalents totaled approximately \$2,421,639 and \$2,799,721 at the end of 2019 and 2018, respectively. Of these amounts, \$1,391,875 and \$1,461,799 were not restricted for specific purposes or properties.

Housing development represents 81% and 87% of our total expenses for 2019 and 2018, respectively. The remaining 19% and 13% of our total expenses for 2019 and 2018, respectively consist of Fundraising, Communications, Rental Management, and General Management expenses that support our mission. Fundraising costs represent 4% of our overall management and general costs in 2019 and 2018 and provide a major part of our support and revenue.

Assets with donor restrictions arise from contributions and grants for housing development. In 2019 IHT received \$1,240,131 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.

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

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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		
	2019	2018	2017
Liquidity Ratios:			
• Current ratio (1)	2.3	2.8	5.4
• # months' operating expense liquid (2)	18	20	21
Long-term Solvency Ratios:			
• Unrestricted net asset ratio (3)	78%	73%	69%
• Leverage (4)	0.43	0.36	0.18
Rental Profitability Ratios:			
• Debt Service coverage ratio (5)	1.21	0.86	1.21
• Profitability ratio (6)	27%	15%	22%
• Net operating income before interest, depreciation, amortization, and other non-cash expenses	\$126K	\$ 36K	\$ 43K
• Annual hard debt service requirement (principal and interest)	\$ 96K	\$ 55K	\$ 57K
• Required deposits to fund reserves	\$ 82K	\$ 26K	\$ 14K
• Capital reserves balance	\$207K	\$120K	\$ 69K
• # of rental units	41	26	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 three 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 two years from 17 to 41 rental units as a result of well capitalized development projects that are growing cash flow and reserves.

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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 68% or \$16 million towards the \$24 million fundraising goal. Currently 26 units of housing have been completed, 13 units of housing under construction, and 42 units of housing 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, and
- 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 a 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 and the 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 related to project 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 15 years for our housing development projects. It is unclear what alternative sources of funding would replace CPA funds.

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 raising financing through short-term low-interest revolving lines of credit from private foundations' program-related investments through the Make It Happen Fund 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 with qualified and experienced architects and builders to develop properties that are well designed, health, durable and energy efficient. We design and build using construction methods designed to ensure that properties 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 with 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. The suit that was pending before Land Court for the Town of Tisbury's zoning approval of 20 rental apartments at Kuehn's Way and then subsequently in Appeals Court was dismissed in March 2020 and will allow the project to move forward. We have mitigated these legal risks by securing pro bono legal services from the Boston law firm of Nixon Peabody.

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)	\$108K	\$595K	\$314K	\$3.48M
Operating Leases (Office)	\$30K	\$0	\$0	\$0
Other Long-Term Obligation (Soft)	\$0	\$0	\$0	\$2.1M
Total	\$138K	\$595K	\$314K	\$5.58M

2020 Outlook Portfolio

IHT estimates spending \$4.2 million in 2020 on housing development projects, rental properties, and support services. Public grants and private donations totaling \$2.9 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.

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Total rental income is estimated to increase by 19% over 2020 levels due to 7 new rental units. Expense growth is managed by a budgeting process for each property in our portfolio. We anticipate receipt of approximately \$263,986 in developer fees from 3 projects located in the Town of Tisbury currently under construction. The renovation and adaptive reuse of the Perlman House Inn into 7-apartments will be completed and rented in 2020, construction of 6-townhouses on Greenwood Avenue will be completed and sold in 2020, and repurposing and adaptive reuse of a property on Daggett Avenue into 3-ownership houses in 2020.

Cash Flow Projection

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of grants, contributions and rental income and other material adverse effects to IHT's financial position, results of operations and cash flows. IHT is not able to estimate the length or severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. If the length of the outbreak and related effects on IHT's operations continue for an extended period of time the Corporation may have to seek alternative measures to finance its operations. There is no assurance these measures will be successful. The financial statements do not include any adjustments that might result if IHT is unable to continue as a going concern.

The following 2-year cash flow projection is forward-looking and does not reflect any financial impact from Covid-19; actual results may vary from this projection. Assumptions made by management while developing this projection include: a) current projects in development are expected to proceed and still reach the milestones that trigger release of developer fees based on anticipated timelines; b) Massachusetts Community Investment Tax Credits (CITC) will increase over the next five years; and c) compensation is projected to increase by 3-5% annually.

	<u>2020</u>	<u>2021</u>
Opening Cash Balance	\$1.28	\$1.29M
Financing	\$2.35M	\$1.4M
Unrestricted Donations Received	\$831K	\$831K
Project Grants Received	\$1.9M	\$3.9M
Developer & Lease Fees Received	\$303K	\$458K
Property Revenues Received	\$529K	\$666K
House Sale Revenues Received	<u>\$2.48M</u>	<u>\$ 0</u>
Total Revenue Received	\$9.7M	\$8.5M
Workforce Compensation and Benefits	\$618K	\$650K
Office & Program Cost Payments	\$310K	\$278K
Project Expenses	\$2.9M	\$5.5M
Property Expenses	\$519K	\$616K
Loan Repayment	\$3.6M	\$ 0
Other Cost Paid	<u>\$193K</u>	<u>\$100K</u>
Total Expenses Paid	\$8.1M	\$7.1M
Ending Cash (Deficit)	\$1.6M	\$1.4M

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

For the Year Ended December 31, 2019

The prior year's projection of cash flow for 2019 was within 12% of the actual cash flow for 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. The IHT has an Audit Committee consisting of Independent Directors. The Audit Committee meets with management to ensure management has implemented the necessary systems, controls and procedures required to make MD&A disclosures. The Audit 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 Audit 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 and Subsidiaries

Consolidated Statement of Financial Position

As of December 31, 2019

Assets

Cash and cash equivalents	\$	2,248,963
Cash - restricted		172,676
Accounts receivable, net		7,500
Pledge receivables, net		2,923,471
Due from affiliate		40,373
Notes receivable		50,000
Prepaid expenses		13,264
Land held for development		4,800,250
Property and equipment, net		<u>12,015,964</u>
Total Assets	\$	<u>22,272,461</u>

Liabilities

Accounts payable and accrued expenses	\$	64,150
Notes and mortgages payable		<u>6,598,289</u>
Total Liabilities		<u>6,662,439</u>

Net Assets

Net assets without donor restrictions		12,239,380
Net assets with donor restrictions		<u>3,370,642</u>
Total Net Assets		<u>15,610,022</u>
Total Liabilities and Net Assets	\$	<u>22,272,461</u>

Island Housing Trust Corporation and Subsidiaries

Consolidated Statement of Activities

For the Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>
Revenue and Support			
Grants and contributions	\$ 1,407,811	\$ 748,342	\$ 2,156,153
Sales of buildings	275,000	-	275,000
Less: cost of development projects	<u>(275,000)</u>	<u>-</u>	<u>(275,000)</u>
Net sales of buildings	-	-	-
Rental income	508,973	-	508,973
Ground lease income	36,350	-	36,350
Contributed goods and services	95,238	-	95,238
Interest income	5,071	-	5,071
Other earned revenue	6,484	-	6,484
Net assets released from restrictions	<u>2,535,000</u>	<u>(2,535,000)</u>	<u>-</u>
Total revenue and support	<u>4,594,927</u>	<u>(1,786,658)</u>	<u>2,808,269</u>
Expenses			
Program services	1,183,001	-	1,183,001
Management and general	173,765	-	173,765
Fundraising	166,338	-	166,338
Special events	<u>24,713</u>	<u>-</u>	<u>24,713</u>
Total expenses	<u>1,547,817</u>	<u>-</u>	<u>1,547,817</u>
Change in net assets	3,047,110	(1,786,658)	1,260,452
Net Assets at Beginning of Year	<u>9,192,270</u>	<u>5,157,300</u>	<u>14,349,570</u>
Net Assets at End of Year	<u>\$ 12,239,380</u>	<u>\$ 3,370,642</u>	<u>\$ 15,610,022</u>

Island Housing Trust Corporation and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2019

Cash Flows from Operating Activities	<u>2019</u>
Change in net assets	\$ 1,260,452
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	253,552
Donation of fixed assets	(390,000)
Decrease (increase) in assets	
Accounts receivable, net	2,010
Pledge receivable, net	406,163
Due from affiliate	(40,373)
Prepaid expenses	(10,040)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	<u>(66,335)</u>
Net Cash Provided by Operating Activities	<u>1,415,429</u>
Cash Flows from Investing Activities	
Purchase of fixed assets	<u>(2,630,366)</u>
Net Cash Used in Investing Activities	<u>(2,630,366)</u>
Cash Flows from Financing Activities	
Repayments of long term debt	(166,130)
Proceeds from long term debt	<u>1,002,985</u>
Net Cash Provided by Financing Activities	<u>836,855</u>
Net Decrease in Cash and Cash Equivalents	(378,082)
Cash and Cash Equivalents - Beginning	<u>2,799,721</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,421,639</u>
Cash and cash equivalents	\$ 2,248,963
Cash - restricted	<u>172,676</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,421,639</u>
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for interest	<u>\$ 92,257</u>

Supplemental Data for Noncash Investing and Financing Activities

See Note 17

Island Housing Trust Corporation and Subsidiaries

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2019

	Program Services			Total Program Services	Management and General	Fundraising	Special Events	2019 Total
	Communication	Housing Development	Rental Management					
Salaries and wages	\$ 50,805	\$ 158,212	\$ -	\$ 209,017	\$ 82,686	\$ 105,869	\$ -	\$ 397,572
Payroll taxes and fringe benefits	11,884	39,433	-	51,317	29,712	27,009	-	108,038
Professional fees	16,070	105,072	-	121,142	25,086	7,511	-	153,739
Conferences	-	-	-	-	1,846	-	-	1,846
Insurance	293	7,533	31,775	39,601	3,355	665	-	43,621
Occupancy	3,348	11,110	-	14,458	8,371	7,610	-	30,439
Grant	21,175	-	-	21,175	-	-	-	21,175
Event expense	-	-	-	-	-	-	24,713	24,713
Property expenses	-	47,390	1,307	48,697	-	-	-	48,697
Depreciation	-	-	253,552	253,552	-	-	-	253,552
Printing and postage	2,747	9,114	-	11,861	6,868	6,243	-	24,972
Advertising	52,293	-	-	52,293	-	-	-	52,293
Administrative management	-	31	25,107	25,138	2,760	-	-	27,898
Property management fee	-	-	26,830	26,830	-	-	-	26,830
Interest expense	410	32,462	57,426	90,298	1,027	932	-	92,257
Repairs and maintenance	-	14,128	113,174	127,302	-	-	-	127,302
Office supplies	1,596	5,297	-	6,893	3,995	3,628	-	14,516
Software licensing	1,083	3,592	-	4,675	2,706	2,460	-	9,841
Property taxes	-	5,213	13,650	18,863	-	-	-	18,863
Telephone	650	2,156	3,406	6,212	1,626	1,477	-	9,315
Travel	1,291	4,284	-	5,575	3,227	2,934	-	11,736
Utilities	-	17,812	30,290	48,102	-	-	-	48,102
Filing fees	-	-	-	-	500	-	-	500
Total expenses	\$ 163,645	\$ 462,839	\$ 556,517	\$ 1,183,001	\$ 173,765	\$ 166,338	\$ 24,713	\$ 1,547,817

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Index

December 31, 2019

1) Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed by Island Housing Trust Corporation and Subsidiaries (the Corporation) (IHT) are described below to enhance the usefulness of the consolidated financial statements to the reader.

(a) Nature of Activities

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 Corporations 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.

IHT has the following program divisions:

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 Programs - 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 and financing from the Commonwealth of Massachusetts Department of Housing and Community Development pursuant to the Housing Stabilization Fund Program (the HSF Program).

Hanover House, LLC, a wholly owned subsidiary, is an entity created to develop fifteen low and moderate-income rental apartments in Tisbury, Massachusetts.

Perlman House, LLC, a wholly owned subsidiary, is an entity created to develop seven low and moderate-income rental apartments in Tisbury, Massachusetts.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019

(1) Summary of Significant Accounting Policies - continued

(b) Basis of Presentation

The consolidated financial statements include the activity of IHT, Scott's Grove, LLC, Hanover House, LLC and Pearlman House, LLC (collectively, IHT). The consolidated statement of activities reports all changes in net assets, including changes in net assets without donor restrictions from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Corporation's ongoing efforts. All material intercompany transactions and accounts have been eliminated in consolidation.

(c) Standards of Accounting and Reporting

IHT's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The consolidated statement of financial position presents two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and the consolidated statement of activities displays the change in each class of net assets. The classes of net assets applicable to IHT are presented as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor imposed restrictions. Net assets without donor restrictions consist of assets and contributions available for the support of operations. These net assets may be designated for specific purposes by management or the Board of Directors.

Net Assets With Donor Restriction - Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of IHT and/or passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

(d) Use of Estimates

In preparing IHT's consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Revenue Recognition

IHT earns revenue as follows:

Grants and Contributions - Grants and contributions are recorded upon receipt or pledge as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition - continued

Tax Credit Revenue - 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).

Contributed Goods, Property and Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by IHT. 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. Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, IHT reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. IHT reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Rental - Rental income is derived from five rental properties. Rent is recognized when earned.

Substantially all of IHT's revenue is derived from its activities in Massachusetts. During the year ended December 31, 2019, the Corporation derived approximately 66% of its total revenue from contributions, 18% from rental income, 11% from tax credit revenue and 5% from other sources. All revenue is recorded at the estimated net realizable amounts.

(f) Cash and Cash Equivalents

IHT considers all highly liquid investments purchased with an original maturity of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents.

IHT maintains its cash balances at several financial institutions located in Massachusetts. 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 \$1,383,697 as of December 31, 2019. 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.

Restricted cash consists of various repairs and maintenance accounts for the rental properties. As of December 31, 2019, the balance was \$172,676.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019

(1) Summary of Significant Accounting Policies - continued

(g) Pledges Receivable

Conditional promises to give are not recognized in the consolidated financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual promises. As of December 31, 2019, management has determined any allowance would be immaterial.

(h) 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, 2019 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. As of December 31, 2019, substantially all of the balances are receivable from individuals located within the same geographic region.

(i) Inventories – Land Held for Development

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.

(j) Fundraising Expense

Fundraising expense relates to the activities of raising general and specific contributions to the Corporation and promoting special events.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019

(1) Summary of Significant Accounting Policies - continued

(k) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2019, management has determined any allowance would be immaterial.

(l) Property, Equipment and Depreciation

Property and equipment are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statement of activities. Major repairs and maintenance over \$5,000 are capitalized as incurred.

IHT computes depreciation using the straight-line method over the following estimated lives:

Property	39 years
Furniture/Equipment/Software	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. Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator or possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value. There were no impairment losses recognized during the year ended December 31, 2019.

(m) Income Taxes

IHT qualifies as an Corporation formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, IHT is not a private foundation under Section 509(a)(1) of the IRC.

Scotts Grove, LLC, Hanover House LLC and Perlman House LLC are single member limited liability companies that are disregarded for income tax purposes. Their financial activity is reported in the information return of IHT.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019

(1) Summary of Significant Accounting Policies - continued

(n) 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.

(o) Recent Accounting Standard Adopted

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 and must be applied retroactively to all periods presented. As a result, for the years ended December 31, 2019, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statements of cash flows, with no effect on previously reported net income (loss). Other than this change, the adoption of ASU 2016-18 did not have a material impact on IHT's financial position, results of operations or cash flows.

On January 1, 2019, IHT adopted ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"). The modifications under ASU 2014-09 were applied to all of IHT's contracts with customers. No practical expedients were applied. IHT's services that fall within the scope of ASU 2014-09 are recognized as IHT satisfies its obligation to the customer. Adopting this standard did not have a significant impact on recognition of revenue of IHT during the periods presented or on opening balances of equity as of January 1, 2019 and 2018.

(p) Reclassifications

In addition to the reclassifications described in the above disclosure, certain amounts in the prior year have been reclassified to conform to the current year presentation.

(2) Liquidity and Availability of Resources

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

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019

(2) Liquidity and Availability of Resources - continued

Financial assets at year end	
Cash and cash equivalents	\$ 1,596,925
Pledges receivable, net	<u>194,950</u>
Total	<u>1,791,875</u>
Less amounts unavailable for general expenditures	
Within one year, due to:	
Restricted by donors	<u>400,000</u>
Total	<u>400,000</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,391,875</u>

(3) Related Party Transactions

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

A member of the Board, who is also a homeowner, leases land on which their homes are located for an annual rate of \$600.

A Board member is also a Board member of the DCRHA, the Tisbury Affordable Housing Committee (TAHC), and Tisbury Planning Board (TPB). The DCRHA manages certain IHT properties, leases office space 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 year ending December 31, 2019, IHT received grant funding from the Town of Tisbury of \$350,000. The DCRHA was paid office rent totaling \$30,439 and property management fees and administrative management fees totaling \$38,652 for the year ended December 31, 2019. IHT also pays DCRHA \$1, annually, for land leases.

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. During the year ended December 31, 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.

A Board member has extended a line of credit for \$300,000. The outstanding balance as of December 31, 2019 is zero. 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

Notes to Consolidated Financial Statements

December 31, 2019

(4) Notes, Mortgages Payable and Lines of Credit

IHT has the following notes, mortgages payable, and lines of credit as of December 31, 2019:

<u>Notes and Mortgages Payable</u>	<u>Collateral</u>	<u>Outstanding Balance at 12/31/2019</u>
30 year term with 6% interest maturing in November 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	\$ 82,983
30 year non-interest bearing note with the Massachusetts Housing Finance Agency due in full on July 2032. No installment payments are required on the note.	Halycon Way, West Tisbury, Massachusetts	100,000
Acquisition loan with Martha's Vineyard Savings Bank for \$760,000 at an interest rate of 4.875% due March 2044. The terms are principal and interest in the amount of \$3,257.	20 Edgartwon Road, Vineyard Haven, Massachusetts	543,860
The Perlman House, LLC has the following debt obligations: 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
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
C) Non-interest bearing note due August 31, 2030 forgivable at maturity with a balance of \$27,886 at year end.	Richmond Ave, Oak Bluffs, Massachusetts	27,886
25 year term loan at 5.25% interest maturing in October 2038 with Rockland Trust in the original amount of \$490,000. The term requires monthly payment of \$1,832 of principal and interest.	14 Village Court, Tisbury, Massachusetts	264,279
25 year term loan at 5.15% interest maturing in June 2040 with Rockland Trust in the original amount of \$160,000. The term requires monthly payment of \$867 of principal and interest.	12 Clam Point Road, West Tisbury, Massachusetts	121,782

ISLAND HOUSING TRUST CORPORATION

Notes to Consolidated Financial Statements

December 31, 2019

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

<u>Notes and Mortgages Payable - continued</u>	<u>Collateral</u>	<u>Outstanding Balance at 12/31/2019</u>
<p>25 year term loan at 5.25% interest maturing in 2042 with Rockland Trust in the original amount of \$185,000. The term requires monthly payment of \$1,118 of principal and interest. There is no penalty for prepayment.</p>	<p>Water Street, Tisbury, Massachusetts</p>	<p>172,064</p>
<p>Construction loan with Martha's Vineyard Savings Bank for \$1,510,000 at an interest rate of 4.875%. The terms are interest only with a maturity date of 24 months.</p>	<p>Greenwood, Tisbury, Massachusetts</p>	<p>\$ 676,870</p>
<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>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>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>The Scotts Grove, LLC 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 4.37% with payments of \$2,738 of principal and interest. The terms are interest only prior to that date.</p>	<p>565 Edgartown Road West Tisbury, Massachusetts</p>	<p>538,453</p>
<p>B) \$900,000 non-interest bearing 50 year note payable to the Massachusetts Housing Finance Agency. The noted is restricted for the financing of nine affordable rental apartments at 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</p>	<p>900,000</p>

ISLAND HOUSING TRUST CORPORATION

Notes to Consolidated Financial Statements

December 31, 2019

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

Notes and Mortgages Payable - continued

The Hanover House, LLC has the following debt obligations:

10 year term loan at 2.875% interest maturing in January 2030 with Martha's Vineyard Saving Bank for \$1,800,000. The term requires monthly payments of \$7,468 of principal and interest

<u>Collateral</u>	<u>Outstanding Balance at 12/31/2019</u>
Hanover House, Tisbury, Massachusetts	\$ 1,800,000

Lines of Credit

\$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 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. The line of credit was paid off during 2019.

None -

\$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. The line of credit was paid off during 2019.

None -

\$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. The line of credit was paid off during 2019.

None -

\$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. The line of credit was paid off during 2019.

None -

\$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. The line of credit was paid off during 2019.

None -

Total Notes and Mortgages Payable

\$ 6,598,289

ISLAND HOUSING TRUST CORPORATION

Notes to Consolidated Financial Statements

December 31, 2019

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

The following are the minimum required principal payments on the mortgages:

<u>Year Ended</u>	
2020	\$ 53,832
2021	733,480
2022	359,531
2023	62,604
2024	65,837
Thereafter	5,323,005

Interest expense for the year ended December 31, 2019 was \$92,257.

(5) Donated Services, Property and Facilities

Donated services for the year ended December 31, 2019 was \$95,238, which consisted of legal fees. In addition, there was an in-kind contribution in the amount of \$390,000, included in grants and contributions on the accompanying consolidated statement of activities, in property for the purchase of Clark Perlman House Acquisition during the year ended December 31, 2019, see Note 17.

(6) 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 Acres	Halcyon Way, West Tisbury	51 years	July 9, 2002
1.5 Acres	12 Clam Point Road, West Tisbury	51 years	July 30, 2013
2.86 Acres	565 Edgartown-West Tisbury Road, West Tisbury	51 years	August 30, 2017

(7) Operating Rental Leases

The Corporation rents an office from the Dukes County Rental Housing Authority (DCRHA) in Vineyard Haven, Massachusetts under a monthly tenant-at-will lease agreement for \$2,568 monthly. Total rent expense for the year ended December 31, 2019 was \$30,439.

(8) Rental Income

IHT has five affordable housing rental properties which are managed by DCRHA and on rental property managed by IHT. Rental income for the year ended December 31, 2019 was \$508,973. The expenses related to those properties are in the accompanying supplemental consolidated schedule of rental expenses.

ISLAND HOUSING TRUST CORPORATION

Notes to Consolidated Financial Statements

December 31, 2019

(9) Real Estate Sales and Acquisitions

During the year ended December 31, 2019, IHT acquired the Perlman Clark House located at 20 Edgartown Road, Tisbury, Massachusetts for \$950,000 and 150A State Road, Tisbury, Massachusetts for \$252,226.

During the year ended December 31, 2019, IHT sold 150A State Road, Tisbury, Massachusetts for \$275,000.

(10) Rental Management Agreement

IHT contracted with the DCRHA to provide rental property management services to the rental properties owned by IHT. The units are to be leased to qualified households with incomes at or below a percentage of the area median income as defined by the Department of Housing and Urban Development (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:

Administrative fees	7% of gross rental income
Management fees paid to DCRHA	8% of gross rental income
Capital reserve requirements	3% of gross rental income
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.

(11) Tax Credits

DHCD and IHT entered into an agreement to issue Community Investment Tax Credits. DHCD allocates a maximum of \$180,000 in tax credits annually. In order to make use of the maximum allocation, IHT must secure qualified donations totaling \$360,000. 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, 2019 was \$360,000, which is included in grants and contributions on the accompanying statement of activities.

ISLAND HOUSING TRUST CORPORATION

Notes to Consolidated Financial Statements

December 31, 2019

(12) Property and Equipment

Property and equipment consists of the following as of December 31, 2019:

Ground lease land	\$ 2,907,448
Buildings - rental properties	
Water Street	2,043,797
Halcyon Way	255,792
14 Village Court	1,090,974
Sepiessa	762,769
Scotts Grove	2,811,916
Hanover	2,923,299
Equipment	9,637
Software	6,445
Office furniture	2,352
Total property and equipment	<u>9,906,981</u>
Accumulated depreciation	<u>(798,465)</u>
	\$ <u>12,015,964</u>

Land being developed totaled \$4,800,250 as of December 31, 2019. Depreciation amounted to \$253,552 for the year ended December 31, 2019.

(13) Net Assets With Donor Restrictions

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of December 31, 2019, net assets with donor restrictions are restricted for the following purposes:

Kuehns Way	\$ 1,487,300
Main Street	40,000
Workforce Housing Partnership	18,500
Greenwood Ave.	48,000
Housing Development Projects	795,000
Buydown Program	100,000
Farm Workers Housing	400,000
Time restricted	481,842
Total	\$ <u>3,370,642</u>

(14) 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, 2019 was \$50,000. The notes are secured by the properties and payable when refinanced or at resale.

ISLAND HOUSING TRUST CORPORATION

Notes to Consolidated Financial Statements

December 31, 2019

(15) Pledges Receivable

Pledges receivable are recorded after being discounted to the anticipated net present value of the future cash flows. Pledges receivable consist of the following as of December 31, 2019:

	<u>Gross Promise</u>	<u>Unamortized Discount</u>	<u>Total</u>
2020	\$ 2,345,292	\$ -	\$ 2,345,292
2021	401,700	(3,213)	398,487
2022	134,200	(1,898)	132,302
2023	<u>49,450</u>	<u>(2,060)</u>	<u>47,390</u>
	<u>\$ 2,930,642</u>	<u>\$ (7,171)</u>	<u>\$ 2,923,471</u>

The applicable discount rates ranged between .4% to 4.6%. There has been no allowance recognized during the year ended December 31, 2019

(16) Commitments and Contingencies - Legal

IHT was a party to a lawsuit 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 was represented by a law firm on a pro bono basis. This matter was closed subsequent to year end.

(17) Noncash Investing and Financing Activity

Property and equipment purchases financed with long-term debt, during the year ended December 31, 2019, amounted to \$760,000. Property and equipment purchases that were donated during the year ended December 31, 2019, amounted to \$390,000.

During the year ended December 31, 2019, \$1,800,000 of multiple line of credits were paid down by the new debt that was received during the year, Note 4.

(18) Subsequent Events

The Corporation has performed an evaluation of subsequent events through April 18, 2020, which is the date the Corporation's financial consolidated statements were available to be issued. No material subsequent events have occurred, other than the items noted below, since December 31, 2019 that required recognition or disclosure in these consolidated financial statements.

ISLAND HOUSING TRUST CORPORATION

Notes to Consolidated Financial Statements

December 31, 2019

(18) Subsequent Events - continued

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of grants, contributions and rental income and other material adverse effects to IHT's financial position, results of operations and cash flows. IHT is not able to estimate the length or severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. If the length of the outbreak and related effects on IHT's operations continue for an extended period of time the Corporation may have to seek alternative measures to finance its operations. There is no assurance these measures will be successful. The financial statements do not include any adjustments that might result if IHT is unable to continue as a going concern.

Island Housing Trust Corporation and Subsidiaries

Supplemental Consolidated Schedule of Rental Program Expenses

For the Year Ended December 31, 2019

	Rental Management						2019
	Halycon Way	14 Village Court	Sepiessa II	Hanover	Water Street	Scotts Grove	
Insurance	\$ 1,710	\$ 4,683	\$ 2,699	\$ 7,575	\$ 6,429	\$ 8,679	31,775
Depreciation	6,560	27,973	19,558	74,956	52,405	72,100	253,552
Administrative management	2,196	5,220	2,412	86	6,613	8,580	25,107
Property management fee	2,508	5,976	2,748	358	5,436	9,804	26,830
Interest expense	5,603	13,043	6,928	-	9,330	22,522	57,426
Repairs and maintenance	12,278	17,852	14,090	16,956	20,349	31,649	113,174
Property expense	-	-	-	1,307	-	-	1,307
Telephone	-	-	-	3,406	-	-	3,406
Utilities	171	2,060	111	3,707	12,376	11,865	30,290
Property taxes	412	1,150	618	8,988	627	1,855	13,650
Total Expenses	\$ 31,438	\$ 77,957	\$ 49,164	\$ 117,339	\$ 113,565	167,054	556,517