

Barbacane, Thornton & Company LLP

200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8940
F 302.468.4001
www.btcpa.com

December 1, 2017

Mr. Ken Smith
Executive Director
Diamond State C.L.T., Inc.
dba Diamond State Community Land Trust
363 Saulsbury Road
Dover, DE 19904-2722

Dear Mr. Smith:

Attached is a copy of our report on the audit of the financial statements of Diamond State C.L.T., Inc., dba Diamond State Community Land Trust, for the year ended June 30, 2017. Also attached are copies of the management letter and the communication with those charged with governance letter.

If you intend to reproduce or publish additional copies of these statements or any portion thereof, with which our name is to be associated, we request that copies of the reproduction of all such materials be submitted to us so that we may consent to the use of our name before distribution.

We appreciate the opportunity to be of service to you.

Very truly yours,

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

/nr/b

Enclosures

BARBACANE
THORNTON
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 14

INDEPENDENT AUDITOR'S REPORT

November 27, 2017

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

Report on the Financial Statements

We have audited the accompanying financial statements of Diamond State C.L.T., Inc., dba Diamond State Community Land Trust ("Diamond State"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2017 and 2016, 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, as of June 30, 2017 and 2016, 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
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 425,353	\$ 580,988
Accounts receivable	252,308	25,931
Security deposit	512	337
Prepaid rent	714	-
Total Current Assets	678,887	607,256
NONCURRENT ASSETS:		
Land	-	112,243
Equipment	-	420
Real property	136,000	124,000
Affordable housing held for sale	456,721	299,799
Investment	27,893	20,027
Total Noncurrent Assets	620,614	556,489
TOTAL ASSETS	\$ 1,299,501	\$ 1,163,745
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 15,538	\$ 9,317
Accrued payroll and withholdings	2,640	616
Note payable	336,367	154,918
Total Current Liabilities	354,545	164,851
NONCURRENT LIABILITIES:		
Note payable	-	243,664
Payable to local governments	159,350	-
Total Noncurrent Liabilities	159,350	243,664
TOTAL LIABILITIES	513,895	408,515
NET ASSETS:		
Unrestricted	218,137	178,230
Unrestricted - designated	474,000	462,000
Total Unrestricted	692,137	640,230
Temporarily restricted	93,469	115,000
Total Net Assets	785,606	755,230
TOTAL LIABILITIES AND NET ASSETS	\$ 1,299,501	\$ 1,163,745

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

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUE, SUPPORT, AND GAINS:		
Contributions	\$ 191,975	\$ 69,518
Government grants	170,578	249,102
Ground lease income	12,700	11,990
Rental income	-	2,915
Stewardship fees	15,000	8,500
Investment income	3,441	3,566
Miscellaneous	6,521	1,244
Unrealized gain on investments	2,653	-
Net assets released from restriction	30,000	16,000
TOTAL REVENUE, SUPPORT, AND GAINS	432,868	362,835
EXPENSES:		
Advertising	707	790
Insurance	2,329	2,385
Interest expense	19,959	14,008
Legal	1,096	2,209
Membership dues and meetings	4,543	6,624
Office expenses	4,340	2,163
Other	5,088	2,588
Payroll	71,117	31,348
Payroll taxes	5,438	2,331
Postage and printing	2,641	1,388
Professional fees	68,119	95,032
Rent	4,617	4,044
Travel expenses	3,215	752
TOTAL EXPENSES	193,209	165,662
LOSSES:		
Loss on sales of affordable housing held for sale (See Note 2)	187,752	202,124
Unrealized loss on investment	-	717
TOTAL LOSSES	187,752	202,841
TOTAL EXPENSES AND LOSSES	380,961	368,503
CHANGE IN UNRESTRICTED NET ASSETS	51,907	(5,668)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	8,469	20,000
Net assets released from restriction	(30,000)	(16,000)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(21,531)	4,000
TOTAL CHANGE IN NET ASSETS	30,376	(1,668)
NET ASSETS, BEGINNING OF YEAR	755,230	756,898
NET ASSETS, END OF YEAR	\$ 785,606	\$ 755,230

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

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 30,376	\$ (1,668)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Unrealized (gain) loss on investment	(2,653)	717
Loss on sales of affordable housing held for sale	187,752	202,124
(Increase) decrease in accounts receivable	(226,377)	30,945
Increase in security deposit	(175)	-
Increase in prepaid rent	(714)	-
Increase in accounts payable	6,221	6,219
Increase (decrease) in accrued payroll and withholdings	2,024	(881)
Decrease in escrow deposits	-	(3,905)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(3,546)</u>	<u>233,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds from the sale of affordable housing held for sale	390,544	-
Purchase of equipment	-	(420)
Purchase of real property and affordable housing held for sale	(475,205)	(420,670)
Purchase of investment	(5,213)	(4,022)
NET CASH USED BY INVESTING ACTIVITIES	<u>(89,874)</u>	<u>(425,112)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	383,582	407,388
Repayment of note payable	(445,797)	(207,198)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	<u>(62,215)</u>	<u>200,190</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(155,635)	8,629
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>580,988</u>	<u>572,359</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 425,353</u>	<u>\$ 580,988</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 19,959</u>	<u>\$ 14,008</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Affordable housing held for sale acquired through funding provided by the financing agent	<u>\$ 159,350</u>	<u>\$ -</u>
Affordable housing held for sale were sold and the net sales proceeds were paid directly to the financing agent	<u>\$ -</u>	<u>\$ 152,821</u>

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

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

NOTE 1 THE ORGANIZATION

Diamond State C.L.T., Inc., dba Diamond State Community Land Trust ("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.
dba DIAMOND STATE COMMUNITY LAND TRUST
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, 2017 and 2016.

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 \$1,000 and a useful life of greater than one year.

DIAMOND STATE C.L.T., INC.
dba DIAMOND STATE COMMUNITY LAND TRUST
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 years ended June 30, 2017 and 2016, the "loss on sales of affordable housing held for sale" figure noted in the statement of activities in the amount of \$187,752 and \$202,124, respectively, 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.
dba DIAMOND STATE COMMUNITY LAND TRUST
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, 2017 and 2016 consisted of funds with the Delaware Community Foundation Investment Pool in the amount of \$27,893 and \$20,027, 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.
dba DIAMOND STATE COMMUNITY LAND TRUST
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, 2017 and 2016, affordable housing held for sale and the payable to the Local Governments amounted to \$159,350 and \$0, respectively.

Diamond State has acquired and started new construction of additional properties utilizing the notes payable disclosed in Note 6. As of June 30, 2017 and 2016, these assets amounted to \$297,371 and \$299,799, respectively, and are included in the line item “affordable housing held for sale.”

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, 2017 and 2016, Diamond State held title to 34 and 31 leased lots, respectively. The carrying values for the years ended June 30, 2017 and 2016 were \$136,000 and \$124,000, 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.

NOTE 6 NOTES PAYABLE

In June 2017, Diamond State entered into a note agreement with Natural Council on Agricultural Life and Labor Research, Inc. (“NCALL Research, Inc.”) for an amount up to \$154,000 for the acquisition and redevelopment of an affordable housing property (240 Trafalgar). The note requires interest-only payments through May 1, 2018 (final maturity) and accrues interest at a rate of five percent. This note is collateralized by the affordable housing property. As of June 30, 2017, the balance of this note was \$126,141.

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

NOTE 6 NOTES PAYABLE (cont'd)

In April 2017, Diamond State entered into a note agreement with NCALL Research, Inc. for an amount up to \$115,800 for the acquisition and redevelopment of an affordable housing property (302 Stone Brook). The note requires interest-only payments through September 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, 2017, the balance of this note was \$65,741.

In February 2016, Diamond State entered into a note agreement with NCALL Research, Inc. for an amount up to \$150,000 for the acquisition and redevelopment of an affordable housing property (211 Richard Bassett). 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, 2017 and 2016, the balance of this note was \$0 and \$58,418, respectively.

In June 2016, Diamond State entered into a note agreement with NCALL Research, Inc. for an amount up to \$96,500 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, 2017 and 2016, the balance of this note was \$0 and \$96,500, respectively.

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, 2017 and 2016, the balance of this note was \$144,485 and \$243,664, respectively.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017 and 2016, temporarily restricted net assets are available for the following purposes:

	2017	2016
Community Revitalization	\$ 3,000	\$ 20,000
Rodney Village	75,000	85,000
Matched Savings Program	15,469	10,000
Temporarily Restricted Net Assets	\$ 93,469	\$ 115,000

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

NOTE 8 BOARD-DESIGNATED NET ASSETS

As of June 30, 2017 and 2016, Board-designated net assets were set aside for the following purposes:

	2017	2016
Sussex County Development Fund	\$ 400,000	\$ 400,000
Property Maintenance Reserve	74,000	62,000
Board-designated Net Assets	\$ 474,000	\$ 462,000

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, 2017, a member of Diamond State's Board of Directors served on Housing Alliance Delaware's Board of Directors. As of June 30, 2016, two members of Diamond State's Board of Directors served on the Board of Directors of Delaware Housing Coalition, Inc. During the year ended June 30, 2017, Delaware Housing Corporation was merged into Housing Alliance Delaware.

Diamond State and Housing Alliance Delaware/Delaware Housing Coalition, Inc. were parties to a joint lease agreement for the years ended June 30, 2017 and 2016. The monthly rent was \$674 through September 30, 2016 with each party paying \$337 of the rent. Effective October 1, 2016, the monthly rent increased to \$714, with each party paying \$357 of the rent. The joint lease agreement ended on June 30, 2017.

Diamond State reimbursed the Housing Alliance Delaware/Delaware Housing Coalition, Inc. for shared office expenses such as internet and copying. For the years ended June 30, 2017 and 2016, Diamond State reimbursed the Housing Alliance Delaware/Delaware Housing Coalition, Inc. \$189 and \$756, respectively, for these shared office expenses.

For each year ended June 30, 2017 and 2016, Diamond State paid the Housing Alliance Delaware/Delaware Housing Coalition, Inc. membership fees of \$1,000.

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

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

NOTE 9 RELATED PARTY TRANSACTIONS (con'td)

During the years ended June 30, 2017 and 2016, 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, 2017 and 2016, these loans generated origination fees of \$1,000 and \$8,441, respectively, for NCALL Research, Inc. In addition, interest expense incurred on these loans during the years ended June 30, 2017 and 2016 amounted to \$19,959 and \$14,008, respectively.

During the years ended June 30, 2017 and 2016, Diamond State received contributions of \$75,000 and \$60,000, respectively, from Discover Bank. A member of Diamond State's 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, 2017 and 2016, the aggregate balance of these accounts exceeded federally insured limits by \$62,220 and \$0, 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. Rent payments were \$337 per month through September 30, 2016, \$357 per month effective October 1, 2016, and \$714 per month effective July 1, 2017. The current lease expires September 30, 2017. Rent expense for the years ended June 30, 2017 and 2016 was \$4,617 and \$4,044, respectively.

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, 2017 is as follows:

Program services	\$ 177,675
Support services	<u>15,534</u>
Total Expenses	<u>\$ 193,209</u>

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

NOTE 12 CLASSIFICATION OF EXPENSES (cont'd)

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>

NOTE 13 CONCENTRATION OF REVENUE

For the years ended June 30, 2017 and 2016, Diamond State received 13 and 68 percent, respectively, of its revenue and support from Kent County; 12 and 0 percent, respectively, of its revenue and support from the City of Dover; 25 and 0 percent, respectively, of its revenue and support from Federal Home Loan Bank of Pittsburgh; 15 and 0 percent, respectively, of its revenue and support from Delaware State Housing Authority; and 18 and 16 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 SUBSEQUENT EVENTS

Diamond State has evaluated all subsequent events through November 27, 2017, the date the financial statements were available to be issued.