

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

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

December 31, 2012

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the consolidated statement of financial position of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries (the Corporation) as of December 31, 2012, and the related consolidated statements of activities, functional expenses, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries as of December 31, 2012, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary information on pages 47 through 50 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Bethesda, Maryland
August 21, 2013

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidated Statement of Financial Position

December 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents, including \$233,694 of restricted cash		\$ 8,234,397
Grants and pledges receivable, current portion		406,131
Accounts receivable		
Residents	\$ 43,302	
Other	<u>210,092</u>	253,394
Development fee receivable - affiliate, current portion		4,325,379
Prepaid expenses		69,188
Prepaid ground lease, current portion		20,667
Deposits		301,035
Mortgage escrow deposits		<u>181,327</u>
 Total current assets		 <u>13,791,518</u>

PROPERTY AND EQUIPMENT

Land		27,070,015
Buildings, furniture and equipment		82,440,692
Construction in progress		<u>8,412,551</u>
		117,923,258
Less accumulated depreciation		<u>12,196,543</u>
 Total property and equipment		 <u>105,726,715</u>

OTHER ASSETS

Pledges receivable, net of current portion		177,333
Residents' security deposits		454,719
Development in progress		150,930
Mortgage loan costs, net of accumulated amortization of \$658,169		1,397,951
Replacement and development reserves		1,099,584
Other reserves		955,288
Prepaid ground lease, net of current portion		1,522,444
Development fee receivable - affiliate (see note 6)		3,191,448
Derivative		7,793
Investment in North Pierce Associates, L.P.		<u>5,999,289</u>
 Total other assets		 <u>14,956,779</u>

TOTAL ASSETS		<u><u>\$134,475,012</u></u>
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Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidated Statement of Financial Position - Continued

December 31, 2012

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 243,566
Accrued interest, current portion	284,574
Accounts payable - related party	34,118
Prepaid rents	13,081
Notes payable, current maturities	5,523,705
Construction and development costs payable	904,669
Development fee payable	<u>1,075,379</u>
Total current liabilities	<u>8,079,092</u>
OTHER LIABILITY	
Residents' security deposits	<u>443,708</u>
Total other liability	<u>443,708</u>
LONG-TERM LIABILITIES	
Notes payable, less current maturities of \$5,523,705 (see note 3)	84,683,297
Accrued interest, less current portion of \$284,574	6,002,156
Deferred development fee (see note 6)	6,046,566
Deferred gain (see note 4)	6,000,000
Other liabilities	<u>160,008</u>
Total long-term liabilities	<u>102,892,027</u>
COMMITMENTS AND CONTINGENCIES	<u>-</u>
NET ASSETS	
Unrestricted controlling	1,495,801
Unrestricted noncontrolling (see note 1)	<u>21,150,136</u>
Total unrestricted net assets	22,645,937
Temporarily restricted	<u>414,248</u>
Total net assets	<u>23,060,185</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$134,475,012</u></u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidated Statement of Activities

Year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenue and other support			
Grants and contributions (see note 2)	\$ 262,571	\$ 539,664	\$ 802,235
Rental revenue - net	10,215,557	-	10,215,557
Development fee income	1,445,519	-	1,445,519
Interest income	14,319	-	14,319
Other income	302,564	-	302,564
Loss from equity investment in North Pierce Associates, L.P.	(109)	-	(109)
Special events, net of expenses of \$23,785	207,537	-	207,537
	<u>12,447,958</u>	<u>539,664</u>	<u>12,987,622</u>
Net assets released from restrictions	<u>415,553</u>	<u>(415,553)</u>	<u>-</u>
Total revenue and other support	<u>12,863,511</u>	<u>124,111</u>	<u>12,987,622</u>
Expenses			
Program services (including interest expense of \$4,228,553 and depreciation and amortization of \$2,663,079)	13,010,753	-	13,010,753
Supporting services			
Management and general (including depreciation of \$13,938)	489,745	-	489,745
Fundraising	81,575	-	81,575
Total expenses	<u>13,582,073</u>	<u>-</u>	<u>13,582,073</u>
Excess of (expenses over revenue) revenue over expenses	<u>(718,562)</u>	<u>124,111</u>	<u>(594,451)</u>
Excess of expenses over revenue attributable to noncontrolling interests	<u>(2,159,743)</u>	<u>-</u>	<u>(2,159,743)</u>
Excess of revenue over expenses attributable to APAH	<u>\$ 1,441,181</u>	<u>\$ 124,111</u>	<u>\$ 1,565,292</u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses

Year ended December 31, 2012

	Program services			Management and general	Fundraising	Total
	Rental properties	General operations	Subtotal			
Interest expense	\$ 4,228,553	\$ -	\$ 4,228,553	\$ 11,274	\$ -	\$ 4,239,827
Salaries	862,650	655,655	1,518,305	273,158	69,751	1,861,214
Depreciation and amortization	2,663,079	-	2,663,079	13,938	-	2,677,017
Change in fair value of derivative instrument	21,554	-	21,554	-	-	21,554
Utilities	820,711	-	820,711	1,829	-	822,540
Property operating and maintenance	1,246,456	-	1,246,456	-	-	1,246,456
Licenses and taxes	912,071	-	912,071	19,165	-	931,236
Management fee	468,702	-	468,702	-	-	468,702
Property administrative expenses	409,496	-	409,496	25,260	-	434,756
Auditing and accounting	148,881	-	148,881	32,950	-	181,831
Insurance	362,324	-	362,324	37,853	-	400,177
Telephone	96,385	-	96,385	6,233	-	102,618
Legal	26,468	-	26,468	-	-	26,468
Acquisition costs	27,990	-	27,990	-	-	27,990
Special events	-	-	-	-	839	839
Development and consulting services	-	-	-	11,344	9,860	21,204
Printing and copying	-	-	-	10,538	-	10,538
Supplies	-	-	-	12,389	-	12,389
Advertising	-	-	-	11,575	-	11,575
Postage and delivery	-	-	-	2,467	1,125	3,592
Training	-	-	-	12,888	-	12,888
Travel	-	-	-	720	-	720
Books and publications	-	-	-	6,164	-	6,164
Property expenses	-	59,778	59,778	-	-	59,778
	<u>\$ 12,295,320</u>	<u>\$ 715,433</u>	<u>\$ 13,010,753</u>	<u>\$ 489,745</u>	<u>\$ 81,575</u>	<u>\$ 13,582,073</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, 2012

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Net assets, December 31, 2011	\$ 54,620	\$ 17,745,637	\$ 17,800,257	\$ 290,137	\$ 18,090,394
Capital contributions from noncontrolling interests	-	5,652,322	5,652,322	-	5,652,322
Capital distributions to noncontrolling interests	-	(8,173)	(8,173)	-	(8,173)
Syndication costs	-	(79,907)	(79,907)	-	(79,907)
Excess of expenses over revenue attributable to noncontrolling interests	-	(2,159,743)	(2,159,743)	-	(2,159,743)
Excess of revenue over expenses attributable to controlling interests	1,441,181	-	1,441,181	124,111	1,565,292
Net assets, December 31, 2012	<u>\$ 1,495,801</u>	<u>\$ 21,150,136</u>	<u>\$ 22,645,937</u>	<u>\$ 414,248</u>	<u>\$ 23,060,185</u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

Year ended December 31, 2012

Cash flows from operating activities	
Excess of expenses over revenue	\$ (594,451)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	2,677,017
Bad debt	27,468
Loss from equity investment in North Pierce Associates, L.P.	109
Unrealized loss	21,554
Increase in pledges receivable	(365,556)
Increase in residents' accounts receivable	(22,626)
Decrease in accounts receivable - other	41,792
Decrease in development fee receivable	564,848
Decrease in mortgage escrow deposits	65,913
Increase in prepaid expenses	(8,109)
Increase in deposits	(73,650)
Increase in prepaid ground lease	(1,543,111)
Decrease in accounts payable and accrued expenses	(105,727)
Increase in accrued interest	1,072,404
Increase in prepaid rents	2,239
Increase in deferred development fee	(126,693)
Decrease in other liability	(147,900)
Net decrease in residents' security deposits	(137)
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Net cash provided by operating activities	1,485,384
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Cash flows from investing activities	
Net purchases of land, property and equipment, construction in progress and development in progress	(16,138,346)
Increase in replacement and redevelopment reserves	(225,800)
Increase in other reserves	(317,326)
Acquisition related deposit paid	(114,744)
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Net cash used in investing activities	(16,796,216)
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Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidated Statement of Cash Flows - Continued

Year ended December 31, 2012

Cash flows from financing activities	
Proceeds from notes payable	14,840,266
Repayment of notes payable	(861,600)
Capital contributions received from noncontrolling interests	5,652,322
Capital distributions paid to noncontrolling interests	(8,173)
Syndication costs paid	(79,907)
Repayment of advances from affiliates	(15,896)
Mortgage costs paid	(321,597)
Derivative premium paid	<u>(29,347)</u>
 Net cash provided by financing activities	 <u>19,176,068</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 3,865,236
 Cash and cash equivalents, beginning	 <u>4,369,161</u>
Cash and cash equivalents, end	<u>\$ 8,234,397</u>
 Supplemental disclosure of cash flow information	
Cash paid for interest during the year, net of amount capitalized	<u>\$ 3,167,423</u>
 Supplemental schedule of non-cash investing and financing activities	
Change in construction and development costs payable for additions to property and equipment	<u>\$ 1,361,439</u>
 Property and equipment increased due to an increase in accrued interest payable at December 31, 2012	 <u>\$ 31,709</u>
 Property and equipment increased due to an increase in development fee payable at December 31, 2012	 <u>\$ 537,209</u>
 Additions to accumulated amortization capitalized to rental property at December 31, 2012	 <u>\$ 42,919</u>

See notes to consolidated financial statements

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2012

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 enhance the Arlington County Community by developing, preserving, and advocating for quality affordable housing in Arlington and to promote opportunity for its residents through partnerships and programs. 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 Arlington Mill Limited Partnership, Buchanan Gardens Limited Partnership, Calvert Manor Limited Partnership, Columbia Grove Apartments Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House, LP, and Lorcom Arms Limited Partnership.

The board of directors of APAH Rosslyn Ridge, Inc., Arlington Mill Development Corporation, Buchanan Gardens II, LLC, Buchanan Gardens Development Corporation, Calvert Manor Development Corporation, Cameron Commons Development Corporation, Carlyn Springs/Foxcroft Terrace Development Corporation, Columbia Grove Development Corporation, Columbia Grove, Inc., FHDC Corporation, Fisher House Development Corporation, Lorcom Arms Development Corporation, Marbella Development, LLC, and Queen's Court Development Corporation 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, 2012

Rosslyn Ridge Development Corporation became an Arlington County designated Community Housing Development Organization (CHDO) on June 9, 2011. Under a CHDO, 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.

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.

Arlington Mill Development Corporation and Arlington Mill Limited Partnership - 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. An unrelated limited partner owns the remaining 99.99% of the partnership interest. On October 31, 2011, Arlington Mill Limited Partnership entered into a ground lease agreement with the County Board of Arlington County, Virginia, effective August 29, 2012, to develop the land. Arlington Mill will be a four story 122-unit project located in the Columbia Heights West neighborhood. At December 31, 2012, the project is still under construction.

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.

Buchanan Gardens II, LLC - The Company bought a 111-unit, garden style, eleven building complex, located in the Barcroft neighborhood in December 2009. The property was sold to Buchanan Gardens Limited Partnership on April 25, 2011. APAH is the sole member of the LLC.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Buchanan Gardens Development Corporation and 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.

Calvert Manor Development Corporation and Calvert Manor Limited Partnership - 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. An unrelated limited partner owns the remaining 99.9% of partnership interest. Calvert Manor is a 23-unit, three-story brick multi-family residential dwelling, located north of Lee Highway near the Rosslyn neighborhood. The property was purchased on September 24, 1997.

Cameron Commons Development Corporation and Cameron Commons, LLC – Cameron Commons Development Corporation purchased an 11 unit garden-style building on August 1, 2001 and completed the construction of five flats in a separate two-story building in February 2005 in the High View Park neighborhood. 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. During 2011, additional contributions were made by Doorways Cameron, LLC, which in accordance with the operating agreement, changed their membership interest to 31%. Cameron Common Development Corporation's ownership interest changed to 69%.

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

Columbia Grove Development Corporation and 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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Columbia Grove, Inc. – The Corporation formerly owned a 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.

Courthouse Crossings Development Corporation and Courthouse Crossings Limited Partnership - 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.

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.

Fisher House, LP and FHDC Corporation - 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.

Lorcom Arms Development Corporation and Lorcom Arms Limited Partnership 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. An unrelated limited partner owns the remaining 99.99% of partnership interest. Lorcom Arms (dba Leckey Gardens Apartments) is a 38-unit, garden-style apartment building, located in the North Arlington neighborhood of Waverly Hills. The property was purchased on March 2, 2000.

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 Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Queen's Court Development Corporation - The Corporation owns and operates a 39-unit, garden-style, three building complex, located in the Rosslyn neighborhood, purchased by APAH on August 7, 1995.

Rosslyn Ridge Development Corporation – APAH purchased a 22-unit, garden-style, one building, located in the Rosslyn neighborhood, on 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.

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.

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, 2012 was \$27,468.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012, 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.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012.

Development in Progress

Development in progress consists primarily of predevelopment and development costs incurred in connection with redeveloping various properties. Such costs will be reclassified to property and equipment when the projects are placed in service. Costs associated with redevelopment projects that are not deemed probable are expensed.

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.

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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012 was \$136,661. Estimated amortization expense for each of the ensuing years through December 31, 2017 is \$161,921, \$101,687, \$55,969, \$49,604 and \$49,027, respectively.

Donated Materials

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

Income Taxes

APAH and its subsidiaries, except Arlington Mill Development Corporation, Arlington Mill Limited Partnership, Barkalow Limited Liability Company, Buchanan Gardens Development Corporation, Buchanan Gardens II, LLC, Buchanan Gardens Limited Partnership, Calvert Manor Development Corporation, Calvert Manor Limited Partnership, Cameron Commons, LLC, Columbia Grove Apartments Limited Partnership, Columbia Grove Development Corporation, Columbia Grove, Inc., Courthouse Crossings Limited Partnership, Fisher House Development Corporation, Fisher House, LP, Lorcom Arms Development Corporation, Lorcom Arms 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. Due to their tax exempt status, APAH and Subsidiaries are not subject to income taxes, except for taxes on unrelated business income. APAH did not have unrelated business income for the year ended December 31, 2012. 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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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 Mill Limited Partnership, Buchanan Gardens Limited Partnership, Calvert Manor Limited Partnership, Columbia Grove Apartments Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House, LP, and Lorcom Arms 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. Income tax returns filed by the Limited Partnerships are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2009 remain open.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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.

Intangibles

In accordance with ASC 805, "Business Combinations," the Marbella Development LLC allocated a portion of the total purchase price of Marbella Apartments' acquisition to an intangible asset, existing tenant leases. In connection with the property acquisition, the Marbella Development LLC recorded in-place leases in the amount of \$542,630 which are to be amortized over 12 months. During the year ended December 31, 2012, amortization expense of \$248,705 was recognized and charged to operations. Accumulated amortization at December 31, 2012 totaled \$542,630. As of December 31, 2012, the in-place leases were fully amortized.

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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Derivative Instruments

Arlington Mill Limited Partnership entered into an interest rate cap agreement to manage the interest rate risk on its variable interest rate loan and carries its derivative instrument at fair value as either assets or liabilities on the consolidated balance sheet. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether the Partnership has designated it as a hedging instrument, whether it qualifies as part of a hedging relationship, and on the type of hedging relationship. The Partnership has not designated any of its derivative activities as hedging instruments and, therefore, the Partnership recognizes the gain or loss associated with the change in the fair value in current earnings during the period of the change.

Fair Value of Financial Instruments

The accounting guidance for fair value measurement and disclosure establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Partnership. Unobservable inputs are inputs that reflect the Partnership's assumptions about the assumed market participants would use in pricing the asset or liability based on the best information available under the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the assets or liability.

Level 3 - Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

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 measurement 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, 2012

The change in fair value of derivative instruments of (\$21,554) is classified within Level 2 of the fair value hierarchy. No other assets or liabilities are measured at fair value as of December 31, 2012. The following table presents the derivative instrument asset measured at fair value as of December 31, 2012:

	<u>Level 2</u>
Interest rate cap	\$ 7,793

On a recurring basis, the Partnership measures its derivative instrument at its estimated fair value. In determining the fair value of the derivative instruments, the Partnership uses the present value of expected cash flows based on market observable interest rate yield curve commensurate with the term of the instrument. The Partnership incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and that of the respective counterparty in the fair value measurement. The credit valuation adjustments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by either the respective counterparty or the Partnership. However, the impact of the credit valuation adjustments was not significant to the overall valuation of the derivative instrument. As a result, the fair value of the derivative instrument is considered to be based primarily on Level 2 inputs.

Recent Accounting Pronouncement

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosure on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as a description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance was effective for years beginning after December 15, 2011, and was applied prospectively. Other than requiring disclosures, the adoption of this new guidance did not have a material impact on the accompanying financial statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Note 2 - Grant and Contribution Revenue

Grants and contributions totaling \$802,235 were pledged by various organizations and individuals and recorded in revenue during the year ended December 31, 2012. At December 31, 2012, \$583,464 remains receivable and is included in grants and pledges receivable. At December 31, 2012, \$414,248 of grants and contributions remain as restricted net assets either for time or purpose reasons (see note 14).

Note 3 - Notes Payable

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, 2012). 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, 2012, the outstanding principal and accrued interest were paid in full. During 2012, interest charged to operations was \$11,274.

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, 2012). 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, 2012.

Arlington Mill Limited Partnership

On August 29, 2012, the Partnership entered into a construction to permanent loan agreement with VHDA in the original amount of \$10,110,000. During 2012, \$2,622,192 was advanced under this loan. The loan bears interest at 2.746% per annum from August 29, 2012 through July 31, 2014, and at 5.532% per annum from August 1, 2014 through the maturity date of November 1, 2044. Commencing on September 1, 2012, and continuing on the first day of each succeeding calendar month through December 1, 2014, monthly payments of interest only are due until the maturity date. Commencing on January 1, 2015, and continuing on the first day of each succeeding calendar month monthly payments of principal and interest are due until the maturity date. The note is secured by the first Deed of Trust. As of December 31, 2012, the outstanding principal balance and accrued interest were \$2,622,192 and \$6,000, respectively. During 2012, interest incurred and capitalized was \$20,527.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

On August 29, 2012, the Partnership entered into a promissory note agreement with Bank of America, N.A. in the original amount of \$14,374,230. The loan bears interest at the annual rate of interest equal to the LIBOR rate (0.86% at December 31, 2012) plus 2.0%. Commencing on October 1, 2012, and continuing on the first day of each succeeding calendar month thereafter, monthly payments of interest only are due until the maturity date of August 29, 2014. The entire unpaid principal and accrued interest thereon, shall be due and payable on the maturity date. The note is secured by a Credit Line Leasehold Deed of Trust, Security Agreement and Fixture Filing. As of December 31, 2012, the outstanding principal and accrued interest were \$3,636,046 and \$6,696, respectively. During 2012, interest incurred and capitalized was \$23,878.

Pursuant to the promissory note agreement with Bank of America, N.A., the Borrower entered into an interest rate cap agreement, effective October 1, 2012 through August 29, 2014 for \$29,347. The interest rate cap limited the Partnership's LIBOR exposure to a maximum rate of 0.75% on a notional amount of \$15,000,000. At December 31, 2013, the fair value of the interest rate cap was \$7,793 and is included in other assets in the accompanying consolidated statement of financial position. The change in fair value of the interest rate cap for the year ended December 31, 2012 was \$21,554, and it has been recorded as a change in fair value of derivative instrument in the accompanying consolidated statement of functional expenses.

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, 2012, the outstanding principal balance and accrued interest were \$757,104 and \$3,360, respectively. During 2012, interest charged to operations was \$37,405.

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 (0.86% at December 31, 2012) plus 3.5% per annum or 4.75% per annum. Commencing on June 1, 2011, and continuing on the

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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 was repaid 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, 2012, the outstanding principal balance and accrued interest were \$12,599,832 and \$48,612, respectively. During 2012, interest incurred was \$422,768, of which \$65,314 was capitalized to the rental property and \$357,454 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, 2012 was \$11,712,603 and \$398,588, respectively. The outstanding principal balance at fair value at December 31, 2012 was \$8,784,570. During 2012, interest incurred totaled \$238,141, of which \$53,781 was capitalized to the rental property and \$184,360 was charged to operations.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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's initial maturity was July 1, 2013, at which time a balloon payment in the approximate amount of \$674,553 was due and payable. On June 3, 2013, the Partnership obtained an extension. Monthly installments of principal and interest of \$8,258 are required commencing on July 1, 2013 through the extended maturity of January 1, 2014, at which time the outstanding principal and interest will 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, 2012, the outstanding principal and accrued interest were \$689,360 and \$3,314, respectively. During 2012, interest charged to operations was \$35,247.

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 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, 2012. As of December 31, 2012, the outstanding principal balance and accrued interest were \$415,573 and \$4,570 respectively. During 2012, interest charged to operations was \$16,938.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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 February 2011 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, 2012, the outstanding principal balance and accrued interest were \$560,888 and \$3,312, respectively. During 2012, interest charged to operations was \$23,094.

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 permanent financing on the property, January 1, 2029, or upon transfer, sale or conveyance of the property. As of December 31, 2012, the outstanding principal balance was \$16,083.

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, 2012, the \$25,000 grant balance is included in notes payable.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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. During 2012, a payment of \$21,092 was made from December 31, 2011 residual receipts. 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, 2012, the outstanding principal balance and accrued interest were \$1,048,000 and \$386,965, respectively. During 2012, interest charged to operations was \$49,721.

Carlyn Springs/Foxcroft Terrace Development Corporation

United Bank 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, 2012, the outstanding principal balance and accrued interest were \$1,615,117 and \$9,290, respectively. During 2012, interest charged to operations was \$74,866.

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

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Notes to Consolidated Financial Statements - Continued

December 31, 2012

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 in the amount of \$98,464 are payable through maturity in December 2045. The mortgage is secured by a Deed of Trust and an assignment of leases and rents on the property. As of December 31, 2012, the outstanding principal balance and accrued interest were \$14,501,756 and \$90,456, respectively. During 2012, interest charged to operations was \$1,077,774.

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 outstanding principal balance and accrued interest on the loan at face value at December 31, 2012 are \$4,649,720 and \$1,692,518, respectively. During 2012, a payment in the amount of \$101,518 was made and applied to accrued interest. At December 31, 2012, the outstanding principal balance and accrued interest was \$496,279 and \$1,692,518, respectively. During the year ended December 31, 2012, interest charged to operations was \$245,942.

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 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, 2012, the outstanding principal

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

balance and accrued interest were \$3,000,000 and \$258,685, respectively. During 2012, interest charged to operations was \$63,896.

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, 2012, the outstanding principal balance and accrued interest were \$8,198,556 and \$41,656, respectively. During 2012, interest charged to operations was \$482,420.

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 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, 2012, the outstanding principal balance and accrued interest were \$9,139,988 and \$2,537,813, respectively. During 2012, interest charged to operations was \$449,146.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012, the outstanding principal balance and accrued interest were \$2,504,419 and \$10,715, respectively. During 2012, interest charged to operations was \$121,813.

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 2012, a payment of \$27,495 was made from December 31, 2011 residual receipts. The payment was applied to accrued interest. As of December 31, 2012, the outstanding principal and accrued interest were \$795,000 and \$173,599, respectively. During 2012, interest charged to operations was \$37,811.

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. Under agreement with VHDA, Lorcom Arms Limited Partnership is required to make monthly escrow deposits for taxes, insurance and replacement of project assets. 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, 2012, the outstanding principal and accrued interest were \$620,283 and \$2,903, respectively. During 2012, interest charged to operations was \$31,747.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012, the outstanding principal and accrued interest were \$909,851 and \$4,338, respectively. During 2012, interest charged to operations was \$46,263.

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). As of December 31, 2012, the note bore interest at an annual rate of 7%. 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 guaranteed the repayment of the note. As of December 31, 2012, the outstanding principal and accrued interest were \$733,938 and \$5,068, respectively. During 2012, interest charged to operations was \$52,875.

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, 2012, \$803,000 has been advanced on the note. There were no residual receipts from which to make the payment for 2012. As of December 31, 2012, the outstanding principal and accrued interest were \$803,000 and \$436,805, respectively. During 2012, interest charged to operations was \$41,925.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012, the outstanding principal balance and accrued interest was \$9,947,267 and \$47,564, respectively. During 2012, interest charged to operations was \$621,311.

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 by 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. During 2012, a payment in the amount of \$32,106 was made from the December 31, 2011 residual receipts. The payment was applied to accrued interest. As of December 31, 2012, the outstanding principal balance and accrued interest was \$3,723,150 and \$112,613, respectively. During 2012, interest charged to operations was \$90,328.

Queen's Court Development Corporation

United Bank 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, 2012, the outstanding principal balance and accrued interest were \$2,063,750 and \$1,290, respectively. During 2012, interest charged to operations was \$85,070.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012 are as follows:

Year ending December 31, 2013	\$	5,523,705
2014		5,014,502
2015		761,963
2016		4,090,313
2017		745,298
Thereafter		<u>74,071,221</u>
Total	\$	<u>90,207,002</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.

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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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

Arlington Mill Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Arlington Mill Limited Partnership, which received tax credit equity financing for the purpose of constructing Arlington Mill Apartments. APAH has guaranteed completion of construction, projected tax benefits, and deferred development fee payments, as defined in the amended and restated agreement of limited partnership. In addition, APAH is obligated to fund operating deficits. No payments have been required as a result of these guarantees.

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.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

APAH-held parent reserve, which had a balance of \$63,830 as of December 31, 2012. 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.

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 up to \$350,000. 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.

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.

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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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 2012, interest charged to operations on the note was \$167,581 which was eliminated in these consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2012, which was eliminated in these consolidated financial statements, was \$2,600,000 and \$541,874, 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, 2012, \$33,519 is deferred and is payable from cash flow of the Project. During 2012, \$52,116 of development fees were recognized in revenue and received. At December 31, 2012, \$33,519 is receivable. Development fees payable from cash flow of the Project are eliminated in these consolidated financial statements. Accordingly, deferred development fees, development fee payable, development fee revenue and development fee receivable of \$33,519, \$33,519 \$52,116 and \$33,519, respectively, were eliminated at December 31, 2012.

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 2012, \$185,495 of development fees were received. The development fees were fully paid in 2012.

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 2012, \$50,959 of development fees were recognized in revenue. During 2012, \$344,232 of development fees were received. At December 31, 2012 \$5,205,949 is deferred. At December 31, 2012, \$6,441,448 is receivable and is payable from cash flow.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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. As of December 31, 2012, all development fees were recognized in revenue, with \$398,611 recognized during 2012. During 2012, \$325,039 of development fees were received. At December 31, 2012, \$586,789 is receivable. The fee is payable from cash flow. Development fees payable from cash flow of the project are eliminated in these consolidated financial statements. Accordingly, development fee revenue, development fee receivable, and development fee payable of \$258,611, \$586,789 and \$586,789, respectively, were eliminated at December 31, 2012.

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, 2012, \$2,550,000 of the development fee has been capitalized into the rental property. As of December 31, 2012, all development fees were recognized in revenue, with \$1,840,240 recognized during 2012. During 2012, \$757,825 of development fees were received. At December 31, 2012, \$1,602,059 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, development fee revenue, development fee receivable and development fee payable of \$635,680 were eliminated at December 31, 2012.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of Arlington Mill Limited Partnership. The agreement calls for aggregate fees to APAH of \$2,582,183. As of December 31, 2012, \$840,617 of the development fee has been capitalized into the rental property. During 2012, \$731,617 of development fees were received. At December 31, 2012, \$109,000 is receivable. At December 31, 2012, \$840,617 is deferred. 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. At December 31, 2012, 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 2012, APAH rented office space at The Barkalow, a property it owns. Rental expense of \$28,125 was paid to The Barkalow in 2012. Such expense is eliminated in these consolidated financial statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012.

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 2012, program expenses paid to house Qualified Consumers and administration fees totaled \$35,805 and interest earned on the cash account totaled \$704. The remaining \$129,561 is included in other liabilities at December 31, 2012. The cash account balance in the amount of \$138,193 is included in restricted cash and cash equivalents at December 31, 2012. During 2012, APAH earned \$8,347 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 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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

assumed the agreement in connection with the contribution of the property (see note 4). During 2012, program expenses paid to house Qualified Applicants totaled \$112,095. The remaining, \$30,027 is included in other liabilities at December 31, 2012. The cash account balance in the amount of \$30,027 is included in restricted cash and cash equivalents at December 31, 2012.

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, 2012 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 \$138,193 and \$30,027, 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).

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, 2012 was \$28,648.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012 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, 2012, Columbia Grove, Inc. had net operating loss carryforwards of approximately \$1,539,330 for income tax purposes. Operating loss carryforwards of \$1,212,903, \$122,587, \$46,156, \$32,512, \$110,052 and \$15,120 expire in 2023, 2024, 2027, 2028, 2029 and 2030, respectively.

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 earned a development fee of \$500,000. In prior years,

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

development fees of \$450,000 were earned by APAH. During 2012, \$50,000 of 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, 2012 for either time restrictions or restrictions related to specific program services:

Grantor	Restriction	2012
Capital One	South Arlington Resident Services Program	\$ 240,978
County Board of Arlington County	Time - grant to be received in 2013	84,750
Geary-O'Hara Foundation	Columbia Grove Resident Services Program (\$49,273 is also time restricted and is to be received in future periods)	49,273
Citibank	Forum on affordable housing and financing	4,816
Enterprise	Carlyn pre-development costs	8,756
Freddie Mac Foundation	Columbia Grove Resident Services Program	12,722
Washington Forest Foundation	Buchanan Gardens Resident Services Program	5,000
Bank of America	Capacity Building	4,453
Endo-Tsukamoto Fund	Buchanan Gardens Resident Services Program	2,500
Kiwanis	Resident picnic and backpack drive	1,000
		<u>1,000</u>
Total		<u>\$ 414,248</u>

Note 15 - Construction Contracts

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 \$11,259,209. As of December 31, 2012, \$11,259,209 has been capitalized into the rental property. At December 31, 2012, \$652,152 remains payable.

Arlington Mill Limited Partnership entered into a contract with Hamel Builders, Inc, an unrelated party to perform general contractor services in conjunction with the construction of the project. The contract, as adjusted by change orders, amounted to \$15,127,353. As of December 31, 2012, \$1,523,726 has been capitalized into the rental property. At December 31, 2012, \$252,517 remains payable.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Note 16 - Ground lease

On August 29, 2012, Arlington Mill Limited Partnership entered into a ground lease with the County Board of Arlington County, Virginia. The lease agreement requires rent of \$1,550,000. The lease term commenced on August 29, 2012 and expires on August 28, 2087, with a 25 year extension option. During 2012, Arlington Mill Limited Partnership prepaid the rent in its entirety. The total lease payment will be amortized over the term of the lease using the straight-line method. Upon expiration of the lease, all improvements to the property revert to the lessor. The Partnership is responsible for all real estate taxes and maintenance of any improvements during the term of the lease. As of December 31, 2012, prepaid rent was \$1,543,111. Rent expense during 2012 was \$6,889 and is included in property operating and maintenance in the statement of functional expenses.

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 August 21, 2013 (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.

In April 2013, Virginia Housing Development Authority provided permanent financing in the form of a \$7,690,000 deed of trust note to Buchanan Gardens Limited Partnership. The note bears interest at a rate of 6.383% per annum. Beginning June 1, 2013, monthly payments of principal and interest in the amount of \$48,016 will be due through maturity on May 1, 2043, at which time all principal and interest shall be paid in full. The note is secured by a Deed of Trust. The Capital One construction loan was paid in full.

During 2013, APAH contributed \$1,500,000 to Carlyn Springs/Foxcroft Terrace Development Corporation for the purpose of reducing the principal balance of the first mortgage with United Bank. On April 9, 2013, the existing mortgage was converted to a secured revolving line of credit in the maximum principal amount of \$2,500,000. The note bears interest at the LIBOR Rate plus 325 basis points and is payable monthly. Principal curtailments will be made annually on the anniversary date of the note so that the maximum principal amount outstanding on the first

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

anniversary is \$2,438,000, \$2,370,000 on the second anniversary, \$2,302,000 on the third anniversary, and \$2,232,000 on the fourth anniversary. The entire outstanding principal balance plus accrued interest is due and payable on April 9, 2019. APAH has entered into a guaranty agreement for the benefit of Carlyn Springs/Foxcroft Terrace Development Corporation with a maximum liability of \$1,250,000.

During 2013, APAH contributed \$500,000 to Queen's Court Development Corporation for the purpose of reducing the principal balance of the first mortgage with United Bank. On April 9, 2013, the existing mortgage was converted to a secured revolving line of credit in the maximum principal amount of \$3,375,000. The note bears interest at the LIBOR Rate plus 325 basis points and is payable monthly. Principal curtailments will be made annually on the anniversary date of the note so that the maximum principal amount outstanding on the first anniversary is \$3,290,000, \$3,200,000 on the second anniversary, \$3,110,000 on the third anniversary, and \$3,015,000 on the fourth anniversary. The entire outstanding principal balance plus accrued interest is due and payable on April 9, 2019. APAH has entered into a guaranty agreement for the benefit of Queen's Court Development Corporation with a maximum liability of \$1,687,500.

On June 17, 2013, Rosslyn Ridge Apartment Limited Partnership received an additional mortgage from VHDA in the amount of \$3,050,000 and is secured by the property. The loan accrues interest at a rate of 5% and matures on March 1, 2044.

On June 17, 2013 Rosslyn Ridge Apartments Limited Partnership made a \$3,054,117 payment on the outstanding development fee due to APAH. APAH used those funds to acquire the 50% managing general partner interest in North Pierce Associates, LP. By acquiring the 50% interest owned by Paradigm North Pierce, Inc. APAH will now become the controlling member of Rosslyn Ridge Apartments Limited Partnership.

Supplementary Information

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position

December 31, 2012

	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	Cameron Commons LLC
ASSETS											
Cash and cash equivalents											
including \$233,694 of restricted cash	\$ 5,285,013	\$ 19,198	\$ 70,390	\$ -	\$ -	\$ 22,102	\$ 44,841	\$ 127,792	\$ 408,888	\$ 15,794	\$ 24,244
Grants and pledges receivable	583,464	-	-	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	1,375	5,336	-	-	1,615	1,408	-	10,863	6,722	(24)
Accounts receivable - other	203,219	-	-	-	-	-	-	300	1,825	509	-
Development fee receivable	8,772,815	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	15,237	1,089	3,281	-	-	1,729	3,808	1,552	10,412	2,166	1,324
Prepaid ground lease	-	-	-	-	-	-	-	-	-	-	-
Deposits	213,615	-	-	-	-	-	-	-	-	-	-
Mortgage escrow deposits	-	-	13,864	-	-	43,714	16,781	6,697	41,932	18,126	5,611
Replacement and redevelopment reserve	-	21,857	34,851	-	-	101,039	80,998	104,932	118,798	70,295	16,523
Other reserves	-	5,127	187,867	-	-	-	94,372	11,456	-	-	1
Property and equipment, net	69,539	874,607	7,318,816	-	-	1,397,163	3,616,794	1,629,621	28,327,022	1,145,642	2,226,945
Development in progress	131,765	-	-	-	-	19,165	-	-	-	-	-
Note receivable - related party	2,600,000	-	-	-	-	-	-	-	-	-	-
Interest receivable - related party	541,874	-	-	-	-	-	-	-	-	-	-
Funded residents' security deposits	-	5,519	18,873	-	-	18,663	21,242	8,853	71,655	10,896	9,459
Derivative	-	-	-	-	-	-	-	-	-	-	-
Investment in Fisher House Limited Partnership	-	-	-	1,225,647	-	-	-	-	-	-	-
Investment in North Pierce Associates	-	-	-	-	-	-	-	-	-	-	-
Investment in Courthouse Crossing Limited Partnership	(608)	-	-	-	-	-	-	-	-	-	-
Investment in Calvert Manor Limited Partnership	(273)	-	-	-	-	-	-	-	-	-	-
Investment in Lorcom Arms Limited Partnership	(116,428)	-	-	-	-	-	-	-	-	-	-
Investment in Cameron Commons LLC	-	-	-	-	-	-	-	-	-	-	-
Investment in Columbia Grove Limited Partnership	(170)	-	-	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	(88)	-	-	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	(869,058)	-	-	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-	-	-	-
Investment in stock	125,000	-	-	-	-	-	-	-	-	-	-
Mortgage loan costs, net	-	4,609	96,588	-	-	11,415	54,604	-	307,418	9,988	15,842
TOTAL ASSETS	\$ 17,554,916	\$ 933,381	\$ 7,749,866	\$ 1,225,647	\$ -	\$ 1,616,605	\$ 3,934,848	\$ 1,891,203	\$ 29,298,813	\$ 1,280,138	\$ 2,299,925
LIABILITIES											
Accounts payable and accrued expenses	\$ 71,359	\$ 3,223	\$ 8,664	\$ -	\$ 800	\$ 8,862	\$ 8,765	\$ 5,078	\$ 29,949	\$ 7,815	\$ 3,702
Accrued interest	-	3,360	184,314	-	-	1,290	449,114	7,884	3,121,343	9,290	390,277
Related party payable/(receivable)	(1,044,297)	235,149	20,868	922	957	-	298,021	122,883	-	-	53,820
Development fee payable	-	-	-	-	-	-	33,519	-	-	-	-
Deferred development fee	6,080,085	-	-	-	-	-	-	-	-	-	-
Deferred gain	2,600,000	-	-	1,555,000	-	-	-	-	-	-	-
Prepaid rents	-	-	4,106	-	-	582	321	489	3,304	949	16
Residents' security deposits	-	5,565	18,929	-	-	19,033	22,056	9,066	65,344	13,453	8,803
Notes payable	-	757,104	3,299,419	-	-	2,063,750	3,067,072	1,104,933	19,938,544	1,615,117	1,649,971
Construction and development costs payable	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	129,981	-	-	-	-	-	-	-	-	-	-
Total liabilities	7,837,128	1,004,401	3,536,300	1,555,922	1,757	2,093,517	3,878,868	1,250,333	23,158,484	1,646,624	2,106,589
NET ASSETS											
Unrestricted controlling	9,303,540	(71,020)	4,213,566	(330,275)	(1,757)	(476,912)	55,980	640,870	6,140,329	(366,486)	193,336
Unrestricted noncontrolling	-	-	-	-	-	-	-	-	-	-	-
Total unrestricted net assets	9,303,540	(71,020)	4,213,566	(330,275)	(1,757)	(476,912)	55,980	640,870	6,140,329	(366,486)	193,336
Temporarily restricted	414,248	-	-	-	-	-	-	-	-	-	-
Total net assets	9,717,788	(71,020)	4,213,566	(330,275)	(1,757)	(476,912)	55,980	640,870	6,140,329	(366,486)	193,336
TOTAL LIABILITIES AND NET ASSETS	\$ 17,554,916	\$ 933,381	\$ 7,749,866	\$ 1,225,647	\$ -	\$ 1,616,605	\$ 3,934,848	\$ 1,891,203	\$ 29,298,813	\$ 1,280,138	\$ 2,299,925

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position - Continue

December 31, 2012

	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	Arlington Mill Limited Partnership	Eliminations	Total
ASSETS											
Cash and cash equivalents											
including \$233,694 of restricted cash	\$ -	\$ 1,183,783	\$ 58,958	\$ -	\$ -	\$ -	\$ 771,339	\$ 161,129	\$ 40,926	\$ -	\$ 8,234,397
Grants and pledges receivable	-	-	-	-	-	-	-	-	-	-	583,464
Accounts receivable - residents	-	7,803	-	-	-	-	5,913	2,291	-	-	43,302
Accounts receivable - other	-	4,239	-	-	-	-	-	-	-	-	210,092
Development fee receivable	-	-	-	-	-	-	-	-	-	(1,255,988)	7,516,827
Prepaid expenses	-	15,223	-	-	-	-	6,833	6,534	-	-	69,188
Prepaid ground lease	-	-	-	-	-	-	-	-	1,543,111	-	1,543,111
Deposits	-	-	-	-	-	13,770	-	-	73,650	-	301,035
Mortgage escrow deposits	-	-	-	-	-	-	-	29,619	4,983	-	181,327
Replacement and redevelopment reserve	-	229,808	-	-	-	-	23,703	296,780	-	-	1,099,584
Other reserves	-	-	-	-	-	-	-	-	656,465	-	955,288
Property and equipment, net	-	22,145,515	-	-	-	-	26,149,966	12,356,150	8,412,551	(9,943,616)	105,726,715
Development in progress	-	-	-	-	-	-	-	-	-	-	150,930
Note receivable - related party	-	-	-	-	-	-	-	-	-	(2,600,000)	-
Interest receivable - related party	-	-	-	-	-	-	-	-	-	(541,874)	-
Funded residents' security deposits	-	120,772	-	-	-	-	73,584	95,203	-	-	454,719
Derivative	-	-	-	-	-	-	-	-	7,793	-	7,793
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	-	-	-	(1,225,647)	-
Investment in North Pierce Associates	-	-	-	5,999,289	-	-	-	-	-	-	5,999,289
Investment in Courthouse Crossing Limited Partnership	-	-	-	-	-	-	-	-	-	608	-
Investment in Calvert Manor Limited Partnership	-	-	-	-	-	-	-	-	-	273	-
Investment in Lorcom Arms Limited Partnership	-	-	-	-	-	-	-	-	-	116,428	-
Investment in Cameron Commons LLC	(193,383)	-	-	-	-	-	-	-	-	-	193,383
Investment in Columbia Grove Limited Partnership	-	-	486,282	-	-	-	-	-	-	-	(486,112)
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	-	-	-	88
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-	-	869,058	-
Investment in Marbella Development LLC	-	-	-	-	(869,058)	-	-	-	-	-	869,058
Investment in stock	-	-	-	-	-	-	-	-	-	(125,000)	-
Mortgage loan costs, net	-	271,434	-	-	-	-	186,046	142,542	297,465	-	1,397,951
TOTAL ASSETS	\$ (193,383)	\$ 23,978,577	\$ 545,240	\$ 5,999,289	\$ (869,058)	\$ 13,770	\$ 27,217,384	\$ 13,090,248	\$ 11,036,944	\$ (14,129,341)	\$ 134,475,012
LIABILITIES											
Accounts payable and accrued expenses	\$ 800	\$ 7,535	\$ 15,000	\$ -	\$ 2,000	\$ -	\$ 34,429	\$ 11,604	\$ 23,981	\$ -	\$ 243,566
Accrued interest	-	2,041,659	-	-	-	-	447,200	160,177	12,696	(541,874)	6,286,730
Related party receivable/(payables)	4,054	67,448	27,497	7,739	2,392	51,336	159,900	24,714	715	-	34,118
Development fee payable	-	586,789	-	-	-	-	1,602,059	-	109,000	(1,255,988)	1,075,379
Deferred development fee	-	-	-	-	-	-	-	-	-	(33,519)	6,046,566
Deferred gain	-	-	2,041,621	6,000,000	-	1,421,838	-	-	-	(7,618,459)	6,000,000
Prepaid rents	-	538	-	-	-	-	2,691	85	-	-	13,081
Residents' security deposits	-	118,954	-	-	-	-	70,196	92,309	-	-	443,708
Notes payable	-	17,998,035	-	-	-	-	21,384,402	13,670,417	6,258,238	(2,600,000)	90,207,002
Construction and development costs payable	-	-	-	-	-	-	652,152	-	252,517	-	904,669
Other liabilities	-	30,027	-	-	-	-	-	-	-	-	160,008
Total liabilities	4,854	20,850,985	2,084,118	6,007,739	4,392	1,473,174	24,353,029	13,959,306	6,657,147	(12,049,840)	111,414,827
NET ASSETS											
Unrestricted controlling	(198,237)	3,127,592	(1,538,878)	(8,450)	(873,450)	(1,459,404)	2,864,355	(869,058)	4,379,797	(23,229,637)	1,495,801
Unrestricted noncontrolling	-	-	-	-	-	-	-	-	-	21,150,136	(a) 21,150,136
Total unrestricted net assets	(198,237)	3,127,592	(1,538,878)	(8,450)	(873,450)	(1,459,404)	2,864,355	(869,058)	4,379,797	(2,079,501)	22,645,937
Temporarily restricted	-	-	-	-	-	-	-	-	-	-	414,248
Total net assets	(198,237)	3,127,592	(1,538,878)	(8,450)	(873,450)	(1,459,404)	2,864,355	(869,058)	4,379,797	(2,079,501)	23,060,185
TOTAL LIABILITIES AND NET ASSETS	\$ (193,383)	\$ 23,978,577	\$ 545,240	\$ 5,999,289	\$ (869,058)	\$ 13,770	\$ 27,217,384	\$ 13,090,248	\$ 11,036,944	\$ (14,129,341)	\$ 134,475,012

(a) Allocation of non-controlling interest

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities

Year ended December 31, 2012

	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	Cameron Commons LLC
REVENUE AND OTHER SUPPORT											
Rental revenue - net	\$ -	\$ 229,919	\$ 463,837	\$ -	\$ -	\$ 529,753	\$ 539,821	\$ 283,623	\$ 1,713,056	\$ 421,742	\$ 196,404
Grants and contributions	907,235	-	-	-	-	-	-	-	-	-	-
Development fee income	2,391,926	-	-	-	-	-	-	-	-	-	-
Interest income	194,382	66	450	-	-	225	564	282	3,688	96	46
Loss from equity investment in partnership interest	(312,024)	-	-	(13)	-	-	-	-	-	-	-
Other income	220,054	5,937	22,844	-	-	13,503	9,968	4,980	47,743	8,851	5,755
Special events revenue, net of expenses	207,537	-	-	-	-	-	-	-	-	-	-
Total revenue	3,609,110	235,922	487,131	(13)	-	543,481	550,353	288,885	1,764,487	430,689	202,205
EXPENSES											
Administrative	1,249,985	31,139	88,777	-	1,200	85,823	71,309	76,432	264,135	141,324	44,076
Operations and maintenance	-	39,954	84,365	-	-	81,813	100,799	56,646	223,623	75,407	44,019
Utilities	1,829	31,530	25,264	-	-	40,039	45,944	18,327	115,902	50,223	20,056
Insurance	37,853	7,172	18,836	-	-	18,289	23,176	11,021	64,409	14,126	8,682
Taxes	-	20,752	43,939	112	27	46,531	48,584	23,722	165,568	36,327	17,531
Interest	11,274	37,470	159,624	-	-	85,106	189,477	55,525	1,099,296	74,942	72,871
Depreciation and amortization	13,938	44,132	203,777	-	-	53,870	166,548	46,835	671,240	42,169	64,668
Acquisition costs	-	-	-	-	-	-	-	-	-	-	-
Unrealized loss	-	-	-	-	-	-	-	-	-	-	-
Total expenses	1,314,879	212,149	624,582	112	1,227	411,471	645,837	288,508	2,604,173	434,518	271,903
Excess of revenue over expenses (expenses over revenue)	2,294,231	23,773	(137,451)	(125)	(1,227)	132,010	(95,484)	377	(839,686)	(3,829)	(69,698)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ 2,294,231</u>	<u>\$ 23,773</u>	<u>\$ (137,451)</u>	<u>\$ (125)</u>	<u>\$ (1,227)</u>	<u>\$ 132,010</u>	<u>\$ (95,484)</u>	<u>\$ 377</u>	<u>\$ (839,686)</u>	<u>\$ (3,829)</u>	<u>\$ (69,698)</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities - Continued

Year ended December 31, 2012

	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	Arlington Mill Limited Partnership	Eliminations	Consolidated
REVENUE AND OTHER SUPPORT											
Rental revenue - net	\$ -	\$ 2,954,493	\$ -	\$ -	\$ -	\$ -	\$ 1,189,567	\$ 1,721,467	\$ -	\$ (28,125)	\$ 10,215,557
Grants and contributions	-	-	-	-	-	-	-	-	-	(105,000)	802,235
Development fee income	-	-	-	-	-	-	-	-	-	(946,407)	1,445,519
Interest income	-	804	-	-	-	-	587	940	-	(187,811)	14,319
Loss from equity investment in partnership interest	(48,091)	-	(41)	(109)	(311,825)	-	-	-	-	671,994	(109)
Other income	-	93,115	-	-	-	-	33,495	33,788	-	(197,469)	302,564
Special events revenue, net of expenses	-	-	-	-	-	-	-	-	-	-	207,537
Total revenue	(48,091)	3,048,412	(41)	(109)	(311,825)	-	1,223,649	1,756,195	-	(792,818)	12,987,622
EXPENSES											
Administrative	-	453,066	-	7,000	1,200	7,600	325,300	272,229	51	(330,594)	2,790,052
Operations and maintenance	-	472,976	-	-	-	-	181,899	322,455	6,889	-	1,690,845
Utilities	-	198,481	-	-	-	-	125,870	149,075	-	-	822,540
Insurance	-	100,123	-	-	-	-	48,170	48,320	-	-	400,177
Taxes	27	270,545	102	2	(465)	53	78,918	159,796	-	-	912,071
Interest	-	1,387,612	-	-	-	-	542,001	712,440	-	(187,811)	4,239,827
Depreciation and amortization	-	576,909	-	-	-	-	541,408	403,705	-	(152,182)	2,677,017
Acquisition costs	-	-	-	-	-	-	27,990	-	-	-	27,990
Unrealized loss	-	-	-	-	-	-	-	-	21,554	-	21,554
Total expenses	27	3,459,712	102	7,002	735	7,653	1,871,556	2,068,020	28,494	(670,587)	13,582,073
Excess of revenue over expenses (expenses over revenue)	(48,118)	(411,300)	(143)	(7,111)	(312,560)	(7,653)	(647,907)	(311,825)	(28,494)	(122,231)	(594,451)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-	-	(2,159,743) (a)	(2,159,743)
Excess of revenue over expenses (expenses over revenue) attributable to APAH	\$ (48,118)	\$ (411,300)	\$ (143)	\$ (7,111)	\$ (312,560)	\$ (7,653)	\$ (647,907)	\$ (311,825)	\$ (28,494)	\$ 2,037,512	\$ 1,565,292

(a) Allocation of non-controlling interest