Island Housing Trust Corporation and Subsidiaries

Financial Statements and Supplemental Information

December 31, 2021

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ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Index

December 31, 2021

Independent Auditor's Report

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

Opinion

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, 2021, 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 (financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Prior Period - Summarized Comparative Information

The financial statements of Island Housing Trust Corporation for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those statements in their report dated April 9, 2021. 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.
Other Matters

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Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the 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 financial statements. Such information is the representation of Corporation's management and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2021 Supplemental Consolidated Schedule of Rental Program Expenses, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The 2020 Supplemental Consolidated Schedule of Rental Program Expenses was subjected to the auditing procedures applied in the 2020 audit of the basic financial statements by other auditors, whose report on such information dated April 9, 2021, stated that it was fairly stated, in all material respects, in relation to the 2020 financial statements as a whole.

CohnReznick LLP

Braintree, Massachusetts
April 23, 2022

ISLAND HOUSING TRUST CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

For the Year Ended December 31, 2021

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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 and Subsidiaries (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

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 61 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 2025 goal is to create 150 new homes by the end of 2025 to serve 450 individuals and their families. As of the end of 2021, our project development pipeline included a total of 148 rental and ownership homes either in predevelopment or construction stages. During 2021, we began the construction of 20 rentals at Kuehn's Way off State Road in Tisbury and 2 rentals on Old Court House Road in West Tisbury that will be completed and occupied in the fall of 2022, purchased and renovated a single family house off Rustling Oaks that will be sold in the spring of 2022 in West Tisbury, and purchased with Harbor Homes, a nonprofit created to provide supportive housing for homeless individuals, a house on New York Avenue for six residents in Oak Bluffs. Total net assets increased by 17% or $3,040,654 from $18,291,945 in 2020 to $21,332,599 in 2021. In partnership with Affirmative Investments, a women owned development company from Boston, two town led development projects totaling 100 rental and ownership homes were awarded to IHT in 2021 including Southern Tier in Oak Bluffs with 60 rentals in two phases, and Meshacket in Edgartown with 36 rentals and 4 ownership homes.

Our capacity has increased significantly as a result of securing a seventh consecutive year of Community Investment Tax Credits from the Massachusetts Department of Revenue. Those credits raised $500,000 in donations from 69 donors in 2021. Our three-month summer campaign raised $1,452,403 in working and project capital from 315 donors, an increase of $910,842 from 2020. Our year-end appeal raised $1,418,185 from 425 donors in 2021 an increase of $710,841 from 2020.

Revenues of $42,650 were collected from 72 homeowners in ground lease fees. Revenues of $673,406 from 48 rental units were used to pay $451,551 in expenses before depreciation and added $51,815 towards capital and operating reserves.

IHT's leveraged fundraising strategy has successfully raised a total of $5,938,045 million in 2021 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, $2,250,000 in project funding was raised in 2021 from existing and new Leadership Circle members, who have pledged $100,000 or more over four years.

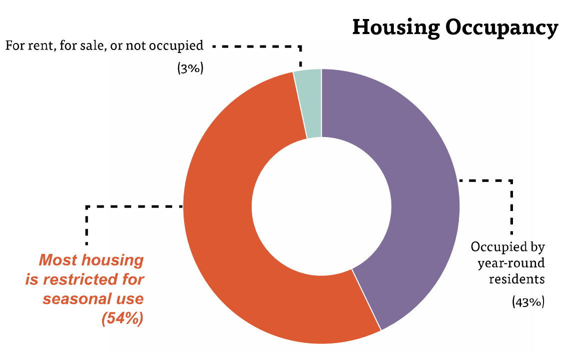
IHT's Make It Happen Fund is a low interest, short-term revolving line of credit totaling $4,700,000 available from seven private investors and foundations and two donations restricted for use as internal loans. The fund is used for property acquisition and improvements. The Martha's Vineyard Future 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.

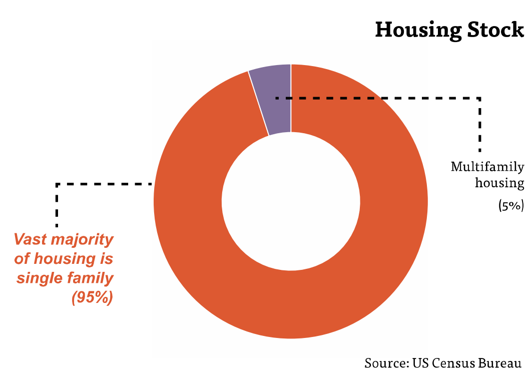
We continue to partner with town governments to secure available land and Community Preservation Act grant funding. We continue to explore new partnerships with private businesses and real estate developers, as well as non-profit organizations that have available land and/or financial resources for housing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

Our outlook is positive, given the momentum behind our 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. Dukes and Nantucket counties are rated the most expensive counties in the United States with a median home price of $1,200,000 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.

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 state certified Community Development Corporation and utilizes the nationally recognized Community Land Trust model. IHT's 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 and Fannie Mae/Freddie Mac approved 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.

Vision 2025 and Beyond

IHT's Vision 2025 development goal over the next 5 years is to increase the availability of year-round housing affordable to island residents within the six island towns on Martha's Vineyard by creating 150 additional homes by the end of 2025. 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 2025 goal is to raise $60 million in funding and financing to create 150 new homes (ownership and rental) to serve 450 residents and their families. As of the end of 2021, our project development pipeline included a total of 148 rental and ownership homes either in predevelopment or construction stages.

	2020	2021
Predevelopment stage	55	125
In construction	22	23

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 were under construction in 2021.

Projects in construction (in millions) as of December 31, 2020 and December 31, 2021:

	2020	2021
Total projected cost of development in construction	$7.7	$5.7
Permanent loan commitments, grants and pledges	$6.1	$4.4
Aggregate percentage of completion of projects in construction	11%	38%

Rental Properties

IHT owns a total 48 rentals at 7 properties in the towns of Tisbury and West Tisbury. The Dukes County Regional Housing Authority (DCRHA), a state-chartered housing authority, manages 33 of IHT's rentals under contract at 6 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 Hanover House in Vineyard Haven with 15 rentals 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.

	2020	2021
Average rent increase	3%	0%
Average vacancy rate	3%	0%

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

Here is a summary of IHT rental properties:

Towns served:	West Tisbury and Tisbury
Types of housing:	36 multi-family & 12 SRO units
Average original cost per unit:	$ 277,796
Average debt outstanding per unit:	$ 80,285

The majority of IHT rental properties generate positive cash flow. This performance is a result of properly capitalized reserves of $372,895 and the DCRHA management efforts.

	2020	2021
Percentage of rental properties producing positive cash flow	87%	100%
Total excess cash generated by the positive rental properties	$ 47,799	$ 116,303
Total cash flow deficit funded by IHT during the year	$ 19,947	-
Total net cash flow from rental properties	$ 27,852	$ 116,303

The rental properties producing negative net cash flow in 2020 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 $51,815 in 2021 towards a total of $372,895 in property capital and operating reserves.

Long-term debt totals approximately $8,303,798 million in the aggregate for IHT's entire rental portfolio, including approximately $3,297,998 million in "soft" debt (debt which do not 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 2005-2021. 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 440 island resident households able to afford to purchase a home for between $200,000 and $600,000, but who are unable to find anything for less than $900,000 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.

	2020	2021
Number of loans outstanding	5	6
Amount of loans	$75,000	$90,000

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.

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:

	2020	2021
Restricted Public Grants & Soft Loans	$ 1.8M	$ 1.3M
Private Contributions	$ 2.8M	$ 4.9M
New borrowings of long-term debt	-	$ 931K
Property sales	$ 2.5M	-

IHT's Make It Happen Fund is a low interest, short-term revolving line of credit totaling $4,700,000 million available from nine individuals and foundations. The fund is used for property acquisition and construction/renovation. It is repaid from a combination of donations, grants or loan proceeds. The outstanding balance for the Make It Happen Fund as of 12/31/21 is $1,130,000.

IHT's Martha's Vineyard Future Financing is a low interest, 10-year participation loan totaling $1,800,000 serviced by the Martha's Vineyard Bank involving five private investors and MassHousing.

IHT projects its future cash flow and updates these projections quarterly. During 2022, approximately $561,000 dollars of cash flow will be funded from cash balances carried over from 2021.

Human Resources
Our staff consists of 10 employees (7.5 full-time equivalent employees) with an average tenure of 5.4 years. Aggregate personnel costs grew by 48% compared to the previous year due to the hire of two additional full-time positions, along with cost of living, merit and salary increases.

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 oversees 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 Development Director
Housing Development:	Derrill Bazzy, Design Development Manager
Housing Development:	Liz Volchok, Project Development Manager
Housing Development	Pam Scott, Project Development Support
Communications:	Breeze Tonnesen, Communications Director
Advancement:	Joanna McCarthy, Chief Advancement Officer
Advancement:	Christopher Anderson, Deputy Director of Advancement
Advancement:	Paige Leahy, Advancement Officer
Operations:	Breeze Tonnesen, Operations Director
Operations:	Elissa Turnbull, Office & Stewardship Manager
Accounting:	Emily Day, Accountant/Bookkeeper (contractor)

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 39 and 20 as of December 31, 2021 and 2020, respectively.

Housing development represents 77% and 79% of our total use of funds for 2021 and 2020, respectively. The remaining 23% and 21% of our funds used for 2021 and 2020, 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 2021 and 2020 and provides a major part of our support and revenue.

Assets with donor restrictions arise from contributions and grants for housing development. In 2021 IHT received $2,751,819 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.

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		
	2021	**2020**	**2019**
Liquidity Ratios:			
• Current ratio (1)	16	21	41
• # months' operating expense liquid (2)	30	21	21
Long-term Solvency Ratios:			
• Unrestricted net asset ratio (3)	64%	62%	55%
• Leverage (4)	0.41	0.33	0.43
Rental Profitability Ratios:			
• Debt Service coverage ratio (5)	1.90	1.47	3.24
• Profitability ratio (6)	31%	23%	40%
• Net operating income before interest, depreciation, amortization, and other non-cash expenses	$219K	$146K	$208K
• Annual hard debt service requirement (principal and interest)	$170K	$167K	$ 81K
• Required deposits to fund reserves	$ 52K	$ 44K	$ 32K
• Capital reserves balance	$373K	$227K	$157K
• # of rental units	48	48	41

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 indicates a high degree of liquid assets to meet current liabilities and the improvement of number of months cash on hand to meet expenses with a stable trend over the past three years.

IHT's leverage ratios reflect 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 over the past three years from 41 to 48 rental units as a result of well capitalized development projects that are growing cash flow and reserves.

FUTURE OPPORTUNITIES, RISKS, OBLIGATIONS AND OUTLOOK

Opportunities

IHT's Vision 2025 goal is to create 150 new homes to serve 450 island residents and their families by the end of 2025. 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. As of the end of 2021, our project development pipeline included a total of 148 rental and ownership homes either in predevelopment or construction stages. During 2021, we began the construction of 20 rentals at Kuehn's Way off State Road in Tisbury and 2 rentals on Old Court House Road in West Tisbury that will be completed and occupied in the fall of 2022, purchased and renovated a single family house off Rustling Oaks that will be sold in the spring of 2022 in West Tisbury, and purchased with Harbor Homes, a nonprofit created to provide supportive housing for homeless individuals, a house on New York Avenue for six residents in Oak Bluffs.

In partnership with Affirmative Investments, a women owned development company from Boston, two town lead development projects were awarded to IHT in 2021 including Southern Tier in Oak Bluffs totaling of 60 rentals in two phases, and Meshacket in Edgartown totaling of 36 rentals and 4 ownership homes.

Risks

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

a) Reducing our exposure to certain risks through insurance,
b) Identifying multiple development options when acquiring real estate,
c) Using legal services for property title or zoning opinions, and
d) Entering into construction contracts with Guaranteed Maximum Price whenever possible.

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.

<u>CPA</u>

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.

<u>Competition</u>

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. This designation is due to the limited amount of funding available for affordable housing development as well as a limited amount of property available to be developed into affordable housing. This past year, IHT entered into its first development partnership with the women owned development firm, Affirmative Investments, to successfully bid on two larger town led projects including 60 rentals at Southern Tier in Oak Bluffs and 36 rentals and 4 ownership homes at Meshacket in Edgartown.

To mitigate competition risk, IHT works diligently with qualified and experienced developers, 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 its properties with the underlying agreements. Additionally, third parties routinely test for compliance with laws and regulatory agreements.

IHT's partnership with Affirmative Investments to develop two larger town led projects in Oak Bluffs and Edgartown will be managed by The Community Builders (TCB), a national nonprofit developer and manager, who have experience managing Low Income Housing Tax Credit (LIHTC) funded rental projects on Martha's Vineyard.

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)	$ 83K	$ 1.03M	$ 485K	$ 4.61M
Operating Leases (Offices)	$ 33K	-	-	-
Other Long-Term Obligations (Soft)	-	-	-	$ 2.1M
Total	$ 116K	$ 1.03M	$ 485K	$ 6.71M

2022 Outlook

Portfolio

IHT estimates spending $11,877,000 million in 2022 on housing development projects, rental properties, and support services. Public grants and private donations totaling $5,414,000 million have been awarded or pledged over the next 4 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 4.7% over 2021 levels. Expense growth is managed by a budgeting process for each property in our portfolio.

We anticipate receipt of approximately $533,000 in developer fees and overhead from a neighborhood of 20 rental apartments at Kuehn's Way in Tisbury and 2 rental apartments on Old Court House Road in West Tisbury that will be completed and rented by the fall and spring of 2022.

Cash Flow Projection
In early 2022, just as the Omicron strain of coronavirus (COVID-19) was wanning the global energy markets were impacted by the invasion of Ukraine by Russa and subsequent United States energy embargo of Russa. As a result, material supply shortages and inflation could result in continued delays and increased construction costs and other material adverse effects to IHT's financial position, impacting its operations and cash flows. IHT is not able to estimate the length or severity of these global disruptions and their 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 global disruptions and related effects on IHT's operations continue for an extended period of time IHT may have to seek alternative measures to finance its operations. IHT does not believe that the impact of these global disruptions 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 global disruptions; 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 2021; c) the filling of new positions; and d) an increase in compensation rate of 10% versus 2021.

	2022
Opening Cash Balance	$6.1M
Financing	$4.8M
Donations Received	$1.4M
Project Grants Received	$4.3M
Developer & Lease Fees Received	$607K
Property Revenues Received	$667K
House Sale Revenues Received	$370K
Total Revenue Received	$12.1M
Workforce Compensation and Benefits	$1.0M
Office & Program Cost Payments	$341K
Project Expenses	$6.6M
Property Expenses	$570K
Loan Repayment	$3.6M
Other Cost Paid	$137K
Total Expenses Paid	$12.2M
Ending Cash (Deficit)	$6.0M

The prior year's projection of cash flow for 2021 was within 8% of the actual cash flow for 2021.

Management's Discussion and Analysis

For the Year Ended December 31, 2021

Management has prepared this Management's Discussion & Analysis to facilitate understanding of its mission, structure, resources, financial results risks and opportunities, IHT's financial statements are audited by an Independent Auditor and IHT's Audit Committee, consisting of Independent Directors, recommends the approval of the audited financial statements to the Board of Directors. This Management's Discussion & Analysis is not audited or included in the audited financial statements. Questions concerning any of this information provided in this Management's Discussion & Analysis 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, 2021
With Comparative Totals as of December 31, 2020

	2021	2020
Current Assets		
Cash and cash equivalents	$ 6,154,108	$ 3,453,285
Restricted cash	372,895	186,909
Total cash and cash equivalents and restricted cash	6,527,003	3,640,194
Accounts receivable, net	141,558	70,763
Pledge receivables - current	916,762	2,503,629
Notes receivable - current	-	400,000
Prepaid expenses	13,734	3,287
Total current assets	7,599,057	6,617,873
Fixed Assets		
Property and equipment, net	14,888,887	14,981,072
Other Assets		
Land held for development	6,286,969	2,269,416
Notes receivable, net - long term	90,000	75,000
Pledge receivables, net - long term	1,162,640	451,985
Total other assets	7,539,609	2,796,401
Total Assets	$ 30,027,553	$ 24,395,346
Current Liabilities		
Accounts payable and accrued expenses	$ 391,155	$ 117,910
Notes and mortgages payable - non-amortizing - current	-	154,899
Notes and mortgages payable - amortizing - current	82,700	43,979
Total current liabilities	473,855	316,788
Long Term Liabilities		
Notes and mortgages payable - non-amortizing - long term	3,320,089	2,225,471
Notes and mortgages payable - amortizing - long term	3,771,010	2,751,142
Lines of credit - long term	1,130,000	810,000
Total long term liabilities	8,221,099	5,786,613
Total Liabilities	8,694,954	6,103,401
Net Assets		
Net assets without donor restrictions	19,233,831	15,032,816
Net assets with donor restrictions	2,098,768	3,259,129
Total Net Assets	21,332,599	18,291,945
Total Liabilities and Net Assets	$ 30,027,553	$ 24,395,346

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, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenue and Support				
Grants and contributions	$ 3,674,534	$ 1,369,660	$ 5,044,194	$ 4,580,468
Sales of buildings	-	-	-	(2,951,546)
Less: cost of development projects	-	-	-	2,448,000
Net sales of buildings	-	-	-	(503,546)
Rental income	673,406	-	673,406	585,681
Ground lease income	42,650	-	42,650	39,100
Contributed goods and services	42,500	-	42,500	67,212
Project management fees	11,700	-	11,700	68,185
Interest income	1,835	-	1,835	2,844
Other earned revenue	5,051	-	5,051	5,002
Developer fees	-	-	-	18,500
Net assets released from restrictions	2,530,021	(2,530,021)	-	-
Total revenue and support	6,981,697	(1,160,361)	5,821,336	4,863,446
Expenses				
Program services	2,186,435	-	2,186,435	1,856,761
Management and general	241,289	-	241,289	224,346
Fundraising	342,351	-	342,351	200,044
Special events	10,607	-	10,607	3,472
Total expenses	2,780,682	-	2,780,682	2,284,623
Operating Change in Net Assets	4,201,015	(1,160,361)	3,040,654	2,578,823
Non - Operating Revenue				
Forgiveness of PPP loan	-	-	-	103,100
Change in Net Assets	4,201,015	(1,160,361)	3,040,654	2,681,923
Net Assets at Beginning of Year	15,032,816	3,259,129	18,291,945	15,610,022
Net Assets at End of Year	$ 19,233,831	$ 2,098,768	$ 21,332,599	$ 18,291,945

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

Island Housing Trust Corporation and Subsidiaries

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Program Services			Total					
	Communication	Housing Development	Rental Management	Program Services	Management and General	Fundraising	Special Events	2021 Total	2020 Total
Salaries and wages	$ 63,466	$ 251,309	$ -	$ 314,775	$ 114,287	$ 252,919	$ -	$ 681,981	$ 451,203
Payroll taxes and fringe benefits	22,099	73,327	-	95,426	55,245	50,224	-	200,895	145,541
Professional fees	23,062	66,639	1,040	90,741	44,259	17,982	-	152,982	175,190
Conferences	-	-	-	-	1,122	-	-	1,122	1,743
Insurance	390	14,853	49,569	64,812	977	887	-	66,676	60,737
Occupancy	3,540	11,747	-	15,287	8,851	8,046	-	32,184	31,278
Grants	-	550,000	-	550,000	-	-	-	550,000	285,600
Event expense	-	-	-	-	-	-	10,607	10,607	3,472
Property expenses	-	234,432	2,294	236,726	-	-	-	236,726	204,350
Depreciation	-	-	327,501	327,501	-	-	-	327,501	321,467
Printing and postage	1,162	536	-	1,698	404	367	-	2,469	10,801
Administrative management	56,313	-	36,103	92,416	2,524	-	-	94,940	107,327
Property management fee	-	-	52,980	52,980	-	-	-	52,980	60,613
Interest expense	-	10,478	116,631	127,109	-	-	-	127,109	165,861
Repairs and maintenance	170	565	140,722	141,457	427	387	-	142,271	153,254
Office supplies	2,609	8,656	-	11,265	6,522	5,929	-	23,716	17,764
Software licensing	1,491	4,948	-	6,439	3,728	3,389	-	13,556	22,522
Property taxes	-	1,163	12,018	13,181	-	-	-	13,181	19,007
Telephone	348	1,154	9,054	10,556	869	790	-	12,215	9,344
Travel	630	2,089	-	2,719	1,574	1,431	-	5,724	1,733
Utilities	-	207	31,140	31,347	-	-	-	31,347	35,297
Filing fees	-	-	-	-	500	-	-	500	519
Total functional expenses	$ 175,280	$ 1,232,103	$ 779,052	$ 2,186,435	$ 241,289	$ 342,351	$ 10,607	$ 2,780,682	$ 2,284,623

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, 2021
With Comparative Totals for the Year Ended December 31, 2020

Cash Flows from Operating Activities	2021	2020
Change in net assets	$ 3,040,654	$ 2,681,923
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	327,501	321,467
Donations of land	(312,000)	(639,600)
Forgiveness of PPP loan	-	(103,100)
Decrease (increase) in assets		
Accounts receivable, net	(70,795)	(22,890)
Pledge receivables, net	876,212	(32,143)
Notes receivable	385,000	(425,000)
Prepaid expenses	(10,447)	9,977
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	273,245	53,760
Net Cash Provided by Operating Activities	4,509,370	1,844,394
Cash Flows from Investing Activities		
Proceeds from sale of fixed assets	-	1,652,404
Purchase of fixed assets	(3,940,869)	(2,657,687)
Net Cash Used in Investing Activities	(3,940,869)	(1,005,283)
Cash Flows from Financing Activities		
Repayments of notes and mortgages payable	(2,391,794)	(1,396,518)
Proceeds from notes and mortgages payable	4,710,102	1,775,962
Net Cash Provided by Financing Activities	2,318,308	379,444
Net Increase in Cash and Cash Equivalents and Restricted Cash	2,886,809	1,218,555
Cash and Cash Equivalents and Restricted Cash - Beginning	3,640,194	2,421,639
Cash and Cash Equivalents and Restricted Cash - Ending	$ 6,527,003	$ 3,640,194
Cash and cash equivalents	$ 6,154,108	$ 3,453,285
Restricted cash	372,895	186,909
Cash and Cash Equivalents and Restricted Cash - Ending	$ 6,527,003	$ 3,640,194
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 127,109	$ 165,861

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

(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.

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.

(b) Basis of Presentation

The consolidated financial statements include the activity of Island Housing Trust Corporation, 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.

(1) Summary of Significant Accounting Policies - continued

(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:

<u>Net Assets Without Donor Restrictions</u> - 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.

<u>Net Assets With Donor Restriction</u> - 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:

IHT generally measures revenue based on the amounts of consideration it expects to be entitled for the transfers of goods and services to a customer, then recognizes its revenue as performance obligations are satisfied under a contract, except in transactions where U.S. GAAP provides other applicable guidance. IHT evaluates its revenue contracts with customers based on the five-step model under Topic 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition - continued

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.

Contributed Property, Equipment 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. 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. Rental revenue is recognized as rentals come due and are accounted for under Leases (Topic 840). All leases between IHT and its tenants are operating leases.

Substantially all of IHT's revenue is derived from its activities in Massachusetts. During the year ended December 31, 2021, IHT derived approximately 86% of its total revenue from contributions, including 17% from one foundation, 12% from rental income, and 2% from other sources. All revenue is recorded at the estimated net realizable amounts.

(1) Summary of Significant Accounting Policies - continued

(f) Cash and Cash Equivalents and Restricted Cash

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 $4,606,844 as of December 31, 2021. 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. IHT also maintains certain deposits with MassHousing and Massachusetts Housing Partnership (MHP). These deposits are not insured by the FDIC and amounted to $372,895 as of December 31, 2021.

Restricted cash consists of various reserve and escrow accounts for the rental properties. As of December 31, 2021, the balance was $372,895.

(g) Pledge Receivables

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, 2021, management has determined any allowance would be immaterial.

(h) Land Held for Development

Land held for development 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.

(1) Summary of Significant Accounting Policies - continued

(i) 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, 2021 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, 2021, substantially all of the balances are receivable from individuals and one corporation located within the same geographic region.

(j) 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, 2021, management has determined any allowance would be immaterial.

(k) Fundraising Expense

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

(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 accompanying consolidated statement of activities. Major repairs and maintenance over $5,000 are capitalized as incurred.

(1) Summary of Significant Accounting Policies - continued

(l) Property, Equipment and Depreciation - continued

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

Buildings and improvements	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, 2021.

(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.

(n) 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.

(1) Summary of Significant Accounting Policies - continued

(n) Fair Value Measurements - continued

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's assets that are adjusted to fair value on a recurring basis are described below. The Corporation currently has no liabilities that are adjusted to fair value on a recurring basis.

The following section describes the valuation methodologies used to measure assets financial assets and liabilities at fair value on a recurring basis.

Pledge Receivables: Pledges receivable are discounted using risk-adjusted interest rates, a Level 2 input, applicable to the years in which the promises to give, see Note 15.

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.

The following section describes the valuation methodologies used to measure assets financial assets and liabilities at fair value on a nonrecurring basis.

During the year ended December 31, 2021, the Corporation recorded in-kind contributions for a donated property at estimated fair value at the date of receipt totaling $312,000, 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.

(o) 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.

(1) Summary of Significant Accounting Policies - continued

(p) Summarized Financial Information for 2020

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the consolidated 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 consolidated financial statements for the year ended December 31, 2020, from which the summarized information was derived.

(q) Recent Accounting Standards

In June 2020, FASB issued ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). ASU 2020-05 deferred the implementation date of ASU 2016-02 and ASU 2014-09 by one year. The Corporation has adopted ASU 2014-09. ASU 2016-02 is described below.

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.

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 consolidated 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.

(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. Accounts receivable are not included in the calculation below as the receivables are related to rental property activity and are restricted for use in the properties. 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	$ 6,154,108
Pledges receivable, current	916,762
Total	7,070,870
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors	629,206
Total	629,206
Financial assets available to meet cash needs for general expenditures within one year	$ 6,441,664

(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 a 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 decides on issues that may affect the Corporation. From time to time the TAHC discusses and decides on issues that may affect the Corporation. During the year ending December 31, 2021, IHT received grant funding from the Town of Tisbury of $100,000. DCRHA was paid office rent totaling $32,184 and property management and administrative management fees totaling $36,888 for the year ended December 31, 2021. 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, 2021, IHT did not receive grant funding from the Town of Aquinnah.

(3) Related Party Transactions - continued

A Board member is a member of the West Tisbury Finance Committee (WTFC) and the West Tisbury Community Preservation Committee (WTCPC). From time to time the WTFC and WTCPC discusses and/or decides on issues that may affect the Corporation. During the year ended December 31, 2021, IHT did not receive grant funding from the Town of West Tisbury.

A Board member is a member of the West Tisbury Affordable Housing Committee (WTAHC) and the West Tisbury Community Preservation Committee (WTCPC). From time to time the WTFC and WTCPC discusses and/or decides on issues that may affect the Corporation. During the year ended December 31, 2021, IHT did not receive grant funding from the Town of West Tisbury.

A Board member is an employee for the Town of Aquinnah from which the Corporation may receive funds. During the year ended December 31, 2021, 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, 2021, IHT did not receive grant funding from the Town of West Tisbury.

(4) Donated Services, Property and Facilities

Donated services for the year ended December 31, 2021 were $42,500, which consisted of legal services. In addition, there were in-kind contributions in the amount of $312,000, included in grants and contributions on the accompanying consolidated statement of activities, of land during the year ended December 31, 2021, see Note 16.

(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.

Lot Size	Location	Term	Start Date
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

(6) Notes, Lines of Credit and Mortgages Payable

IHT has the following notes, mortgages payable, and lines of credit as of December 31, 2021:

Notes, Lines of Credit and Mortgages Payable	Collateral		Outstanding Balance at 12/31/2021
Amortizing			
20 year term with 3.85% interest maturing in September 2041 with MHP in the original amount of $1,525,000. This note requires monthly payments of interest and principal of $7,149.	565 Edgartown Road West Tisbury, Massachusetts	$	1,520,480
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		1,723,740
20 year term with 2.5% interest maturing in March 2041 with MassHousing in the original amount of $620,000. This note requires monthly payments of interest and principal of $2,450.	20 Edgartown Road, Tisbury, Massachusetts		609,490
Non-amortizing			
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. The note was paid in full during the year ended December 31, 2021.	Halcyon Way, West Tisbury, Massachusetts		-
30 year non-interest bearing note with MassHousing due in full on July 2032. No installment payments are required on the note.	Halcyon Way, West Tisbury, Massachusetts		100,000
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. The note was paid in full during the year ended December 31, 2021.	20 Edgartown Road, Tisbury, Massachusetts		-

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

Notes, Lines of Credit and Mortgages Payable - continued	Collateral	Outstanding Balance at 12/31/2021
30 year non-interest bearing note maturing in February 2051 with the Department of Housing and Community Development (DHCD) Affordable Housing Trust Fund in the original amount of $700,000. No installment payments are required on the note.	20 Edgartown Road, Tisbury, Massachusetts	$ 700,000
20 year non-interest bearing note maturing in March 2041 with MassHousing in the original amount of $500,000. No installment payments are required on the note.	20 Edgartown Road, Tisbury, Massachusetts	500,000
There are three loans with Resource, Inc. under the Housing Rehabilitation Loan Program. They are as follows:		
A) Non-interest bearing note due June 22, 2028 forgivable if certain conditions continue to be met 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 if certain conditions continue to be met 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 if certain conditions continue to be met at maturity with a balance of $27,886 at year end.	42 Richmond Ave, Oak Bluffs, Massachusetts	27,886
Construction loan with Martha's Vineyard Savings Bank for $250,000 maturing August 2033 at an interest rate of prime + .5%. The terms are interest only for the first 18 months. In August 2023, the loan will convert to permanent financing. Principal and interest payments will be $1,292.	16 Old Courthouse Road, West Tisbury Massachusetts	6,226
Construction loan with Martha's Vineyard Savings Bank for $2,053,000 maturing February 2023 at an interest rate of prime + .5%. The terms are interest only payments due through maturity.	937 State Road, Tisbury Massachusetts	15,865

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

Notes, Lines of Credit and Mortgages Payable - continued	Collateral		Outstanding Balance at 12/31/2021
25 year term loan at 5.25% interest maturing in October 2038 with Rockland Trust in the original amount of $490,000. The term required monthly payments of $1,832 of principal and interest. The note was paid in full during the year ended December 31, 2021.	14 Village Court, Tisbury, Massachusetts	$	-
25 year term loan at 5.15% interest maturing in June 2040 with Rockland Trust in the original amount of $160,000. The term required monthly payments of $867 of principal and interest. The note was paid in full during the year ended December 31, 2021.	12 Clam Point Road, West Tisbury Massachusetts		-
25 year term loan at 5.25% interest maturing in 2042 with Rockland Trust in the original amount of $185,000. The term required monthly payments of $1,118 of principal and interest. There was no penalty for prepayment. The note was paid in full during the year ended December 31, 2021.	6 Water Street, Tisbury, Massachusetts		-
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:			
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		

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

Notes, Lines of Credit and Mortgages Payable - continued	**Collateral**		**Outstanding Balance at 12/31/2021**
C) $291,436 note secured by the property located at 14 Village Court, Tisbury, Massachusetts.	14 Village Court, Tisbury, Massachusetts	$	291,436
The Scotts Grove, LLC has the following debt obligations:			
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 were interest only prior to that date. The note was paid in full during the year ended December 31, 2021.	565 Edgartown Road West Tisbury, Massachusetts		-
B) $900,000 non-interest bearing 50 year note payable to the MassHousing. 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
Lines of Credit			
$500,000 unsecured loan with the Rappaport Family Foundation with a 5 year term as of September 26, 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		230,000
$1,000,000 loan with the Cardinal Brook Trust with a term of 2 years as of December 5, 2020, 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 loan was paid in full during the year ended December 31, 2021.	None		-
$200,000 unsecured loan with the DMR Family Foundation with a term of 5 years as of October 2, 2018. The interest rate is 1% per annum payable at any time before due.	None		-

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

Lines of Credit - continued	**Collateral**		**Outstanding Balance at 12/31/2021**
$100,000 unsecured loan with Impact Assets with a term of 5 years as of August 14, 2018. The interest rate is 1% per annum payable at any time before due.	None	**$**	-
$163,011 unsecured loan with the Cardinal Brook Trust with a term of 2 year as of February 2021. The interest rate was 1% per annum payable at any time before due. The loan was received, paid in full and closed during the year ended December 31, 2021.	None		-
$50,000 unsecured loan with the Tom and Sharon Johnson with a term of 2 year as of February 2021. The interest rate was 1% per annum payable at any time before due. The note was received and paid in full during the year ended December 31, 2021.	None		-
$300,000 loan with the Valerie Sonnenthal with a 5 year term as of August 11, 2021. The interest rate is 1% per annum payable at any time before the due date of the loan. The terms are interest only prior to that date.	937 State Road Tisbury Massachusetts		300,000
$2,000,000 loan with the Cardinal Brook Trust with a 2 year term as of August 8, 2021. The interest rate is 1% per annum payable at any time before the due date of the loan. The terms are interest only prior to that date.	937 State Road Tisbury Massachusetts		600,000
$500,000 unsecured loan with Fledging Fund with a term of 5 years as of July 31, 2021. The interest rate is 1% per annum payable at any time before due.	None		-
Total Notes, Lines of Credit and Mortgages Payable		$	8,303,799

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

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

Year Ended	
2022	$ 82,700
2023	701,197
2024	88,052
2025	90,860
2026	623,761
Thereafter	6,717,229
Total	8,303,799

Interest expense for the year ended December 31, 2021 was $127,109.

(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, 2021 was $32,184, 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, 2021 was $673,406. The expenses related to those rental properties are included in the accompanying consolidated statement of functional expenses within rental management.

(9) Real Estate Sales and Acquisitions

During the year ended December 31, 2021, IHT acquired 57 Rustling Oaks Road, West Tisbury, Massachusetts for $230,000 and land at 111 New York Avenue, Oak Bluffs, Massachusetts for $1.

(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.

(10) Rental Management Agreement - continued

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 $250,000 in tax credits in May 2021. 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, 2021 was $500,000, which is included in grants and contributions on the accompanying consolidated statement of activities.

(12) Property and Equipment

Property and equipment consists of the following as of December 31, 2021:

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		3,073,312
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		16,336,320
Accumulated depreciation		(1,447,433)
	$	14,888,887

Depreciation amounted to $327,501 for the year ended December 31, 2021.

Land being developed totaled $6,286,969 as of December 31, 2021.

(13) Commitments and Contingencies

The Corporation entered into a construction contract with CapeBuilt Construction, LLC to perform the renovations on the Keuhn's Way property in the amount of $7,893,847. As of December 31, 2021, billings under the contract totaled $2,664,846. The Corporation entered into a construction contract with Bay State Leisure Homes, Inc. to perform the renovations on the Old Courthouse property in the amount of $626,820. As of December 31, 2021, billings under the contract totaled $416,301.

(14) 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, 2021, net assets with donor restrictions are restricted for the following purposes:

Housing Development Projects	$ 1,005,000
Buydown program	100,000
Old Courthouse	64,207
Workforce Housing Trust	50,000
Time restricted only	879,561
Total	$ 2,098,768

Net assets released from restrictions during the year ended December 31, 2021 were $2,530,021, of which $2,283,093 was from program restrictions and $246,928 was from time restrictions.

(15) Notes Receivable

IHT has six interest bearing notes from individuals for second mortgages on properties, which were sold to the individuals by IHT. The total notes receivable balance as of December 31, 2021 was $90,000. 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 was due at the earlier of 15 days after IAG notified IHT that they had funds sufficient to make the payment in full or November 12, 2021. The note had an interest rate of 1% per annum. As of December 31, 2021, the balance was paid in full.

(16) Pledge Receivables

Pledge receivables are recorded after being discounted to the anticipated net present value of the future cash flows. Pledge receivables consist of the following as of December 31, 2021:

	Gross Promise	Unamortized Discount	Total
2022	$ 916,761	$ -	$ 916,761
2023	544,440	(4,355)	540,085
2024	419,790	(5,937)	413,853
2025	192,570	(8,024)	184,546
2026	25,207	(1,050)	24,157
	$ 2,098,768	$ (19,366)	$ 2,079,402

The applicable discount rates ranged between .4% to 4.2%. There has been no allowance recognized during the year ended December 31, 2021.

(17) Noncash Investing and Financing Activity

Land donations during the year ended December 31, 2021 were valued at $312,000, see Notes 4 and 9.

(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. Further, the Corporation's liquidity as of December 30, 2021 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 23, 2022, which is the date the Corporation's financial consolidated statements were available to be issued. No material subsequent events have occurred since December 31, 2021 that required recognition or disclosure in these consolidated financial statements.

Island Housing Trust Corporation and Subsidiaries

Supplemental Conslidating Schedule of Rental Program Expenses - Unaudited

For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Rental Management								
	Halycon Way	14 Village Court	Sepiessa II	Hanover	Water Street	Scotts Grove	Perlman House	2021	2020
Insurance	$ 2,634	$ 7,175	$ 3,996	$ 7,581	$ 8,641	$ 11,354	$ 8,188	$ 49,569	$ 41,128
Depreciation	6,758	27,974	19,558	74,756	52,582	78,802	67,071	327,501	321,467
Administrative management	2,476	5,380	2,536	-	7,474	10,574	7,663	36,103	42,633
Property management fee	2,724	6,048	2,796	16,092	5,532	10,908	8,880	52,980	60,613
Interest expense	4,771	12,502	6,125	50,911	8,269	22,515	11,538	116,631	110,515
Repairs and maintenance	6,981	17,090	6,945	28,760	15,816	32,019	33,111	140,722	148,636
Property expense	-	-	-	1,610	-	684	-	2,294	-
Professional fees	-	-	-	1,040	-	-	-	1,040	-
Telephone	-	-	-	9,054	-	-	-	9,054	7,141
Utilities	148	2,119	117	7,924	6,149	5,826	8,857	31,140	29,940
Property taxes	2,349	1,420	759	4,831	1,235	410	1,014	12,018	8,716
Total Expenses	$ 28,841	$ 79,708	$ 42,832	$ 202,559	$ 105,698	$ 173,092	$ 146,322	$ 779,052	$ 770,789

See independent auditor's report.

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