

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

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

December 31, 2013

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, 2013, 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, 2013, 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 44 to 49 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 black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland
July 7, 2014

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
December 31, 2013**

ASSETS

CURRENT ASSETS

Cash and cash equivalents, including		\$ 7,996,249
\$93,991 of restricted cash		246,552
Grants and pledges receivable		
Accounts receivable		
Residents	\$ 43,219	
Other	<u>55,731</u>	98,950
Development fee receivable - affiliate		1,736,268
Prepaid expenses		120,816
Prepaid ground lease, current portion		20,667
Deposits		271,995
Mortgage escrow deposits		<u>372,007</u>
Total current assets		<u>10,863,504</u>

PROPERTY AND EQUIPMENT

Land		49,820,365
Buildings, furniture and equipment		117,942,769
Construction in progress		<u>23,869,227</u>
		191,632,361
Less accumulated depreciation		<u>15,370,991</u>
Total property and equipment		<u>176,261,370</u>

OTHER ASSETS

Pledges receivable, net of current portion		100,000
Residents' security deposits		616,736
Development in progress		1,162,873
Mortgage loan costs, net of accumulated amortization of \$822,803		1,344,326
Replacement reserves		1,512,263
Other reserves		3,631,837
Prepaid ground lease, net of current portion		1,501,777
Derivative		<u>376</u>
Total other assets		<u>9,870,188</u>

TOTAL ASSETS

\$196,995,062

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
December 31, 2013**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 412,219
Accrued interest, current portion	490,566
Accounts payable - related party	51,018
Prepaid rents	8,559
Notes payable, current maturities	1,194,257
Construction and development costs payable	3,294,497
Development fee payable	1,736,268
Deferred cable revenue - current portion	<u>1,830</u>
 Total current liabilities	 <u>7,189,214</u>
 OTHER LIABILITY	
Residents' security deposits	<u>603,601</u>
 Total other liability	 <u>603,601</u>
 LONG-TERM LIABILITIES	
Notes payable, less current maturities (see Note 3)	145,264,902
Accrued interest, less current portion	6,435,342
Deferred development fee (see Note 6)	2,321,356
Deferred cable revenue, less current portion	16,470
Other liabilities	<u>92,482</u>
 Total long-term liabilities	 <u>154,130,552</u>
 COMMITMENTS AND CONTINGENCIES	
	<u>-</u>
 NET ASSETS	
Unrestricted controlling	8,855,710
Unrestricted noncontrolling (see Note 1)	<u>25,830,768</u>
 Total unrestricted net assets	 34,686,478
 Temporarily restricted	 <u>385,217</u>
 Total net assets	 <u>35,071,695</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$196,995,062</u></u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Activities
Year Ended December 31, 2013**

	Unrestricted	Temporarily restricted	Total
Revenue and other support			
Grants and contributions	\$ 646,550	\$ 336,043	\$ 982,593
Rental revenue - net	13,526,512	-	13,526,512
Development fee income	1,823,468	-	1,823,468
Interest income	4,336	-	4,336
Other income	423,723	-	423,723
Special events, net of expenses of \$26,045	252,931	-	252,931
Gain on business combination	4,039,701		4,039,701
	<u>20,717,221</u>	<u>336,043</u>	<u>21,053,264</u>
Net assets released from restrictions	<u>365,074</u>	<u>(365,074)</u>	<u>-</u>
Total revenue and other support	<u>21,082,295</u>	<u>(29,031)</u>	<u>21,053,264</u>
Expenses			
Program services (including interest expense of \$5,519,232 and depreciation and amortization of \$4,437,212)	17,656,697	-	17,656,697
Supporting services			
Management and general (including depreciation of \$26,398)	639,057	-	639,057
Fundraising	64,684	-	64,684
Total expenses	<u>18,360,438</u>	<u>-</u>	<u>18,360,438</u>
Excess of revenue over expenses (expenses over revenue)	<u>2,721,857</u>	<u>(29,031)</u>	<u>2,692,826</u>
Excess of expenses over revenue attributable to noncontrolling interests	<u>(3,984,291)</u>	<u>-</u>	<u>(3,984,291)</u>
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ 6,706,148</u>	<u>\$ (29,031)</u>	<u>\$ 6,677,117</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2013**

	Program services			Management and general	Fundraising	Total
	Rental properties	General operations	Subtotal			
Interest expense	\$ 5,519,232	\$ -	\$ 5,519,232	\$ -	\$ -	\$ 5,519,232
Salaries	1,067,578	910,603	1,978,181	326,495	52,668	2,357,344
Depreciation and amortization	4,437,212	-	4,437,212	26,398	-	4,463,610
Change in fair value of derivative instrument	7,417	-	7,417	-	-	7,417
Utilities	917,944	-	917,944	2,067	-	920,011
Property operating and maintenance	1,412,459	-	1,412,459	-	-	1,412,459
Licenses and taxes	1,413,696	-	1,413,696	24,369	-	1,438,065
Management fee	598,001	-	598,001	-	-	598,001
Property administrative expenses	588,097	-	588,097	65,773	-	653,870
Auditing and accounting	152,522	-	152,522	45,400	-	197,922
Insurance	438,514	-	438,514	40,401	-	478,915
Telephone	119,056	-	119,056	6,048	-	125,104
Legal	20,230	-	20,230	1,090	-	21,320
Development and consulting services	-	-	-	26,344	10,249	36,593
Printing and copying	-	-	-	8,529	-	8,529
Supplies	-	-	-	18,595	-	18,595
Advertising	-	-	-	13,300	-	13,300
Postage and delivery	-	-	-	3,589	1,767	5,356
Training	-	-	-	23,717	-	23,717
Travel	-	-	-	2,755	-	2,755
Books and publications	-	-	-	4,187	-	4,187
Property expenses	-	54,136	54,136	-	-	54,136
	<u>\$ 16,691,958</u>	<u>\$ 964,739</u>	<u>\$ 17,656,697</u>	<u>\$ 639,057</u>	<u>\$ 64,684</u>	<u>\$ 18,360,438</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, 2013**

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Net assets, December 31, 2012	\$ 1,495,801	\$ 21,150,136	\$ 22,645,937	\$ 414,248	\$ 23,060,185
Capital contributions from noncontrolling interests	-	8,228,562	8,228,562	-	8,228,562
Transfer of interest	653,761	(653,761)	-	-	-
Other increases from business combination	-	1,090,122	1,090,122	-	1,090,122
Excess of expenses over revenue attributable to noncontrolling interests	-	(3,984,291)	(3,984,291)	-	(3,984,291)
Excess of revenue over expenses attributable to controlling interests	<u>6,706,148</u>	<u>-</u>	<u>6,706,148</u>	<u>(29,031)</u>	<u>6,677,117</u>
Net assets, December 31, 2013	<u>\$ 8,855,710</u>	<u>\$ 25,830,768</u>	<u>\$ 34,686,478</u>	<u>\$ 385,217</u>	<u>\$ 35,071,695</u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows
Year Ended December 31, 2013**

Cash flows from operating activities	
Excess of revenue over expenses	\$ 2,692,826
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	4,463,610
Bad debt	18,812
Change in fair value of derivative instrument	7,417
Accretion of loan fair value adjustment	(240,437)
Gain on business combination	(4,039,701)
Decrease in pledges receivable	236,912
Increase in residents' accounts receivable	(12,542)
Decrease in accounts receivable - other	154,361
Decrease in development fee receivable	(441,802)
Increase in mortgage escrow deposits	(32,051)
Increase in prepaid expenses	(32,016)
Decrease in deposits	17,010
Decrease in prepaid ground lease	20,667
Increase in accounts payable and accrued expenses	58,662
Increase in accrued interest	1,281,681
Decrease in prepaid rents	(6,090)
Decrease in deferred development fee	(1,480,739)
Increase in deferred laundry revenue	18,300
Decrease in other liability	(67,526)
Net decrease in residents' security deposits	(892)
	2,616,462
Net cash provided by operating activities	
Cash flows from investing activities	
Net purchases of land, property and equipment, construction in progress and development in progress	(12,965,123)
Increase in replacement and redevelopment reserves	(154,446)
Increase in other reserves	(973,438)
Acquisition related deposit paid	(199,771)
Cash assumed in business combination	399,973
	(13,892,805)
Net cash used in investing activities	

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows
Year Ended December 31, 2013**

Cash flows from financing activities	
Proceeds from notes payable	20,538,436
Repayment of notes payable	(17,639,826)
Capital contributions received from noncontrolling interests	8,228,562
Repayment of advances from affiliates	16,900
Mortgage costs paid	<u>(111,009)</u>
Net cash provided by financing activities	<u>11,033,063</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(243,280)
Cash and cash equivalents, beginning	<u>8,239,529</u>
Cash and cash equivalents, end	<u><u>\$ 7,996,249</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest during the year, net of amount capitalized	<u><u>\$ 4,477,990</u></u>
Supplemental schedule of non-cash investing and financing activities	
Change in construction and development costs payable for additions to property and equipment	<u><u>\$ (2,365,847)</u></u>
Property and equipment increased due to an increase in accrued interest payable at December 31, 2013	<u><u>\$ (859,808)</u></u>
Property and equipment increased due to an increase in development fee payable at December 31, 2013	<u><u>\$ 1,093,411</u></u>
Additions to accumulated amortization capitalized to rental property at December 31, 2013	<u><u>\$ 60,426</u></u>
Net assets acquired and liabilities assumed during business combination	<u><u>\$ 6,071,204</u></u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

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 resident services increases resident stability by connecting at-risk individuals and families to services and provides programs on workplace skills, financial education, health and well-being and community building. 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, Columbia Grove Apartments Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House, LP, Lorcom Arms Limited Partnership, and Rosslyn Ridge Apartments 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, Calvert Manor Limited Partnership, 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 and Queen's Court Development Corporation is identical to the executive committee of the board of directors of APAH.

Rosslyn Ridge Development Corporation became an Arlington County designated Community Housing Development Organization ("CHDO") on June 9, 2011. To maintain certification as a CHDO, one third of the board of directors of Rosslyn Ridge Development Corporation must be comprised of a) residents of low-income neighborhoods, b) low-income residents, or c) elected representatives of a low-income neighborhood organization. The remaining two thirds of the board of directors are comprised of members of the executive committee of APAH's board of directors. Marbella Development, LLC is a wholly-

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

owned subsidiary of Rosslyn Ridge Development Corporation, and its board of directors is identical to Rosslyn Ridge Development Corporation.

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. - APAH Rosslyn Ridge, Inc. was formed in 2006 as a wholly-owned subsidiary, which is structured as a corporation, to act as general partner with a 1% interest and as a limited partner with a 49% interest in North Pierce Associates Limited Partnership. An unrelated entity held the remaining 1% general partner interest and 49% limited partner interest in North Pierce Associates Limited Partnership. On June 14, 2013, APAH acquired the 50% interest in North Pierce Associates Limited Partnership from the unrelated entity. North Pierce Associates Limited Partnership is the general partner with a .0008% 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, 2013, 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 ("The Barkalow"), 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.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

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 owned 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. On October 21, 2013, APAH was assigned the remaining 99.9% of partnership interest. As of December 31, 2013, APAH has contributed \$78,544 in connection with a moderate rehabilitation of the property.

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 apartments 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.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

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.

North Pierce Associates Limited Partnership - North Pierce Associates is the general partner with a .0008% interest in Rosslyn Ridge Apartments Limited Partnership. APAH Rosslyn Ridge, Inc. is the general partner with a 1% interest and the limited partner with a 49% interest in North Pierce Associates Limited Partnership. The investment in North Pierce Associates was stated at cost adjusted for APAH Rosslyn Ridge Inc.'s equity in income and loss and for cash distributions (the "equity method").

On June 14, 2013, APAH acquired the other 50% interest in North Pierce Associates Limited Partnership from an unrelated entity. APAH effectively owns 100% interest of North Pierce Associates Limited Partnership through APAH Rosslyn Ridge, Inc. Accordingly, North Pierce Associates Limited Partnership and Rosslyn Ridge Apartments Limited Partnership were consolidated with APAH in these consolidated financial statements.

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 building, located in the Rosslyn neighborhood, on May 12, 1994. The Corporation

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

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.

Rosslyn Ridge Apartments Limited Partnership - On November 13, 2006, Rosslyn Ridge Apartments Limited Partnership was formed for the purpose of acquiring, constructing and operating 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. North Pierce Associates Limited Partnership is the .0008% general partner. An unrelated limited partner owns the remaining 99.9992% of partnership interests.

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. Information is required to segregate program service expenses from support expenses.

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, 2013 was \$18,812.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2013**

December 31, 2013, 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 or business combination. Depreciation is computed on the straight-line method over the estimated service lives of the respective assets. The depreciable lives are as follows:

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

Management reviews its real estate for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the properties are less than their carrying amount, management compares the carrying amount of the properties to their fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the assets' carrying value over their estimated fair value. No impairment loss has been recognized for the year ended December 31, 2013.

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.

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

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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, 2013 was \$104,208. Estimated amortization expense for each of the ensuing years through December 31, 2018 is \$88,240, \$52,860, \$50,000, \$50,198, and \$50,672, respectively.

Donated materials

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

Income taxes

APAH and its subsidiaries, Buchanan Gardens II, LLC, Cameron Commons Development Corporation, Carlyn Springs/Foxcroft Terrace Development Corporation, Fisher House Development Corporation, Queen's Court Development Corporation, and Rosslyn Ridge Development Corporation 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, 2013. APAH and Subsidiaries are required to file and do file tax returns with the IRS and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes for APAH and its exempt Subsidiaries and they have no other tax positions which must be considered for disclosure. Each of the organizations except Barkalow Limited Liability Company, Buchanan Gardens II, LLC and Marbella Development LLC, file separate tax returns.

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

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

Arlington Mill Limited Partnership, Buchanan Gardens Limited Partnership, Calvert Manor Limited Partnership, Columbia Grove Apartments Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House, LP, Lorcom Arms Limited Partnership, and

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Rosslyn Ridge Apartments 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 for the Limited Partnerships and they 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 2010 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 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 connection with the business combination, the Rosslyn Ridge Apartments Limited Partnership recorded in-place leases in the amount of \$1,184,954 which were amortized over six months. In determining the fair value of the acquired lease origination costs, the partnership has estimated current market rents, lease execution costs and expected lease-up periods. During the year ended December 31, 2013, amortization expense of \$1,184,954 was recognized and charged to operations. Accumulated amortization at December 31, 2013 totaled \$1,184,954. As of December 31, 2013, 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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

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.

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 APAH. Unobservable inputs are inputs that reflect the APAH'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 December 31, 2013

The following methods and assumptions were used to estimate the fair value of assets and liabilities for which it is practicable to estimate that value:

On June 14, 2013, APAH made the following nonrecurring fair value measurements related to the business combination of Rosslyn Ridge Apartments Limited Partnership:

Property and equipment - In determining the fair value of Rosslyn Ridge Apartments Limited Partnerships property and equipment, APAH used internally developed models, which are primarily based on market observable inputs and by discounting the future cash flows using the current rate of return and capitalization rate of similar properties (see Note 2).

Other assets and liabilities - The carrying amounts approximate fair value because of the short maturity of these instruments (see Note 2).

Mortgage payable - In determining the fair value of Rosslyn Ridge Apartments Limited Partnership's notes payable and development fee payable, APAH used the present value of expected cash flows based on market observable interest rate yield curve commensurate with the term of the instrument (see Note 2).

Derivative instrument - On a recurring basis, APAH measures Arlington Mill Limited Partnership's derivative instrument at its estimated fair value. In determining the fair value of the derivative instruments, APAH uses the present value of expected cash flows based on market observable interest rate yield curve commensurate with the term of the instrument. APAH incorporates credit valuation adjustments to appropriately reflect both Arlington Mill Limited Partnership's 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 Arlington Mill Limited 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.

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**Notes to Consolidated Financial Statements
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The following table presents assets and liabilities that were measured at fair value on a nonrecurring basis as of June 14, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Other assets	\$ -	\$ -	\$ 2,697,286
Land	-	-	22,750,350
Buildings, furniture and equipment	-	-	34,970,949
In-place leases	-	-	1,184,954
Other liabilities	-	-	(280,717)
Notes payable	-	-	(52,707,529)
Accrued interest	-	-	(217,305)
Developer fee payable	-	-	(2,326,784)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,071,204</u>

The following table presents the asset that was measured at fair value on a recurring basis as of December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate cap	<u>\$ -</u>	<u>\$ 376</u>	<u>\$ -</u>

Note 2 - Business combination

On June 14, 2013, APAH obtained the controlling interest in Rosslyn Ridge Apartments Limited Partnership by acquiring a 50% interest in North Pierce Associates Limited Partnership from an unrelated entity.

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**Notes to Consolidated Financial Statements
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The following table summarizes the consideration paid for North Pierce Associates Limited Partnership and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest in Rosslyn Ridge Apartments Limited Partnership:

<u>At June 14, 2013</u>	
Consideration	
Cash	<u>\$ 3,268,878</u>
Fair value of total consideration transferred	3,268,878
Fair value of the APAH Rosslyn Ridge, Inc. equity interest in North Pierce Associates Limited Partnership held before the business combination	<u>1,712,204</u>
Fair Value of controlling interest at acquisition date	<u><u>\$ 4,981,082</u></u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Other assets	\$ 2,697,286
Land	22,750,350
Buildings, furniture and equipment	34,970,949
In-place leases	1,184,954
Other liabilities	(280,717)
Notes payable	(52,924,834)
Developer fee payable	<u>(2,326,784)</u>
Total identifiable net assets	6,071,204
Noncontrolling interest in Rosslyn Ridge Apartments Limited Partnership	<u>(1,090,122)</u>
Fair Value of controlling interest at acquisition date	<u><u>\$ 4,981,082</u></u>

The fair value of the noncontrolling interest in Rosslyn Ridge Apartments Limited Partnership was estimated by applying the income approach and a market approach. This fair value measurement is based on significant inputs that are not observable in the market. Key assumptions include a discount rate of 16%, a terminal value in 10 years, and adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the noncontrolling interest in Rosslyn Ridge Apartments Limited Partnership.

APAH recognized a gain of \$4,039,701 as a result of remeasuring to fair value its 50% equity interest in North Pierce Associates Limited Partnership held before the business combination.

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Note 3 - Notes payable

Arlington partnership for affordable housing

On July 5, 2005, United Bank provided a line of credit to APAH in the amount of \$250,000. The note bears interest at a rate of 1% over the Wall Street Journal Prime (4.25% at December 31, 2013). 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. No funds have been drawn as of December 31, 2013.

On January 24, 2011, United Bank provided another line of credit to APAH in the amount of \$500,000. The note bears interest at a rate of 1% over the Wall Street Journal Prime (4.25% at December 31, 2013). 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, 2013.

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 2013, \$5,476,345 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 October 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 October 1, 2014, 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, 2013, the outstanding principal balance and accrued interest were \$8,098,537 and \$20,846, respectively. During 2013, interest incurred and capitalized was \$136,920.

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 one-month London Interbank Offered Rate ("LIBOR") rate (0.169% at December 31, 2013) 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, 2013, the outstanding principal and accrued interest were \$9,728,738 and \$18,499, respectively. During 2013, interest incurred and capitalized was \$137,162.

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 \$376. The change in fair value of the interest rate cap

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Notes to Consolidated Financial Statements December 31, 2013

for the year ended December 31, 2013 was \$7,417, 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 ("VHDA") 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, 2013, the outstanding principal balance and accrued interest were \$729,901 and \$2,950, respectively. During 2013, interest charged to operations was \$35,729.

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 bore interest at the greater of the one-year LIBOR rate (0.58% at December 31, 2013) plus 3.5% per annum or 4.75% per annum. Commencing on June 1, 2011, and continuing on the first day of each succeeding calendar month thereafter, monthly payments of interest-only were due until the maturity date. Unpaid principal and accrued interest thereon, was due and payable on May 1, 2013, the maturity date. During 2013, additional loan advances in the amount of \$820,099 were received. Payments in the amount of \$13,468,543 were made on the loan of which \$6,805,798 was funded from proceeds of the VHDA permanent loan and applied to outstanding principal and \$6,662,745 was funded from proceeds of limited partner capital contributions and applied \$6,614,133 to outstanding principal and \$48,612 to accrued interest thereon. As of December 31, 2013, the outstanding balance of the construction loan and accrued interest was paid in full. During 2013, interest charged to operations was \$128,067.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an Affordable Housing Investment Fund ("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 fair value adjustment is accreted over

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

the remaining term of the note using the effective yield method. The outstanding principal balance and accrued interest on the loan at face value at December 31, 2013 was \$11,712,603 and \$640,781, respectively. The carrying value, including accrued interest of \$680,907, was \$9,465,477 at December 31, 2013. During 2013, interest charged to operations was \$282,319, which includes accretion of fair value catch up adjustment of \$40,126.

On April 30, 2013, the partnership entered into a mortgage note with the VHDA in the original amount of \$7,690,000. The note bears interest at a rate of 6.383%. Beginning June 1, 2013, monthly payments of principal and interest in the amount of \$48,016 are due through maturity on May 1, 2043. The mortgage is secured by a first deed of trust and an assignment of leases and rents on the rental property. In accordance with the mortgage note, the partnership has agreed not to pay the outstanding mortgage note or any part thereof prior to the prepayment date which is 10 years after the date of the note or April 30, 2023. Subsequent to the prepayment date, the partnership shall have the right to prepay the mortgage note subject to a prepayment fee, as defined in the mortgage note. As of December 31, 2013, the outstanding principal balance was \$7,639,418. No interest remained payable at December 31, 2013. During 2013, interest charged to operations was \$286,893.

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 bore interest at the rate of 5.00% and was payable in monthly installments of principal and interest of \$5,315 commencing on August 1, 1998, based upon a 30-year amortization schedule. On November 7, 2013, the partnership made a payment in the amount of \$661,929, which paid off the note in full. The note had a maturity date of July 1, 2013, which was extended until the payoff date of November 7, 2013. During 2013, interest charged to operations was \$28,818.

On November 7, 2013, the partnership entered into a deed of trust note in the amount of \$2,225,143, payable to VHDA. The note bears interest at the rate of 2.724% per annum during the construction period until June 15, 2014, during which time monthly payments of interest-only are required. Commencing on June 16, 2014, the note bears interest at a rate of 3.309% per annum and is payable in monthly installments of principal and interest based upon a 30-year amortization schedule. The note was secured by the real estate collateral, improvements, easements or other interest, assignment of rents, assignments of leases and personal property. In accordance with the mortgage note, the partnership has agreed not to pay the outstanding mortgage note or any part thereof prior to the prepayment date which is 10 years after the date of the note or November 7, 2023. Subsequent to the prepayment date, the partnership shall have the right to prepay the mortgage note subject to a prepayment fee, as defined in the mortgage note. During 2013, the partnership received advances in the amount of \$408,430. As of December 31, 2013, the outstanding principal balance and accrued interest were \$408,430 and \$587, respectively. Interest amounted to \$1,329 during 2013, of which \$462 was capitalized to construction in progress and \$867 was expensed and charged to operations.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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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 4.00%, 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. As of December 31, 2013, the outstanding principal balance and accrued interest were \$415,573 and \$21,127, respectively. During 2013, interest charged to operations was \$16,557.

Cameron Commons, LLC

On July 3, 2008, Cameron Commons, LLC assumed a 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, 2013, the outstanding principal balance and accrued interest were \$543,064 and \$3,312, respectively. During 2013, interest charged to operations was \$22,388.

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 noninterest 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, 2013, the outstanding principal balance was \$15,083.

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, 2013, the \$25,000 grant balance is included in notes payable.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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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 30 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. No payments were made during 2013. 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, 2013, the outstanding principal balance and accrued interest were \$1,048,000 and \$437,189, respectively. During 2013, interest charged to operations was \$50,224.

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 was payable in monthly principal and interest installments based on a 30-year amortization schedule. 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 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 \$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. During 2013, \$21,841 was advanced under this loan. The outstanding principal balance and accrued interest were paid in full as of December 31, 2013. During 2013, interest expense of \$8,005 was charged to operations.

Columbia Grove Apartments Limited Partnership

VHDA has provided financing to the partnership in the form of a \$14,755,000 deed of trust note dated October 28, 2008. The note bears interest at the rate of 7.403%. Interest-only

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payments are payable in monthly installments for the first 14 months following the date of this agreement. Beginning in June 1, 2010, monthly principal and interest payments in the amount of \$98,464 are payable through maturity in May 2045. The mortgage is secured by a deed of trust and an assignment of leases and rents on the property. As of December 31, 2013, the outstanding principal balance and accrued interest were \$14,390,011 and \$90,456, respectively. During 2013, interest charged to operations was \$1,069,824.

On October 30, 2008, the partnership assumed subordinated financing in the form of an AHIF/HOME and CDBG loan provided by The County Board of Arlington County, Virginia. The note is secured by a deed of trust. The assumed debt included 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 fair value adjustment is accreted over the remaining term of the note using the effective yield method. The outstanding balance, including accrued interest of \$909,049 on the loan at face value at December 31, 2013 was \$6,462,490. During 2013, a payment in the amount of \$131,322 was made from residual receipts and applied to accrued interest. The carrying value, including accrued interest of \$565,226, was \$1,965,226 at December 31, 2013. During 2013, interest charged to operations was (\$92,249), which includes accretion of fair value catch up adjustment of (\$343,822).

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an AHIF 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. The note is secured by a deed of trust. 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 1st 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. As of December 31, 2013, the outstanding principal balance and accrued interest were \$3,000,000 and \$323,859, respectively. During 2013, interest charged to operations was \$65,174.

Courthouse Crossings Limited Partnership

On March 20, 2008, the partnership entered into a mortgage note with the VHDA in the original amount of \$8,600,000. 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

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assignment of leases and rents on the rental property. As of December 31, 2013, the outstanding principal balance and accrued interest were \$8,097,371 and \$41,656, respectively. During 2013, interest charged to operations was \$476,687.

In connection with the acquisition of the property on June 1, 2006, the partnership assumed an AHIF loan 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 the accrued loan 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. Annual payments are due 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 is paid in full. The development fee payable was paid in full in 2012. Beginning in 2013, 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 VHDA note. As of December 31, 2013, the outstanding principal balance and accrued interest were \$9,139,988 and \$3,004,925, respectively. During 2013, interest charged to operations was \$467,112.

Fisher House, LP

On January 3, 2007, the partnership entered into a mortgage note with the VHDA. The note provided for a maximum principal sum of \$3,295,000 bearing interest at 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 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, 2013, the outstanding principal balance and accrued interest were \$2,451,671 and \$10,715, respectively. During 2013, interest charged to operations was \$119,384.

On January 3, 2007, the partnership entered into a mortgage note with Arlington County in the principal amount of \$795,000 which bears interest at a rate of 4%, compounded annually. Payments on the note commence 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 2013, a payment of \$15,539 was made from December 31, 2012 residual receipts. The payment was applied to accrued interest. As of December 31, 2013, the outstanding principal balance and accrued interest were \$795,000 and \$196,635, respectively. During 2013, interest charged to operations was \$38,575.

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Lorcom Arms Limited Partnership

The partnership has two separate mortgages with the state; one with the VHDA in the amount of \$750,000 and one with the Virginia Housing Partnership Revolving Fund in the amount of \$1,100,000. The VHDA note bears interest at the rate of 5.00% and requires 360 equal monthly payments of principal and interest through maturity in June 2033. Monthly payments of principal and interest of \$4,026 are required. The partnership is also required to make monthly deposits into escrow funds in the amount of \$3,767. The mortgage is secured by a deed of trust, a mortgage lien and an assignment of leases and rents on the rental property. The loan is superior to all other mortgages on the property. As of December 31, 2013, the outstanding principal balance and accrued interest were \$602,505 and \$2,903, respectively. During 2013, interest charged to operations was \$30,536.

The Virginia Housing Partnership Revolving Fund note bears interest at the rate of 5.00%, requires monthly payments of principal and interest of \$5,905 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. The mortgage is secured by a deed of trust, a mortgage lien and an assignment of leases and rents on the rental property. The mortgage is subordinate only to the VHDA mortgage on the property. As of December 31, 2013, the outstanding principal balance and accrued interest were \$883,889 and \$4,338, respectively. During 2013, interest charged to operations was \$44,898.

The partnership entered into a third mortgage 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 3% as of the week proceeding January 18, 2008 (Change Date). As of December 31, 2013, the note bore interest at an annual rate of 7%. An additional Change Date occurred 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 are 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, 2013, the outstanding principal balance and accrued interest were \$716,773 and \$5,068, respectively. During 2013, interest charged to operations was \$51,571.

The County Board of Arlington County, Virginia, has provided subordinated financing from the AHIF 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 AHIF deed of trust and cash flows from the property. As of December 31, 2013, \$803,000 has been advanced on the note. There were no residual

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receipts from which to make the payment for 2013. As of December 31, 2013, the outstanding principal balance and accrued interest were \$803,000 and \$480,198, respectively. During 2013, interest charged to operations was \$43,393.

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 were payable through maturity in July 2046. On July 1, 2013, the company entered into an agreement with the County Board of Arlington, Virginia. In connection with the agreement, a payment in the amount of \$552,000 was made and applied to principal from proceeds of the grant income. After this payment was applied, the loan was amortized over its remaining term by VHDA. Effective November 1, 2013, monthly payments in the amount of \$52,598 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, 2013, the outstanding principal balance and accrued interest were \$9,296,310 and \$44,451, respectively. During 2013, interest charged to operations was \$559,776.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an AHIF and Home Investment Partnership Program ("HOME") loan 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 \$2,775,708 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. No residual receipts were available at December 31, 2012, so no loan payments were required in 2013. As of December 31, 2013, the outstanding principal balance and accrued interest were \$3,723,150 and \$208,507, respectively. During 2013, interest charged to operations was \$95,894.

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 was payable in monthly principal and interest installments based on a 30-year amortization schedule. 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

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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. 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. During 2013, \$29,029 was advanced under this loan. As of December 31, 2013, the outstanding principal was \$1,560,562. During 2013, interest charged to operations was \$61,106.

Rosslyn Ridge Apartments Limited Partnership

The partnership has a mortgage, collateralized by a deed of trust on the rental property, with the VHDA in the original amount of \$46,250,000. On June 14, 2013, the partnership entered into a mortgage loan increase deed of trust note to increase the mortgage loan in the amount of \$3,050,000. Prior to the agreement, the mortgage bore interest at the rate of 5.761% per annum. Under the agreement, the mortgage loan bears interest at the rate of 5.706% per annum. Beginning July 1, 2013, month payments of \$272,327 of principal and interest are due until maturity on March 1, 2044. The liability of the partnership under the mortgage note is the underlying value of the real estate collateral plus other amounts deposited with the lender. In accordance with the mortgage note, the partnership has agreed not to pay the outstanding mortgage note or any part thereof prior to the prepayment date which is 10 years after the date of the note or June 14, 2023. Subsequent to the prepayment date, the partnership shall have the right to prepay the mortgage note subject to a prepayment fee, as defined in the mortgage note. As of December 31, 2013, the outstanding principal balance and accrued interest were \$47,036,472 and \$223,658, respectively. During 2013, interest charged to operations was \$1,346,450.

The partnership entered into a note payable with Arlington County in the original amount of \$1,800,000. The note bears interest at a rate of 4%, compounded annually, on any outstanding principal. Annual installments are payable 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. All outstanding principal and accrued interest shall be due on April 1, 2037. The note was recorded by the partnership at its fair value in the amount of \$1,494,683 at June 14, 2013. The fair value of the debt does not represent the value for which the debt could be settled with the lender. The fair value adjustment is accreted over the remaining term of the note using the effective yield method. The outstanding principal balance and accrued interest on the loan at face value at December 31, 2013 was \$1,791,444 and \$83,870, respectively. The outstanding principal balance and accrued interest at carrying value at December 31, 2013 was \$1,498,204 and \$46,136, respectively. For the period from June 14, 2013 through December 31, 2013, the partnership incurred interest totaling \$49,657, which includes accretion of fair value adjustment of \$3,521.

The partnership entered into a note payable with Arlington County in the original amount of \$5,230,400. The note bears interest at a rate of 4%, compounded annually, on any outstanding principal. No payments shall be due on this loan until the existing Arlington County loan with an original amount of \$1,800,000 has been paid in full. Once the existing loan is paid off, annual installments are payable in an amount equal to 50% of the previous

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year's residual receipts through the maturity date. The note was recorded by the partnership at its fair value in the amount of \$3,889,163 at June 14, 2013. The fair value of the debt does not represent the value for which the debt could be settled with the lender. The fair value adjustment is accreted over the remaining term of the note using the effective yield method. The outstanding principal balance and accrued interest on the loan at face value at December 31, 2013 was \$5,230,400 and \$1,667,008, respectively. The carrying value of the outstanding principal balance and accrued interest at December 31, 2013 was \$3,948,899 and \$170,800, respectively. For the period from June 14, 2013 through December 31, 2013, the partnership incurred interest totaling \$230,536, which includes accretion of fair value adjustment of \$59,736.

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, 2014	\$	1,194,257
2015		1,298,034
2016		1,375,701
2017		1,458,943
2018		3,107,418
Thereafter		<u>138,024,806</u>
Total	\$	<u>146,459,159</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 APAH, 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.

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On December 14, 2006, Rosslyn Ridge Development Corporation contributed the land for 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. The excess of the fair value over the book value of the assets contributed in the amount of \$6,000,000 is reflected as a deferred gain by APAH Rosslyn Ridge Inc. On June 14, 2013, North Pierce Associates Limited Partnership assigned .0092% of its interest in Rosslyn Ridge Apartments Limited Partnership to the limited partner, which resulted in a reduction of \$5,520,000 on the investment North Pierce Associates Limited Partnership and deferred gain. The deferred gain is eliminated in consolidation.

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 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.

Carlyn Springs/Foxcroft Terrace Development Corporation

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. 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

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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.

Queen's Court Development Corporation

APAH has entered into a Guaranty Agreement for the benefit of Queen's Court Development Corporation with a maximum liability of \$1,687,500. No payments have been required as a result of this guarantee.

Note 6 - Related party transactions

On May 31, 2006, Courthouse Crossings Limited Partnership entered into a deed of trust note with APAH in the amount of \$2,600,000. The note bears interest at a rate of 5% compounded annually. The note is secured by a third deed of trust on the rental property. Payments of principal and interest are due from Net Cash Flow, as defined in the partnership agreement. The entire unpaid principal and interest balance is due on May 31, 2047. During 2013, interest charged to operations on the note was \$173,844 which was eliminated in these consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2013, which was eliminated in these consolidated financial statements, was \$2,600,000 and \$375,456, respectively.

During 2010, Calvert Manor Limited Partnership entered in to a promissory note with APAH in the amount of \$78,584. The note bears interest at a rate of 3.88% per annum, compounded annually. Payments of principal and interest shall be deferred until the note matures on December 31, 2027. During 2013, interest charged to operations on the note

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was \$3,418, which was eliminated in these consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2013, which was eliminated in these consolidated financial statements, was \$78,584 and \$12,924, 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. 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.

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. 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.

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. 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.

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. 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.

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, 2013, \$1,480,739 of the development fee has been capitalized into the rental property. 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.

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Development fees incurred as of and for the year ended December 31, 2013 are as follows:

Entity	Development fee income	Development fee receivable	Deferred development fee
Arlington Mill Limited Partnership	\$ -	\$ 1,202,411	\$ 2,321,356
Buchanan Gardens Limited Partnership	-	681,246	-
Columbia Grove Apartments Limited Partnership	-	345,531	-
Lorcom Arms Limited Partnership	22,632	10,887	10,887
Rosslyn Ridge Apartments Limited Partnership	1,823,468	3,382,481	3,382,481
	<u>\$ 1,846,100</u>	<u>\$ 5,622,556</u>	<u>\$ 5,714,724</u>
Eliminations	<u>\$ 22,632</u>	<u>\$ 3,886,288</u>	<u>\$ 3,393,368</u>
Consolidated balance	<u>\$ 1,823,468</u>	<u>\$ 1,736,268</u>	<u>\$ 2,321,356</u>

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

A member of APAH's board of directors is an officer at the Geary-O'Hara Foundation. The Geary-O'Hara Foundation has awarded a grant to APAH (see Note 13).

During 2013, APAH rented office space at The Barkalow, a property it owns. Rental expense of \$40,500 was paid to The Barkalow in 2013. Such expense is eliminated in these consolidated financial statements.

Note 7 - Concentration of credit risk

APAH maintains its cash balances in several banks. At times, these balances may exceed the federal insurance limits; however, APAH has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2013.

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

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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 2013, program expenses paid to house Qualified Consumers and administration fees totaled \$37,893 and interest earned on the cash account totaled \$394. The remaining \$92,062 is included in other liabilities at December 31, 2013. The cash account balance in the amount of \$92,347 is included in restricted cash and cash equivalents at December 31, 2013. During 2013, 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 assumed the agreement in connection with the contribution of the property (see Note 4). During the year ended December 31, 2013, program expenses paid to house Qualified Applicants totaled \$30,027. During 2013, the full amount of the program funds were utilized and no amounts remain for future years.

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, 2013 is \$1,644 and is included in restricted cash and cash equivalents.

Note 10 - Restricted cash

The cash account maintained in connection with the Supervised Residential Program Agreements in the amounts of \$92,347 is restricted for the purpose outlined in the agreement. 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, 2013 was \$44,898 in salaries expense.

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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, 2013 are:

Net operating loss carryforward	\$ 593,198
Valuation allowance	<u>(593,198)</u>
Net deferred tax asset	<u><u>\$ -</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, 2013, Columbia Grove, Inc. had net operating loss carryforwards of approximately \$1,539,522 for income tax purposes. Operating loss carryforwards of \$1,212,903, \$122,587, \$46,156, \$32,512, \$110,052, \$15,120, \$48 and \$92 expire in 2023, 2024, 2027, 2028, 2029, 2031, 2032 and 2033, 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 \$593,198 was necessary at December 31, 2013.

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Note 13 - Temporarily restricted net assets

APAH received the following grants which are included in temporarily restricted net assets at December 31, 2013 for either time restrictions or restrictions related to specific program services:

Grantor	Restriction	2013
Capital One	South Arlington Resident Services Program	\$ 205,673
Capital One	North Arlington Resident Services Program	5,618
Freddie Mac Foundation	South Arlington Resident Services Program	131,250
Enterprise	Carlyn pre-development costs	19,552
Geary-O'Hara Foundation	Columbia Grove Resident Services Program (\$17,500 is also time restricted and is to be received in future periods)	17,500
Endo-Tsukamoto Fund	Buchanan Gardens Resident Services Program	2,424
St. Mary's Episcopal Church	North Arlington Resident Services Program	2,200
Kiwanis	Resident picnic and backpack drive	1,000
Total		<u>\$ 385,217</u>

Note 14 - Construction contracts

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, 2013, \$13,089,998 has been capitalized into the rental property. At December 31, 2013, \$3,056,317 remains payable. The payable is included in construction and development costs payable on the accompanying balance sheet.

Calvert Manor 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 amounted to \$1,323,036. As of December 31, 2013, \$18,506 has been capitalized into the rental property. At December 31, 2013, the construction contract payable totaled \$18,506. The payable is included in construction and development costs payable on the accompanying balance sheet.

Note 15 - 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 is 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, 2013, prepaid rent was \$1,522,444. Rent expense during 2013 was \$20,667 and is included in property operating and maintenance in the statement of functional expenses.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013

Note 16 - 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 July 7, 2014 (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.

Effective December 31, 2013, APAH terminated its 403(b) plan. Effective January 1, 2014, APAH implemented a 401(k) plan. In accordance with the terms of the plan, APAH has elected to make a Safe Harbor matching contribution which is defined to match 100% of an employee's deferral contribution up to the first 3% of the employee's eligible compensation, then 50% of an employee's deferral contribution on the next 2 % of eligible compensation.

Arlington Mill Residences was placed in service on January 31, 2014. Substantial completion occurred on February 28, 2014. As of the date of financial statement issuance, the property was fully leased.

On October 28, 2013, AVV Apartments, LLC was formed as a wholly-owned subsidiary of Rosslyn Ridge Development Corporation. On February 28, 2014, AVV Apartments, LLC acquired Arna Valley View Apartments, a 101-unit 100% affordable apartment community, located in Arlington, Virginia. The VHDA provided permanent financing in the form of an \$8,420,000 deed of trust note. The note bears interest at the rate of 4.868% per annum. Beginning in April 2014, monthly principal and interest payments in the amount of \$44,524 are payable through maturity in March 2044. The note is secured by a deed of trust and an assignment of leases and rents on the property.

The County Board of Arlington County, Virginia has provided subordinated financing in an aggregate amount of \$8,302,199, of which \$1,000,000 were Community Development Block Grant ("CDBG") program funds, \$2,800,000 were HOME program funds, and \$4,502,199 were AHIF funds. Of the AHIF funds, \$2,624,199 were disbursed at closing for the acquisition of the property, \$528,000 was disbursed at closing and used to fund the Short Term Capital Improvement Reserve, and \$1,350,000 will be used to fund the Long Term Capital Improvement Reserve Account.

Disbursements from the Short Term Capital Improvement Reserve shall be governed by the VHDA Senior Debt documents. Monies in the Long Term Capital Improvement Reserve shall only be used for 1.) Unforeseen and major capital expenditures, which have been approved in writing by VHDA and the County manager or 2.) Pre-approved capital expenditures as defined in the loan agreement. The note bears interest at a rate of 2% per annum, compounded annually. Interest shall not accrue on any County AHIF Loan proceeds used to fund the Long Term Capital Improvement Reserve until such funds are

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2013**

actually disbursed to the Borrower. The note is secured by a deed of trust. Beginning June 1, 2015, annual payments are required on the note from residual receipts. On or before June 1, 2015 and each subsequent year ending June 1, 2029, 25% 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 on the CDBG Promissory Note, and 25% of the residual receipts from the previous calendar year shall be paid in arrears as an annual payment on the outstanding principal and accrued interest on the AHIF promissory note. Beginning June 1, 2030 and subsequent years, 37.5% of the residual receipts from the previous calendar year shall be applied as the annual payment on the outstanding principal balance and accrued interest on the AHIF Promissory Note and 37.5% shall be applied as the annual payment on the outstanding principal balance and accrued interest on the on the CDBG Promissory Note. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on February 28, 2044, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years.

Supplementary Information

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position
December 31, 2013

	APAH Organization	APAH Rosslyn Ridge, Inc.	Arlington Mill Limited Partnership	Barkalow LLC	Buchanan Gardens II, LLC	Buchanan Gardens, LP	Calvert Manor LP	Cameron Commons Development Corp
ASSETS								
Cash and cash equivalents including \$93,991 of restricted cash	\$ 3,222,791	\$ -	\$ 770,362	\$ 37,131	\$ -	\$ 1,999,425	\$ 51,912	\$ -
Grants and pledges receivable	346,552	-	-	-	-	-	-	-
Accounts receivable - residents	-	-	-	166	-	7,920	-	-
Accounts receivable - other	50,683	-	-	-	-	-	300	-
Development fee receivable	5,622,556	-	-	-	-	-	-	-
Prepaid expenses	34,505	-	-	1,099	-	5,935	1,565	-
Prepaid ground lease	-	-	1,522,444	-	-	-	-	-
Deposits	201,585	-	56,640	-	13,770	-	-	-
Mortgage escrow deposits	-	-	4,983	4,468	-	4,050	-	-
Replacement and redevelopment reserve	-	-	-	13,321	-	19,436	20,700	-
Other reserves	-	-	659,025	-	-	650,447	-	-
Property and equipment, net	122,845	-	23,669,240	839,332	-	25,558,608	1,785,543	-
Development in progress	1,143,708	-	-	-	-	-	-	-
Note receivable - related party	2,678,584	-	-	-	-	-	-	-
Interest receivable - related party	388,380	-	-	-	-	-	-	-
Funded residents' security deposits	-	-	-	5,770	-	75,373	6,960	-
Derivative	-	-	376	-	-	-	-	-
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	-	-
Investment in North Pierce Associates	3,268,871	479,280	-	-	-	-	-	-
Investment in Courthouse Crossing Limited Partnership	(697)	-	-	-	-	-	-	-
Investment in Calvert Manor Limited Partnership	735,146	-	-	-	-	-	-	-
Investment in Lorcom Arms Limited Partnership	(116,444)	-	-	-	-	-	-	-
Investment in Cameron Commons LLC	-	-	-	-	-	-	-	(234,316)
Investment in Columbia Grove Limited Partnership	(212)	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	(150)	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	(255,976)	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in stock	125,000	-	-	-	-	-	-	-
Mortgage loan costs, net	-	-	237,039	4,353	-	167,496	45,665	-
TOTAL ASSETS	\$ 17,567,727	\$ 479,280	\$ 26,920,109	\$ 905,640	\$ 13,770	\$ 28,488,690	\$ 1,912,645	\$ (234,316)
LIABILITIES								
Accounts payable and accrued expenses	\$ 248,750	\$ -	\$ -	\$ 7,422	\$ -	\$ -	\$ 10,649	\$ 800
Accrued interest	-	-	39,345	2,950	-	680,907	34,638	-
Related party payable/(receivable)	(1,423,378)	8,441	202,584	194,977	51,387	195,910	203,617	4,054
Development fee payable	-	-	1,202,411	-	-	681,246	-	-
Deferred development fee	5,714,724	-	-	-	-	-	-	-
Deferred gain	2,600,000	480,000	-	-	1,421,838	-	-	-
Prepaid rents	-	-	-	-	-	919	117	-
Residents' security deposits	-	-	-	5,815	-	71,727	7,175	-
Notes payable	-	-	17,827,275	729,901	-	16,423,988	902,587	-
Construction and development costs payable	-	-	3,275,991	-	-	-	18,506	-
Other liabilities	92,482	-	-	-	-	-	-	-
Total liabilities	7,232,578	488,441	22,565,906	941,065	1,473,225	18,054,697	1,177,289	4,854
NET ASSETS								
Unrestricted controlling	9,949,932	(9,161)	4,354,203	(35,425)	(1,459,455)	10,433,993	735,356	(239,170)
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	9,949,932	(9,161)	4,354,203	(35,425)	(1,459,455)	10,433,993	735,356	(239,170)
Temporarily restricted	385,217	-	-	-	-	-	-	-
Total net assets	10,335,149	(9,161)	4,354,203	(35,425)	(1,459,455)	10,433,993	735,356	(239,170)
TOTAL LIABILITIES AND NET ASSETS	\$ 17,567,727	\$ 479,280	\$ 26,920,109	\$ 905,640	\$ 13,770	\$ 28,488,690	\$ 1,912,645	\$ (234,316)

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position
December 31, 2013

	Cameron Commons LLC	Carlyn Springs Development Corp	Columbia Grove Apartments LP	Columbia Grove Inc.	Courthouse Crossings LP	Fisher House Development Corp	FHDC Corporation	Fisher House, LP
ASSETS								
Cash and cash equivalents including \$93,991 of restricted cash	\$ 9,940	\$ 186,497	\$ 446,350	\$ 58,958	\$ 271,333	\$ -	\$ -	\$ 103,649
Grants and pledges receivable	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	253	14,078	-	5,731	-	-	975
Accounts receivable - other	-	509	4,239	-	-	-	-	-
Development fee receivable	-	-	-	-	-	-	-	-
Prepaid expenses	2,677	1,532	15,370	-	10,514	-	-	3,314
Prepaid ground lease	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Mortgage escrow deposits	50,170	10,838	84,221	-	44,695	-	-	14,084
Replacement and redevelopment reserve	16,272	77,045	427,814	-	121,154	-	-	25,577
Other reserves	1	-	350,000	-	-	-	-	188,065
Property and equipment, net	2,167,253	1,111,963	21,629,882	-	27,787,071	-	-	7,136,824
Development in progress	-	-	-	-	-	-	-	-
Note receivable - related party	-	-	-	-	-	-	-	-
Interest receivable - related party	-	-	-	-	-	-	-	-
Funded residents' security deposits	9,010	11,724	130,663	-	72,692	-	-	18,129
Derivative	-	-	-	-	-	-	-	-
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	1,225,632	-
Investment in North Pierce Associates	-	-	-	-	-	-	-	-
Investment in Courthouse Crossing Limited Partnership	-	-	-	-	-	-	-	-
Investment in Calvert Manor Limited Partnership	-	-	-	-	-	-	-	-
Investment in Lorcom Arms Limited Partnership	-	-	-	-	-	-	-	-
Investment in Cameron Commons LLC	-	-	-	-	-	-	-	-
Investment in Columbia Grove Limited Partnership	-	-	-	486,240	-	-	-	-
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in stock	-	-	-	-	-	-	-	-
Mortgage loan costs, net	14,951	13,692	262,728	-	293,504	-	-	90,655
TOTAL ASSETS	\$ 2,270,274	\$ 1,414,053	\$ 23,365,345	\$ 545,198	\$ 28,606,694	\$ -	\$ 1,225,632	\$ 7,581,272
LIABILITIES								
Accounts payable and accrued expenses	\$ 3,178	\$ 15,658	\$ 1,442	\$ 15,000	\$ 20,293	\$ 800	\$ -	\$ 20,139
Accrued interest	440,501	-	1,300,501	-	3,422,037	-	-	207,350
Related party receivable/(payables)	53,082	-	67,674	27,599	1,565	1,583	1,024	21,494
Development fee payable	-	-	345,531	-	-	-	-	-
Deferred development fee	-	-	-	-	-	-	-	-
Deferred gain	-	-	-	2,041,621	-	-	1,555,000	-
Prepaid rents	-	974	946	-	2,695	-	-	399
Residents' security deposits	8,353	14,279	129,017	-	66,363	-	-	18,189
Notes payable	1,631,147	-	18,469,051	-	19,837,359	-	-	3,246,671
Construction and development costs payable	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Total liabilities	2,136,261	30,911	20,314,162	2,084,220	23,350,312	2,383	1,556,024	3,514,242
NET ASSETS								
Unrestricted controlling	134,013	1,383,142	3,051,183	(1,539,022)	5,256,382	(2,383)	(330,392)	4,067,030
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	134,013	1,383,142	3,051,183	(1,539,022)	5,256,382	(2,383)	(330,392)	4,067,030
Temporarily restricted	-	-	-	-	-	-	-	-
Total net assets	134,013	1,383,142	3,051,183	(1,539,022)	5,256,382	(2,383)	(330,392)	4,067,030
TOTAL LIABILITIES AND NET ASSETS	\$ 2,270,274	\$ 1,414,053	\$ 23,365,345	\$ 545,198	\$ 28,606,694	\$ -	\$ 1,225,632	\$ 7,581,272

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position
December 31, 2013

	Lorcom Arms LP	Marbella Development LLC	Queen's Court Development Corp	Rosslyn Ridge Development Corp	Rosslyn Ridge Limited Partnership	Eliminations	Total
ASSETS							
Cash and cash equivalents							
including \$93,991 of restricted cash	\$ 134,000	\$ 231,759	\$ 63,691	\$ -	\$ 408,451	\$ -	\$ 7,996,249
Grants and pledges receivable	-	-	-	-	-	-	346,552
Accounts receivable - residents	1,061	3,948	2,726	-	6,361	-	43,219
Accounts receivable - other	-	-	-	-	-	-	55,731
Development fee receivable	-	-	-	-	-	(3,886,288)	1,736,268
Prepaid expenses	3,554	6,588	2,579	-	31,584	-	120,816
Prepaid ground lease	-	-	-	-	-	-	1,522,444
Deposits	-	-	-	-	-	-	271,995
Mortgage escrow deposits	15,366	33,277	37,394	-	68,461	-	372,007
Replacement and redevelopment reserve	141,232	254,512	110,789	-	284,411	-	1,512,263
Other reserves	291	-	-	-	1,784,008	-	3,631,837
Property and equipment, net	3,475,752	12,366,947	1,351,792	-	61,083,929	(13,825,611)	176,261,370
Development in progress	-	-	19,165	-	-	-	1,162,873
Note receivable - related party	-	-	-	-	-	(2,678,584)	-
Interest receivable - related party	-	-	-	-	-	(388,380)	-
Funded residents' security deposits	21,238	97,494	21,685	-	145,998	-	616,736
Derivative	-	-	-	-	-	-	376
Investment in Fisher House Limited Partnership	-	-	-	-	-	(1,225,632)	-
Investment in North Pierce Associates	-	-	-	-	-	(3,748,151)	-
Investment in Courthouse Crossing Limited Partnership	-	-	-	-	-	697	-
Investment in Calvert Manor Limited Partnership	-	-	-	-	-	(735,146)	-
Investment in Lorcom Arms Limited Partnership	-	-	-	-	-	116,444	-
Investment in Cameron Commons LLC	-	-	-	-	-	234,316	-
Investment in Columbia Grove Limited Partnership	-	-	-	-	-	(486,028)	-
Investment in Buchanan Gardens, LP	-	-	-	-	-	150	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	255,976	-
Investment in Marbella Development LLC	-	-	-	(255,976)	-	255,976	-
Investment in stock	-	-	-	-	-	(125,000)	-
Mortgage loan costs, net	51,679	138,521	24,043	-	1,017,136	(1,017,136)	1,344,326
TOTAL ASSETS	\$ 3,844,173	\$ 13,133,046	\$ 1,633,864	\$ (255,976)	\$ 64,830,339	\$ (27,252,397)	\$ 196,995,062
LIABILITIES							
Accounts payable and accrued expenses	\$ 25,373	\$ -	\$ 24,732	\$ 2,000	\$ 15,983	\$ -	\$ 412,219
Accrued interest	492,507	252,958	-	-	1,974,536	(1,922,322)	6,925,908
Related party receivable/(payables)	393,559	21,218	-	4,804	19,824	-	51,018
Development fee payable	10,887	-	-	-	3,382,482	(3,886,289)	1,736,268
Deferred development fee	-	-	-	-	-	(3,393,368)	2,321,356
Deferred gain	-	-	-	-	-	(8,098,459)	-
Prepaid rents	1,266	617	53	-	573	-	8,559
Residents' security deposits	22,052	94,769	22,053	-	143,809	-	603,601
Notes payable	3,006,167	13,019,460	1,560,562	-	54,058,316	(4,253,325)	146,459,159
Construction and development costs payable	-	-	-	-	-	-	3,294,497
Other liabilities	-	-	-	-	-	-	92,482
Total liabilities	3,951,811	13,389,022	1,607,400	6,804	59,595,523	(21,553,763)	161,923,367
NET ASSETS							
Unrestricted controlling	(107,638)	(255,976)	26,464	(262,780)	5,234,816	(31,529,402)	8,855,710
Unrestricted noncontrolling	-	-	-	-	-	25,830,768	25,830,768
Total unrestricted net assets	(107,638)	(255,976)	26,464	(262,780)	5,234,816	(5,698,634)	34,686,478
Temporarily restricted	-	-	-	-	-	-	385,217
Total net assets	(107,638)	(255,976)	26,464	(262,780)	5,234,816	(5,698,634)	35,071,695
TOTAL LIABILITIES AND NET ASSETS	\$ 3,844,173	\$ 13,133,046	\$ 1,633,864	\$ (255,976)	\$ 64,830,339	\$ (27,252,397)	\$ 196,995,062

(a) Allocation of non-controlling interest

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities
Year Ended December 31, 2013

	APAH Organization	APAH Rosslyn Ridge, Inc.	Arlington Mill Limited Partnership	Barkalow LLC	Buchanan Gardens II, LLC	Buchanan Gardens, LP	Calvert Manor LP	Cameron Commons Development Corp
REVENUE AND OTHER SUPPORT								
Rental revenue - net	\$ -	\$ -	\$ -	\$ 243,656	\$ -	\$ 1,593,737	\$ 227,767	\$ -
Grants and contributions	420,593	-	-	-	-	-	-	-
Development fee income	1,846,100	-	-	-	-	-	-	-
Interest income	195,328	-	-	35	-	1,136	300	-
Loss from equity investment in partnership interest	615,980	(7)	-	-	-	-	-	(40,933)
Other income	281,061	-	2,651	4,918	-	27,229	34,669	-
Special events revenue, net of expenses	252,931	-	-	-	-	-	-	-
Gain on business combination	-	-	-	-	-	-	-	-
Total revenue	3,611,993	(7)	2,651	248,609	-	1,622,102	262,736	(40,933)
EXPENSES								
Administrative	1,640,112	602	161	37,316	-	384,290	49,099	-
Operations and maintenance	-	-	20,667	39,569	-	205,198	45,826	-
Utilities	2,067	-	-	21,905	-	117,621	17,555	-
Insurance	40,401	-	-	8,267	-	46,884	12,175	-
Taxes	-	102	-	25,766	51	127,040	26,224	-
Interest	-	-	-	35,729	-	697,279	49,663	-
Depreciation and amortization	26,398	-	-	44,462	-	702,714	46,252	-
Grant expense	1,939,415	-	-	-	-	-	-	-
Unrealized loss	-	-	7,417	-	-	-	-	-
Total expenses	3,648,393	704	28,245	213,014	51	2,281,026	246,794	-
Excess of revenue over expenses (expenses over revenue)	(36,400)	(711)	(25,594)	35,595	(51)	(658,924)	15,942	(40,933)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ (36,400)</u>	<u>\$ (711)</u>	<u>\$ (25,594)</u>	<u>\$ 35,595</u>	<u>\$ (51)</u>	<u>\$ (658,924)</u>	<u>\$ 15,942</u>	<u>\$ (40,933)</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities
Year Ended December 31, 2013

	Cameron Commons LLC	Carlyn Springs Development Corp	Columbia Grove Apartments LP	Columbia Grove Inc.	Courthouse Crossings LP	Fisher House Development Corp	FHDC Corporation	Fisher House, LP
REVENUE AND OTHER SUPPORT								
Rental revenue - net	\$ 204,435	\$ 432,405	\$ 3,036,730	\$ -	\$ 1,736,037	\$ -	\$ -	\$ 466,203
Grants and contributions	-	1,609,415	-	-	-	-	-	-
Development fee income	-	-	-	-	-	-	-	-
Interest income	36	30	620	-	318	-	-	291
Loss from equity investment in partnership interest	-	-	-	(42)	-	-	(15)	-
Other income	8,225	7,921	83,589	-	50,601	-	-	23,180
Special events revenue, net of expenses	-	-	-	-	-	-	-	-
Gain on business combination	-	-	-	-	-	-	-	-
Total revenue	212,696	2,049,771	3,120,939	(42)	1,786,956	-	(15)	489,674
EXPENSES								
Administrative	40,985	55,193	497,953	-	271,685	600	-	90,034
Operations and maintenance	47,135	67,016	468,231	-	263,105	-	-	91,955
Utilities	20,262	60,455	191,444	-	119,407	-	-	24,976
Insurance	8,706	16,729	104,576	-	71,982	-	-	22,096
Taxes	16,363	40,020	309,753	102	186,865	26	102	44,586
Interest	72,612	8,598	1,042,749	-	1,117,698	-	-	157,966
Depreciation and amortization	65,956	52,132	582,642	-	640,161	-	-	204,597
Grant expense	-	-	-	-	-	-	-	-
Unrealized loss	-	-	-	-	-	-	-	-
Total expenses	272,019	300,143	3,197,348	102	2,670,903	626	102	636,210
Excess of revenue over expenses (expenses over revenue)	(59,323)	1,749,628	(76,409)	(144)	(883,947)	(626)	(117)	(146,536)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ (59,323)</u>	<u>\$ 1,749,628</u>	<u>\$ (76,409)</u>	<u>\$ (144)</u>	<u>\$ (883,947)</u>	<u>\$ (626)</u>	<u>\$ (117)</u>	<u>\$ (146,536)</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities
Year Ended December 31, 2013

	Lorcom Arms LP	Marbella Development LLC	Queen's Court Development Corp	Rosslyn Ridge Development Corp	Rosslyn Ridge Limited Partnership	Eliminations	Consolidated
REVENUE AND OTHER SUPPORT							
Rental revenue - net	\$ 549,757	\$ 1,757,002	\$ 554,749	\$ -	\$ 5,522,148	\$ (2,798,114)	\$ 13,526,512
Grants and contributions	-	562,000	330,000	-	-	(1,939,415)	982,593
Development fee income	-	-	-	-	-	(22,632)	1,823,468
Interest income	243	605	72	-	1,232	(195,910)	4,336
Loss from equity investment in partnership interest	-	-	-	613,082	-	(1,188,065)	-
Other income	10,265	32,087	12,756	-	182,160	(337,589)	423,723
Special events revenue, net of expenses	-	-	-	-	-	-	252,931
Gain on business combination	-	-	-	-	-	4,039,701	4,039,701
Total revenue	560,265	2,351,694	897,577	613,082	5,705,540	(2,442,024)	21,053,264
EXPENSES							
Administrative	147,688	259,796	74,829	2,412	694,499	(635,244)	3,612,010
Operations and maintenance	96,852	309,482	83,903	-	482,513	(275,905)	1,945,547
Utilities	43,210	142,984	42,865	-	211,974	(96,714)	920,011
Insurance	25,291	50,049	20,017	-	95,295	(43,553)	478,915
Taxes	51,932	156,752	51,394	-	745,496	(368,878)	1,413,696
Interest	188,523	656,034	61,118	-	2,966,575	(1,535,312)	5,519,232
Depreciation and amortization	170,387	163,515	60,075	-	1,826,745	(122,426)	4,463,610
Grant expense	-	-	-	-	-	(1,939,415)	-
Total expenses	723,883	1,738,612	394,201	2,412	7,023,097	(5,017,447)	18,360,438
Excess of revenue over expenses (expenses over revenue)	(163,618)	613,082	503,376	610,670	(1,317,557)	2,575,423	2,692,826
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	(3,984,291) (a)	(3,984,291)
Excess of revenue over expenses (expenses over revenue) attributable to APAH	\$ (163,618)	\$ 613,082	\$ 503,376	\$ 610,670	\$ (1,317,557)	\$ 6,559,714	\$ 6,677,117

(a) Allocation of non-controlling interest