

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

**ARLINGTON PARTNERSHIP FOR  
AFFORDABLE HOUSING, INC.  
AND SUBSIDIARIES**

DECEMBER 31, 2011

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Arlington Partnership for Affordable Housing, Inc.  
and Subsidiaries

We have audited the accompanying consolidated statement of financial position of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries (the Corporation) as of December 31, 2011, and the related consolidated statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries as of December 31, 2011, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 45 through 48 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our

opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

*Reznick Group, P.C.*

Bethesda, Maryland  
October 26, 2012

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents, including \$389,091 of restricted cash		\$	4,369,161
Grants and pledges receivable, current portion			163,575
Accounts receivable			
Residents	\$	48,144	
Other		<u>251,884</u>	300,028
Development fee receivable - affiliate, current portion			522,015
Prepaid expenses			61,079
Deposits			112,641
Mortgage escrow deposits			<u>247,240</u>
Total current assets			<u>5,775,739</u>

PROPERTY AND EQUIPMENT

Land			27,070,015
Buildings, furniture and equipment			70,196,825
Construction in progress			<u>4,787,574</u>
			102,054,414
Less accumulated depreciation			<u>9,904,892</u>
Total property and equipment			<u>92,149,522</u>

OTHER ASSETS

Pledges receivable, net of current portion			54,333
Residents' security deposits			428,785
Development in progress			1,388,855
Mortgage loan costs, net of accumulated amortization of \$478,589			1,255,934
Replacement and redevelopment reserves			873,784
Other reserves			637,962
Acquired lease origination costs, net of accumulated amortization of \$293,925			248,705
Development fee receivable - affiliate (see note 6)			7,559,660
Investment in North Pierce Associates, L.P.			<u>5,999,398</u>
Total other assets			<u>18,447,416</u>

TOTAL ASSETS

\$ 116,372,677

(continued)

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED

December 31, 2011

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 349,293
Accrued interest, current portion	257,575
Accounts payable - related party	50,014
Prepaid rents	10,842
Notes payable, current maturities	852,866
Construction and development costs payable	2,266,108
Development fee payable	1,295,995
	<hr/>
Total current liabilities	5,082,693
<b>OTHER LIABILITY</b>	
Residents' security deposits	417,911
	<hr/>
Total other liability	417,911
<b>LONG-TERM LIABILITIES</b>	
Notes payable, less current maturities of \$852,866 (see note 3)	75,375,470
Accrued interest, less current portion of \$257,575	4,925,042
Deferred development fee ( see note 6)	6,173,259
Deferred gain (see note 4)	6,000,000
Other liabilities	307,908
	<hr/>
Total long-term liabilities	92,781,679
<b>COMMITMENTS AND CONTINGENCIES</b>	
	<hr/> -
<b>NET ASSETS</b>	
Unrestricted controlling	54,620
Unrestricted noncontrolling (see note 1)	17,745,637
	<hr/>
Total unrestricted net assets	17,800,257
Temporarily restricted	290,137
	<hr/>
Total net assets	18,090,394
	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 116,372,677</b>
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See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2011

	Unrestricted	Temporarily restricted	Total
Revenue and other support			
Grants and contributions (see note 2)	\$ 57,230	\$ 274,000	\$ 331,230
Rental revenue - net	8,927,550	-	8,927,550
Development fee income	709,760	-	709,760
Interest income	16,091	-	16,091
Other income	277,125	-	277,125
Loss from equity investment in North Pierce Associates, L.P.	(118)	-	(118)
Special events, net of expenses of \$18,675	196,895	-	196,895
	<u>10,184,533</u>	<u>274,000</u>	<u>10,458,533</u>
Net assets released from restrictions	<u>278,714</u>	<u>(278,714)</u>	<u>-</u>
Total revenue and other support	<u>10,463,247</u>	<u>(4,714)</u>	<u>10,458,533</u>
Expenses			
Program services (including interest expense of \$3,668,557 and depreciation and amortization of \$2,308,629)	11,586,059	-	11,586,059
Supporting services			
Management and general (including depreciation of \$11,667)	306,257	-	306,257
Fundraising	111,898	-	111,898
Total expenses	<u>12,004,214</u>	<u>-</u>	<u>12,004,214</u>
Excess of expenses over revenue	<u>(1,540,967)</u>	<u>(4,714)</u>	<u>(1,545,681)</u>
Excess of expenses over revenue attributable to noncontrolling interests	<u>(1,740,847)</u>	<u>-</u>	<u>(1,740,847)</u>
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ 199,880</u>	<u>\$ (4,714)</u>	<u>\$ 195,166</u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2011

	Program services			Management and general	Fundraising	Total
	Rental properties	General operations	Subtotal			
Interest expense	\$ 3,668,557	\$ -	\$ 3,668,557	\$ -	\$ -	\$ 3,668,557
Salaries	716,238	670,055	1,386,293	97,747	96,133	1,580,173
Depreciation and amortization	2,308,629	-	2,308,629	11,667	-	2,320,296
Utilities	838,156	-	838,156	2,373	-	840,529
Property operating and maintenance	994,120	-	994,120	-	-	994,120
Licenses and taxes	746,057	-	746,057	17,096	-	763,153
Management fee	423,321	-	423,321	-	-	423,321
Property administrative expenses	385,027	-	385,027	46,562	-	431,589
Auditing and accounting	123,803	-	123,803	37,300	-	161,103
Insurance	309,845	-	309,845	33,963	-	343,808
Telephone	71,454	-	71,454	6,512	-	77,966
Legal	28,744	-	28,744	-	-	28,744
Acquisition costs	243,387	-	243,387	-	-	243,387
Special events	-	-	-	-	2,694	2,694
Development and consulting services	-	-	-	16,038	12,203	28,241
Printing and copying	-	-	-	5,552	-	5,552
Supplies	-	-	-	7,166	-	7,166
Advertising	-	-	-	9,950	-	9,950
Postage and delivery	-	-	-	2,629	868	3,497
Training	-	-	-	8,035	-	8,035
Travel	-	-	-	2,177	-	2,177
Books and publications	-	-	-	1,490	-	1,490
Property expenses	-	58,666	58,666	-	-	58,666
	<u>\$ 10,857,338</u>	<u>\$ 728,721</u>	<u>\$ 11,586,059</u>	<u>\$ 306,257</u>	<u>\$ 111,898</u>	<u>\$ 12,004,214</u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 2011

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Net assets, December 31, 2010	\$ (145,260)	\$ 15,952,037	\$ 15,806,777	\$ 294,851	\$ 16,101,628
Capital contributions from noncontrolling interests	-	3,534,447	3,534,447	-	3,534,447
Excess of expenses over revenue attributable to noncontrolling interests	-	(1,740,847)	(1,740,847)	-	(1,740,847)
Excess of revenue over expenses (expenses over revenue) attributable to controlling interests	199,880	-	199,880	(4,714)	195,166
Net assets, December 31, 2011	<u>\$ 54,620</u>	<u>\$ 17,745,637</u>	<u>\$ 17,800,257</u>	<u>\$ 290,137</u>	<u>\$ 18,090,394</u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2011

Cash flows from operating activities	
Change in net assets	\$ (1,545,681)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	2,320,296
Bad debt	28,876
Loss from equity investment in North Pierce Associates, L.P.	118
Increase in pledges receivable	(2,422)
Increase in residents' accounts receivable	(26,308)
Increase in accounts receivable - other	(230,163)
Increase in development fee receivable	(1,198,938)
Increase in mortgage escrow deposits	(87,722)
Increase in prepaid expenses	(974)
Decrease in accounts payable and accrued expenses	(235,054)
Increase in accrued interest	678,136
Decrease in prepaid rents	(422)
Increase in deferred development fee	776,351
Decrease in other liability	(105,821)
Net decrease in residents' security deposits	<u>(5,170)</u>
Net cash provided by operating activities	<u>365,102</u>
Cash flows from investing activities	
Net purchases of land, property and equipment, in-place leases and development in progress	(17,385,118)
Increase in replacement and redevelopment reserves	(378,747)
Decrease in other reserves	976,719
Acquisition related deposit paid	<u>(97,057)</u>
Net cash used in investing activities	<u>(16,884,203)</u>

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Arlington Partnership for Affordable Housing, Inc. and Subsidiaries  
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED

Year ended December 31, 2011

Cash flows from financing activities	
Proceeds from notes payable	27,175,446
Repayment of notes payable	(12,117,187)
Capital contributions received from noncontrolling interests	3,534,447
Advances from affiliates	25,582
Mortgage costs paid	<u>(522,088)</u>
Net cash provided by financing activities	<u>18,096,200</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,577,099
Cash and cash equivalents, beginning	<u>3,099,912</u>
Cash and cash equivalents, end	<u><u>\$ 4,677,011</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest during the year, net of amount capitalized	<u><u>\$ 2,990,421</u></u>
Supplemental schedule of non-cash investing and financing activities	
Property and equipment increased due to an increase in construction and development costs payable at December 31, 2011	<u><u>\$ 2,266,108</u></u>
Property and equipment increased due to an increase in accrued interest payable at December 31, 2011	<u><u>\$ 48,744</u></u>
Property and equipment increased due to an increase in development fee payable at December 31, 2011	<u><u>\$ 1,295,995</u></u>
Additions to accumulated amortization capitalized to rental property at December 31, 2011	<u><u>\$ 22,558</u></u>
Development in progress increased due to an increase in accounts payable at December 31, 2011	<u><u>\$ 141,718</u></u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arlington Partnership for Affordable Housing, Inc. (APAH) was incorporated in 1989 in the Commonwealth of Virginia as a nonstock, nonprofit corporation. APAH's purpose and mission is to sponsor, develop, rehabilitate, administer and otherwise provide, on a nonprofit basis, housing within Arlington County, Virginia, for low- and moderate-income families and individuals. APAH derives its revenue principally from rental revenue, grants, contributions and development fees.

Basis of Consolidation

The consolidated financial statements include the accounts of APAH and its subsidiary housing organizations and certain limited partnerships. The accounting guidance establishes the presumption that the general partner(s) in a limited partnership controls that limited partnership (or similar entity) regardless of the extent of the general partner(s) ownership interest in the Limited Partnership. The presumption of control by the general partner(s) can be overcome if the limited partners have either (i) "kick-out rights" - the substantive ability to dissolve or liquidate the partnership or otherwise remove the general partner(s) "without cause" or (ii) "substantive participating rights" - the ability to effectively participate in significant decisions made in the ordinary course of the limited partner's business. If the presumption of control cannot be overcome then the general partner is required to consolidate the limited partnership. APAH determined that the presumption of control for the limited partnerships in which APAH is the sole general partner had not been overcome and as a result APAH is required to consolidate the financial statements of Lorcom Arms Limited Partnership, Calvert Manor Limited Partnership, Fisher House, LP, Courthouse Crossings Limited Partnership, Columbia Grove Apartments Limited Partnership and Buchanan Gardens Limited Partnership.

The board of directors of Fisher House Development Corporation, FHDC Corporation, Queen's Court Development Corporation, Carlyn Springs/Foxcroft Terrace Development Corporation, Columbia Grove, Inc., APAH Rosslyn Ridge, Inc., Buchanan Gardens II, LLC, Cameron Commons Development Corporation, Calvert Manor Development Corporation, Columbia Grove Development Corporation, Lorcom Arms Development Corporation, Buchanan Gardens Development Corporation, Arlington Mill Development Corporation and Marbella Development, LLC is identical to the executive committee of the board of directors of APAH.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Rosslyn Ridge Development Corporation became an Arlington County designated Community Housing Development Organization (CHODO) on June 9, 2011. Under a CHODO, low income residents comprise one third of the board of directors of Rosslyn Ridge Development Corporation. The remaining two thirds of the board of directors is comprised of members of the executive committee of APAH's board of directors.

Currently, APAH's subsidiary housing organizations operate through unaffiliated management companies and rental units located in Arlington County. The subsidiary housing organizations are required to rent a certain number of units in each of the rental buildings described below to qualifying residents based upon family income. All significant intercompany transactions have been eliminated in consolidation.

Barkalow Limited Liability Company - The Barkalow Limited Liability Company purchased a 14-unit building, located in the Lyon Park neighborhood, on September 21, 1999. Since April 12, 2002, APAH has been the sole member of the LLC.

Fisher House, LP - On June 5, 2006, Fisher House Development Corporation contributed a 33-unit, garden style, four building complex located in the Westover neighborhood to Fisher House, LP. FHDC Corporation, an APAH wholly-owned subsidiary is the .01% general partner in Fisher House, LP. An unrelated limited partner owns the remaining 99.99% of partnership interests.

Fisher House Development Corporation - The Corporation formerly owned a 33 unit, garden style, four building complex located in the Westover neighborhood. The property was contributed to Fisher House, LP on June 5, 2006.

Queen's Court Development Corporation - 39-unit, garden-style, three buildings, located in the Rosslyn neighborhood, purchased by APAH on August 7, 1995.

Lorcom Arms d/b/a Leckey Gardens Apartments - During 2000, APAH formed a wholly-owned subsidiary called Lorcom Arms Development Corporation, which is structured as a corporation, to act as general partner with a .01% ownership interest in Lorcom Arms Limited Partnership. Lorcom Arms (dba Leckey Gardens Apartments) is a 38-unit, garden-style apartment building, located in the North Arlington neighborhood of Waverly Hills. The unrelated limited partner owns 99.99% and Lorcom Arms Development Corporation owns .01%. The property was purchased on March 2, 2000.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Calvert Manor - During 1997, APAH formed a wholly-owned subsidiary called Calvert Manor Development Corporation, which is structured as a corporation, to act as general partner with a .1% ownership interest in Calvert Manor Limited Partnership. Calvert Manor is a 23-unit, three-story brick multi-family residential dwelling, located north of Lee Highway near the Rosslyn neighborhood. The unrelated limited partner owns 99.9% and Calvert Manor Development Corporation owns .1%. The property was purchased on September 24, 1997.

Courthouse Crossings - Courthouse Crossings Limited Partnership was formed on February 27, 2006. Courthouse Crossings Development Corporation, an APAH wholly-owned subsidiary, is the .01% general partner in Courthouse Crossings Limited Partnership. An unrelated limited partner owns the remaining 99.99% of partnership interests. Courthouse Crossings is a 112-unit low-rise apartment complex located in the Courthouse neighborhood. The property was purchased on June 1, 2006.

Carlyn Springs/Foxcroft Terrace Development Corporation - Owns and operates Carlyn Springs Apartments, a 27-unit, garden-style building complex. The complex was purchased by APAH on October 31, 1997.

Cameron Commons, LLC - On July 3, 2008, Cameron Commons Development Corporation contributed Cameron Commons Apartments to Cameron Commons, LLC. Cameron Commons Development Corporation had an 87.5% membership interest in Cameron Commons, LLC from inception through December 6, 2009. Doorways Cameron, LLC, an unrelated member, owned the remaining 12.5% of the Corporation's interests during this time. At the time of additional contributions by the unrelated member, its ownership percentage shall be adjusted in accordance with the operating agreement. During 2011, additional contributions were made by Doorways Cameron, LLC which changed their membership interest to 31%. Cameron Common Development Corporation's ownership interest changed to 69%.

Cameron Commons Development Corporation - 16 units with 11-unit garden-style in one building and five flats in a separate two-story building, located in the High View Park neighborhood. The garden-style building was purchased by APAH on August 1, 2001. The flats were constructed by APAH. They were completed in February 2005. The Corporation contributed the property to Cameron Commons, LLC on July 3, 2008. Cameron Commons Development Corporation had an 87.5% membership interest in Cameron Commons, LLC from inception through December 6, 2009. During 2011, Cameron Commons Development Corporation membership interest changed to 69%.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Columbia Grove Apartments Limited Partnership - On October 30, 2008, Columbia Grove, Inc. contributed Columbia Grove Apartments to Columbia Grove Apartments Limited Partnership. Columbia Grove Development Corporation, an APAH wholly-owned subsidiary, is the .01% general partner in Columbia Grove Apartments Limited Partnership. Columbia Grove, Inc. is the .01% special limited partner. An unrelated limited partner owns the remaining 99.98% of partnership interests.

Columbia Grove, Inc. - 210-unit, garden-style apartment complex, located in the Columbia Forest neighborhood. On May 9, 2003, APAH purchased 100% of the stock of Columbia Grove, Inc. Such interests consist of one share of common stock. The Corporation contributed the property to Columbia Grove Apartments Limited Partnership on October 30, 2008. The Corporation is a .01% special limited partner in Columbia Grove Apartments Limited Partnership.

APAH Rosslyn Ridge, Inc. - During 2006, APAH formed a wholly-owned subsidiary, which is structured as a corporation, to act as general partner with a 50% interest in North Pierce Associates Limited Partnership. An unrelated entity holds the remaining 50% general partner interest in North Pierce Associates L.P. North Pierce Associates is the general partner with a .01% interest in Rosslyn Ridge Apartments Limited Partnership.

Rosslyn Ridge Development Corporation - 22-unit, garden-style, one building, located in the Rosslyn neighborhood, purchased by APAH May 12, 1994. The Corporation contributed the property to Rosslyn Ridge Apartments LP on December 14, 2006. On June 9, 2011 Marbella development LLC was formed as a limited liability company. Rosslyn Ridge Development Corporation is the sole member.

Buchanan Gardens II, LLC - The Company owned a 111-unit, garden style, eleven building complex, located in the Barcroft neighborhood. The property was sold to Buchanan Gardens Limited Partnership on April 25, 2011.

Buchanan Gardens Limited Partnership - On April 25, 2011, Buchanan Gardens Limited Partnership purchased a 111-unit, garden style, eleven building complex, located in the Barcroft neighborhood from Buchanan Gardens II, LLC. Buchanan Gardens Development Corporation, an APAH wholly-owned subsidiary is the .01% general partner in Buchanan Gardens Limited Partnership. An unrelated limited partner owns the remaining 99.99% of partnership interests.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Marbella Development, LLC - On June 9, 2011, Marbella Development LLC was formed as a limited liability company. The sole member is Rosslyn Ridge Development Corporation. On June 17, 2011, the Company acquired a 134-unit mid-rise building, located in the Radnor/Fort Myer Heights neighborhood, and is currently operating under the name of Marbella Apartments.

Arlington Mill – Arlington Mill Limited Partnership was formed on November 1, 2010. Arlington Mill Development Corporation, an APAH wholly-owned subsidiary is the .01% general partner in Arlington Mill Limited Partnership. Arlington Mill is a development project of a four-story 99% affordable housing complex in the Columbia Heights West neighborhood.

Financial Statement Presentation

APAH and its subsidiaries 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. The net assets of APAH and its subsidiaries are unrestricted or temporarily restricted. Furthermore, information is required to segregate program service expenses from support expenses.

In addition, APAH and its subsidiaries record contributions received as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Items that are temporarily restricted and used during the same fiscal year are classified as unrestricted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Accounts Receivable and Bad Debts

Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Bad debt expense for year ended December 31, 2011 was \$28,876.

Pledges Receivable

Pledges receivable consist of unconditional promises to give. Unconditional pledges receivable that are expected to be collected within a year are recorded at their net realizable value when the donor makes the promise. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The current and future pledges receivable balances as of December 31, 2011, approximate their net present value and the present value of their estimated future cash flows, respectively.

Grant and Contribution Revenue

Grants and contributions are recognized as revenue when an unconditional promise, in substance, to give is received.

Revenue from Community Development Block Grants is recognized as costs are incurred by APAH. The grants are subject to audit by Arlington County. No provision for possible adjustments resulting from the audit has been made in the accompanying consolidated financial statements because, in the opinion of management, such adjustments, if any, would not have a material effect on the consolidated financial statements. Costs incurred in excess of cash received are reflected as grants receivable.

Rental Income

All leases with tenants are considered to be operating leases. Rental income is recognized when earned. Rents received in advance are deferred to the period in which the rents are earned.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Property and Equipment

Property and equipment are recorded at cost or at the estimated fair value at the date of the gift. Depreciation is computed on the straight-line method over the estimated service lives of the respective assets. The depreciable lives are as follows:

Buildings and improvements	27.5 - 40 years
Furniture and equipment	5 - 7 years

Management reviews its real estate for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the properties are less than their carrying amount, management compares the carrying amount of the properties to their fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the assets' carrying value over their estimated fair value. No impairment loss has been recognized for the year ended December 31, 2011.

Development in Progress

Development in progress consists primarily of predevelopment and development costs incurred in connection with developing Arlington Mill. On October 6, 2010, Arlington County and APAH signed a letter of intent for APAH to develop a four-story affordable housing residential complex. At December 31, 2011, the project is still in process. Such costs will be reclassified to property and equipment when the projects are placed in service.

Investment in North Pierce Associates

North Pierce Associates is the general partner with a .01% interest in Rosslyn Ridge Apartments Limited Partnership (the Partnership). The Partnership was formed to acquire, construct and operate a rental housing project. The project is a high-rise consisting of 238 units located in Arlington, Virginia and operates under the name of Parc Rosslyn Apartments. The project commenced rental operations in July 2008.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

The investment in North Pierce Associates is stated at cost adjusted for APAH Rosslyn Ridge Inc.'s (the Corporation) equity in income and loss and for cash distributions (the equity method). Equity in loss of North Pierce Associates is recognized to the extent of the Corporation's investment balance. Equity in loss in excess of the Corporation's investment balance is allocated to other entities. Previously unrecognized equity in loss of North Pierce Associates is recognized in the year in which equity in income is earned. Distributions received after the investment balance reaches zero are recorded as other income.

The Corporation regularly assesses its investment in North Pierce Associates for the existence of impairment. If the investment in North Pierce Associates is considered to be permanently impaired, the Corporation reduces its investment and includes such reduction in loss from equity investment in North Pierce Associates.

Functional Allocation of Expenses

The costs relating to the various programs and other activities of APAH and its subsidiaries have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among program services, management and general and fundraising.

Deferred Financing Costs and Amortization

Mortgage loan costs are amortized over the term of the related mortgage loans using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize mortgage costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Amortization expense for the year ended December 31, 2011 was \$140,416. Estimated amortization expense for each of the ensuing years through December 31, 2016 is \$162,254, \$86,822, \$49,477, \$49,477 and \$43,082, respectively.

Donated Materials

Donated materials are recorded at their estimated fair value at the time of receipt.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Income Taxes

APAH and its subsidiaries, except Columbia Grove, Inc., Columbia Grove Apartments Limited Partnership, Barkalow Limited Liability Company, Lorcom Arms Limited Partnership, Calvert Manor Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House, LP, Cameron Commons, LLC, Buchanan Gardens II, LLC, Calvert Manor Development Corporation, Columbia Grove Development Corporation, Lorcom Arms Development Corporation, Buchanan Gardens Development Corporation, Arlington Mill Development Corporation, Fisher House Development Corporation, Buchanan Gardens Limited Partnership and Marbella Development, LLC have applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code. During 2011, APAH had unrelated business income of \$79,226. Allowable expenses totaled \$79,735, which resulted on a federal taxable loss of \$509. Due to their tax exempt status, APAH and Subsidiaries are not subject to income taxes, except for taxes on unrelated business income. APAH and Subsidiaries are required to file and do file tax returns with the IRS and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes for APAH and its exempt Subsidiaries and they have no other tax positions which must be considered for disclosure. Each of the organizations except Barkalow Limited Liability Company, Buchanan Gardens II, LLC and Marbella Development LLC, file separate tax returns.

Barkalow Limited Liability Company, Buchanan Gardens II, LLC and Marbella Development LLC are single member Limited Liability Companies which are not recognized for Federal income tax purposes. Barkalow Limited Liability Company and Buchanan Gardens II, LLC's activities are reported on APAH's income tax return. Marbella Development LLC's activities are reported on Rosslyn Ridge Development Corporation's tax return.

Columbia Grove, Inc. is a corporation and accounts for income taxes using the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying and tax bases of assets and liabilities. A valuation allowance is recorded if, based upon the evidence available, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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Lorcom Arms Limited Partnership, Calvert Manor Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House, LP, Columbia Grove Apartments Limited Partnership and Buchanan Gardens Limited Partnership (the Limited Partnerships) have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by their owners on their respective income tax returns. The Limited Partnerships' federal tax statuses as pass-through entities are based on their legal status as partnerships. Accordingly, the Limited Partnerships are not required to take any tax positions in order to qualify as a pass-through entity. The Limited Partnerships are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and the Limited Partnerships have no other tax positions which must be considered for disclosure.

Cash Equivalents

APAH and its subsidiaries consider money market funds and all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Non-Controlling Interest in Limited Partnerships and Limited Liability Company

This amount represents the aggregate positive balance of the Limited Partner or Non-Controlling Member's equity interests in the non-wholly owned limited partnerships and limited liability companies, respectively, that are included in unrestricted noncontrolling net assets in the consolidated financial statements. The aggregate negative balances, if any, of Limited Partner or Non-Controlling Member's interests remain in APAH's unrestricted controlling net assets. The net loss of the limited partnerships and limited liability company attributable to the non-controlling interest is reflected under unrestricted net assets attributable to noncontrolling interest on the statement of activities. Contributions and syndication costs attributable to the non-controlling interest, if any, are reflected as contributions in the statement of changes in net assets.

Property Acquisition

On June 17, 2011, Marbella Development LLC acquired Marbella Apartments from an unrelated party for a purchase price of \$13,000,000. The purchase price was allocated to the land, buildings and in-place leases based on their respective fair values as set forth below.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Marbella Apartments was at 98% occupancy and operational on June 17, 2011. A summary of Marbella Apartments' purchase price allocated to the components is as follows:

Land	\$ 6,500,000
Building	5,957,370
In-place leases	<u>542,630</u>
Total	<u>\$ 13,000,000</u>

During 2011, transaction costs of \$506,636 were incurred and paid in connection with the acquisition of Marbella Apartments, and in accordance with current accounting guidance, have been expensed. Included in acquisition costs is an acquisition fee of \$350,000 paid to APAH. This fee has been eliminated in consolidation.

In determining the fair value of Marbella Apartments' acquired in-place leases, APAH has estimated current market rents, lease execution costs and expected lease-up periods. The fair value of the acquired in-place leases in the amount of \$542,630 will be amortized into rental revenue over 12 months. Amortization expense for the year ended December 31, 2011 was \$293,925. Amortization expense for the year ended December 31, 2012 will be \$248,705.

On April 25, 2011, Buchanan Gardens Limited Partnership acquired Buchanan Gardens Apartments from Buchanan Gardens II, LLC and account for the acquisition at fair value. A summary of Buchanan Gardens Apartments' purchase price allocated to the components is as follows:

Land	\$ 5,450,880
Building	<u>4,749,120</u>
Total	<u>\$ 10,200,000</u>

During 2011, transaction costs of \$86,751 were incurred and paid in connection with the acquisition of Buchanan Gardens Apartments, and in accordance with current accounting guidance, have been expensed.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Developer Fees

Developer fees are recognized during the construction period based on the percentage of construction completion. Any payments received during the construction period are recorded as deferred revenue until earned. Amounts not received by the completion date are recorded as a receivable. Development fees earned from certain affiliated partnerships are deferred in the event APAH is required to fund future obligations.

Advertising

Advertising costs are expensed as incurred.

NOTE 2 - GRANT AND CONTRIBUTION REVENUE

Grants and contributions totaling \$331,230 were pledged by various organizations and individuals and recorded in revenue during the year ended December 31, 2011. At December 31, 2011, \$217,908 remains receivable and is included in grants and pledges receivable. At December 31, 2011, \$290,137 of grants and contributions remain as restricted net assets either for time or purpose reasons (see note 14).

NOTE 3 - NOTES PAYABLE

Fisher House, LP

Virginia Housing Development Authority (VHDA) provided financing in the form of a mortgage note of up to \$3,295,000 dated January 3, 2007. The note bore interest at a rate of 4.71% through January 2008, at which time the interest rate increased to 4.813%. Interest only was payable through February 2008. The principal balance of the permanent loan at the time of conversion totaled \$2,729,911. Beginning March 1, 2008, monthly payments of principal and interest of \$14,344 are due through maturity on February 1, 2038. The note is secured by a first deed of trust and an assignment of leases and rents on the rental property. As of December 31, 2011, the outstanding principal balance and accrued interest were \$2,554,739 and \$10,715, respectively. During 2011, interest charged to operations was \$124,216.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Arlington County provided financing in the form of a \$795,000 mortgage note dated January 3, 2007. The note bears interest at a rate of 4%, compounded annually. Payments on the note commenced March 31, 2009 in an amount equal to 50% of Residual Receipts, as defined in the promissory note, from the date of completion through December 31, 2008. Subsequent annual payments shall be payable beginning on March 31, 2010, in an amount equal to 50% of Residual Receipts for each calendar year through December 31, 2038. The final payment equal to all unpaid principal and accrued interest is due March 31, 2039. The note is secured by a second deed of trust and an assignment of leases and rents on the rental property. During 2011, a payment of \$8,996 was made from December 31, 2010 residual receipts. The payment was applied to accrued interest. As of December 31, 2011, the outstanding principal and accrued interest were \$795,000 and \$163,283, respectively. During 2011, interest charged to operations was \$37,203.

Queen's Court Development Corporation

United Bank has provided financing in the form of a \$2,300,000 note dated January 26, 2006. The note bore interest at a rate of 6.5% through January 2011. Commencing January 2011, the note bears interest at a rate of 4.51%, the prevailing interest rate plus 250 basis points. The note is payable in monthly principal and interest installments based on a 30-year amortization schedule. The maturity date is January 26, 2016, at which time a balloon payment is due in the approximate amount of \$1,893,000. The note is secured by the rental property as well as an assignment of leases and rents. As of December 31, 2011, the outstanding principal balance and accrued interest were \$2,112,768 and \$11,870, respectively. During 2011, interest charged to operations was \$101,252.

Carlyn Springs/Foxcroft Terrace Development Corporation

United Bank has provided financing in the form of a \$1,800,000 note dated January 26, 2006. The note bore interest at a rate of 6.5% through January 2011. Commencing January 2011, the note bears interest at a rate of 4.51%, the prevailing interest rate plus 250 basis points. The note is payable in monthly principal and interest installments based on a 30-year amortization schedule. The maturity date is January 26, 2016, at which time a balloon payment is due in the approximate amount of \$1,482,000. The note is secured by the rental property as well as an assignment of leases and rents. As of December 31, 2011, the outstanding principal balance and accrued interest were \$1,653,469 and \$9,290, respectively. During 2011, interest charged to operations was \$79,240.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

The Barkalow Limited Liability Company

Virginia Housing Development Authority has provided permanent financing in the form of a \$1,000,000 deed of trust note dated October 30, 2000. This note bears interest at the rate of 4.85% per annum. Principal and interest payments are payable in monthly installments of \$5,277, commencing December 1, 2000. This note matures on November 1, 2030, at which time all unpaid principal and accrued interest are due. Under agreement with VHDA, Barkalow Limited Liability Company is required to make monthly escrow deposits for taxes, insurance and replacement of project assets. The note is secured by the rental property as well as an assignment of leases and rents. As of December 31, 2011, the outstanding principal balance and accrued interest were \$783,021 and \$3,360, respectively. During 2011, interest charged to operations was \$38,630.

Cameron Commons, LLC

On July 3, 2008, Cameron Commons, LLC assumed a Virginia Housing Development Authority (VHDA) deed of trust note with a principal balance of \$1,424,577 dated May 23, 2006 in connection with the contribution of Cameron Commons Apartments (see note 4). The note bore interest at the rate of 4.05% and required 300 equal payments of principal and interest of \$7,959 through maturity in June, 2031. Upon receipt of capital contributions from Doorways Cameron, LLC, the VHDA loan principal balance was paid down in the amount of \$243,287 on July 3, 2008, \$200,000 in December, 2009 and \$320,160 in February 2011. The note was modified in March 2011 after the recent principal payment. The note bears interest at the rate of 4.05% and requires 282 monthly installments of principal and interest of \$3,351 until maturity on July 1, 2033. Under agreements with VHDA, the Corporation is required to make monthly escrow deposits for taxes, insurance and replacement of project assets. The mortgage is secured by a Deed of Trust and an assignment of leases and rents on the property. As of December 31, 2011, the outstanding principal balance and accrued interest were \$578,005 and \$3,312, respectively. During 2011, interest charged to operations was \$26,743.

On July 3, 2008, Cameron Commons, LLC assumed a Virginia Community Capital, Inc. \$25,000 promissory note dated December 9, 2003, secured by the rental property, in connection with the contribution of Cameron Commons Apartments (see note 4). This note is non interest bearing unless an event of default, as defined in the promissory note, occurs. Principal only payments of \$83 are payable monthly commencing February 1, 2004 and continuing until fully paid. The loan matures on the earlier of the maturity date of any

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

permanent financing on the property, January 1, 2029, or upon transfer, sale or conveyance of the property. As of December 31, 2011, the outstanding principal balance was \$17,083.

On July 3, 2008, Cameron Commons, LLC assumed a Virginia Foundation for Housing Preservation \$25,000 grant agreement dated December 9, 2003 in connection with the contribution of Cameron Commons Apartments (see note 4). The grant requires no payments of principal or interest unless an event of default, as defined in the grant agreement, occurs. The grant will be forgiven in November 2028 if the Foundation determines that the proceeds of the grant have been applied in compliance with the grant agreement. The grant is secured by the rental property. As of December 31, 2011, the \$25,000 grant balance is included in notes payable.

On July 3, 2008, Cameron Commons, LLC assumed subordinated financing by The County Board of Arlington County, Virginia in the form of a County Loan in the amount of \$242,000, a Bridge Loan in the amount of \$197,000 and an Additional County Loan in the amount of \$609,000 in connection with the contribution of Cameron Commons Apartments (see note 4). The notes bear interest at a rate of 3.5% per annum, compounded annually. The County Loan is payable in thirty annual principal and interest payments of \$13,158. The first payment on the County Loan was due June 1, 2002, in an amount equal to the accrued interest only on the County Loan for the period August 1, 2001 through December 31, 2001. The first principal and interest payment of \$13,158 was due June 1, 2003. The annual principal and interest payments are to be made from residual receipts (as defined in the note). If residual receipts are insufficient, then payments can be deferred with interest accruing. There were no residual receipts from which to make the payment for 2011. The County Loan matures on June 1, 2032, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. The entire amount of the Bridge Loan including accrued interest is due on June 1, 2032. The Additional County Loan is payable to the extent of residual receipts. The first payment on the Additional County Loan was due June 1, 2004. If residual receipts are insufficient, then payments can be deferred with interest accruing. The Additional County loan matures on June 1, 2033, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. The loans are secured by a Second Deed of Trust. As of December 31, 2011, the outstanding principal balance and accrued interest were \$1,048,000 and \$358,335, respectively. During 2011, interest charged to operations was \$47,557.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Columbia Grove Apartments Limited Partnership

Virginia Housing Development Authority (VHDA) has provided financing to Columbia Grove Apartments Limited Partnership in the form of a \$14,755,000 deed of trust note dated October 28, 2008. The note bears interest at the rate of 7.403%. Interest only payments are payable in monthly installments for the first fourteen months following the date of this agreement. Beginning in June 2010, monthly principal and interest payments are payable through maturity in December 2044. The principal payments for the period June 1, 2010 through final closing on the VHDA mortgage were paid at final closing on February 24, 2011. The mortgage is secured by a Deed of Trust and an assignment of leases and rents on the property. As of December 31, 2011, the outstanding principal balance and accrued interest were \$14,605,550 and \$90,456, respectively. During 2011, interest charged to operations was \$1,086,284.

On October 30, 2008, Columbia Grove Apartments Limited Partnership assumed subordinated financing in the form of an Affordable Housing Investment Fund/HOME and CDBG loan provided by The County Board of Arlington County, Virginia. The assumed debt includes a principal balance of \$4,649,720 and accrued interest of \$903,721. The note bears interest at a rate of 4% per annum, compounded annually. Annual payments are payable commencing June 1, 2009, in the amount of 50% of residual receipts for each calendar year through the maturity date. If residual receipts are insufficient, then payments can be deferred with interest accruing. The loan matures on June 1, 2033, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. The note, including accrued interest, was recorded by the Partnership at its fair value in the amount of \$1,400,000 at October 30, 2008. The fair value of the debt does not represent the value for which the debt could be settled with the lender. The note is secured by a Deed of Trust. The outstanding principal balance and accrued interest on the loan at face value at December 31, 2011 are \$4,649,720 and \$1,549,865, respectively. During 2011, a payment in the amount of \$88,120 was made and applied to accrued interest. As of December 31, 2011, the outstanding principal balance and accrued interest were \$496,279 and \$1,548,094, respectively. During 2011, interest charged to operations was \$240,366.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an Affordable Housing Investment Fund loan dated October 28, 2008 in the amount of \$3,000,000 to the Partnership. The note bears interest at a rate of 2% per annum, compounded annually. No payments shall be due on this loan until the existing AHIF/Home and CDBG loan has been paid in full. Once the existing loan is paid off, annual installments are payable beginning May 1 following the first operating year after the payoff of the

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

existing loan and in an amount equal to 50% of the previous year's residual receipts through the maturity date. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on May 1, 2044, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. The note is secured by a Deed of Trust. As of December 31, 2011, the outstanding principal balance and accrued interest were \$3,000,000 and \$194,789, respectively. During 2011, interest charged to operations was \$62,643.

Lorcom Arms Limited Partnership

The Virginia Housing Development Authority has provided a mortgage in the amount of \$750,000 that bears interest at the rate of 5.00% and requires 360 equal monthly payments of principal and interest through maturity in June, 2033. Monthly payments of principal and interest of \$4,026 are required. The Partnership is also required to make monthly deposits into escrow funds in the amount of \$3,767. The loan is superior to all other mortgages. The mortgage is secured by a Deed of Trust, a mortgage lien, and an assignment of leases and rents on the property. As of December 31, 2011, the outstanding principal and accrued interest were \$637,128 and \$2,903, respectively. During 2011, interest charged to operations was \$32,293.

The Virginia Housing Partnership Revolving Fund has provided a mortgage in the amount of \$1,100,000 that bears interest at the rate of 5.00%, requires monthly payments of principal and interest based on a 30-year amortization period, and will mature in June, 2018. A balloon payment of approximately \$511,059 will be due upon maturity. Monthly payments of principal and interest of \$5,905 are required. The mortgage is subordinate only to the Virginia Housing Development Authority mortgage. The mortgage is secured by a Deed of Trust, a mortgage lien, and an assignment of leases and rents on the property. As of December 31, 2011, the outstanding principal and accrued interest were \$934,449 and \$4,338, respectively. During 2011, interest charged to operations was \$47,364.

The Partnership entered into a commercial term note payable with United Bank in the original amount of \$850,000 on January 18, 2002. The commercial term note bears interest at the annual rate of interest equal to the weekly average yield on five-year U.S. Treasury Securities plus three percent as of the week proceeding January 18, 2008 (Change Date). An additional Change Date will occur on January 18, 2013. Monthly payments of principal and interest of \$5,859 are required. The note matures on January 18, 2018, at which time all outstanding principal and accrued interest is due and payable. The note is secured by a Credit Line Deed of Trust, Assignment of Rents and Security Agreement. Additionally, APAH has

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December 31, 2011

guaranteed the repayment of the note. As of December 31, 2011, the outstanding principal and accrued interest were \$749,793 and \$5,068, respectively. During 2011, interest charged to operations was \$53,817.

The County Board of Arlington County, Virginia, has provided subordinated financing from the Affordable Housing Investment Fund in the form of an \$803,000 promissory note originally dated April 7, 2000 and amended on January 18, 2002. The note bears interest at the rate of 3.5% per annum, compounded annually, on the outstanding balance of the note. The first payment on the note was due May 1, 2001, in an amount equal to the lesser of residual receipts (as defined in the note) or the amount of accrued interest from inception through May 1, 2001. Twenty-nine annual payments are due and payable, beginning May 1, 2002, in an amount equal to the lesser of residual receipts or the amount of principal and interest due based on a 30-year amortization. The note matures on May 1, 2031, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts generated in earlier years. The note is secured by an Affordable Housing Investment Fund Deed of Trust and cash flows from the property. As of December 31, 2011, \$803,000 has been advanced on the note. There were no residual receipts from which to make the payment for 2011. As of December 31, 2011, the outstanding principal and accrued interest were \$803,000 and \$394,880, respectively. During 2011, interest charged to operations was \$43,045.

Calvert Manor Limited Partnership

The Partnership entered into a Deed of Trust Note, dated June 18, 1998, in the amount of \$990,000, payable to Virginia Housing Partnership Revolving Fund. The note bears interest at the rate of 5% and is payable in monthly installments of principal and interest of \$5,315, commencing on August 1, 1998, based upon a 30-year amortization schedule. The note matures on July 1, 2013, at which time a balloon payment in the approximate amount of \$674,553 is due and payable. The note is secured by the real estate collateral, improvements, easements or other interest, assignment of rents, assignments of leases and personal property. As of December 31, 2011, the outstanding principal and accrued interest were \$717,888 and \$3,314, respectively. During 2011, interest charged to operations was \$36,635.

The Partnership entered into a Deed of Trust Note, dated September 24, 1997, in the amount of \$500,000, payable to Arlington County, Virginia, under the Housing Fund Contingent/Home Program Agreement. This loan is subordinate to the Virginia Housing Partnership Revolving Fund Deed of Trust Note. The note bears interest at the rate of 4%, payable from cash flow in annual installments beginning September 24, 1999, in a fixed

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

amount of \$28,915 to the extent of residual receipts as defined in the loan agreement. The note matures on September 24, 2027. The note is secured by the real estate collateral, improvements, easements or other interest, assignment of rents, assignments of leases and personal property. There were residual receipts of \$28,915 at December 31, 2011. Principal and interest payments of \$27,563 and \$1,352, respectively, were made during the year ended December 31, 2011. As of December 31, 2011, the outstanding principal balance and accrued interest were \$ 415,573 and \$16,547, respectively. During 2011, interest charged to operations was \$ 15,447.

Courthouse Crossings Limited Partnership

On March 20, 2008, the Partnership entered into a mortgage note with the Virginia Housing Development Authority in the amount of \$8,600,000. During 2008, proceeds of \$8,600,000 were advanced to the Partnership. The note bears interest at a rate of 5.847%. Beginning May 1, 2008, monthly payments of principal and interest in the amount of \$48,156 are due through maturity on April 1, 2043. The mortgage is secured by a first deed of trust and an assignment of leases and rents on the rental property. As of December 31, 2011, the outstanding principal balance and accrued interest were \$8,294,007 and \$41,656, respectively. During 2011, interest charged to operations was \$487,828.

In connection with the acquisition of the property, the Partnership assumed a note payable to Arlington County in the amount of \$4,678,635. On October 5, 2006, the Partnership entered into a promissory note agreement with Arlington County in the amount of \$9,139,988. This loan agreement includes the assumed loan of \$4,729,988, which includes accrued interest on the assumed loan for the period June 1, 2006 through October 5, 2006, and new loan funds in the amount of \$2,987,000 from Arlington County AHIF funds, and \$1,423,000 from Arlington County HRF funds. The new \$9,139,988 note bears interest at a rate of 4%, compounded annually. No payments are due until May 1, 2014. Beginning on May 1, 2014, annual payments equal to 10% of residual receipts for each calendar year beginning with 2013 and ending on the earlier to occur of December 31, 2020 or December 31st of the year in which the development fee payable to the developer has been paid in full. Thereafter, annual installments shall be payable in an amount equal to 50% of residual receipts for each calendar year through 2043. Any unpaid principal and interest are due on May 1, 2044. The loan is payable from surplus cash, to be paid in full no later than May 1, 2044. The note is secured by a deed of trust on the rental property which is subordinate to the Virginia Housing Development Authority note. As of December 31, 2011, the outstanding principal balance and accrued interest were \$9,139,988 and \$2,088,667, respectively. During 2011, interest charged to operations was \$434,216.

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Buchanan Gardens II, LLC

On December 29, 2009, Community Capital Bank of Virginia provided financing in the form of a \$3,000,000 promissory note and a \$3,300,000 promissory note (the notes). The notes bore interest at a rate of 6.25% per annum. Interest only payments were due beginning February 1, 2010 through December 1, 2012. On January 1, 2013, all unpaid principal and accrued interest were due on both notes. The notes were secured by a deed of trust, security agreement, assignment of deposit/share accounts and by assignment of leases and rents of the property. On April 25, 2011, the principal balance and unpaid interest of \$6,332,813 were paid in full in connection with the sale of the property to Buchanan Gardens Limited Partnership (see note 4). During 2011, interest charged to operations was \$132,344.

The County Board of Arlington County, Virginia, provided financing in the form of an Affordable Housing Investment Fund/Home loan in the amount of \$7,100,000 dated December 23, 2009. The loan bore interest at a rate of 3% per annum, compounded annually. Of the total amount, \$7,000,000 was disbursed at the time of closing and the remaining \$100,000 was held by the County in a reserve to be used for relocation expenses of tenants. Payments on the loan were to commence March 1, 2013 in an amount equal to 25% of Residual Receipts, as defined in the loan, for the period January 1, 2012 through December 31, 2012 or through the date of closing on the permanent financing, whichever is first. Subsequent annual payments were payable beginning March 1, 2014, in an amount equal to 25% of Residual Receipts for each previous calendar year through March 1, 2044. If residual receipts were insufficient, then payments could be deferred with interest accruing. The loan maturity date was March 1, 2045, at which time all principal and interest was to be paid in full regardless of the amount of net residual receipts in earlier years. The loan was secured by a deed of trust and by cash flows of the property. The note was recorded by the Company at its fair value in the amount of \$5,000,000 at December 29, 2009. The fair value of the debt did not represent the value for which the debt could be settled with the lender. On April 25, 2011, in connection with the sale of the property to Buchanan Gardens Limited Partnership, the loan was repaid with sales proceeds. At April 25, 2011 the amount repaid included the principal balance and accrued interest of \$7,100,000 and \$280,603, respectively. During 2011, interest charged to operations was \$69,097.

Buchanan Gardens Limited Partnership

On April 25, 2011, the Partnership entered into a construction loan with Capital One, National Association in the original amount of \$14,017,948. The loan bears interest at the greater of the LIBOR rate (1.05% at December 31, 2011) plus 3.5% per annum or 4.75% per

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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annum. Commencing on June 1, 2011, and continuing on the first day of each succeeding calendar month thereafter, monthly payments of interest only are due until the maturity date. The entire unpaid principal and accrued interest thereon, shall be due and payable on May 1, 2013, the maturity date. The maturity date of the loan may be renewed and extended subject to the terms of the loan agreement. As of December 31, 2011, the outstanding principal balance and accrued interest were \$4,017,804 and \$15,922, respectively. During 2011, interest incurred was \$53,117, of which \$16,339 was capitalized to the rental property and \$36,778 was expensed.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an AHIF loan dated April 25, 2011 in the original amount of \$11,712,603. The note bears interest at a rate of 2% per annum, compounded annually. The note is secured by a Deed of Trust. Annual payments are due no later than April 30th of each year beginning no later than April 30, 2014, from the disbursement of residual receipts pursuant to the loan agreement. The borrower shall disburse to the lender fifty percent (50%) of all residual receipts generated by the property from the previous calendar year as annual payments on the outstanding principal balance and accrued interest thereon. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on May 1, 2046, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. The note was recorded by the Partnership at its fair value in the amount of \$8,784,570 at April 25, 2011. The fair value of the debt does not represent the value for which the debt could be settled with the lender. The outstanding principal balance and accrued interest on the loan at face value at December 31, 2011 was \$11,712,603 and \$160,447, respectively. The outstanding principal balance at fair value at December 31, 2011 was \$8,784,570. During 2011, interest incurred was \$160,447, of which \$48,744 was capitalized to the rental property and \$111,703 was charged to operations.

VHDA shall provide permanent financing to the Partnership in the total amount of \$7,690,000, which will be funded from multiple program sources. VHDA has committed to provide the financing in the form of a \$4,190,000 mortgage loan under its standard multi-family mortgage loan program. The interest rate on the loan financed under the standard program is 8.77% per annum. The first payment of principal and interest on the mortgage loan shall be due on the first day of the second month following the month in which the deed of trust is executed, which is expected to occur in November 2012. The mortgage loan shall be payable on a level annuity basis by 360 equal monthly payments of principal and interest in such amount as shall be established by the VHDA. The maturity and final payment date of the mortgage loan shall be 30 years from the date that the deed of trust is executed. As of December 31, 2011, no funds have been advanced on this loan

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

VHDA has committed to provide additional permanent financing in the form of mortgage loans, of which \$1,500,000 shall be financed under the VHDA's REACH SPARC Program and \$2,000,000 shall be financed under the VHDA's REACH SPARC Local Match Program. The interest rate on the mortgage loan to be financed under the VHDA's REACH SPARC Program shall be 4.5% per annum and the interest rate on the mortgage loan to be financed under the VHDA's REACH SPARC Local Match Program shall be 2% per annum. The first payment of principal and interest on the mortgage loan shall be due on the first day of the second month following the month in which the deed of trust is executed, which is expected to occur in November 2012. The Mortgage Loan shall be payable on a level annuity basis by 360 equal monthly payments of principal and interest in such amount as shall be established by the VHDA. The maturity and final payment date of the Mortgage loan shall be 30 years from the date that the deed of trust is executed. As of December 31, 2011, no funds have been advanced on this loan.

Marbella Development LLC

VHDA has provided financing to the Company in the form of a \$10,080,000 deed of trust note. The note bears interest at the rate of 5.738%. Beginning in August 2011, monthly principal and interest payments in the amount of \$55,713 are payable through maturity in July 2046. The mortgage is secured by a Deed of Trust and an assignment of leases and rents on the property. As of December 31, 2011, the outstanding principal was \$10,042,072. During 2011, interest charged to operations was \$263,128.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an AHIF and HOME dated June 17, 2011 in the amount of \$4,031,000 to the Company. The AHIF/HOME loan was funded with proceeds in the amount of \$1,255,292 from the AHIF loan program and \$2,775,808 from the HOME loan program. The note bears interest at a rate of 2.5% per annum, compounded annually. The note is secured by a Deed of Trust. Beginning June 1, 2012, annual payments are required on the note from residual receipts. On or before June 1, 2012, 50% of the residual receipts from the previous calendar year shall be paid to the borrower in arrears as an annual payment on the outstanding principal and accrued interest. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on June 1, 2041, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. As of December 31, 2011, the outstanding principal and accrued interest were \$3,723,150 and \$54,391, respectively. During 2011, interest charged to operations was \$54,391.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Arlington Partnership for Affordable Housing

On July 5, 2005, Virginia Commerce Bank provided a line of credit to APAH in the amount of \$250,000. The note bears interest at a rate of one percent over the Wall Street Journal Prime (4.25% at December 31, 2011). Interest is payable monthly. Principal is due on demand. On July 5, 2006, the line of credit was increased to \$500,000. On June 5, 2009, the \$500,000 line of credit was renewed. The note is secured by a deed of trust on The Barkalow. As of December 31, 2011, the outstanding principal and accrued interest were \$300,000 and \$980, respectively. During 2011, interest charged to operations was \$980.

On January 24, 2011, Virginia Commerce Bank provided another line of credit to APAH in the amount of \$500,000. The note bears interest at a rate of one percent over the Wall Street Journal Prime (4.25% at December 31, 2011). Interest is payable monthly. Principal is due on demand. The note is secured by a deed of trust on The Barkalow. No funds have been drawn as of December 31, 2011.

The liability of the Corporation under the mortgage loans described above is limited to the respective properties and equipment collateralizing the respective loans plus other amounts deposited with the lenders. Aggregate annual maturities of the notes payable for the next five years and thereafter following December 31, 2011 are as follows:

Year ending December 31, 2012	\$	852,866
2013		5,279,123
2014		602,319
2015		637,614
2016		671,953
Thereafter		<u>68,184,461</u>
Total	\$	<u>76,228,336</u>

NOTE 4 - CONTRIBUTION/SALE OF MULTIFAMILY RENTAL PROPERTIES

On July 3, 2008, Cameron Commons Development Corporation contributed Cameron Commons Apartments to Cameron Commons, LLC. The contribution of the property was recorded at a value of \$2,496,971, which equals Cameron Commons Development Corporation's book value at July 3, 2008.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

On October 30, 2008, Columbia Grove, Inc. contributed Columbia Grove Apartments to Columbia Grove Apartments Limited Partnership. The contribution of the property was recorded at its fair value of \$19,130,844 at the date of contribution. The excess of the fair value over the book value of the assets contributed in the amount of \$2,041,621 is reflected as a deferred gain by Columbia Grove, Inc. The deferred gain is eliminated in consolidation.

On June 5, 2006, Fisher House Development Corporation contributed Fisher House Apartments to Arlington Partnership for Affordable Housing, who contributed the property to FHDC Corporation, who contributed the property to Fisher House, LP. The contribution of the property was recorded at a value of \$3,041,123, which equals Fisher House Development Corporation's book value of \$1,486,126 plus an additional property contribution made by FHDC Corporation of \$1,555,000. The additional property contribution was eliminated in consolidation.

On December 14, 2006, Rosslyn Ridge Development Corporation contributed Rosslyn Ridge Apartments to APAH Rosslyn Ridge Inc., who contributed the property to North Pierce Associates Limited Partnership, who contributed the property to Rosslyn Ridge Apartments Limited Partnership. The contribution of the property was recorded at a value of \$10,379,899 which equals Rosslyn Ridge Development Corporation's book value of \$4,374,899 plus an additional property contribution made by APAH Rosslyn Ridge Inc. of \$6,000,000.

On April 25, 2011, Buchanan Gardens, LLC sold Buchanan Gardens Apartments to Buchanan Gardens Limited Partnership. The property was recorded by Buchanan Gardens Limited Partnership at its fair value of \$10,200,000 at the date of sale. The excess of the liabilities repaid over the book value of the assets sold in the amount of \$1,421,838 is reflected as a deferred gain by Buchanan Gardens, LLC. The deferred gain is eliminated in consolidation.

NOTE 5 - CONTINGENT LIABILITIES

Calvert Manor Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Calvert Manor Limited Partnership which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 23-unit Calvert Manor Apartments. APAH is obligated to fund operating deficits up to the amount of the existing balance of the APAH-held parent reserve, which had a balance of \$63,830 as of December 31, 2011. APAH has made credit delivery guarantees

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

related to the low income housing tax credits only. No payments have been required as a result of this guarantee.

Lorcom Arms Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Lorcom Arms Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 40-unit Leckey Garden Apartments. APAH has made credit delivery guarantees related to the low income housing tax credits only. No payments have been required as a result of this guarantee.

Fisher House, LP

APAH has entered into a Guaranty Agreement for the benefit of the Fisher House Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 33-unit Fisher House Apartments. APAH has made credit delivery guarantees related to the low income housing tax credits only. No payments have been required as a result of this guarantee.

Courthouse Crossings Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Courthouse Crossings Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 112-unit Courthouse Crossings Apartments. APAH has made credit delivery guarantees related to the low income housing tax credits only with a maximum liability of \$2,850,000. No payments have been required as a result of this guarantee.

Columbia Grove Apartments Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Columbia Grove Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 208-unit Columbia Grove Apartments. APAH has made credit delivery guarantees related to the low income housing tax credits only, with a maximum liability of \$1,400,000. In addition, APAH is obligated to fund operating deficits. No payments have been required as a result of this guarantee.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Buchanan Gardens Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Buchanan Gardens Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 111-unit Buchanan Gardens Apartments. APAH has guaranteed completion of construction and tax credit delivery and has agreed to fund any operating or development deficits. After the later of stabilization or loan conversion, APAH has a maximum liability of \$645,000 for operating deficits. No payments have been required as a result of this guarantee.

NOTE 6 - RELATED PARTY TRANSACTIONS

On May 31, 2006, Courthouse Crossings Limited Partnership entered into a deed of trust note with APAH in the amount of \$2,600,000. The note bears interest at a rate of 5% compounded annually. The note is secured by a third deed of trust on the rental property. Payments of principal and interest are due from Net Cash Flow, as defined in the partnership agreement. The entire unpaid principal and interest balance is due on May 31, 2047. During 2011, interest charged to operations on the note was \$162,648 which was eliminated in these consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2011, which was eliminated in these consolidated financial statements, was \$2,600,000 and \$815,610, respectively.

Pursuant to a Development Services Agreement, APAH shall earn a development fee of \$468,498 in connection with developing Lorcom Arms Limited Partnership. The full development fee of \$468,498 was capitalized into the rental property as of December 31, 2002. At December 31, 2011, \$85,635 is deferred and is payable from cash flow of the Project. During 2011, \$60,991 of development fees were recognized in revenue. During 2011, \$60,991 of development fees were received. At December 31, 2011, \$85,635 is receivable. Development fees payable from cash flow of the Project are eliminated in these consolidated financial statements. Accordingly, deferred development fees, development fee revenue and development fee receivable of \$85,635, \$60,991 and \$85,635, respectively, were eliminated at December 31, 2011.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Pursuant to a Development Services Agreement, APAH and an unaffiliated third party shall earn a development fee totaling \$2,850,000 in connection with developing Courthouse Crossings Limited Partnership. The full development fee to APAH of \$2,350,000 was capitalized into the rental property as of December 31, 2007. As of December 31, 2010, all development fees were recognized in revenue. During 2011, \$263,060 of development fees were received. At December 31, 2011, \$185,495 is receivable. Development fees payable from cash flow of the Project are eliminated in these consolidated financial statements. Accordingly, development fees receivable of \$185,495 were eliminated at December 31, 2011.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with developing Rosslyn Ridge Apartments Limited Partnership. The agreement calls for aggregate fees to APAH of \$7,295,000. The full development fee of \$7,295,000 was capitalized into the rental property as of December 31, 2008. During 2011, \$98,871 of development fees have been received. At December 31, 2011 \$5,256,908 is deferred. At December 31, 2011, \$6,785,680 is receivable. The fee is payable from capital contributions and cash flow.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of Columbia Grove Apartments Limited Partnership. The agreement calls for aggregate fees to APAH of \$1,400,000. The full development fee was capitalized into the rental property as of December 31, 2009. At December 31, 2011, \$398,611 is deferred. During 2011, \$286,018 of development fees were recognized in revenue. During 2011, \$211,500 of development fees were received. At December 31, 2011, \$911,828 is receivable. The fee is payable from capital contributions and cash flow. Development fees payable from cash flow of the project are eliminated in these consolidated financial statements. Accordingly, deferred development fees, development fee revenue and development fee receivable of \$258,611, \$286,018 and \$911,828, respectively, were eliminated at December 31, 2011.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of Buchanan Gardens Limited Partnership. The agreement calls for aggregate fees to APAH of \$2,550,000. As of December 31, 2011, \$1,486,111 of the development fee has been capitalized into the rental property. At December 31, 2011, \$776,351 is deferred. During 2011, \$709,760 of development fees were recognized in revenue. During 2011, \$190,116 of development fees were received. At December 31, 2011, \$1,295,995 is receivable. The fee is payable from capital contributions and cash flow. Development fees payable from cash flow of the project are eliminated in these consolidated

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

financial statements. At December 31, 2011, none of the fees capitalized into the rental building were payable from cash flow.

A member of APAH's board of directors is an officer at Virginia Commerce Bank. Virginia Commerce Bank has provided loans to The Barkalow Limited Liability Company and APAH (see note 3).

During 2011, APAH rented office space at The Barkalow at Lyon Park, a property it owns. Rental expense of \$24,000 was paid to Barkalow in 2011. Such expense is eliminated in these consolidated financial statements.

NOTE 7 - CONCENTRATION OF CREDIT RISK

APAH maintains its cash balances in several banks. At times, these balances may exceed the federal insurance limits; however, APAH has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2011.

NOTE 8 - ASSET MANAGEMENT FEE INCOME

APAH receives monthly oversight fees, asset management fees, financial oversight fees and incentive management fees from certain of the subsidiary entities which are eliminated in these consolidating financial statements.

NOTE 9 - SUPERVISED RESIDENTIAL PROGRAM AGREEMENTS

On July 7, 2001 and August 24, 2001, APAH entered into Supervised Residential Program Agreements with Arlington County for \$176,000 and \$60,000 of funding, respectively. Under the agreements, Arlington County provided \$236,000 to APAH. Such funds are required to be maintained in an interest bearing account. The funds are utilized to pay the rent of Qualified Consumers, as defined in the agreements, which are referred to APAH by the County for housing. Interest earned on the program fund is required to be added to the funds available under the agreements. The agreements provide for APAH to receive an annual administration fee from the program fund of \$5,000. The fee increases 5% per year over the 15-year term of the agreements. The County or APAH may terminate the agreements upon thirty days notice. At the date of termination, all unused funds are required to be returned to the County. During 2011, program expenses paid to house Qualified Consumers and administration fees totaled \$11,673 and interest earned on the cash account

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

totaled \$1,705. The remaining \$165,366 is included in other liabilities at December 31, 2011. The cash account balance in the amount of \$181,200 is included in restricted cash and cash equivalents at December 31, 2011. As of December 31, 2011, a total of \$15,834 of DHS expenses were not paid by the DHS cash account which resulted in a difference between the DHS cash and liability accounts at December 31, 2011. The funds will be reimbursed by the DHS cash account to the APAH operating account in a future year. During 2011, APAH earned \$7,950 of administration fees relating to these agreements. Such fees are included in other income.

On June 2, 2005, Columbia Grove, Inc. entered into a Permanent Supportive Housing Agreement with Arlington County for \$530,318 of funding. Such funds are required to be invested in a secure investment product to maximize the return on the investment. The funds are utilized to provide rental assistance on seven one bedroom units and one two bedroom unit for thirty years at Columbia Grove for Qualified Applicants, as defined in the agreement, selected by the county. In the event of a default under the agreement Columbia Grove, Inc. will be required to repay the unused funds to the county. Columbia Grove Apartments Limited Partnership assumed the agreement in connection with the contribution of the property (see Note 4). During 2011, program expenses paid to house Qualified Applicants totaled \$96,273. The remaining, \$142,122 is included in other liabilities at December 31, 2011. The cash account balance in the amount of \$142,417 is included in restricted cash and cash equivalents at December 31, 2011.

As part of the Cameron Commons Limited Liability Company Agreement dated June 30, 2009, \$25,000 of the initial contribution by Doorways Cameron LLC is required to be deposited into a tenant reserve account. The funds are to be used to subsidize the rents payable by tenants renting initial Doorways Units, as defined in the agreement. In the event of default under the agreement, Doorways may lose the right to refer residents to the property and to designate units for Doorways. The reserve balance at December 31, 2011 is \$1,644 and is included in restricted cash and cash equivalents.

NOTE 10 - RESTRICTED CASH

A reserve account in the amount of \$63,830 is maintained by APAH with respect to Calvert Manor Limited Partnership. Additionally, the cash accounts maintained in connection with the Supervised Residential Program Agreements and Permanent Supportive Housing Agreement in the amounts of \$181,200 and \$142,417, respectively, are restricted for the purpose outlined in the agreements. A tenant reserve in the amount of \$1,644 is maintained by Cameron Commons, LLC for the purpose outlined in the agreement (see Note 9).

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

NOTE 11 - RETIREMENT PLAN

Beginning on the first day of employment, employees of APAH may elect to contribute to a 403(b)(7) contributory retirement plan. After six months of service, APAH may make a discretionary contribution of a percentage of an employee's gross monthly salary to the plan. Retirement plan expense included in the consolidated statement of activities for the year ended December 31, 2011 was \$29,473.

NOTE 12 - INCOME TAXES - CONTINGENCY

Deferred income taxes reflect the net tax effects of (i) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (ii) operating and capital losses. Significant components of the deferred tax assets as of December 31, 2011 are:

Net operating loss carryforward	\$ 587,762
Valuation allowance	<u>(587,762)</u>
Net deferred tax asset	<u>\$ -</u>

During 2003, APAH acquired the stock interests of Columbia Grove, Inc. The acquisition resulted in an initial carrying amount of fixed assets for financial reporting purposes of \$17,427,684 and an initial carrying amount of fixed assets for income tax purposes of \$3,362,428. At December 31, 2007, the carrying amount of the fixed assets for financial reporting purposes and income tax purposes is \$17,021,038 and \$2,943,364, respectively. The tax which would be due on the difference in the carrying amount is \$5,771,846. On October 30, 2008, Columbia Grove Inc. contributed Columbia Grove Apartments to Columbia Grove LP. The contribution of Columbia Grove Apartments to the limited partnership did not trigger the income tax payment. A sale of Columbia Grove Apartments out of Columbia Grove Apartments Limited Partnership would trigger the income tax. APAH's intent is to continue to own Columbia Grove Apartments in a manner which will not trigger the payment of the income tax.

As of December 31, 2011, Columbia Grove, Inc. had net operating loss carryforwards of approximately \$1,524,210 for income tax purposes. Operating loss carryforwards of \$1,212,903, \$122,587, \$46,156, \$32,512 and \$110,052 expire in 2023, 2024, 2027, 2028 and 2029, respectively.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

In the prior year, APAH had no assurance that future taxable income would be sufficient to fully utilize the net operating loss carryforwards in the future. Consequently, APAH determined that a valuation allowance of \$587,762 was necessary at December 31, 2009.

NOTE 13 - REDEVELOPMENT OF THE FIRST BAPTIST CHURCH OF CLARENDON

On November 1, 2006, APAH entered into an agreement with the First Baptist Church of Clarendon, an unrelated party, to act as the developer of the First Baptist Church of Clarendon site in connection with the production of affordable housing. Under the agreement, APAH will earn a development fee of \$500,000. In prior years, development fees of \$450,000 were earned by APAH. During 2011, no development fees under the agreement were earned by APAH.

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

APAH received the following grants which are included in temporarily restricted net assets at December 31, 2011 for either time restrictions or restrictions related to specific program services:

Grantor	Restriction	2011
Geary-O'Hara Foundation	Columbia Grove Resident Services Program (\$94,000 is also time restricted and is to be received in future periods)	\$ 72,823
County Board of Arlington County	Time - grant to be received in 2012	100,000
Capital One	Buchanan Gardens Resident Services Program and North Arlington Resident Services Program	20,000
Bank of America	Capacity Building	25,000
Philip Graham	Capacity Building	18,647
Enterprise	Marbella pre-developmet costs	24,500
Freddie Mac Foundation	Columbia Grove Resident Services Program	21,667
Washington Forest Foundation	Buchanan Gardens Resident Services Program	5,000
Endo-Tsukamoto Fund	Buchanan Gardens Resident Services Program	2,500
Total		<u>\$ 290,137</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

NOTE 15 - CONSTRUCTION CONTRACT

Buchanan Gardens Limited Partnership entered into a contract with Hamel Builders, Inc, an unrelated party to perform general contractor services in conjunction with the rehabilitation of the project. The contract, as adjusted by change orders, amounted to \$10,590,380. As of December 31, 2011, \$5,221,620 has been capitalized into the rental property. At December 31, 2011, \$2,042,866 remains payable.

NOTE 16 - FAIR VALUE MEASUREMENTS

ASC 820-10, "Fair Value Measurements" (previously FASB Statement No. 157), establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurements will fall within the lowest level input that is significant to the fair value measurement in its entirety.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

The following table presents a non financial assets and a financial liability that were measured at fair value on a non recurring basis as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
AHIF loan - Buchanan Gardens	\$ -	\$ -	\$ 8,784,570	\$ 8,784,570
Land and buildings - Buchanan Gardens	-	-	10,200,000	10,200,000
Land and buildings - Marbella	-	-	12,457,370	12,457,370
In-place leases - Marbella Apartments	-	-	542,630	542,630
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,984,570</u>	<u>\$ 31,984,570</u>

To comply with the provision of ASC 820-10, quoted market prices in active markets for similarly collateralized debt were utilized in the fair value measurement. For the land and buildings, a third party appraiser was obtained to determine the fair value. For the in-place leases, the Company has estimated the current market rents, lease execution costs and expected lease-up periods.

NOTE 17 - SUBSEQUENT EVENTS

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date, require disclosure in the accompanying notes. Management evaluated the activity of the APAH and Subsidiaries through October 26, 2012 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements, except as described below.

On August 20, 2012, Arlington Mill Limited Partnership entered into a construction contract in the amount of \$15,127,353 with Hamel Builders for the construction of the 122-unit Arlington Mill Residences.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

On August 29, 2012 APAH transferred their 99.99% interest in Arlington Mill Limited Partnership to Bank of America, which has committed equity contributions totaling \$22,041,454. During the construction period, the partnership has secured financing from Bank of America for an amount up to \$14,374,230. After the construction period, VHDA will provide financing in the amount of \$10,110,000. Long term financing has also been secured by VHDA for an amount up to \$10,110,000.

On December, 31, 2011, APAH and the County Board of Arlington County, Virginia signed a lease for the ground under the residential portion of the shared parking garage and air rights over the parking garage facility owned by Arlington County. On August 29, 2012, the entire required lease payment of \$1,550,000 was made and the 75-year term began.

**SUPPLEMENTAL INFORMATION**

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2011

	APA Organization	Barkalow LLC	Fisher House, LP	FHDC Corporation	Fisher House Development Corp	Queen's Court Development Corp	Lorcom Arms LP	Calvert Manor LP	Courthouse Crossings LP	Carlyn Springs Development Corp
<b>ASSETS</b>										
Cash and cash equivalents										
including \$389,091 of restricted cash	\$ 1,667,383	\$ 97,784	\$ 98,472	\$ -	\$ -	\$ 36,592	\$ 81,474	\$ 119,454	\$ 367,605	\$ 36,652
Grants and pledges receivable	217,908	-	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	-	1,759	-	-	1,754	1,484	125	5,887	1,084
Accounts receivable - other	233,953	-	-	-	-	-	-	300	12,883	509
Development fee receivable	9,264,633	-	-	-	-	-	-	-	-	-
Prepaid expenses	15,237	1,046	3,158	-	-	1,631	3,384	1,488	10,013	2,081
Deposits	98,871	-	-	-	-	-	-	-	-	-
Mortgage escrow deposits	-	-	17,494	-	-	45,112	14,171	8,965	43,342	21,765
Replacement and redevelopment reserve	-	25,216	24,865	-	-	91,289	63,710	100,206	136,711	63,545
Other reserves	-	5,098	187,514	-	-	-	94,016	11,456	339,877	-
Property and equipment, net	47,902	903,556	7,503,405	-	-	1,398,511	3,751,020	1,671,944	28,955,702	1,173,475
Development in progress	1,369,690	-	-	-	-	19,165	-	-	-	-
Note receivable - related party	2,600,000	-	-	-	-	-	-	-	-	-
Interest receivable - related party	815,610	-	-	-	-	-	-	-	-	-
Funded residents' security deposits	-	7,166	17,107	-	-	18,127	19,297	9,215	66,170	11,376
Investment in Fisher House Limited Partnership	-	-	-	1,225,660	-	-	-	-	-	-
Investment in North Pierce Associates	-	-	-	-	-	-	-	-	-	-
Investment in Courthouse Crossing Limited Partnership	(524)	-	-	-	-	-	-	-	-	-
Investment in Calvert Manor Limited Partnership	(274)	-	-	-	-	-	-	-	-	-
Investment in Lorcom Arms Limited Partnership	(116,418)	-	-	-	-	-	-	-	-	-
Investment in Cameron Commons LLC	-	-	-	-	-	-	-	-	-	-
Investment in Columbia Grove Limited Partnership	(129)	-	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	(23)	-	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	(557,233)	-	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-	-	-
Investment in stock	125,000	-	-	-	-	-	-	-	-	-
Acquired lease origination costs, net	-	-	-	-	-	-	-	-	-	-
Mortgage loan costs, net	-	4,865	103,376	-	-	15,117	57,529	682	321,106	13,228
<b>TOTAL ASSETS</b>	<b>\$ 15,781,586</b>	<b>\$ 1,044,731</b>	<b>\$ 7,957,150</b>	<b>\$ 1,225,660</b>	<b>\$ -</b>	<b>\$ 1,627,298</b>	<b>\$ 4,086,085</b>	<b>\$ 1,923,835</b>	<b>\$ 30,259,296</b>	<b>\$ 1,323,715</b>
<b>LIABILITIES</b>										
Accounts payable and accrued expenses	\$ 215,182	\$ 5,113	\$ 12,931	\$ -	\$ 800	\$ 13,883	\$ 14,075	\$ 8,149	\$ 43,726	\$ 11,124
Accrued interest	980	3,360	173,998	-	-	11,870	407,189	19,861	2,945,933	9,290
Related party payable/(receivable)	(1,441,424)	340,814	43,332	810	(270)	79,025	282,981	112,477	7,913	(1,812)
Development fee payable	-	-	-	-	-	-	85,635	-	185,495	-
Deferred development fee	6,517,505	-	-	-	-	-	-	-	-	-
Deferred gain	2,600,000	-	-	1,555,000	-	-	-	-	-	-
Prepaid rents	-	46	788	-	-	216	260	18	581	438
Residents' security deposits	-	7,170	17,172	-	-	18,458	20,111	9,376	61,638	13,863
Notes payable	300,000	783,021	3,349,739	-	-	2,112,768	3,124,370	1,133,461	20,033,995	1,653,469
Construction and development costs payable	-	-	-	-	-	-	-	-	-	-
Other liability	165,786	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>8,358,029</b>	<b>1,139,524</b>	<b>3,597,960</b>	<b>1,555,810</b>	<b>530</b>	<b>2,236,220</b>	<b>3,934,621</b>	<b>1,283,342</b>	<b>23,279,281</b>	<b>1,686,372</b>
<b>COMMITMENTS AND CONTINGENCIES</b>										
	-	-	-	-	-	-	-	-	-	-
<b>NET ASSETS</b>										
Unrestricted controlling	7,133,420	(94,793)	4,359,190	(330,150)	(530)	(608,922)	151,464	640,493	6,980,015	(362,657)
Unrestricted noncontrolling	-	-	-	-	-	-	-	-	-	-
<b>Total unrestricted net assets</b>	<b>7,133,420</b>	<b>(94,793)</b>	<b>4,359,190</b>	<b>(330,150)</b>	<b>(530)</b>	<b>(608,922)</b>	<b>151,464</b>	<b>640,493</b>	<b>6,980,015</b>	<b>(362,657)</b>
Temporarily restricted	290,137	-	-	-	-	-	-	-	-	-
<b>Total net assets</b>	<b>7,423,557</b>	<b>(94,793)</b>	<b>4,359,190</b>	<b>(330,150)</b>	<b>(530)</b>	<b>(608,922)</b>	<b>151,464</b>	<b>640,493</b>	<b>6,980,015</b>	<b>(362,657)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,781,586</b>	<b>\$ 1,044,731</b>	<b>\$ 7,957,150</b>	<b>\$ 1,225,660</b>	<b>\$ -</b>	<b>\$ 1,627,298</b>	<b>\$ 4,086,085</b>	<b>\$ 1,923,835</b>	<b>\$ 30,259,296</b>	<b>\$ 1,323,715</b>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2011

	Cameron Commons LLC	Cameron Commons Development Corp	Columbia Grove Apartments LP	Columbia Grove Inc.	APAH Rosslyn Ridge, Inc.	Rosslyn Ridge Development Corp	Buchanan Gardens II, LLC	Buchanan Gardens, LP	Marbella Development LLC	Eliminations	Total
<b>ASSETS</b>											
Cash and cash equivalents											
including \$389,091 of restricted cash	\$ 82,136	\$ -	\$ 846,694	\$ 58,958	\$ -	\$ -	\$ -	\$ 678,211	\$ 197,746	\$ -	\$ 4,369,161
Grants and pledges receivable	-	-	-	-	-	-	-	-	-	-	217,908
Accounts receivable - residents	243	-	8,735	-	-	-	-	20,912	6,161	-	48,144
Accounts receivable - other	-	-	4,239	-	-	-	-	-	-	-	251,884
Development fee receivable	-	-	-	-	-	-	-	-	-	(1,182,958)	8,081,675
Prepaid expenses and deposits	1,272	-	15,396	-	-	-	-	6,373	-	-	61,079
Deposits	-	-	-	-	-	-	13,770	-	-	-	112,641
Mortgage escrow deposits	7,289	-	67,974	-	-	-	-	-	21,128	-	247,240
Replacement and redevelopment reserve	12,481	-	99,956	-	-	-	-	-	255,805	-	873,784
Other reserves	1	-	-	-	-	-	-	-	-	-	637,962
Property and equipment, net	2,284,614	-	22,668,338	-	-	-	-	18,822,422	12,428,751	(9,460,118)	92,149,522
Development in progress	-	-	-	-	-	-	-	-	-	-	1,388,855
Note receivable - related party	-	-	-	-	-	-	-	-	-	(2,600,000)	-
Interest receivable - related party	-	-	-	-	-	-	-	-	-	(815,610)	-
Funded residents' security deposits	8,755	-	106,663	-	-	-	-	50,139	114,770	-	428,785
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	-	-	-	(1,225,660)	-
Investment in North Pierce Associates	-	-	-	-	5,999,398	-	-	-	-	-	5,999,398
Investment in Courthouse Crossing Limited Partnership	-	-	-	-	-	-	-	-	-	524	-
Investment in Calvert Manor Limited Partnership	-	-	-	-	-	-	-	-	-	274	-
Investment in Lorcom Arms Limited Partnership	-	-	-	-	-	-	-	-	-	116,418	-
Investment in Cameron Commons LLC	-	(145,292)	-	-	-	-	-	-	-	145,292	-
Investment in Columbia Grove Limited Partnership	-	-	-	486,323	-	-	-	-	-	(486,194)	-
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	-	-	-	23
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-	-	-	557,233
Investment in Marbella Development LLC	-	-	-	-	-	(557,233)	-	-	-	557,233	-
Investment in stock	-	-	-	-	-	-	-	-	-	(125,000)	-
Acquired lease origination costs	-	-	-	-	-	-	-	-	248,705	-	248,705
Mortgage loan costs, net	16,733	-	279,869	-	-	-	-	298,681	144,748	-	1,255,934
<b>TOTAL ASSETS</b>	<b>\$ 2,413,524</b>	<b>\$ (145,292)</b>	<b>\$ 24,097,864</b>	<b>\$ 545,281</b>	<b>\$ 5,999,398</b>	<b>\$ (557,233)</b>	<b>\$ 13,770</b>	<b>\$ 19,876,738</b>	<b>\$ 13,417,814</b>	<b>\$ (14,518,543)</b>	<b>\$ 116,372,677</b>
<b>LIABILITIES</b>											
Accounts payable and accrued expenses	\$ 5,096	\$ 800	\$ -	\$ 15,000	\$ -	\$ 2,000	\$ -	\$ 1,414	\$ -	\$ -	\$ 349,293
Accrued interest	361,647	-	1,833,339	-	-	-	-	176,369	54,391	(815,610)	5,182,617
Related party receivable/(payables)	107,577	4,027	146,643	27,395	737	1,657	43,683	250,903	43,546	-	50,014
Development fee payable	-	-	911,828	-	-	-	-	1,295,995	-	(1,182,958)	1,295,995
Deferred development fee	-	-	-	-	-	-	-	-	-	(344,246)	6,173,259
Deferred gain	-	-	-	2,041,621	6,000,000	-	1,421,838	-	-	(7,618,459)	6,000,000
Prepaid rents	35	-	2,742	-	-	-	-	5,072	646	-	10,842
Residents' security deposits	8,047	-	104,949	-	-	-	-	45,885	111,242	-	417,911
Notes payable	1,668,088	-	18,101,829	-	-	-	-	12,802,374	13,765,222	(2,600,000)	76,228,336
Construction and development costs payable	-	-	-	-	-	-	-	2,266,108	-	-	2,266,108
Other liability	-	-	142,122	-	-	-	-	-	-	-	307,908
<b>Total liabilities</b>	<b>2,150,490</b>	<b>4,827</b>	<b>21,243,452</b>	<b>2,084,016</b>	<b>6,000,737</b>	<b>3,657</b>	<b>1,465,521</b>	<b>16,844,120</b>	<b>13,975,047</b>	<b>(12,561,273)</b>	<b>98,282,283</b>
<b>COMMITMENTS AND CONTINGENCIES</b>											
	-	-	-	-	-	-	-	-	-	-	-
<b>NET ASSETS</b>											
Unrestricted controlling	263,034	(150,119)	2,854,412	(1,538,735)	(1,339)	(560,890)	(1,451,751)	3,032,618	(557,233)	(19,702,907)	54,620
Unrestricted noncontrolling	-	-	-	-	-	-	-	-	-	17,745,637	17,745,637
<b>Total unrestricted net assets</b>	<b>263,034</b>	<b>(150,119)</b>	<b>2,854,412</b>	<b>(1,538,735)</b>	<b>(1,339)</b>	<b>(560,890)</b>	<b>(1,451,751)</b>	<b>3,032,618</b>	<b>(557,233)</b>	<b>(1,957,270)</b>	<b>17,800,257</b>
Temporarily restricted	-	-	-	-	-	-	-	-	-	-	290,137
<b>Total net assets</b>	<b>263,034</b>	<b>(150,119)</b>	<b>2,854,412</b>	<b>(1,538,735)</b>	<b>(1,339)</b>	<b>(560,890)</b>	<b>(1,451,751)</b>	<b>3,032,618</b>	<b>(557,233)</b>	<b>(1,957,270)</b>	<b>18,090,394</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,413,524</b>	<b>\$ (145,292)</b>	<b>\$ 24,097,864</b>	<b>\$ 545,281</b>	<b>\$ 5,999,398</b>	<b>\$ (557,233)</b>	<b>\$ 13,770</b>	<b>\$ 19,876,738</b>	<b>\$ 13,417,814</b>	<b>\$ (14,518,543)</b>	<b>\$ 116,372,677</b>

(a) Allocation of non-controlling interest

## Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

## CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2011

	APAH Organization	Barkalow LLC	Fisher House, LP	FHDC Corporation	Fisher House Development Corp	Queen's Court Development Corp	Lorcom Arms LP	Calvert Manor LP	Courthouse Crossings LP	Carlyn Springs Development Corp
<b>REVENUE AND OTHER SUPPORT</b>										
Rental revenue - net	\$ -	\$ 227,315	\$ 449,036	\$ -	\$ -	\$ 512,180	\$ 508,232	\$ 283,114	\$ 1,661,046	\$ 415,100
Grants and contributions	470,456	-	-	-	-	-	-	-	-	-
Development fee income	1,056,769	-	-	-	-	-	-	-	-	-
Interest income	191,382	69	1,790	-	-	212	543	245	1,440	93
Loss from equity investment in partnership interest	(757,377)	-	-	(14)	-	-	-	-	-	-
Other income	242,348	3,175	17,007	-	-	12,043	16,539	6,251	53,456	5,074
Special events revenue, net of expenses	196,895	-	-	-	-	-	-	-	-	-
Acquisition fee income	350,000	-	-	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>1,750,473</b>	<b>230,559</b>	<b>467,833</b>	<b>(14)</b>	<b>-</b>	<b>524,435</b>	<b>525,314</b>	<b>289,610</b>	<b>1,715,942</b>	<b>420,267</b>
<b>EXPENSES</b>										
Administrative	1,122,873	34,650	90,774	-	800	86,407	77,669	71,648	264,019	122,172
Operations and maintenance	-	31,317	71,104	-	-	89,839	115,992	44,941	208,579	54,271
Grant expense	-	-	-	-	-	-	-	-	-	-
Utilities	2,373	12,231	24,449	-	-	44,233	40,296	18,724	124,616	68,196
Insurance	33,963	6,304	17,982	-	-	16,628	19,644	9,468	57,111	12,419
Taxes	-	18,944	34,321	-	214	35,325	43,207	18,139	145,555	28,253
Interest	980	38,630	161,470	-	-	101,269	192,622	58,298	1,084,692	79,264
Depreciation and amortization	11,667	43,854	199,570	-	-	51,408	164,941	52,306	666,996	41,306
Acquisition costs	-	-	-	-	-	-	-	-	-	-
<b>Total expenses</b>	<b>1,171,856</b>	<b>185,930</b>	<b>599,670</b>	<b>-</b>	<b>1,014</b>	<b>425,109</b>	<b>654,371</b>	<b>273,524</b>	<b>2,551,568</b>	<b>405,881</b>
Excess of revenue over expenses (expenses over revenue)	578,617	44,629	(131,837)	(14)	(1,014)	99,326	(129,057)	16,086	(835,626)	14,386
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ 578,617</u>	<u>\$ 44,629</u>	<u>\$ (131,837)</u>	<u>\$ (14)</u>	<u>\$ (1,014)</u>	<u>\$ 99,326</u>	<u>\$ (129,057)</u>	<u>\$ 16,086</u>	<u>\$ (835,626)</u>	<u>\$ 14,386</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

CONSOLIDATING STATEMENT OF ACTIVITIES - CONTINUED

Year ended December 31, 2011

	Cameron Commons LLC	Cameron Commons Development Corp.	Columbia Grove Apartments LP	Columbia Grove Inc.	APAH Rosslyn Ridge, Inc.	Rosslyn Ridge Development Corp.	Buchanan Gardens II, LLC	Buchanan Gardens, LP	Marbella Development LLC	Eliminations	Consolidated
<b>REVENUE AND OTHER SUPPORT</b>											
Rental revenue - net	\$ 201,008	\$ -	\$ 2,857,174	\$ -	\$ -	\$ -	\$ 378,042	\$ 557,515	\$ 901,788	\$ (24,000)	\$ 8,927,550
Grants and contributions	-	-	-	-	-	-	-	-	-	(139,226)	331,230
Development fee income	-	-	-	-	-	-	-	-	-	(347,009)	709,760
Interest income	798	-	1,212	-	-	-	95	2,481	426	(184,695)	16,091
Loss from equity investment in partnership interest	-	(33,555)	-	(42)	(118)	(757,233)	-	-	-	1,548,221	(118)
Other income	8,016	-	75,219	-	-	-	9,374	17,386	18,045	(206,808)	277,125
Special events revenue, net of expenses	-	-	-	-	-	-	-	-	-	-	196,895
Acquisition fee income	-	-	-	-	-	-	-	-	-	(350,000)	-
<b>Total revenue</b>	<b>209,822</b>	<b>(33,555)</b>	<b>2,933,605</b>	<b>(42)</b>	<b>(118)</b>	<b>(757,233)</b>	<b>387,511</b>	<b>577,382</b>	<b>920,259</b>	<b>296,483</b>	<b>10,458,533</b>
<b>EXPENSES</b>											
Administrative	38,974	800	434,670	15,000	-	2,000	74,099	182,241	143,337	(290,808)	2,471,325
Operations and maintenance	38,171	-	398,423	-	-	-	57,515	98,616	161,487	-	1,370,255
Grant expense	-	-	-	-	-	-	-	-	-	-	-
Utilities	19,239	-	209,963	-	-	-	119,714	89,807	66,688	-	840,529
Insurance	6,763	-	96,262	-	-	-	14,860	25,009	27,395	-	343,808
Taxes	15,401	27	243,984	112	37	-	31,234	49,454	81,850	-	746,057
Interest	74,300	-	1,389,943	-	-	-	205,158	148,977	317,649	(184,695)	3,668,557
Depreciation and amortization	65,604	-	576,229	-	-	-	84,059	126,196	372,450	(136,290)	2,320,296
Acquisition costs	-	-	-	-	-	-	-	86,751	506,636	(350,000)	243,387
<b>Total expenses</b>	<b>258,452</b>	<b>827</b>	<b>3,349,474</b>	<b>15,112</b>	<b>37</b>	<b>2,000</b>	<b>586,639</b>	<b>807,051</b>	<b>1,677,492</b>	<b>(961,793)</b>	<b>12,004,214</b>
Excess of revenue over expenses (expenses over revenue)	(48,630)	(34,382)	(415,869)	(15,154)	(155)	(759,233)	(199,128)	(229,669)	(757,233)	1,258,276	(1,545,681)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-	-	(1,740,847)	(1,740,847)
Excess of revenue over expenses (expenses over revenue) attributable to APAH	\$ (48,630)	\$ (34,382)	\$ (415,869)	\$ (15,154)	\$ (155)	\$ (759,233)	\$ (199,128)	\$ (229,669)	\$ (757,233)	\$ 2,999,123	\$ 195,166

(a) Allocation of non-controlling interest