



**DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST, INC.
DOVER, DELAWARE**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST, INC.

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INDEPENDENT AUDITOR'S REPORT

January 3, 2017

To the Board of Directors
Diamond State C.L.T., Inc.
dba Diamond State Community Land Trust, Inc.
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of Diamond State CL.T., Inc., dba Diamond State Community Land Trust, Inc. ("Diamond State"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Board of Directors
Diamond State C.L.T., Inc.
dba Diamond State Community Land Trust, Inc.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Diamond State C.L.T., Inc., dba Diamond State Community Land Trust, Inc., as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 580,988	\$ 572,359
Accounts receivable	25,931	56,876
Security deposit	337	337
Total Current Assets	607,256	629,572
NONCURRENT ASSETS:		
Land	112,243	112,243
Equipment	420	-
Real property	124,000	120,000
Affordable housing held for sale	299,799	238,074
Investment	20,027	16,722
Total Noncurrent Assets	556,489	487,039
TOTAL ASSETS	\$ 1,163,745	\$ 1,116,611
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 9,317	\$ 3,098
Accrued payroll and withholdings	616	1,497
Escrow deposits	-	3,905
Note payable	154,918	90,717
Total Current Liabilities	164,851	99,217
NONCURRENT LIABILITIES:		
Note payable	243,664	107,675
Payable to local governments	-	152,821
Total Noncurrent Liabilities	243,664	260,496
TOTAL LIABILITIES	408,515	359,713
NET ASSETS:		
Unrestricted	178,230	185,898
Unrestricted - designated	462,000	460,000
Total Unrestricted	640,230	645,898
Temporarily restricted	115,000	111,000
Total Net Assets	755,230	756,898
TOTAL LIABILITIES AND NET ASSETS	\$ 1,163,745	\$ 1,116,611

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

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUE AND SUPPORT:		
Contributions	\$ 69,518	\$ 83,181
Government grants	249,102	21,925
Ground lease income	11,990	10,900
Rental income	2,915	2,047
Stewardship fees	8,500	15,000
Investment income	3,566	3,151
Miscellaneous	1,244	9,227
Net assets released from restriction	16,000	40,000
TOTAL REVENUE AND SUPPORT	362,835	185,431
EXPENSES:		
Advertising	790	1,263
Contribution for development	-	40,000
Insurance	2,385	2,405
Interest expense	14,008	10,288
Legal	2,209	1,188
Membership dues and meetings	6,624	3,947
Office expenses	2,163	1,979
Other	2,588	6,299
Payroll	31,348	65,780
Payroll taxes	2,331	5,146
Postage and printing	1,388	796
Professional fees	74,485	63,044
Property holding costs	20,547	18,447
Rent	4,044	4,049
Travel expenses	752	2,179
TOTAL EXPENSES	165,662	226,810
Loss on sales of affordable housing held for sale (See Note 2)	202,124	-
Unrealized loss on investment	717	97
TOTAL LOSSES	202,841	97
TOTAL EXPENSES AND LOSSES	368,503	226,907
CHANGE IN UNRESTRICTED NET ASSETS	(5,668)	(41,476)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	20,000	130,000
Net assets released from restriction	(16,000)	(40,000)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	4,000	90,000
TOTAL CHANGE IN NET ASSETS	(1,668)	48,524
NET ASSETS, BEGINNING OF YEAR	756,898	708,374
NET ASSETS, END OF YEAR	\$ 755,230	\$ 756,898

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

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,668)	\$ 48,524
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on investment	717	97
Loss on affordable housing held for sale	202,124	-
Decrease (Increase) in accounts receivable	30,945	(7,203)
Decrease in prepaid expenses	-	622
Increase (Decrease) in accounts payable	6,219	(1,597)
Decrease in accrued payroll and withholdings	(881)	(1,753)
(Decrease) Increase in escrow deposits	(3,905)	3,365
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>233,551</u>	<u>42,055</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land	-	(4,568)
Purchase of equipment	(420)	-
Purchase of real property and affordable housing held for sale	(420,670)	(2,536)
Purchase of investment	(4,022)	(5,060)
NET CASH USED BY INVESTING ACTIVITIES	<u>(425,112)</u>	<u>(12,164)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	407,388	-
Repayment of note payable	(207,198)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>200,190</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,629	29,891
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>572,359</u>	<u>542,468</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 580,988</u>	<u>\$ 572,359</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 14,008</u>	<u>\$ 10,288</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Assets held for sale were sold and the net sales proceeds were paid directly to the financing agent	<u>\$ 152,821</u>	<u>\$ -</u>
Land, real property, and assets held for sale were acquired through the incurrence of notes payable	<u>\$ -</u>	<u>\$ 198,392</u>

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

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 THE ORGANIZATION

Diamond State C.L.T., Inc., dba Diamond State Community Land Trust, Inc. ("Diamond State"), was formed on January 6, 2006 with the mission "to strengthen Delaware communities by creating and stewarding forever affordable housing while promoting the sustainable use of the land." To further this mission, Diamond State works:

- To create and preserve housing that is permanently affordable by removing the land from the market.
- To hold this land in trust for the community throughout the State of Delaware, for current and future low-income residents of New Castle, Kent, and Sussex Counties.
- To provide housing opportunities that are safe, decent, and permanently affordable to households with incomes below 80 percent of area median income.
- To build an organization that is controlled by the residents on a long-term basis.
- To strengthen communities by preserving the quality and affordability of housing by the development, rehabilitation, and preservation of the quality and affordability of housing; by promoting economic opportunities for low or moderate income residents of the area; by making land available for projects and activities that improve the quality of life in the area; and by assisting residents of the area in improving the safety and well-being of their communities.
- To practice sustainable use of the land.

Revenue and support come primarily from individual donors' contributions; government; and foundations, stewardship fees, and land rent.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Diamond State have been prepared on the accrual basis of accounting.

Financial Statement Presentation

In accordance with the section of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") regarding financial statements of not-for-profit organizations, Diamond State is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Diamond State is required to present a statement of cash flows.

DIAMOND STATE C.L.T., INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, Diamond State considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

In accordance with the FASB ASC, investments are reported at fair value. Donated securities also are reported at fair value as of the date of receipt. All realized and unrealized gains and losses arising from fluctuations in fair values, sales, or other disposition of assets are accounted for in the class of net assets that owns the assets.

Fair Value Measurements

Diamond State's investments are reported at fair value in the accompanying statement of financial position. In accordance with the FASB ASC section regarding fair value measurements, a fair value hierarchy is established that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 is based on observable market factors not included in Level 1; and Level 3 is based on unobservable inputs such as those that are internally developed. Diamond State uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

Accounts Receivable

Accounts receivable are stated at net realizable value. Accounts receivable are considered impaired if full payments are not received in accordance with the contractual terms. Management's estimate of the allowance for uncollectible accounts is based on an analysis of the collectability of individual receivables. Accounts receivable are written off as a charge to the allowance for uncollectible accounts when, in management's estimation, it is probable that the receivable is worthless. Management has determined that all accounts receivable are collectible and, therefore, an allowance for uncollectible accounts has not been recorded as of June 30, 2016 and 2015.

Land, Equipment and Depreciation

Land and equipment are stated at cost, if purchased. Donated facilities and equipment are recorded at their fair market values at the date of receipt. When such assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from their respective accounts, and any gain or loss on such disposition is recognized in the statement of activities. Diamond State capitalizes items with a cost equal to or greater than \$250 and a useful life of greater than a year.

DIAMOND STATE C.L.T., INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Expenditures for maintenance, repairs, minor renewals, and betterments which do not improve or extend the useful life of the respective asset are expensed. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Equipment is depreciated over five years.

Real Property

Real property consists of leased land owned by Diamond State and is valued at the net present value of the future cash flows to be received under the lease.

Affordable Housing Held for Sale

Affordable housing held for sale is valued at the lower of cost or market.

Revenue and Cost Recognition for Affordable Housing Held for Sale

Costs that clearly relate to development projects are capitalized. Costs are allocated to project components by the specific identification method. In accordance with the section of the FASB ASC related to accounting for sales of real estate, Diamond State recognizes revenue on real estate sales when a minimum of 10 percent of the sales price has been received in cash; the legal recision period has expired; collectability of the receivable representing the remainder of the sales price is reasonably assured; and Diamond State has completed substantially all of its obligations with respect to any development related to the real estate sold.

Diamond State experiences normal annual losses relating to the sale of affordable housing that it develops because the cost to develop exceeds the price at which the property can be sold. Subsidies from third parties typically fill the gap between development cost and sales price. For the year ended June 30, 2016, the "loss on sales of affordable housing held for sale" figure noted in the statement of activities in the amount of \$202,124 excludes development subsidies and is reflected as such as is required by the FASB ASC. Subsidies received for real estate development in the current fiscal period are noted in the line items "contributions" and "government grants."

Development losses experienced are primarily a result of timing discrepancies relative to the receipt of subsidies and the date on which the property is sold at settlement.

Contributions

In accordance with the section of the FASB ASC regarding accounting for contributions received and contributions made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

DIAMOND STATE C.L.T., INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

Diamond State is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Diamond State's tax-exempt purpose may be subject to taxation as unrelated business income.

Generally accepted accounting principles prescribe rules for the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in Diamond State's tax returns. Management has determined that Diamond State does not have any uncertain tax positions or associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that Diamond State's tax returns will not be challenged by the taxing authorities and that Diamond State will not be subject to additional tax, penalties, and interest as a result of such challenge.

Use of Estimates in Preparation of Financial Statements

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

NOTE 3 INVESTMENT AND FAIR VALUE MEASUREMENT

Diamond State's investments at June 30, 2016 and 2015 consisted of funds with the Delaware Community Foundation Investment Pool in the amount of \$20,027 and \$16,722, respectively.

Diamond State's investments with the Delaware Community Foundation are valued using Level 2 inputs. Diamond State's portion of the investment pool is valued by the Delaware Community Foundation on a monthly basis. The investments in the pool are actively traded and valued using quoted market prices. However, since the investments are pooled funds, they are designated as Level 2 investments.

DIAMOND STATE C.L.T., INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 4 AFFORDABLE HOUSING HELD FOR SALE

Under agreements with Kent County and the City of Dover (collectively referred to as “the Local Governments”), Diamond State purchases homes that have been foreclosed or are in distress. The funds to purchase these homes are provided by the Local Governments via the Neighborhood Stabilization Program (“NSP”) administered by the U.S. Department of Housing and Urban Development. Major rehabilitation work, if necessary, is managed and paid for by the Local Governments. Diamond State’s main activity is to find eligible homeowners to purchase the homes and is reimbursed by the Local Governments for holding costs (e.g. minor maintenance, lawn care, utilities) incurred by Diamond State until the homes are sold. Once the homes are sold, the net sales proceeds are returned to the Local Governments. Diamond State is not responsible for any deficiency between the funds advanced by the Local Governments and the net sales proceeds. As of June 30, 2016 and 2015, affordable housing held for sale and the payable to the Local Governments amounted to \$0 and \$152,821, respectively.

Diamond State has acquired and started new construction of additional properties utilizing the notes payable disclosed in Note 6. As of June 30, 2016 and 2015, these assets amounted to \$299,799 and \$85,253, respectively, and are included in the line item “affordable housing held for sale.”

During the year ended June 30, 2016, Diamond State sold two properties that were acquired and redeveloped utilizing the notes payable disclosed in Note 6. The property acquisition and redevelopment started during the year ended June 30, 2015. When these properties were sold, the net sales proceeds were remitted to Kent County. Diamond State subsequently requested reimbursement from Kent County through their NSP for all property acquisition and redevelopment costs. Reimbursements from Kent County in the amount of \$202,124 are included in the line item “government grants,” and the corresponding write-off of the previously capitalized costs of the property and redevelopment work is included in the line item “loss on the sales of affordable housing.”

NOTE 5 REAL PROPERTY

As disclosed in Note 4, Diamond State acquires homes that have been foreclosed or distressed and sells the homes to eligible homeowners. Diamond State retains title to the land and enters a ground lease agreement with the new homeowner for 99 years with an option to extend for an additional 99 years. The ground lease gives the homeowner long-term rights to exclusive use of the land and full responsibility for the property. The homeowner typically pays Diamond State \$40 per month in ground lease income for the use of the land.

As of June 30, 2016 and 2015, Diamond State held title to 31 and 30 leased lots, respectively. The carrying values for the years ended June 30, 2016 and 2015 were \$124,000 and \$120,000, respectively. Each lot has been valued at \$4,000, an estimate of original cost, determined by discounting the net present value of the future cash flows under the 99-year lease. The discount rate used was 12 percent.

DIAMOND STATE C.L.T., INC.
 dba DIAMOND STATE COMMUNITY LAND TRUST, INC.
 NOTES TO FINANCIAL STATEMENTS

NOTE 6 NOTES PAYABLE

In February 2016, Diamond State entered a \$150,000 note agreement with Natural Council on Agricultural Life and Labor Research, Inc. ("NCALL Research, Inc.") for the acquisition and redevelopment of an affordable housing property (211 Richard Basset). The note requires interest-only payments through December 1, 2016 (final maturity) and accrues interest at a rate of five percent. This note is collateralized by the affordable housing property. As of June 30, 2016, the balance of this note was \$58,418.

In June 2016, Diamond State entered a \$96,500 note agreement with NCALL Research, Inc. for the acquisition and redevelopment of an affordable housing property (114 Downey Oak), a scattered-site property. The note requires interest-only payments through March 1, 2017 (final maturity) and accrues interest at a rate of five percent. This note is collateralized by the affordable housing property. As of June 30, 2016, the balance of this note was \$96,500.

In February 2016, Diamond State entered a note agreement with NCALL Research, Inc. for an amount up to \$575,000 to be used for the development of several affordable housing properties known as Ingram Village. This agreement supersedes the previous agreement dated August 2014 for a loan of up to \$400,000. The note requires interest-only payments through March 1, 2018 (final maturity) and accrues interest at a rate of five percent. This note is collateralized by the Ingram Village properties. As of June 30, 2016 and 2015, the balance of this note was \$243,664 and \$107,675, respectively.

In July 2014, Diamond State entered a \$70,000 note agreement with NCALL Research, Inc. for the acquisition and redevelopment of an affordable housing property (1529 Nathaniel Mitchell Road). The note requires interest-only payments through July 31, 2015 (final maturity) and accrues interest at a rate of five percent. This note is collateralized by the affordable housing property. As of June 30, 2016 and 2015, the balance of this note was \$0 and \$51,645, respectively.

In October 2014, Diamond State entered a \$64,000 note agreement with NCALL Research, Inc. for the acquisition and redevelopment of an affordable housing property (282 Samuel Paynter Road). The note requires interest-only payments through August 1, 2015 (final maturity) and accrues interest at a rate of five percent. This note is collateralized by the affordable housing property. As of June 30, 2016 and 2015, the balance of this note was \$0 and \$39,072, respectively.

The maturities of the notes payable are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 154,918
2018	<u>243,664</u>
	<u>\$ 398,582</u>

DIAMOND STATE C.L.T., INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Community Revitalization	\$ 20,000	\$ 20,000
Best Practice Consultation	-	1,000
Rodney Village	85,000	85,000
Matched Savings Program	<u>10,000</u>	<u>5,000</u>
Temporarily Restricted Net Assets	<u>\$ 115,000</u>	<u>\$ 111,000</u>

NOTE 8 BOARD-DESIGNATED NET ASSETS

As of June 30, 2016 and 2015, Board-designated net assets were set aside for the following purposes:

	<u>2016</u>	<u>2015</u>
Sussex County Development Fund	\$ 400,000	\$ 400,000
Property Maintenance Reserve	<u>62,000</u>	<u>60,000</u>
Board-designated Net Assets	<u>\$ 462,000</u>	<u>\$ 460,000</u>

NOTE 9 RELATED PARTY TRANSACTIONS

Each year, the Board of Directors conducts a formal, public process of discerning, disclosing, and monitoring potential conflicts of interest within its members. This same process extends to its staff and contractors.

As of June 30, 2016 and 2015, two members of Diamond State's Board of Directors serve on the Board of Directors of Delaware Housing Coalition, Inc.

Effective October 1, 2013, Diamond State and the Delaware Housing Coalition, Inc. entered a joint lease agreement with a third party for office space. The monthly rent is \$674, with each party paying \$337 of the rent. (See Note 11 for further details.)

DIAMOND STATE C.L.T., INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 9 RELATED PARTY TRANSACTIONS (cont'd)

For each year ended June 30, 2016 and 2015, Diamond State reimbursed the Delaware Housing Coalition, Inc. \$756 for shared office expenses such as internet and copying.

For each year ended June 30, 2016 and 2015, Diamond State paid the Delaware Housing Coalition membership fees of \$1,000.

During the year ended June 30, 2015, Delaware Housing Coalition contracted with Diamond State for accounting services. Revenue recognized by Diamond State under this contract for the year ended June 30, 2015 amounted to \$5,188. Diamond State did not provide these services to Delaware Housing Coalition, Inc. for the year ended June 30, 2016.

Diamond State's President of the Board of Directors is on the Board of Directors of NCALL Research, Inc.

During the years ended June 30, 2016 and 2015, Diamond State obtained multiple notes from NCALL Research, Inc. for the acquisition and redevelopment of affordable housing. (See Note 6 for further details.) For the years ended June 30, 2016 and 2015, these loans generated origination fees of \$8,441 and \$3,683, respectively, for NCALL Research, Inc. In addition, interest expense incurred on these loans during the years ended June 30, 2016 and 2015 amounted to \$14,008 and \$10,288, respectively.

During the years ended June 30, 2016 and 2015, Diamond State received contributions of \$60,000 and \$55,000, respectively, from Discover Bank. Diamond State's President of the Board of Directors is employed by Discover Bank.

NOTE 10 CONCENTRATION OF CREDIT RISK

Diamond State maintains its checking and money market accounts at two commercial banks. As of June 30, 2016 and 2015, the aggregate balance of these accounts exceeded federally insured limits by \$0 and \$73,332, respectively. Accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Diamond State has not experienced any losses in such accounts.

NOTE 11 LEASE COMMITMENTS

Diamond State leases office space in Dover, Delaware. The lease started on October 1, 2013 with monthly payments of \$337 through June 30, 2016. The lease has not been renewed and is currently being paid on a month-to-month basis. Rent expense for the years ended June 30, 2016 and 2015 were \$4,044 and \$4,049, respectively.

DIAMOND STATE C.L.T., INC.
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 NOTES TO FINANCIAL STATEMENTS

NOTE 12 CLASSIFICATION OF EXPENSES

The statement of activities discloses expenses by natural classification. The classification of expenses by function for the year ended June 30, 2016 is as follows:

Program services	\$ 153,929
Support services	<u>11,733</u>
Total Expenses	<u>\$ 165,662</u>

The classification of expenses by function for the year ended June 30, 2015 is as follows:

Program services	\$ 201,040
Support services	<u>25,770</u>
Total Expenses	<u>\$ 226,810</u>

NOTE 13 CONCENTRATION OF REVENUE

For the years ended June 30, 2016 and 2015, Diamond State received 68 and 8 percent, respectively, of its revenue and support from Kent County; 0 and 45 percent, respectively, of its revenue and support from the Longwood Foundation; and 16 and 20 percent, respectively, of its revenue and support from Discover Bank. The continued operation of Diamond State may be dependent upon the continuation of these relationships.

NOTE 14 COMMITMENTS

Diamond State has active capital projects as of June 30, 2016. Diamond State's commitments with contractors are as follows:

	<u>Contract Amount</u>	<u>Completed at 6/30/2016</u>	<u>Balance to Complete</u>
U&I Builders, Inc.	<u>\$ 319,500</u>	<u>\$ 127,800</u>	<u>\$ 191,700</u>

NOTE 15 SUBSEQUENT EVENTS

Diamond State has evaluated all subsequent events through January 3, 2017, the date the financial statements were available to be issued.