



Island Housing Trust Corporation
and Subsidiaries

Consolidated Financial Statements and
Supplemental Information

December 31, 2020



Kevin P. Martin & Associates, P.C.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

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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 Corporation), which comprise the consolidated statement of financial position as of December 31, 2020, 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 consolidated financial position of the Corporation as of December 31, 2020, 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.

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 Corporations'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.

Report on Summarized Comparative Information

We have previously audited the Corporation's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 18, 2020. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Handwritten signature of Namin P. Martini in cursive script.

Braintree, Massachusetts

April 9, 2021

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Management's Discussion and Analysis

For the Year Ended December 31, 2020

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ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Management's Discussion and Analysis

For the Year Ended December 31, 2020

INTRODUCTION

Management's Discussion and Analysis (MD&A) is presented in five sections. The Executive Overview section 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, 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 55 rental and 72 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 was to create 100 new homes by the end of 2020 to serve 300 individuals and their families. During 2020, we completed 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, the purchase and repurposing of an existing house and guest house into 3 ownership homes on Daggett Avenue in Vineyard Haven, and the purchase with Harbor Homes, a nonprofit created to provide supportive housing for homeless individuals, of a home for six residents. Total net assets increased by 15% or \$2,681,922 from \$15,610,022 in 2019 to \$18,291,994 in 2020. Pre-construction began in 2020 and is scheduled to be completed in late 2021 or early 2022 for a pocket neighborhood of 20 rental apartments at Kuehns Way in the Town of Tisbury and 2 rental apartments on Old Court House Road in the Town of West Tisbury.

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 \$432,000 in donations from 67 donors in 2020. In addition, we pivoted from our annual in-person summer benefit brunch event to a two-month online fundraising campaign that raised \$541,561 in working and project capital from 248 donors in 2020. Our most successful annual year-end appeal also raised \$707,344 in working and project capital from 345 donors in 2020.

Revenues of \$39,100 were collected from 72 homeowners in ground lease fees. Revenues of \$585,681 from 48 rental units were used to pay \$449,322 in expenses before depreciation and added \$40,561 towards capital and operating reserves.

IHT's leveraged fundraising strategy has successfully raised a total of \$4.8 million in 2020 by matching town grants, private donations, and state grants in the form of soft debt (debt which does not require mandatory monthly payments). Building on the Leadership Circle capital fundraising campaign launched in 2016, \$1,700,000 in project funding was raised in 2020 from existing and new Leadership Circle members, who have pledged \$100,000 or more over four years.

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IHT's Make It Happen Fund is a low interest, short-term revolving line of credit totaling \$1,850,000 available from 5 private investors and foundations. The fund is used for property acquisition. The Martha's Vineyard Future Financing, a social impact investment fund, utilized a \$1.8 million low-cost participation loan involving 5 private investors and MassHousing, serviced by the Martha's Vineyard Bank, to provide low-cost permanent financing for the Hanover House rental property that is master leased to the Martha's Vineyard Hospital.

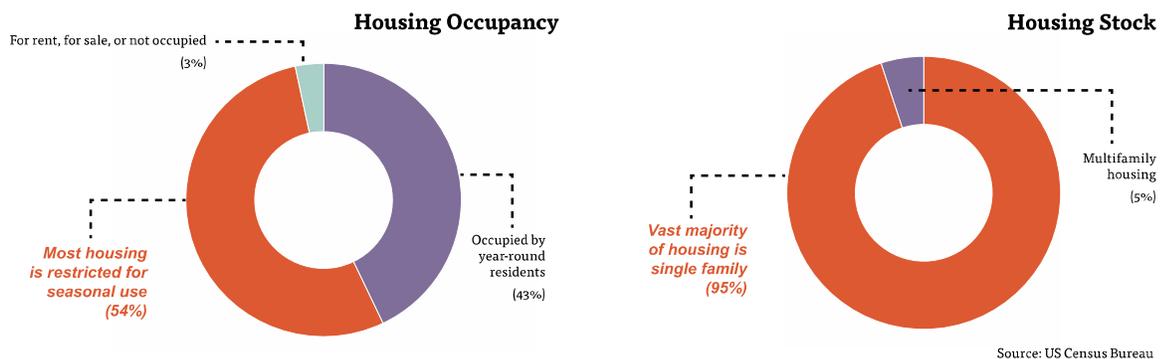
We continue to partner with town governments to secure available land and Community Preservation Act grant funding. We continue to explore new partnerships with private businesses and real estate developers, as well as non-profit organizations that have available land and/or financial resources for housing 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 and our updated Vision 2025 for the next five years, our growing housing production pipeline, health of our rental property portfolio, and new initiatives on the horizon. Uncertainties continue to exist however, principally connected with the ability to acquire land, permits, and the funds to complete future projects, as well as the long-term impacts 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 a median home price of \$1,173,000 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 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 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 33 rental units under contract on 6 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.

In addition, IHT owns and manages the 15 rental units at the Hanover House that it master leases to the Martha's Vineyard Hospital for their low and moderate income employees.

Vision 2020 and Beyond

IHT's Vision 2020 development goal over the past 5 years has been 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 was to raise \$24 million in funding to create 100 new homes (ownership and rental) to serve 300 residents and their families. As of the end of 2020, we completed 50 homes (12 ownership and 38 rentals) over the past four years towards our Vision 2020 goal, and will start construction on an additional 22 rental apartments in 2021.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Management's Discussion and Analysis

For the Year Ended December 31, 2020

Our project development pipeline with a total of 77 units either in predevelopment or construction stages as of December 31, 2020, includes:

	<u>2020</u>	<u>2019</u>
Predevelopment stage	55	42
In construction	22	13

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 a neighborhood of 20 rental apartments at Kuehn's Way off State Road in Tisbury and 2 rental apartments on Old Court House Road in West Tisbury that will be under construction in 2021.

Projects in construction (in millions) as of December 31, 2020 and December 31, 2019:

	<u>2020</u>	<u>2019</u>
Total projected cost of development in construction	\$7.7	\$3.8
Permanent loan commitments, grants and pledges	\$6.1	\$4.4
Aggregate percentage of completion of projects in construction	11%	70%

Rental Properties

IHT manages its portfolio of 33 rental units at 6 properties in the towns of Tisbury and West Tisbury 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.

In addition, IHT owns and manages the 15 rental units at the Hanover House in the Town of Tisbury that it master leases to the Martha's Vineyard Hospital for their low and moderate income employees.

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

	<u>2020</u>	<u>2019</u>
Average rent increase	3%	0%
Average vacancy rate	3%	1.6%

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:	36 multi-family & 12 SRO units
Average original cost per unit:	\$277,796
Average debt outstanding per unit:	\$ 74,613

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Management's Discussion and Analysis

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The majority of IHT rental properties generate positive cash flow. This performance is a result of properly capitalized reserves of \$227,465 and the DCRHA management efforts.

	<u>2020</u>	<u>2019</u>
Percentage of rental properties producing positive cash flow	87%	87%
Total excess cash generated by the positive rental properties	\$36,294	\$21,243
Total cash flow deficit funded by IHT during the year	\$17,464	\$ 5,798
Total net cash flow from rental properties	\$18,830	\$15,445

The rental properties producing negative net cash flow in 2020 and 2019 was due to turnover costs and additional costs associated with cleaning common areas due to COVID.

Successful operations of IHT resulted in a contribution of \$70,653 in 2020 towards a total of \$227,465 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) as shown in Note 6 of the Consolidated Financial Statement. The majority of this debt will mature at various dates through 2042.

Ground Leased Ownership Properties

IHT ground leases land with affordability restrictions to 72 homeowners in 5 towns on the island of Martha's Vineyard (Edgartown, West Tisbury, Tisbury, Oak Bluffs, and Aquinnah). These include 49 single-family and duplex homes that IHT developed for sale at below market prices during the period 2005-2020. 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>2019</u>
Number of loans outstanding	5	4
Amount of loans	\$75,000	\$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.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Management's Discussion and Analysis

For the Year Ended December 31, 2020

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>2020</u>	<u>2019</u>
Restricted Public Grants & Soft Loans	\$1.8M	\$748K
Unrestricted Private Contributions	\$2.8M	\$1.4M
New borrowings of long-term debt	\$0	\$1.8M
Property sales	\$2.5M	\$275K

IHT's Make It Happen Fund is a low interest, short-term revolving line of credit totaling \$1.85 million available from 5 individuals and 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 12/31/20 is \$810,000.

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 and updates these projections quarterly. During 2021, a net cash flow deficit is projected in the amount of approximately \$(429,383) resulting from anticipated 2021 project costs paid with cash balances carried over from 2020.

Human Resources

Our staff consists of 5.4 full-time equivalent employees with an average tenure of 6 years. Aggregate personnel costs grew by 15% compared to the previous year due to cost of living and merit and salary 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 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:	Keith McGuire, Project Director
Housing Development:	Derrill Bazy, Project Manager
Communications:	Breeze Tonnesen, Communications Director
Fundraising:	Christopher Anderson, Development Director
Fundraising:	Pam Scott, Development Associate
Management:	Breeze Tonnesen, Operations Manager
Management:	Garri Saganenko, Office & Stewardship 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 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 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 72 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, including all unrestricted cash divided by current liabilities) was 20 and 39 as of December 31, 2020 and 2019, respectively.

Cash and cash equivalents totaled approximately \$3,453,285 and \$2,248,963 at the end of 2020 and 2019, respectively. Of these amounts, \$1,686,366 and \$1,391,875 were not restricted for specific purposes or properties.

Housing development represents 79% and 81% of our total use of funds for 2020 and 2019, respectively. The remaining 21% and 19% of our funds used for 2020 and 2019, respectively consist of Fundraising, Communications, Rental Management, and General Management expenses that support our mission. Fundraising represents 4% of our overall use of funds in 2020 and 2019 and provides a major part of our support and revenue.

Assets with donor restrictions arise from contributions and grants for housing development. In 2020 IHT received \$4,580,468 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.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

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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		
	2020	2019	2018
Liquidity Ratios:			
• Current ratio (1)	20	39	32
• # months' operating expense liquid (2)	17	18	20
Long-term Solvency Ratios:			
• Unrestricted net asset ratio (3)	81%	78%	73%
• Leverage (4)	0.31	0.43	0.36
Rental Profitability Ratios:			
• Debt Service coverage ratio (5)	1.21	1.21	0.86
• Profitability ratio (6)	24%	27%	15%
• Net operating income before interest, depreciation, amortization, and other non-cash expenses	\$143K	\$126K	\$ 36K
• Annual hard debt service requirement (principal and interest)	\$173K	\$ 96K	\$ 55K
• Required deposits to fund reserves	\$ 45K	\$ 32K	\$ 26K
• Capital reserves balance	\$227K	\$157K	\$120K
• # of rental units	48	41	26

Ratio Definitions

- 1 *Current assets/ current liabilities (including all unrestricted cash; 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 26 to 48 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 90% or \$21.6 million towards the \$24 million fundraising goal. Currently 50 units of housing have been completed, 22 units of housing under construction, and 30 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 developed a 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 projects 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 \$9.3 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.

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.

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To mitigate competition risk, IHT works diligently with qualified and experienced architects and builders to develop properties that are well designed, healthy, 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)	\$199K	\$905K	\$101K	\$2.68M
Operating Leases (Office)	\$32K	\$0	\$0	\$0
Other Long-Term Obligation (Soft)	\$0	\$0	\$0	\$2.1M
	<hr/>			
Total	\$231K	\$905K	\$101K	\$4.78M

2021 Outlook

Portfolio

IHT estimates spending \$10.9 million in 2021 on housing development projects, rental properties, and support services. Public grants and private donations totaling \$7 million have been awarded or pledged over the next 3 years. The remainder will be financed with new long-term debt, for which IHT has already obtained loan commitments.

Total rental income is estimated to increase by 14% over 2020 levels due to 7 new rental units. Expense growth is managed by a budgeting process for each property in our portfolio.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Management's Discussion and Analysis

For the Year Ended December 31, 2020

We anticipate receipt of approximately \$132,000 in developer fees and overhead from a project located in the Town of Tisbury completed in 2020. The construction of a neighborhood of 20 rental apartments at Kuehn's Way in Tisbury and 2 rental apartments on Old Court House Road in West Tisbury will be completed and rented in late 2021 or early 2022 and will result in developer fees and overhead totaling \$525,000.

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. The Corporation received a PPP loan that was forgiven in full during 2020. 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 Organization may have to seek alternative measures to finance its operations. IHT does not believe that the impact of COVID-19 will have a material adverse effect on its financial condition or liquidity.

The following 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 versus 2020; c) the filling of vacant positions; and d) an increase in compensation rate of 5% versus 2020.

	<u>2021</u>
Opening Cash Balance	\$3.6M
Financing	\$3.2M
Unrestricted Donations Received	\$896K
Project Grants Received	\$5.6M
Developer & Lease Fees Received	\$191K
Property Revenues Received	\$637K
House Sale Revenues Received	<u>\$ 0</u>
Total Revenue Received	\$10.5M
Workforce Compensation and Benefits	\$860K
Office & Program Cost Payments	\$311K
Project Expenses	\$7.8M
Property Expenses	\$556K
Loan Repayment	\$1.2M
Other Cost Paid	<u>\$250K</u>
Total Expenses Paid	\$11M
Ending Cash (Deficit)	\$3.1M

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARY

Management's Discussion and Analysis

For the Year Ended December 31, 2020

The prior year's projection of cash flow for 2020 was within 7% of the actual cash flow for 2020.

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, 2020

With Comparative Totals as of December 31, 2019

Current Assets	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,453,285	\$ 2,248,963
Cash - restricted	<u>186,909</u>	<u>172,676</u>
Total cash and cash equivalents and cash - restricted	3,640,194	2,421,639
Accounts receivable, net	70,763	47,873
Pledge receivables - current	2,503,629	2,345,292
Notes receivable	400,000	-
Prepaid expenses	<u>3,287</u>	<u>13,264</u>
Total current assets	<u>6,617,873</u>	<u>4,828,068</u>
 Fixed Assets		
Property and equipment, net	<u>14,981,072</u>	<u>13,647,791</u>
 Other Assets		
Land held for development	2,269,416	3,168,423
Notes receivable - long term	75,000	50,000
Pledge receivables, net - long term	<u>451,985</u>	<u>578,179</u>
Total other assets	<u>2,796,401</u>	<u>3,796,602</u>
 Total Assets	 <u>\$ 24,395,346</u>	 <u>\$ 22,272,461</u>
 Current Liabilities		
Accounts payable and accrued expenses	\$ 117,910	\$ 64,150
Notes and mortgages payable - non-amortizing - current	154,899	-
Notes and mortgages payable - amortizing - current	<u>43,979</u>	<u>53,832</u>
Total current liabilities	<u>316,788</u>	<u>117,982</u>
 Long Term Liabilities		
Notes and mortgages payable - non-amortizing - long term	2,225,471	3,440,510
Notes and mortgages payable - amortizing - long term	2,751,142	2,803,947
Lines of credit - long term	<u>810,000</u>	<u>300,000</u>
Total long term liabilities	<u>5,786,613</u>	<u>6,544,457</u>
 Total Liabilities	 <u>6,103,401</u>	 <u>6,662,439</u>
 Net Assets		
Net assets without donor restrictions	15,032,816	12,239,380
Net assets with donor restrictions	<u>3,259,129</u>	<u>3,370,642</u>
Total Net Assets	<u>18,291,945</u>	<u>15,610,022</u>
 Total Liabilities and Net Assets	 <u>\$ 24,395,346</u>	 <u>\$ 22,272,461</u>

The accompanying notes are an integral part of the consolidated financial statements.

Island Housing Trust Corporation and Subsidiaries

Consolidated Statement of Activities

For the Year Ended December 31, 2020

With Comparative Totals for the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenue and Support				
Grants and contributions	\$ 2,788,391	\$ 1,792,077	\$ 4,580,468	\$ 2,156,153
Sales of buildings	(2,951,546)	-	(2,951,546)	(275,000)
Less: cost of development projects	2,448,000	-	2,448,000	275,000
Net sales of buildings	<u>(503,546)</u>	<u>-</u>	<u>(503,546)</u>	<u>-</u>
Rental income	585,681	-	585,681	508,973
Ground lease income	39,100	-	39,100	36,350
Contributed goods and services	67,212	-	67,212	95,238
Interest income	2,844	-	2,844	5,071
Other earned revenue	5,002	-	5,002	6,484
Developer fees	18,500	-	18,500	-
Project management fees	68,185	-	68,185	-
Net assets released from restrictions	<u>1,903,590</u>	<u>(1,903,590)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>4,974,959</u>	<u>(111,513)</u>	<u>4,863,446</u>	<u>2,808,269</u>
Expenses				
Program services	1,856,761	-	1,856,761	1,183,001
Management and general	224,346	-	224,346	173,765
Fundraising	200,044	-	200,044	166,338
Special events	<u>3,472</u>	<u>-</u>	<u>3,472</u>	<u>24,713</u>
Total expenses	<u>2,284,623</u>	<u>-</u>	<u>2,284,623</u>	<u>1,547,817</u>
Operating Change in Net Assets	2,690,336	(111,513)	2,578,823	1,260,452
Non - Operating Revenue				
Forgiveness of PPP loan	<u>103,100</u>	<u>-</u>	<u>103,100</u>	<u>-</u>
Change in Net Assets	2,793,436	(111,513)	2,681,923	1,260,452
Net Assets at Beginning of Year	<u>12,239,380</u>	<u>3,370,642</u>	<u>15,610,022</u>	<u>14,349,570</u>
Net Assets at End of Year	<u>\$ 15,032,816</u>	<u>\$ 3,259,129</u>	<u>\$ 18,291,945</u>	<u>\$ 15,610,022</u>

The accompanying notes are an integral part of the consolidated financial statements.

Island Housing Trust Corporation and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2020
With Comparative Totals for the Year Ended December 31, 2019

Cash Flows from Operating Activities	<u>2020</u>	<u>2019</u>
Change in net assets	\$ 2,681,923	\$ 1,260,452
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	321,467	253,552
Donations of land	(639,600)	(390,000)
Forgiveness of PPP loan	(103,100)	-
Decrease (increase) in assets		
Accounts receivable, net	(22,890)	(38,363)
Pledge receivable, net	(32,143)	406,163
Notes receivable	(425,000)	-
Prepaid expenses	9,977	(10,040)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	<u>53,760</u>	<u>(66,335)</u>
Net Cash Provided by Operating Activities	<u>1,844,394</u>	<u>1,415,429</u>
Cash Flows from Investing Activities		
Proceeds from sale of fixed assets	1,652,404	-
Purchase of fixed assets	<u>(2,657,687)</u>	<u>(2,630,366)</u>
Net Cash Used in Investing Activities	<u>(1,005,283)</u>	<u>(2,630,366)</u>
Cash Flows from Financing Activities		
Repayments of notes and mortgages payable	(1,396,518)	(166,130)
Proceeds from notes and mortgages payable	<u>1,775,962</u>	<u>1,002,985</u>
Net Cash Provided by Financing Activities	<u>379,444</u>	<u>836,855</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Cash - Restricted	1,218,555	(378,082)
Cash and Cash Equivalents and Cash - Restricted - Beginning	<u>2,421,639</u>	<u>2,799,721</u>
Cash and Cash Equivalents and Cash - Restricted - Ending	<u>\$ 3,640,194</u>	<u>\$ 2,421,639</u>
Cash and cash equivalents	\$ 3,453,285	2,248,963
Cash - restricted	<u>186,909</u>	<u>172,676</u>
Cash and Cash Equivalents and Cash - Restricted - Ending	<u>\$ 3,640,194</u>	<u>\$ 2,421,639</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 165,861</u>	<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, 2020

With Comparative Totals for the Year Ended December 31, 2019

	Program Services			Total Program Services	Management and General	Fundraising	Special Events	2020 Total	2019 Total
	Communication	Housing Development	Rental Management						
Salaries and wages	\$ 57,661	\$ 168,882	\$ -	\$ 226,543	\$ 96,660	\$ 128,000	\$ -	\$ 451,203	\$ 397,572
Payroll taxes and fringe benefits	16,009	53,122	-	69,131	40,025	36,385	-	145,541	108,038
Professional fees	16,811	86,856	-	103,667	56,689	14,834	-	175,190	153,739
Conferences	-	-	-	-	1,743	-	-	1,743	1,846
Insurance	283	17,978	41,128	59,389	705	643	-	60,737	43,621
Occupancy	3,441	11,416	-	14,857	8,601	7,820	-	31,278	30,439
Grant	-	285,600	-	285,600	-	-	-	285,600	21,175
Event expense	-	-	-	-	-	-	3,472	3,472	24,713
Property expenses	-	204,350	-	204,350	-	-	-	204,350	48,697
Depreciation	-	-	321,467	321,467	-	-	-	321,467	253,552
Printing and postage	10,176	256	-	10,432	194	175	-	10,801	24,972
Advertising	-	-	-	-	-	-	-	-	52,293
Administrative management	58,887	-	42,633	101,520	5,807	-	-	107,327	27,898
Property management fee	-	-	60,613	60,613	-	-	-	60,613	26,830
Interest expense	-	55,346	110,515	165,861	-	-	-	165,861	92,257
Repairs and maintenance	508	1,686	148,636	150,830	1,269	1,155	-	153,254	127,302
Office supplies	1,954	6,484	-	8,438	4,885	4,441	-	17,764	14,516
Software licensing	2,477	8,221	-	10,698	6,193	5,631	-	22,522	9,841
Property taxes	-	10,291	8,716	19,007	-	-	-	19,007	18,863
Telephone	232	865	7,141	8,238	579	527	-	9,344	9,315
Travel	191	632	-	823	477	433	-	1,733	11,736
Utilities	-	5,357	29,940	35,297	-	-	-	35,297	48,102
Filing fees	-	-	-	-	519	-	-	519	500
Total functional expenses	\$ 168,630	\$ 917,342	\$ 770,789	\$ 1,856,761	\$ 224,346	\$ 200,044	\$ 3,472	\$ 2,284,623	\$ 1,547,817

The accompanying notes are an integral part of the consolidated financial statements.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(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) and MassHousing pursuant to the Affordable Housing Trust Fund 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, 2020

(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 Perlman 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.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition

IHT earns revenue as follows:

Grants and Contributions - In accordance with ASC Sub Topic 958-605, Revenue Recognition, the Corporation must determine whether a grant and a contribution (or a promise) are conditional or unconditional for transactions deemed to be a contribution. A grant and a contribution are considered to be conditional if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Corporation should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Contributions without donor restrictions are recognized as revenue when received or unconditionally pledged. Contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as services are performed and costs are incurred pro-rata over the period covered by the grant or contribution as time restrictions lapse. Contributions with donor restrictions received and satisfied in the same period are included in grants and contributions without donor restrictions.

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).

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition - continued

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 consolidated 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 seven rental projects. Rent is recognized when earned.

Substantially all of IHT's revenue is derived from its activities in Massachusetts. During the year ended December 31, 2020, IHT derived approximately 77% of its total revenue from contributions, 11% from rental income, 8% from tax credit revenue and 4% 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 \$2,319,858 as of December 31, 2020. 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, 2020, the balance was \$186,909.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(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, 2020, 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, 2020 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, 2020, substantially all of the balances are receivable from individuals and one Corporation 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, 2020

(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, 2020, 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	3-5 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, 2020.

(m) Paycheck Protection Program Loan

IHT received a Paycheck Protection Program (PPP) loan during the fiscal year ended December 31, 2020. IHT has elected to follow the guidance regarding Debt found in FASB ASC 470 - *Not-for Profit Entities - Debt* to account for its PPP Loan. As a result, during the year ended December 31, 2020, IHT recognized \$103,100 of debt. The loan was forgiven before year end.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(1) Summary of Significant Accounting Policies - continued

(n) 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.

(o) Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant inputs to the valuation model are unobservable.

Recurring Measurements

In accordance with U.S. GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Corporation had no assets or liabilities measured at fair value on a recurring basis as of December 31, 2020.

Nonrecurring Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Corporation records assets and liabilities at fair value on a nonrecurring basis as required by U.S. GAAP.

During the year ended December 31, 2020, the Corporation recorded in-kind contributions for a donated property at estimated fair value at the date of receipt totaling \$639,600, see Notes 1(l), 4 and 16. No liabilities were assumed as a result of this donation. In accordance with U.S. GAAP, the Corporation recorded the assets acquired at fair value using Level 2 inputs.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(1) Summary of Significant Accounting Policies - continued

(p) 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.

(q) Summarized Financial Information for 2019

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the consolidated statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the consolidated financial statements do not include full consolidated financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the IHT's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

(r) Recent Accounting Standards

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(1) Summary of Significant Accounting Policies - continued

(r) *Recent Accounting Standards - continued*

The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU was set to be effective on January 1, 2021, with early adoption permitted. The effective date was extended to fiscal years beginning after December 15, 2021. The Corporation is currently evaluating the impact the adoption of this new standard will have on its financial statements.

In July 2018, FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842), Targeted Improvements*. In December 2018, FASB issued ASU 2018-20, *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. Adoption of these ASUs will run concurrent with the Corporation's adoption of ASU 2016-02.

(s) *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 invests 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 assets 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:

Financial assets at year end	
Cash and cash equivalents	\$ 1,690,037
Pledges receivable, net	<u>246,329</u>
Total	<u>1,936,366</u>
Less amounts unavailable for general expenditures	
Within one year, due to:	
Restricted by donors	<u>250,000</u>
Total	<u>250,000</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,686,366</u>

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(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 her home is located for an annual rate of \$600.

A Board member is also Board member of the Dukes County Regional Housing Authority (DCRHA) and the Tisbury Affordable Housing Committee (TAHC). The DCRHA leases office to the Corporation and/or decides on issues that may affect the Corporation. From time to time the TAHC discuss and/or decide on issues that may affect the Corporation. During the year ending December 31, 2020, IHT received grant funding from the Town of Tisbury of \$622,500. DCRHA was paid office rent totaling \$31,278 and property management and administrative management fees totaling \$30,752 for the year ended December 31, 2020. IHT also pays DCRHA \$1, annually, for land leases.

A Board member is a Selectmen for the Town of Aquinnah from which the Corporation may receive funds. During the year ended December 31, 2020, IHT did not receive grant funding from the Town of Aquinnah.

A Board member is a member of the West Tisbury Finance Committee (WTFC). From time to time the WTFC discusses and/or decides on issues that may affect the Corporation. During the year ended December 31, 2020, IHT received grant funding from the Town of West Tisbury of \$320,000.

(4) Donated Services, Property and Facilities

Donated services for the year ended December 31, 2020 was \$67,212, which consisted of legal fees. In addition, there were in-kind contributions in the amount of \$639,600, included in grants and contributions on the accompanying consolidated statement of activities, in land for 299 Greenwood Avenue, 103 Tashmoo Avenue and 2 Beach Rose Way during the year ended December 31, 2020, see Note 16. There was also a \$50,000 loan payable that was forgiven and converted into a donation and donated interest of \$3,804 which was included in grants and contributions on the accompanying consolidated statement of activities.

(5) 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

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(6) Notes, Lines of Credit and Mortgages Payable

IHT has the following notes, mortgages payable, and lines of credit as of December 31, 2020:

<u>Notes, Lines of Credit and Mortgages Payable</u>	<u>Collateral</u>	<u>Outstanding Balance at 12/31/2020</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.	Halcyon Way, West Tisbury, Massachusetts	\$ 78,943
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.	Halcyon Way, West Tisbury, Massachusetts	100,000
The Perlman House, LLC has the following debt obligations:		
Construction loan with Martha's Vineyard Savings Bank for \$154,899 at an interest rate of prime + .5%. The terms are interest only with a maturity date of 24 months.	20 Edgartown Road, Tisbury, Massachusetts	154,899
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. This was paid in full in 2020.	20 Edgartown Road, Tisbury, Massachusetts	-
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	Halcyon 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.	42 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	255,823
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	127,473

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

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

<u>Notes, Lines of Credit and Mortgages Payable - continued</u>	<u>Collateral</u>	<u>Outstanding Balance at 12/31/2020</u>
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.	6 Water Street, Tisbury, Massachusetts	\$ 168,786
Construction loan with Martha's Vineyard Savings Bank for \$1,510,000 at an interest rate of 4.875%. The terms were interest only with a maturity date of 24 months. This loan was paid in full during the year ended December 31, 2020.	221 Greenwood Ave, Tisbury, Massachusetts	-
<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>		
A) \$160,000 note secured by the property located at 12 Clam Point Road, West Tisbury, Massachusetts.	12 Clam Point Road, West Tisbury, Massachusetts	160,000
B) \$390,000 note secured by the property located at 6 Water Street, Tisbury, Massachusetts.	Water Street Apartments, Tisbury, Massachusetts	390,000
C) \$291,436 note secured by the property located at 14 Village Court, Tisbury, Massachusetts.	14 Village Court, Tisbury, Massachusetts	291,436
<p>The Scotts Grove, LLC has the following debt obligations:</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.	565 Edgartown Road West Tisbury, Massachusetts	529,124
B) \$900,000 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 Scotts Gove (the Project). There are no monthly payments required on the note, due May 23, 2068.	565 Edgartown Road West Tisbury, Massachusetts	900,000

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

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

Notes, Lines of Credit 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

28 Edgartown Road,
Tisbury, Massachusetts

\$ 1,762,445

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

400,000

\$1,000,000 loan with the Cardinal Brook Trust with a term of 2 years as of December 5, 2022, 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

410,000

\$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. The line of credit was paid off during 2020.

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 2020.

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 2020.

None

-

Total Notes, Lines of Credit and Mortgages Payable

\$ 5,985,491

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

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

The following are the minimum required principal payments on the notes, lines of credits and mortgages:

<u>Year Ended</u>	
2021	\$ 198,878
2022	856,271
2023	48,683
2024	51,222
2025	49,890
Thereafter	4,780,547

Interest expense for the year ended December 31, 2020 was \$165,861.

(7) Operating Rental Leases

IHT rents an office from the Dukes County Rental Housing Authority (DCRHA) in Vineyard Haven, Massachusetts under a monthly tenant-at-will lease agreement for \$2,645 monthly. Total rent expense for the year ended December 31, 2020 was \$31,278, see Note 3.

(8) Rental Income

IHT has six affordable housing rental properties which are managed by DCRHA and one rental property managed by IHT. Rental income for the year ended December 31, 2020 was \$585,681. The expenses related to those properties are in the accompanying supplemental consolidated schedule of rental expenses.

(9) Real Estate Sales and Acquisitions

During the year ended December 31, 2020, IHT acquired 299 Daggett Avenue, Tisbury, Massachusetts for \$763,500, land at 103 Tashmoo Avenue, Tisbury, Massachusetts for \$214,600, land at 299 Greenwood Avenue, Tisbury, Massachusetts for \$1, and land at 2 Beach Rose Way, Aquinnah for \$1.

During the year ended December 31, 2020, IHT sold 6 units at 221 Greenwood Avenue, Tisbury, Massachusetts for a total of \$1,760,000, and 2 units at 299 Daggett Avenue, Tisbury, Massachusetts for a total of \$688,000.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(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 allocated a maximum of \$200,000 in tax credits in April 2020 and then a subsequent allocation of \$15,000 in 2020 tax credits. In order to make use of the maximum allocation, IHT secured qualified donations totaling \$430,000. Also, IHT sold \$1,000 in roll-over 2019 tax credits in 2020. 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, 2020 was \$432,000, which is included in grants and contributions on the accompanying statement of activities.

(12) Property and Equipment

Property and equipment consists of the following as of December 31, 2020:

Ground lease land	\$	3,545,348
Buildings - rental properties		
6 Water Street, Tisbury		2,050,681
Halcyon Way, West Tisbury		263,553
14 Village Court, Tisbury		1,090,974
12 Clam Point Road, West Tisbury		762,769
565 Edgartown Road, West Tisbury		2,837,996
28 Edgartown Road, Tisbury		2,915,478
20 Edgartown Road, Tisbury		2,615,771
Equipment		9,637
Software		6,445
Office furniture		2,352
Total property and equipment		16,101,004
Accumulated depreciation		(1,119,932)
	\$	<u>14,981,072</u>

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(12) Property and Equipment - continued

Land being developed totaled \$2,269,416 as of December 31, 2020. Depreciation amounted to \$321,467 for the year ended December 31, 2020.

(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, 2020, net assets with donor restrictions are restricted for the following purposes:

Kuehns Way	\$ 1,487,300
Main Street	40,000
Housing Development Projects	650,000
Buydown Program	100,000
Old Courthouse	220,000
Farm Workers Housing	250,000
Time restricted	<u>511,829</u>
Total	<u>\$ 3,259,129</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, 2020 was \$75,000. The notes are secured by the properties and payable when refinanced or at resale.

During the year ended December 31, 2020, IHT entered into a promissory note with the Island Autism Group (IAG) in the amount of \$400,000. The loan is due at the earlier of 15 days after IAG notifies IHT that they have funds sufficient to make the payment in full or November 12, 2021. The note has an interest rate of 1% per annum. As of December 31, 2020, the balance was \$400,000.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(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, 2020:

	<u>Gross Promise</u>	<u>Unamortized Discount</u>	<u>Total</u>
2021	\$ 2,503,629	\$ -	\$ 2,503,629
2022	274,430	(9,366)	265,064
2023	138,530	(1,959)	136,571
2024	42,380	(1,767)	40,613
2025	<u>10,160</u>	<u>(423)</u>	<u>9,737</u>
	<u>\$ 2,969,129</u>	<u>\$ (13,515)</u>	<u>\$ 2,955,614</u>

The applicable discount rates ranged between .4% to 4.6%. There has been no allowance recognized during the year ended December 31, 2020.

(16) Noncash Investing and Financing Activity

Property and equipment purchases financed with long-term debt during the year ended December 31, 2020 amounted to \$410,000. Land donations during the year ended December 31, 2020 were valued at \$639,600, see Notes 4 and 9. Proceeds from the sale of 221 Greenwood Avenue units were used to pay down mortgages of \$1,299,142, see Note 9. There was forgiveness of debt in the amount of \$103,100 for the PPP loan, see Note 18.

(17) Note Payable - PPP

IHT received a PPP loan from Marthas Vineyard Savings Bank during the fiscal year ended December 31, 2020 in the original amount of \$103,100 with a maturity date of April 18, 2022. The loan bore interest at a rate of 1%, which was deferred for the first six months. The Small Business Administration (SBA) has disclosed criteria for forgiveness which include but not limited to maintaining the full-time equivalent number of employees over certain time period and expending the funds on eligible expenses over the covered period. During the year ended December 31, 2020, management has received full forgiveness from SBA.

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020

(18) COVID-19 - *Risks and Uncertainties*

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. As described in Note 17, the Corporation received a PPP loan that was forgiven in full during the year ended December 31, 2020. Further, the Corporation's liquidity as of December 30, 2020 is documented at Note 2. The Corporation 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 the Corporation's operations continue for an extended period of time the Corporation may have to seek alternative measures to finance its operations. The Corporation does not believe that the impact of COVID-19 would have a material adverse effect on its financial condition or liquidity.

(19) Subsequent Events

The Corporation has performed an evaluation of subsequent events through April 9, 2021, which is the date the Corporation's financial consolidated statements were available to be issued. No material subsequent events have occurred since December 31, 2020 that required recognition or disclosure in these consolidated financial statements.

Island Housing Trust Corporation and Subsidiaries

Supplemental Consolidated Schedule of Rental Program Expenses

For the Year Ended December 31, 2020
With Comparative Totals for the Year Ended December 31, 2019

	Rental Management							2020	2019
	Halycon Way	14 Village Court	Sepsiessa II	Hanover	Water Street	Scotts Grove	Perlman House		
Insurance	\$ 2,315	\$ 5,165	\$ 3,279	\$ 9,274	\$ 6,895	\$ 7,994	\$ 6,206	\$ 41,128	\$ 31,775
Depreciation	6,758	27,974	19,558	74,756	52,581	72,769	67,071	321,467	253,552
Administrative management	2,332	5,268	2,433	14,685	6,754	9,220	1,941	42,633	25,107
Property management fee	2,706	6,042	2,792	29,861	5,436	10,816	2,960	60,613	26,830
Interest expense	4,930	13,894	6,763	52,061	9,135	23,732	-	110,515	57,426
Repairs and maintenance	9,782	23,629	5,352	22,734	40,708	36,128	10,303	148,636	113,174
Property expense	-	-	-	-	-	-	-	-	1,307
Telephone	-	-	-	7,141	-	-	-	7,141	3,406
Utilities	151	1,637	112	9,352	4,577	14,111	-	29,940	30,290
Property taxes	412	1,151	618	3,014	1,666	1,855	-	8,716	13,650
				-					
Total Expenses	<u>\$ 29,386</u>	<u>\$ 84,760</u>	<u>\$ 40,907</u>	<u>\$ 222,878</u>	<u>\$ 127,752</u>	<u>\$ 176,625</u>	<u>\$ 88,481</u>	<u>\$ 770,789</u>	<u>\$ 556,517</u>