

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

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

December 31, 2016

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, 2016, 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 Consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial position of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries as of December 31, 2016, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, in 2016, the Corporation adopted new accounting guidance related to the presentation of debt issuance costs. Our report is not modified with respect to this matter.

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 46 to 53 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.

CohnReznick LLP

Boston, Massachusetts
August 28, 2017

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
December 31, 2016**

Assets

Current assets

Cash and cash equivalents, including \$1,008,323 of restricted cash		\$ 13,081,138
Grants and pledges receivable		341,608
Accounts receivable		
Residents	\$ 94,905	
Other	<u>58,082</u>	152,987
Development fee receivable - affiliate		1,463,673
Prepaid expenses		317,909
Prepaid ground lease, current portion		20,667
Deposits		135,857
Mortgage escrow deposits		<u>346,660</u>

Total current assets		<u>15,860,499</u>
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Property and equipment

Land		71,910,681
Buildings, furniture and equipment		189,596,398
Construction in progress		<u>15,919,231</u>

277,426,310

Less accumulated depreciation		<u>29,128,118</u>
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Total property and equipment		<u>248,298,192</u>
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Other assets

Residents' security deposits		776,991
In-place leases, net of accumulated amortization of \$183,524		302,277
Replacement reserves		2,126,416
Other reserves		18,691,805
Prepaid ground lease, net of current portion		1,460,443
Other assets		<u>644,287</u>

Total other assets		<u>24,002,219</u>
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Total assets		<u><u>\$ 288,160,910</u></u>
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Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
December 31, 2016**

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	\$ 880,673
Accrued interest, current portion	595,816
Accounts payable - related party	53,963
Prepaid rents	252,441
Notes payable, current maturities	1,796,265
Construction and development costs payable	3,588,076
Development fee payable	<u>1,463,673</u>
Total current liabilities	<u>8,630,907</u>
Other liability	
Residents' security deposits	<u>783,520</u>
Total other liability	<u>783,520</u>
Long-term liabilities	
Notes payable, less current maturities and unamortized debt issuance costs (see Note 2)	213,389,495
Accrued interest, less current portion	9,266,553
Deferred development fee (see Note 6)	278,941
Other liabilities	<u>8,333</u>
Total long-term liabilities	<u>222,943,322</u>
Net assets	
Unrestricted controlling	14,936,418
Unrestricted noncontrolling (see Note 1)	<u>40,495,194</u>
Total unrestricted net assets	55,431,612
Temporarily restricted (see Note 13)	<u>371,549</u>
Total net assets	<u>55,803,161</u>
Total liabilities and net assets	<u><u>\$ 288,160,910</u></u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Activities
Year Ended December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenue and other support			
Grants and contributions	\$ 517,507	\$ 259,179	\$ 776,686
Rental revenue - net	19,504,105	-	19,504,105
Development fee income	1,991,732	-	1,991,732
Interest income	22,237	-	22,237
Other income	939,583	-	939,583
Special events, net of expenses of \$33,154	466,566	-	466,566
	<u>23,441,730</u>	<u>259,179</u>	<u>23,700,909</u>
Net assets released from restrictions	<u>185,226</u>	<u>(185,226)</u>	<u>-</u>
Total revenue and other support	<u>23,626,956</u>	<u>73,953</u>	<u>23,700,909</u>
Expenses			
Program services (including interest expense of \$8,188,060 and depreciation and amortization of \$5,112,045)	23,303,630	-	23,303,630
Supporting services			
Management and general (including interest expense of \$6,471 and depreciation of \$62,160)	1,206,938	-	1,206,938
Fundraising	89,073	-	89,073
Total expenses	<u>24,599,641</u>	<u>-</u>	<u>24,599,641</u>
Excess of expenses over revenue	<u>(972,685)</u>	<u>73,953</u>	<u>(898,732)</u>
Excess of expenses over revenue attributable to noncontrolling interests	<u>(3,751,834)</u>	<u>-</u>	<u>(3,751,834)</u>
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ 2,779,149</u>	<u>\$ 73,953</u>	<u>\$ 2,853,102</u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2016**

	Program services			Management and general	Fundraising	Total
	Rental properties	General operations	Subtotal			
Interest expense	\$ 8,188,060	\$ -	\$ 8,188,060	\$ 6,471	\$ -	\$ 8,194,531
Salaries	962,025	805,444	1,767,469	758,483	64,309	2,590,261
Depreciation and amortization	5,112,045	-	5,112,045	62,160	-	5,174,205
Utilities	1,251,592	-	1,251,592	2,293	-	1,253,885
Property operating and maintenance	2,576,670	-	2,576,670	9,818	-	2,586,488
Licenses and taxes	1,981,833	-	1,981,833	32,195	-	2,014,028
Management fee	618,074	-	618,074	-	-	618,074
Property administrative expenses	740,048	-	740,048	48,850	9,786	798,684
Auditing and accounting	341,410	-	341,410	45,500	-	386,910
Insurance	527,411	-	527,411	71,700	-	599,111
Telephone	125,355	-	125,355	11,686	-	137,041
Legal	38,345	-	38,345	2,629	-	40,974
Development and consulting services	-	-	-	48,735	12,729	61,464
Printing and copying	-	-	-	4,556	-	4,556
Supplies	-	-	-	12,915	-	12,915
Advertising	-	-	-	1,205	-	1,205
Postage and delivery	-	-	-	3,619	2,249	5,868
Training	-	-	-	26,034	-	26,034
Travel	-	-	-	3,279	-	3,279
Sponsorships and subscriptions	-	-	-	25,163	-	25,163
Grant expenses	-	-	-	29,647	-	29,647
Property expenses	-	35,318	35,318	-	-	35,318
	<u>\$ 22,462,868</u>	<u>\$ 840,762</u>	<u>\$ 23,303,630</u>	<u>\$ 1,206,938</u>	<u>\$ 89,073</u>	<u>\$ 24,599,641</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, 2016**

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Net assets, December 31, 2015	\$ 12,934,703	\$ 36,389,165	\$ 49,323,868	\$ 297,596	\$ 49,621,464
Capital contributions from noncontrolling interests	-	7,919,135	7,919,135	-	7,919,135
Distributions to noncontrolling interests	-	(233,795)	(233,795)	-	(233,795)
Noncontrolling interests' syndication costs	-	(202,750)	(202,750)	-	(202,750)
Common control acquisition costs	(220,750)	-	(220,750)	-	(220,750)
Transfer of noncontrolling interest	(375,273)	375,273	-	-	-
Other changes in equity	(181,411)	-	(181,411)	-	(181,411)
Excess of expenses over revenue attributable to noncontrolling interests	-	(3,751,834)	(3,751,834)	-	(3,751,834)
Excess of revenue over expenses attributable to controlling interests	2,779,149	-	2,779,149	73,953	2,853,102
Net assets, December 31, 2016	<u>\$ 14,936,418</u>	<u>\$ 40,495,194</u>	<u>\$ 55,431,612</u>	<u>\$ 371,549</u>	<u>\$ 55,803,161</u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows
Year Ended December 31, 2016**

Cash flows from operating activities	
Excess of expenses over revenue	\$ (898,732)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	5,060,423
Amortization	113,782
Amortization of debt issuance costs	88,782
Bad debt	52,209
Change in fair value of derivative instrument	360
Accretion of loan fair value adjustment	(76,600)
Increase in grants and pledges receivable	(153,108)
Increase in residents' accounts receivable	(33,684)
Decrease in accounts receivable - other	2,806
Increase in development fee receivable	(487,948)
Decrease in mortgage escrow deposits	33,578
Increase in prepaid expenses	(74,377)
Decrease in deposits	235,945
Decrease in prepaid ground lease	20,667
Decrease in accounts payable and accrued expenses	(162,628)
Increase in accrued interest	1,047,466
Increase in prepaid rents	56,630
Decrease in other liability	(39,224)
Net increase in residents' security deposits	2,579
	4,788,926
Net cash provided by operating activities	4,788,926
Cash flows from investing activities	
Net purchases of land, property and equipment, construction in progress and development in progress	(43,879,451)
Increase in replacement and redevelopment reserves	(3,516)
Increase in other reserves	(13,697,338)
Common control acquisition costs paid	(220,750)
Other changes in equity	(181,411)
	(57,982,466)
Net cash used in investing activities	(57,982,466)

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows
Year Ended December 31, 2016**

Cash flows from financing activities	
Proceeds from notes payable	51,514,892
Repayment of notes payable	(1,613,468)
Capital contributions received from noncontrolling interests	7,919,135
Distributions paid to noncontrolling interests	(233,795)
Syndication costs paid	(202,750)
Proceeds of advances from affiliates	24,037
Debt issuance costs paid	(103,492)
Tax credit fees paid	<u>(268,217)</u>
Net cash provided by financing activities	<u>57,036,342</u>
Net increase in cash and cash equivalents	3,842,802
Cash and cash equivalents, beginning	<u>9,238,336</u>
Cash and cash equivalents, end	<u><u>\$ 13,081,138</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest during the year, net of amount capitalized	<u><u>\$ 6,719,772</u></u>
Supplemental schedule of non-cash investing and financing activities	
Increase in construction and development costs payable for additions to construction in progress at December 31, 2016	<u><u>\$ 1,521,844</u></u>
Construction in progress increased due to an increase in accrued interest payable at December 31, 2016	<u><u>\$ 144,538</u></u>
Construction in progress increased due to an increase in development fee payable at December 31, 2016	<u><u>\$ 557,658</u></u>
Additions to accumulated amortization capitalized to rental property at December 31, 2016	<u><u>\$ 97,326</u></u>
Reduction to net purchases of land, property, and equipment due to common control transfer of accumulated depreciation on land and site improvements at December 31, 2016	<u><u>\$ (133,421)</u></u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

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 programs increase resident stability by connecting at-risk individuals and families to services and provide 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 partnership'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, Cameron Commons LLC, Columbia Grove Apartments Limited Partnership, Columbia Hills East Limited Partnership, Columbia Hills West Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House Limited Partnership, Rosslyn Ridge Apartments Limited Partnership and The Springs Apartments Limited Partnership.

The board of directors of APAH Commercial LLC, APAH Rosslyn Ridge, Inc., APAH Westover LLC, Arlington Mill Development Corporation, The Barkalow LLC, Buchanan Gardens II, LLC, Buchanan Gardens Development Corporation, Calvert Manor Development Corporation, Calvert Manor Limited Partnership, Cameron Commons Development Corporation, Cameron Commons LLC, Carlyn Springs/Foxcroft Terrace Development Corporation, Columbia Grove Development Corporation, Columbia Grove, Inc., Columbia Hills East Development Corporation, Columbia Hills West Development Corporation, Courthouse Crossings Development Corporation, FHDC Corporation, Gilliam Place LLC, Gilliam Place East Development Corporation, Gilliam Place East Limited Partnership, Gilliam Place West Development Corporation, Gilliam Place West Limited Partnership, Fisher House Development Corporation, Lorcom Arms Development Corporation, Lorcom Arms Limited Partnership, North Pierce Associates Limited Partnership, Queen's Court Development Corporation and The Springs 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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

Marbella Development, LLC and AVV Apartments, LLC are wholly-owned subsidiaries of Rosslyn Ridge Development Corporation.

Currently, APAH's subsidiary housing organizations operate through an unaffiliated management company and all rental units are 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 household income. All significant intercompany transactions have been eliminated in consolidation.

Under common control accounting guidance relating to properties purchased and controlled by entities wholly owned by APAH and subsequently sold to limited partnerships where APAH retains a general partner or controlling interest, the acquired assets on the acquiring entity's books are recorded at the net book value as reflected on the selling entity's books at the date of the acquisition and not at the fair value as determined by an appraisal. The net book value is typically less than the fair value purchase price of the acquired assets.

APAH Commercial LLC - APAH Commercial LLC, a wholly-owned subsidiary, was formed on January 28, 2015 for the purpose of acquiring, owning, and disposing of the commercial condominium unit within the Springs Condominium. The condominium consists of approximately 5,573 square feet of commercial office space. On September 29, 2016, construction of the commercial space was completed and placed in service. On October 13, 2016, APAH commenced occupancy of the space. The Condominium was formed and subdivided on December 7, 2016.

APAH Westover LLC - APAH Westover LLC, a wholly-owned subsidiary, was formed on July 20, 2016 for the purpose of acquiring, owning, leasing, and disposing of real estate in Arlington County. On September 28, 2016, the Company acquired 5 buildings from an unrelated party. On November 30, 2016, the Company acquired 1 additional building from an unrelated party. On January 12, 2017, the Company acquired 2 additional buildings from an unrelated party.

APAH Rosslyn Ridge, Inc., North Pierce Associates Limited Partnership, and Rosslyn Ridge Apartments Limited Partnership - 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. 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"). An unrelated party owned the remaining 50%.

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.

On June 14, 2013, APAH acquired the other 50% interest in North Pierce Associates Limited Partnership from an unrelated entity. APAH effectively owns 100% of the interests 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 in these consolidated financial statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

Arlington Mill Development Corporation and Arlington Mill Limited Partnership - Arlington Mill Limited Partnership was formed on November 1, 2010. Arlington Mill Development Corporation, a wholly-owned subsidiary, is the .01% general partner in Arlington Mill Limited Partnership. An unrelated limited partner owns 99.98% of the partnership interests and an unrelated special limited partner owns the remaining .01% of the partnership interests. 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 project. The project, which was completed and placed in service on January 31, 2014, is a mid-rise building consisting of 122 units and located in the Columbia Heights West Neighborhood.

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, 11-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, 11-building complex, located in the Barcroft neighborhood from Buchanan Gardens II, LLC. Buchanan Gardens Development Corporation, a 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, Calvert Manor Development Corporation was formed as a wholly-owned subsidiary, 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 multifamily 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.

Cameron Commons Development Corporation and Cameron Commons, LLC - Cameron Commons Development Corporation, a wholly-owned subsidiary, 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 owned and operated Carlyn Springs Apartments, a 27-unit, garden-style building complex. The complex was purchased by APAH on October 31, 1997. On February 5, 2015, the Corporation sold the land to The Springs Limited Partnership, an APAH subsidiary, for a purchase price of \$4,350,000. Both the selling and purchasing entity is consolidated by APAH and as a result this transaction is considered to be a transaction between entities under common control.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

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, a 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.

On June 2, 2016, Columbia Grove Apartments Limited Partnership transferred assets comprised of land and site improvements of the Project in a transaction with APAH, in connection with the Donation Agreement executed February 1, 2015. On June 2, 2016, APAH formed a land condominium with two land units and the land units were sold to Columbia Hills East Limited Partnership and Columbia Hills West Limited Partnership.

Columbia Grove, Inc. - The Corporation formerly owned a 210-unit, garden-style apartment complex, operated under the name of Columbia Grove Apartments, 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.

Columbia Hills East Development Corporation and Columbia Hills East Limited Partnership - Columbia Hills East Limited Partnership was formed on June 1, 2016. Columbia Hills East Development Corporation, a wholly-owned subsidiary, is the .01% general partner in Columbia Hills East Limited Partnership. An unrelated limited partner owns 99.98% of partnership interest and an unrelated special limited partner owns the remaining .01% of partnership interest. On June 2, 2016, assets comprising of land and site improvements were transferred to the partnership, as more fully described in Note 3.

Columbia Hills West Development Corporation and Columbia Hills West Limited Partnership - Columbia Hills West Limited Partnership was formed on June 1, 2016. Columbia Hills West Development Corporation, a wholly-owned subsidiary, is the .01% general partner in Columbia Hills West Limited Partnership. An unrelated limited partner owns 99.98% of partnership interest and an unrelated special limited partner owns the remaining .01% of partnership interest. On June 2, 2016, assets comprising of land and site improvements were transferred to the partnership, as more fully described in Note 3.

Courthouse Crossings Development Corporation and Courthouse Crossings Limited Partnership - Courthouse Crossings Limited Partnership was formed on February 27, 2006. Courthouse Crossings Development Corporation, a wholly-owned subsidiary, is the .01% general partner in Courthouse Crossings Limited Partnership. An unrelated limited partner owns 99.98% of partnership interests, and an unrelated special limited partner owns the remaining .01% of the partnership interests. Courthouse Crossings is a 112-unit low-rise apartment complex located in the Courthouse neighborhood. The property was purchased on June 1, 2006.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

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

Gilliam Place, LLC, Gilliam Place East Limited Partnership, Gilliam Place West Limited Partnership - Gilliam Place, LLC, a wholly-owned subsidiary, was formed on February 8, 2016 for the purpose of acquiring, owning, leasing, and disposing of real estate that will contain two affordable rental housing complexes in Arlington County known as Gilliam Place East and Gilliam Place West Limited Partnership. Both Gilliam Place East Limited Partnership and Gilliam Place West Limited Partnership were formed on January 27, 2016. On July 28, 2016, Gilliam Place, LLC, acquired land and an existing structure, from an unrelated third party. The existing structure is expected to be demolished in 2017 in preparation for the new construction of apartment complexes to be owned by Gilliam Place East Limited Partnership and Gilliam Place West Limited Partnership.

Lorcom Arms Development Corporation and Lorcom Arms Limited Partnership d/b/a Leckey Gardens Apartments - During 2000, Lorcom Arms Development Corporation was formed as a wholly-owned subsidiary, 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 owned the remaining 99.99% of partnership interest. The property was purchased on March 2, 2000. Operating under the name of Leckey Gardens Apartments, the project is a 40-unit, garden-style apartment building, located in the North Arlington neighborhood of Waverly Hills. On June 30, 2016, the limited partner assigned their entire limited partner interest to APAH.

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

Rosslyn Ridge Development Corporation, Marbella Development Limited Liability Company and AVV Apartments LLC - APAH purchased a 22-unit, garden-style building, located in the Rosslyn neighborhood, on May 12, 1994. The Corporation contributed the property to Rosslyn Ridge Apartments LP on December 14, 2006.

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

AVV Apartments, LLC was formed as a limited liability company on October 28, 2013. The sole member is Rosslyn Ridge Development Corporation. On February 28, 2014, the company acquired a 101-unit, garden style, three building complex, located in the Long Branch Creek neighborhood and is currently operating under the name Arna Valley View Apartments.

The Springs Development Corporation and The Springs Apartments Limited Partnership - The Springs Apartments Limited Partnership was formed on February 24, 2014. The Springs Development Corporation, a wholly-owned subsidiary, is the .01% general partner in The Springs Apartments Limited Partnership. An unrelated limited partner owns 99.98% of the partnership interests and an unrelated special limited partner owns the remaining .01% of the partnership interests. On February 5, 2015, Carlyn Springs/Foxcroft Terrace Development Corporation sold the land to The Springs Apartments Limited Partnership for a purchase price of \$4,350,000. The

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existing 27-unit building was demolished and The Springs Apartments was constructed. The Springs Apartments is a five-story 104-unit project located in the Ballston neighborhood. Construction of the new building was completed in September 2016. In connection with the construction, a commercial office space was constructed for the use of APAH. Completion of the office space occurred in September 2016 and was subdivided into a condominium owned by APAH Commercial LLC in December 2016.

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 ("U.S. GAAP") 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. U.S. GAAP requires 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, 2016 was \$52,209.

Pledges receivable

Pledges receivable consist of unconditional promises to give. Unconditional pledges receivable that are expected to be collected within a year are recorded at their net realizable value when the donor makes the promise. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The current and future pledges receivable balances as of December 31, 2016, 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.

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.

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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, 2016.

Construction in progress

Construction in progress consists primarily of predevelopment and development costs incurred in connection with redeveloping various properties. Such costs will be reclassified to buildings and improvements, furniture 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.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

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 its 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, 2016. APAH and its 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 APAH Commercial LLC, APAH Westover LLC, AVV Apartments, LLC, The Barkalow LLC, Buchanan Gardens II, LLC, Gilliam Place, LLC and Marbella Development LLC, file separate tax returns.

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APAH Commercial LLC, APAH Westover LLC, AVV Apartments, LLC, The Barkalow LLC, Buchanan Gardens II, LLC, Gilliam Place, LLC, and Marbella Development LLC are single member Limited Liability Companies which are not recognized for federal income tax purposes. APAH Commercial LLC, APAH Westover LLC, The Barkalow LLC, Buchanan Gardens II, LLC, and Gilliam Place, LLC's activities are reported on APAH's income tax return. AVV Apartments LLC and 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 basis 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. Columbia Grove, Inc. evaluates its uncertain tax positions in accordance with the applicable guidance. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Income tax returns filed by Columbia Grove, Inc. 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 2013 remain open.

Arlington Mill Limited Partnership, Buchanan Gardens Limited Partnership, Calvert Manor Limited Partnership, Columbia Grove Apartments Limited Partnership, Columbia Hills East Limited Partnership, Columbia Hills West Limited Partnership, Courthouse Crossings Limited Partnership, Fisher House Limited Partnership, Lorcom Arms Limited Partnership, Rosslyn Ridge Apartments Limited Partnership, North Pierce Associates Limited Partnership, and The Springs Apartments Limited Partnership 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 2013 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.

Noncontrolling interest in limited partnerships and limited liability company

This amount represents the aggregate balances 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 net loss of the limited partnerships and limited liability company attributable to the

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noncontrolling interest is reflected under unrestricted net assets attributable to noncontrolling interest on the statement of activities. Contributions and syndication costs attributable to the noncontrolling interest, if any, are reflected in the statement of changes in net assets.

Intangibles

In connection with the business combination during a prior year, AVV Apartments, LLC allocated a portion of the total purchase price of the property acquisition to an intangible asset, in-place leases. The in-place leases in the amount of \$485,801 are amortized over the average tenancy of 7.5 years. During 2016, amortization expense was \$64,773, and accumulated amortization was \$183,524 as of December 31, 2016. Estimated amortization expense for each of the ensuing years through December 31, 2021 is \$64,773, \$64,773, \$64,773, \$64,773 and \$43,185.

Developer fees

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

Advertising

Advertising costs are expensed as incurred.

Derivative instruments

On June 7, 2016, Columbia Hills East Limited Partnership entered into an interest rate cap agreement effective January 1, 2017, 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 measures

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.

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- 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.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2016.

Derivative instrument - On a recurring basis, APAH will measure Columbia Hills East Limited Partnership's derivative instrument at its estimated fair value. In determining the fair value of the derivative instruments, APAH will use the present value of expected cash flows based on market observable interest rate yield curve commensurate with the term of the instrument. APAH will incorporate credit valuation adjustments to appropriately reflect both Columbia Hills East 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 Columbia Hills East Limited Partnership. However, the impact of the credit valuation adjustments is not expected to be significant to the overall valuation of the derivative instrument. As a result, the fair value of the derivative instrument will be considered to be based primarily on Level 2 inputs. The interest rate cap is in effect as of January 1, 2017 and as a result no asset was measured at fair value at December 31, 2016.

Change in accounting principle

During 2016, the Corporation adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. ASU 2015-03 has been adopted by the Corporation on a retrospective basis.

Note 2 - Notes payable

Arlington Partnership for Affordable Housing ("APAH")

On July 5, 2005, United Bank provided a line of credit to APAH in the amount of \$250,000. The note bore interest at a rate of 1% over the Wall Street Journal Prime. Interest was payable monthly and principal was 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 and remained available through November 1, 2019. The note was secured by a deed of trust on The Barkalow. No funds were drawn during 2016. In July 2016, the line of credit was closed.

On January 24, 2011, United Bank provided another line of credit to APAH in the amount of \$500,000 and remained available through November 1, 2019. The note bore interest at a rate of 1% over the Wall Street Journal Prime. Interest was payable monthly and principal was due on demand. The note was secured by a deed of trust on The Barkalow. No funds were drawn during 2016. In July 2016, the line of credit was closed.

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On March 7, 2014, VHDA provided a predevelopment loan in the amount of \$100,000 to fund predevelopment activities related to the rehabilitation of the mixed-use project known as Gilliam Place. The loan bears interest at a rate of 1% beginning on October 1, 2014. Interest on the predevelopment loan will be reduced to 0% if borrower receives VHDA multifamily permanent financing for the development. No payments are due on the note until the maturity date, which is the sooner of April 1, 2017, or the closing of permanent financing for the development. At December 31, 2016, permanent financing for the development has not closed. On February 27, 2017, the agreement was modified to extend the maturity date on the note to June 30, 2017. In June 2017, the permanent financing closed and on June 23, 2017, the predevelopment loan was repaid in full. In accordance with the predevelopment loan agreement, if the development is not able to move forward to construction by the time the predevelopment loan is due, then VHDA may either (1) extend the maturity date if APAH continues to pursue working on the development or (2) forgive the payment of the predevelopment loan, if APAH provides a written explanation of why the development is not feasible. At December 31, 2016, the outstanding principal balance and accrued interest was \$100,000 and \$0, respectively. No interest was charged to operations in 2016.

On August 2, 2016, APAH (the "Borrower"), entered into a Loan Agreement with Access National Bank in the original amount of \$5,000,000. The loan proceeds may be advanced as either working capital or non-working capital, as defined in the Loan Agreement, but may not exceed \$5,000,000. As a condition to the loan, the Borrower funded an account with the lender in the amount of \$1,000,000, as additional security for the lender. The account is required to maintain a minimum balance of \$1,000,000 for the duration of the loan agreement. For the year ended December 31, 2016 and for each fiscal year ending December 31 thereafter, the Borrower shall maintain a minimum Debt Service Coverage Ratio of not less than 1.0. The Debt Service Coverage Ratio shall be measured annually upon receipt of the audited financial statements of APAH by the lender. The Barkalow LLC and APAH Commercial LLC, collectively are the Guarantors. The loan bears interest at a rate of 4.15% and is due in full upon maturity on September 30, 2019, the maturity date. During the year ended December 31, 2016, proceeds in the amount of \$3,863,642 were disbursed to the Borrower and interest was incurred in the amount of \$36,263, including \$6,471 of amortization of debt issuance costs, of which \$29,792 was capitalized predevelopment costs and \$6,471 was expensed. The outstanding principal and accrued interest was \$3,863,642 and \$13,570, respectively.

Debt issuance costs, net of accumulated amortization, totaled \$40,119 as of December 31, 2016 and are related to the above note. Debt issuance costs on the above note are being amortized using an imputed rate of 4.82%.

The funds drawn on the above loan were advanced to APAH Westover, LLC to acquire certain properties located in the Westover neighborhood of Arlington County.

APAH Westover LLC

On September 28, 2016, APAH Westover LLC (the "Borrower") entered into a loan agreement with Access National Bank in the amount of \$9,441,250. The loan proceeds are to be used to acquire certain properties located in the Westover neighborhood of Arlington County (the "Westover Properties"). The loan bears interest at 4.75% and matures on September 30, 2019. For the year ended December 31, 2016 and for each fiscal year ending December 31 thereafter, the Borrower shall maintain a minimum Debt Service Coverage Ratio of not less than 1.0. The Debt Service Coverage Ratio shall be measured annually upon receipt of the audited financial statements of APAH by the lender. Proceeds of \$6,760,000 were advanced to acquire five buildings on

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September 28, 2016 and one building on November 30, 2016. At December 31, 2016, the outstanding principal balance was \$6,760,000. During the year ended December 31, 2016, interest charged to operations was \$81,255.

The proceeds relating to the above loan were used to fund the acquisition of the Westover Properties.

Arlington Mill Limited Partnership

On August 29, 2012, the partnership entered into a mortgage note with the Virginia Housing Development Authority ("VHDA") in the original amount of \$8,870,000. The note bore interest at a rate of 2.746% through August 1, 2014, and thereafter bears interest at a rate of 5.532%. Interest-only was due through October 1, 2014, after which monthly payments of principal and interest are due through maturity on October 1, 2044. The mortgage is secured by a first deed of trust and an assignment of leases and rents on the rental property. The partnership is required under agreements with VHDA to make monthly escrow deposits for taxes, insurance and replacement of project assets, and is subject to restrictions as to operating policies, rental charges, operating expenditures and distributions to partners. During 2016, interest incurred on the note was \$492,258, including \$12,451 of amortization expense related to the debt issuance costs. Accrued interest payable at December 31, 2016 was \$40,802. As of December 31, 2016, the outstanding principal balance was \$8,604,083.

Debt issuance costs, net of accumulated amortization, totaled \$324,050 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 5.91%.

AVV Apartments, LLC

Virginia Housing Development Authority ("VHDA") has provided financing to AVV Apartments, LLC 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 the maturity date, March 1, 2044. The note is secured by a deed of trust and an assignment of leases and rents on the property. As of December 31, 2016, outstanding principal amounted to \$8,054,744. Accrued interest outstanding at December 31, 2016 totaled \$33,773. During 2016, interest charged to operations on the note totaled \$402,257, including \$6,473 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$147,583 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 5.04%.

The County Board of Arlington County, Virginia provided a note to AVV Apartments, LLC under the Affordable Housing Investment Fund ("AHIF") program in the original amount of \$4,502,199. Interest accrues on outstanding principal at a rate of 2% per annum, compounded annually as defined in the loan agreement. At December 31, 2016, \$1,350,000 has not been disbursed to the borrower, which will be used to fund the Long Term Capital Improvement Reserve. Interest will not accrue on any County AHIF Loan proceeds used to fund the Long Term Capital Improvement Reserve until proceeds to fund such reserve are disbursed to the Borrower. 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 AHIF note. During the year ended December 31, 2016, \$38,508 was paid from 2015 surplus cash and applied to accrued interest. Beginning June 1, 2030

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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 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. The outstanding principal balance and accrued interest thereon at December 31, 2016 is \$3,152,199 and \$143,520, respectively. During 2016, interest charged to operations on the note totaled \$65,074.

The County Board of Arlington County, Virginia provided a note to AVV Apartments, LLC under the HOME Investment Partnership ("HOME") program in the original amount of \$2,800,000. The note is noninterest bearing. The outstanding principal balance is due on February 28, 2044, the maturity date. The outstanding principal balance at December 31, 2016 is \$2,800,000.

The County Board of Arlington County, Virginia has provided a note to AVV Apartments, LLC under the Community Development Block Grant ("CDBG") program in the original amount of \$1,000,000. The note bears interest at a rate of 2% per annum, compounded annually. 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 note. During the year ended December 31, 2016, \$38,508 was paid from 2015 surplus cash and applied to accrued interest. Beginning June 1, 2030 and for 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 note. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on February 28, 2044, the maturity date, at which time all principal and interest shall be paid in full. The outstanding principal balance and accrued interest thereon at December 31, 2016 is \$1,000,000 and \$18,904, respectively. During 2016, interest charged to operations on the note totaled \$20,310.

Buchanan Gardens Limited Partnership

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, 2016, the outstanding principal balance and accrued interest payable was \$7,347,429 and \$39,082, respectively. During 2016, interest charged to operations was \$472,051.

Debt issuance costs, net of accumulated amortization, totaled \$75,650 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 6.50%.

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

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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. During 2016, a payment in the amount of \$119,750 was made from 2015 residual receipts and applied to accrued interest. 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 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, 2016 was \$11,712,603 and \$730,060, respectively. The carrying value, including accrued interest of \$832,565, was \$9,617,135. During 2016, interest charged to operations was \$267,723, which includes the accretion of fair value adjustment of \$22,268.

Calvert Manor Limited Partnership

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 a rate of 3.309% per annum and is payable in monthly installments of principal and interest based upon a 30-year amortization schedule and matures on June 1, 2044. Beginning on June 14, 2014, the partnership began paying interest only at the permanent financing interest rate of 3.309%. Commencing in April 2015, the partnership converted the loan from construction financing to permanent financing and began paying monthly installments of principal and interest. At December 31, 2016, the outstanding principal and accrued interest thereon totaled \$2,112,077 and \$587, respectively. During 2016, interest charged to operations amounted to \$72,895, including \$2,171 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$38,923 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 3.47%.

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. The note is secured by the real estate collateral, improvements, easements or other interest, assignment of rents, assignments of leases and personal property.

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 VHDA Note. The note bears interest at the rate of 4.00%, and was 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. Per the First Amendment to the Housing Fund Contingent/Home Program entered into on October 2013, the partnership shall begin making annual payments of outstanding principal and interest on or before September 24, 2015, consisting of at least 50% of the residual receipts of the previous calendar year. The note matures on September 24, 2027. The note is secured by the real estate collateral, improvements, easements or other interest, assignment of rents, assignments of leases and personal property. There were no residual receipts at December 31, 2015. As of December 31, 2016, the outstanding principal balance and accrued interest were \$415,573 and \$73,276, respectively. During 2016, interest amounted to \$18,657.

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Cameron Commons Limited Liability Company

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 3). 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, 2016, the outstanding principal balance and accrued interest were \$485,059 and \$1,770, respectively. During 2016, interest incurred on the note was \$20,980, including \$891 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$12,278 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 4.59%.

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 3). 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, 2016, the outstanding principal balance was \$12,082.

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 3). 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, 2016, the \$25,000 grant balance is included in notes payable.

On July 3, 2008, Cameron Commons, LLC assumed subordinated financing by The County Board of Arlington County, Virginia in the form of a County Loan in the amount of \$242,000, a Bridge Loan in the amount of \$197,000 and an Additional County Loan in the amount of \$609,000 in connection with the contribution of Cameron Commons Apartments (see Note 3). The notes bore 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. A payment in the amount of \$13,001 was made during the year ended December 31, 2016. 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

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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. In March 2016, the Arlington County Board reduced the interest rate on the Cameron Commons Arlington County loan. The interest rate was reduced from 3.5% to 1.5% per annum, compounded annually, and applied retroactively, with an effective date of January 1, 2015. A payment in the amount of \$13,001 was applied to accrued interest and accrued interest of \$30,403 was forgiven. As of December 31, 2016, the outstanding principal balance and accrued interest were \$1,048,000 and \$516,193, respectively. During 2016, interest incurred on the note was \$22,298.

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 payments are payable in monthly installments for the first 14 months following the date of this agreement. Beginning 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, 2016, the outstanding principal balance and accrued interest were \$14,000,751 and \$85,995, respectively. During 2016, interest on the note was \$1,037,669, including \$7,103 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$218,260 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 7.78%.

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. During 2016, a payment in the amount of \$217,726 was made from residual receipts and applied to accrued interest. 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 and accrued interest on the loan at face value at December 31, 2016 was \$4,649,720 and \$2,094,036, respectively. The carrying value, including accrued interest of \$686,976, was \$2,086,976 at December 31, 2016. During 2016, interest charged to operations was \$216,694, which includes the accretion of fair value catch up adjustment of \$51,055.

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

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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, 2016, the outstanding principal balance and accrued interest were \$3,000,000 and \$527,503, respectively. During 2016, interest charged to operations was \$69,356.

Columbia Hills East Limited Partnership

On June 2, 2016 the partnership entered into a construction loan agreement with Bank of America, N.A. in the original amount of \$15,100,000. The loan bears interest at the annual rate equal to the London Interbank Offered Rate daily floating rate ("LIBOR") plus 2.25% (0.77% at December 31, 2016). Commencing on June 2, 2016, and continuing on the first day of each succeeding calendar month thereafter, monthly payments of interest-only are due until the maturity date of December 2, 2018. The entire unpaid principal and accrued interest thereon shall be due and payable on the maturity date. The note is secured by a deed of trust on the property. As of December 31, 2016, no proceeds were received on the loan.

Pursuant to the construction loan agreement with Bank of America, N.A., Borrower entered into an interest rate cap agreement, effective January 1, 2017. The interest rate cap will limit the partnership's LIBOR exposure on a notional amount of up to \$15,100,000.

On June 2, 2016, the County Board of Arlington County, Virginia, has provided subordinated financing from the AHIF in the amount of \$7,706,429. The note bears interest at 1.40% per annum, commencing on June 1, 2023. The note is secured by the AHIF deed of trust. No payments shall be due until June 1, 2019, at which time payments will be made from the disbursements of residual receipts. Pursuant to the Loan Agreement, the Borrower shall disburse forty five percent of the residual receipts from the previous calendar year 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, 2046 at which time all principal and interest shall be paid in full. As of December 31, 2016, the outstanding balance was \$7,706,429.

On June 2, 2016, the partnership entered into a loan agreement with APAH in the amount of \$289,741. The note is reflected as a component of equity as it funded the acquisition of the property and is eliminated in consolidation (see Note 6).

On June 2, 2016, the partnership entered into a construction to permanent loan agreement with VHDA in the original amount of \$7,861,492. The note is secured by a deed of trust. As of December 31, 2016, no proceeds have been received on this note. The interest rate on the note shall be 2.689% per annum during the construction period.

On June 2, 2016, APAH entered into an Affordable Housing Program Agreement whereby the Federal Home Loan Bank of Atlanta will provide a loan in the original amount of \$500,000. APAH and the partnership have executed a promissory note on June 2, 2016, to disburse the proceeds to be received from the Federal Home Loan Bank of Atlanta to be used to fund hard construction costs related to the project. As of December 31, 2016, no funds have been advanced on this note.

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On June 2, 2016, the partnership entered into a commitment for a mortgage loan with the Virginia Housing Trust Fund for an amount of \$750,000. The interest rate on the loan shall be 1.5% per annum, which requires monthly interest only payments. The loan matures after 20 years at which time the project may extend for an additional 10 years. As of December 31, 2016, no funds have been advanced on this note.

Columbia Hills West Limited Partnership

On June 2, 2016, The County Board of Arlington County, Virginia, has provided subordinated financing from the AHIF in the amount of \$10,786,665. The note bears interest at 1.40% per annum, commencing on June 1, 2023. The note is secured by the AHIF deed of trust. No payments shall be due until June 1, 2019, at which time payments will be made from the disbursements of residual receipts. Pursuant to the Loan Agreement, the Borrower shall disburse fifty five percent of the residual receipts from the previous calendar year 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, 2046 at which time all principal and interest shall be paid in full. As of December 31, 2016, the outstanding balance was \$10,786,665.

On June 2, 2016, the partnership entered into a loan agreement with APAH in the amount of \$10,046,401. The note is reflected as a component of equity and is eliminated in consolidation (see Note 6).

On June 2, 2016, the partnership entered into a construction to permanent loan agreement with VHDA in the original amount of \$12,450,000. The note is secured by a deed of trust. As of December 31, 2016, no proceeds have been received on this note. The interest rate on the note shall be 3.644% per annum.

On June 2, 2016, the partnership entered into a GAP loan deed of trust note with VHDA in the original amount of \$14,100,000. The note is secured by a deed of trust. The interest rate on the note shall be 2.225% per annum and is payable on the first day of each month until August 2018, at which time all outstanding principal, plus accrued interest shall be due and payable. As of December 31, 2016, no proceeds have been received on this note.

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 assignment of leases and rents on the rental property. As of December 31, 2016, the outstanding principal balance and accrued interest were \$7,755,873 and \$38,378, respectively. During 2016, interest incurred on the note was \$465,214, including \$7,877 of amortization expense of the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$191,694 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 6.10%.

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

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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. During 2016, payments in the amount of \$165,336 were made and applied to accrued interest. As of December 31, 2016, the outstanding principal balance and accrued interest were \$9,139,988 and \$4,167,639, respectively. During 2016, interest charged to operations was \$512,758, including \$1,312 of amortization expense of debt issuance costs.

Debt issuance costs related to the above note, net of accumulated amortization, totaled \$31,873 as of December 31, 2016. Debt issuance costs on the above note are being amortized using an imputed rate of 4.08%.

Fisher House Limited Partnership

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, 2016, the outstanding principal balance and accrued interest were \$2,277,336 and \$10,715, respectively. During 2016, interest charged to operations was \$115,865, including \$4,657 of amortization expense of debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$65,752 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 5.18%.

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 2016, a payment of \$16,262 was made from December 31, 2015 residual receipts. The payment was applied to accrued interest. As of December 31, 2016, the outstanding principal balance and accrued interest were \$795,000 and \$261,986, respectively. During 2016, interest charged to operations was \$41,049.

Gilliam Place, LLC

In connection with the acquisition of the property on July 28, 2016, the company entered into a promissory note in the original amount of \$8,568,716 to fund the acquisition of Arlington Presbyterian Church ("APC"). The note is noninterest bearing and is secured by the county deed of trust on the property and is due upon maturity, July 1, 2018. As of December 31, 2016, the outstanding principal balance was \$8,547,516.

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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, 2016, the outstanding principal balance and accrued interest were \$543,854 and \$2,903, respectively. During 2016, interest charged to operations was \$30,520, including \$2,925 of amortization expense of debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$42,904 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 6.13%.

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, 2016, the outstanding principal balance and accrued interest were \$797,654 and \$4,338, respectively. During 2016, interest charged to operations was \$40,706.

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"). An additional Change Date occurred on January 18, 2013. As of December 31, 2016, the note bore interest at an annual rate of 7%. 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, 2016, the outstanding principal balance and accrued interest were \$657,503 and \$5,068, respectively. During 2016, interest charged to operations was \$47,648.

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, 2016, \$803,000 has been advanced on the note. During the year ended December 31, 2016, a payment in the amount of \$12,859 was made from residual receipts and applied to accrued interest. As of December 31, 2016, the outstanding principal balance and accrued interest were \$803,000 and \$572,355, respectively. During 2016, interest charged to operations was \$46,804.

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Marbella Development Limited Liability Company

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. During a prior year, a payment in the amount of \$552,000 was made and applied to principal from proceeds of 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, 2016, the outstanding principal balance and accrued interest were \$8,977,141 and \$44,451, respectively. During 2016, interest charged to operations on the note was \$522,987, including \$4,350 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$125,799 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 5.86%.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an AHIF and 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. During 2016, a payment in the amount of \$55,766 was made from 2015 surplus cash, and was applied to accrued interest. As of December 31, 2016, the outstanding principal balance and accrued interest were \$3,723,150 and \$219,386, respectively. During 2016, interest charged to operations was \$96,914.

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 bore 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 bore interest at the LIBOR Rate plus 325 basis points and is payable monthly. Principal curtailments were required to be made annually on the anniversary date of the note so that the maximum principal amount outstanding on the first anniversary is \$3,290,000, \$3,200,000 on the second anniversary, \$3,110,000 on the third anniversary, and \$3,015,000 on the fourth anniversary. The entire outstanding principal balance plus accrued interest was due and payable on April 9, 2019. On July 21, 2015, APAH contributed cash in the amount of \$1,560,562 to Queen's Court Development Corporation to repay the principal balance due. As of December 31, 2016, the line of credit had a zero balance.

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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. Under the agreement, the mortgage loan bears interest at the rate of 5.706% per annum. Beginning July 1, 2013, monthly 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, 2016, the outstanding principal balance and accrued interest were \$45,130,444 and \$223,658, respectively. During 2016, interest incurred on the note was \$2,631,047, including \$34,959 of amortization expense of debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$878,174 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 5.98%.

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 APAH at its fair value in the amount of \$1,494,683 at June 14, 2013. The fair value adjustment is accreted over the remaining term of the note using the effective yield method. There were no residual receipts available at December 31, 2015 to make a payment in 2016. The outstanding principal balance and accrued interest on the loan at face value at December 31, 2016 is \$1,498,204 and \$163,686, respectively. The outstanding principal balance and accrued interest at carrying value at December 31, 2016 is \$1,791,444 and \$215,504, respectively. During 2016, interest charged to operations was \$77,522, which includes an accretion of fair value adjustment of \$14,084.

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 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 April 1, 2037. The note was recorded by APAH 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, 2016 was \$5,230,400 and \$2,528,245, respectively. The carrying value of the outstanding principal balance and accrued interest at December 31, 2016 was \$3,948,899 and \$912,566, respectively. During 2016, interest charged to operations was \$298,409, which includes the accretion of fair value adjustment of \$119,471.

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The Springs Apartments Limited Partnership

On January 30, 2015 the partnership entered into a construction loan agreement with Bank of America, N.A. in the original amount of \$17,765,000. The loan bears interest at the annual rate of interest equal to the one-month London Interbank Offered Rate ("LIBOR") rate (0.77% at December 31, 2016) plus 2.0%. Commencing on March 1, 2015, and continuing on the first day of each succeeding calendar month thereafter, monthly payments of interest-only are due until the maturity date of March 30, 2017. The entire unpaid principal and accrued interest thereon shall be due and payable on the maturity date. The note is secured by a deed of trust on the property. At December 31, 2016, the outstanding principal and accrued interest were \$15,032,051 and \$34,948, respectively. During the period February 6, 2014 (date of inception) through December 31, 2016, interest incurred amounted to \$491,765 of which \$378,082 was capitalized to rental property (including \$176,406 of amortization on the related debt issuance costs) and \$113,683 was expensed (including \$16,031 of amortization expense related to the debt issuance costs).

On January 27, 2017, the Partnership paid off the construction loan and interest thereon in full from proceeds of Limited Partner capital contributions.

Debt issuance costs, net of accumulated amortization, totaled \$25,101 as of December 31, 2016 and are related to the construction loan. Debt issuance costs in the above note are being amortized using an imputed rate of 2.77%.

Pursuant to the construction loan agreement with Bank of America, N.A., the Borrower entered into an interest rate cap agreement, effective January 20, 2015 through February 28, 2017 for \$39,300. The interest rate cap limited the partnership's LIBOR exposure to a maximum rate of 2.0% on a notional amount of \$17,765,000. At December 31, 2016, the fair value of the interest rate cap was \$0.

On January 30, 2015, the partnership entered into a construction to permanent loan agreement with VHDA in the original amount of \$8,565,000. During the period February 6, 2014 (date of inception) through December 31, 2016, \$7,413,239 was advanced under this loan. The loan bears interest at 2.554% per annum from February 1, 2015 through January 9, 2017, and at 4.342% per annum from January 9, 2017 through the maturity date of September 1, 2046. Commencing on February 1, 2015, and continuing on the first day of each succeeding calendar month through September 30, 2016, monthly payments of interest-only were due until the maturity date. Commencing on September 30, 2016, 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, 2016, the outstanding principal balance and accrued interest were \$7,413,239 and \$15,778, respectively. During the period February 6, 2014 (date of inception) through December 31, 2016, interest incurred was \$180,786 of which \$136,602 was capitalized and \$44,184 was charged to operations, including \$12,627 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$303,044 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs in the above note are being amortized using an imputed rate of 4.34%.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an Affordable Housing Investment Fund ("AHIF") loan dated January 30, 2015 in the original amount of \$7,827,700. 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 June 1st of each year beginning no later than June 1, 2018, from the disbursement of residual receipts pursuant to

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the loan agreement. Cost savings, as defined in the loan agreement, shall be shared between the County Board of Arlington County, Virginia and the borrower. The County Board of Arlington County, Virginia shall receive 80% and the borrower shall receive 20% of the first \$1,125,000 of excess proceeds. The County Board of Arlington County, Virginia and the borrower shall each receive 50% of all excess proceeds in excess of \$1,125,000. The County Board of Arlington County, Virginia shall apply 100% of its remitted excess proceeds towards payment on the outstanding balance of the AHIF loan. Beginning June 1, 2018, 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 January 1, 2045, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. During the period February 6, 2014 (date of inception) through December 31, 2016, interest of \$303,552 was incurred and capitalized to the rental property. The outstanding principal balance and accrued interest on the loan at December 31, 2016 was \$7,827,700 and \$303,552, respectively.

On January 30, 2015, the partnership entered into a promissory note with Bank of America, N.A., for the amount of \$550,000. The note is noninterest bearing and shall be due in full on January 30, 2033, the maturity date. The note is secured by a Deed of Trust, Assignment of Leases and Security Agreement. Provided no event of default has occurred and is continuing, and provided further that the property is and has during the entire term of the loan been in compliance with the Affordable Land Use Restriction, the principal amount then unpaid and all accrued and unpaid interest, if any, shall be deemed paid in full on the earlier of the maturity date, sale of the property to a bona fide third party not affiliated with the Partnership or refinance of the property. As of December 31, 2016, the outstanding principal balance was \$550,000.

Aggregate annual maturities

Aggregate annual maturities of the notes payable for APAH and its subsidiaries for the next five years and thereafter following December 31, 2016 are as follows:

Year ending December 31, 2017	\$ 1,796,265
2018	3,299,680
2019	2,010,095
2020	2,138,100
2021	2,248,424
Thereafter	<u>205,384,291</u>
Total	216,876,855
Unamortized debt issuance costs	<u>(1,691,095)</u>
Total	<u>\$ 215,185,760</u>

Note 3 - Contribution/sale of multifamily rental properties

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

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.

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 II, 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 II, LLC. The deferred gain is eliminated in consolidation.

On February 5, 2015, Carlyn Springs Development Corporation sold land to The Springs Apartments Limited Partnership and to APAH for the APAH office condo. Pursuant to accounting guidance and professional standards for acquisitions between entities under common control, the transaction was recorded at the net book value of the land of Carlyn Springs at the date of sale in the amount of \$292,800. The difference of the net purchase price and the net book value of the land that transferred is recorded as a component of equity for The Springs Apartments Limited Partnership and Carlyn Springs Development Corporation in the amount of \$4,341,963 and was eliminated in consolidation.

On June 2, 2016, Columbia Grove Apartments Limited Partnership transferred assets comprised of land and site improvements of the Project in a transaction with APAH, in connection with the Donation Agreement executed February 1, 2015. The Partnership consolidates into APAH and as a result, this is considered to be a transaction between entities under common control. In accordance with the accounting guidance under common control, the acquired assets are transferred at their respective net book values at the date of the transfer as reflected on the Partnership's books. The difference of the net purchase price and net book value is recorded as a component of equity for Columbia Grove Apartments Limited Partnership in the amount of \$1,131,131 and is eliminated in consolidation. On June 2, 2016, APAH formed a land condominium with two land units and the land units were sold to Columbia Hills East Limited Partnership and Columbia Hills West Limited Partnership for a combined purchase price of \$10,400,000 of which \$5,134,207 was allocated to

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

Columbia Hills East Limited Partnership and \$5,265,793 was allocated to Columbia Hills West Limited Partnership. The acquired assets were transferred at their respective net book values at the date of the transfer. The excess is recorded as a component of equity for Columbia Hills East Limited Partnership in the amount of \$4,575,768 and for Columbia Hills West Limited Partnership in the amount of \$4,693,101 and is eliminated in consolidation.

Note 4 - Asset acquisitions of multifamily rental properties

On September 28, 2016, APAH Westover LLC acquired five properties from an unrelated third party for the purchase price of \$8,600,000 and accounted for the purchase as an asset acquisition. On November 30, 2016, APAH Westover, LLC acquired an additional property from an unrelated third party, for the purchase price of \$1,800,000. In accordance with this accounting guidance, all assets acquired and liabilities assumed are measured and recorded at their underlying cost. In order to allocate the purchase price to the assets acquired, management used relative fair value of the identifiable assets acquired. Transaction costs are capitalized to the assets acquired.

Note 5 - Contingent liabilities

APAH Westover LLC

APAH has entered into a Guaranty Agreement, the benefit of APAH Westover LLC, which received financing for the purpose of the acquisition and rehabilitation of several parcels of real property into low income housing. APAH irrevocably guarantees full and punctual payment when due. APAH has a maximum liability of \$5,000,000. No payments have been required as a result of this guarantee.

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 projected tax benefits, as defined in the amended and restated agreement of limited partnership. In addition, APAH is obligated to fund operating deficits until 36 months after the later of the operating Deficit Loan Commencement Date or the project receiving a Debt Service Coverage Ratio of at least 1.15 for each month over the preceding 6-month period as defined. APAH has a maximum liability of \$814,997. No payments have been required as a result of these guarantees.

AVV Apartments, LLC

APAH has entered into a Section 42 Indemnification Agreement with Arna Valley View Limited Partnership, an unrelated party (the "seller"). AVV Apartments, LLC acquired the rental property from the seller known as Arna Valley View Apartments on February 28, 2014 prior to the end of the 15-year low-income housing tax credit compliance period. The agreement requires APAH to maintain the property in a manner that would not result in recapture of any tax credits. In connection with the agreement, APAH irrevocably covenants and agrees to indemnify and hold the seller harmless for any noncompliance with Section 42, subsequent to the date of purchase. APAH's liability is not to exceed \$750,000. No payments have been required as a result of this agreement.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

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 deficits. After the later of stabilization or loan conversion, APAH has a maximum liability of \$645,000 for operating deficits, which terminates after the project has operated at the required Debt Service Coverage Ratio for two years at least three years after stabilization, as defined. No payments have been required as a result of this guarantee.

Columbia Grove Apartments Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Columbia Grove Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 208-unit Columbia Grove Apartments. APAH has made credit delivery guarantees related to the low-income housing tax credits only, with a maximum liability of \$1,400,000. In addition, APAH is obligated to fund operating deficits up to \$350,000. No payments have been required as a result of this guarantee.

Columbia Hills East Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Columbia Hills East Limited Partnership, which received tax credit equity financing for the purpose of developing, construction, maintain, operating, leasing, and mortgaging the 97-unit Columbia Hills East Apartments. APAH jointly and severally guarantees the prompt payment and performance of all of the obligations of the General Partner to the partnership under the Partnership Agreement pursuant to terms further described in the Guaranty Agreement. No payments have been required as a result of these guarantees.

APAH has guaranteed completion of the construction activities and guarantees that the project will be placed into service no later than December 31, 2018. APAH guarantees payment of all development costs, as more fully described in the Amended and Restated Partnership Agreement. At December 31, 2016, the project was under construction.

Columbia Hills West Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Columbia Hills West Limited Partnership, which received tax credit equity financing for the purpose of developing, construction, maintain, operating, leasing, and mortgaging 132-unit Columbia Hills West Apartments. APAH jointly and severally guarantees the prompt payment and performance of all of the obligations of the General Partner to the partnership under the Partnership Agreement pursuant to terms further described in the Guaranty Agreement. No payments have been required as a result of these guarantees.

APAH has guaranteed completion of the construction activities and guarantees that the project will be placed into service no later than December 31, 2018. APAH guarantees payment of all development costs, as more fully described in the Amended and Restated Partnership Agreement. At December 31, 2016, the project was under construction.

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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

Fisher House Limited Partnership

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.

Gilliam Place, LLC

As of December 31, 2016, Gilliam Place, LLC has recorded an accrued liability of \$549,405 on the accompanying consolidated statement of financial position which represents its estimated environmental remediation costs, including estimated associated legal costs.

Rosslyn Ridge Apartments Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Rosslyn Ridge Apartments Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 238-unit Parc Rosslyn Apartments. APAH has made operating deficit guarantees related to the low-income housing tax credits. No payments have been required as a result of this guarantee. Rosslyn Ridge Apartments Limited Partnership maintains an operating reserve in the amount of \$780,938 as of December 31, 2016.

The Springs Apartments Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of The Springs Apartments Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 104-unit Springs Apartments. APAH jointly and severally guarantees the prompt payment and performance of all of the obligations of the General Partner to the partnership under the Partnership Agreement pursuant to terms further described in the Guaranty Agreement.

APAH guaranteed completion of the construction activities and guaranteed that the project will be placed into service no later than December 1, 2017. APAH guaranteed payment of all Development costs, as more fully described in the Amended and Restated Partnership Agreement. As of December 31, 2016, construction on the project was complete and the project was placed in service.

No payments have been required as a result of these guarantees.

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 2016, interest charged to operations on the note was \$147,213 which was eliminated in these consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2016, which was eliminated in these consolidated financial statements, was \$2,600,000 and \$381,306, 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 2016, interest charged to operations on the note was \$3,831, which was eliminated in these

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2016, which was eliminated in these consolidated financial statements, was \$78,584 and \$23,994, respectively.

On June 2, 2016, the Columbia Hills East Limited Partnership entered into a loan agreement with APAH in the amount of \$289,741. The note bears interest at 2.24%, compounding annually. Interest shall accrue on the outstanding balance beginning June 2, 2018. Beginning in 2019, principal and interest shall be due and payable annually from distributions of available net cash flow in order of priority in accordance with the Amended and Restated Limited Partnership Agreement. The note matures on June 2, 2049, at which time the entire unpaid balance of the note and accrued interest thereon shall be due in full. As of December 31, 2016, the outstanding principal balance was \$289,741 and is eliminated in these consolidated financial statements.

On June 2, 2016, Columbia Hills West Limited Partnership entered into a loan agreement with APAH in the amount of \$10,046,401. The note bears interest at 1.0%, compounding annually. Interest shall accrue on the outstanding balance beginning June 2, 2018. Beginning in 2019, principal and interest shall be due and payable annually from distributions of available net cash flow in order of priority in accordance with the Amended and Restated Limited Partnership Agreement. The note matures on June 2, 2049, at which time the entire unpaid balance of the note and accrued interest thereon shall be due in full. As of December 31, 2016, the outstanding principal balance was \$9,147,739 and is eliminated in these consolidated financial statements.

During the year ended December 31, 2016, APAH advanced funds to Columbia Grove Development Corporation in the amount of \$1,749,175. The advances are noninterest bearing and due on demand. The outstanding advances at December 31, 2016, totaled \$1,749,175, which was 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 Fee Agreement, APAH shall earn a development fee in connection with the development of The Springs Apartments Limited Partnership. The agreement calls for aggregate fees to APAH of \$3,250,550. As of December 31, 2016, the full development fee was capitalized into the rental property. The fee is payable from capital contributions and cash flow. Development fees payable in the amount of \$1,100,000 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 Hills East Limited Partnership. The agreement calls for aggregate fees to APAH of \$3,262,284. As of December 31, 2016, \$1,107,465 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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of Columbia Hills West Limited Partnership. The agreement calls for aggregate fees to APAH of \$4,085,676. As of December 31, 2016, \$693,305 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.

Development fees incurred as of and for the year ended December 31, 2016 are as follows:

Entity	Development fee income	Development fee receivable	Deferred development fee
Columbia Hills East Limited Partnership	\$ 1,107,465	\$ 128,778	\$ -
Columbia Hills West Limited Partnership	693,305	80,452	-
Rosslyn Ridge Apartments Limited Partnership	-	3,277,321	3,277,321
The Springs Apartments Limited Partnership	190,962	2,354,443	1,378,941
Total	1,991,732	5,840,994	4,656,262
Eliminations	-	4,377,321	4,377,321
Consolidated balance	<u>\$ 1,991,732</u>	<u>\$ 1,463,673</u>	<u>\$ 278,941</u>

During 2016, APAH rented office space at The Barkalow, a property it owns, for the period January 1, 2016 through October 31, 2016. Rental expense of \$20,000 was paid to The Barkalow in 2016. This expense is eliminated in these consolidated financial statements.

Note 7 - Concentration of credit risk

APAH maintains its cash balances in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the corporation 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, 2016.

Note 8 - Asset management fee income

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

Note 9 - Supervised Residential Program Agreements

On July 7, 2001 and August 24, 2001, APAH entered into Supervised Residential Program Agreements with Arlington County for \$176,000 and \$60,000 of funding, respectively. Under the agreements, Arlington County provided \$236,000 to APAH. Such funds are required to be maintained in an interest-bearing account. The funds are utilized to pay the rent of Qualified Consumers, as defined in the agreements, which are referred to APAH by the County for housing. Interest earned on the program fund is required to be added to the funds available under the agreements. The agreements provide for APAH to receive an annual administration fee from the program fund of \$5,000. The fee increases 5% per year over the 15-year term of the agreements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016**

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 2016, program expenses paid to house Qualified Consumers and administration fees totaled \$30,923 and interest earned on the cash account totaled \$33. The remaining \$3,084 is included in other accounts receivable at December 31, 2016. The cash account balance in the amount of \$5,582 is included in restricted cash and cash equivalents at December 31, 2016. During 2016, APAH earned \$10,146 of administration fees relating to these agreements. Such fees are included in other income.

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, 2016 is \$2,725 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 amount of \$5,582 is restricted for the purpose outlined in the agreement. A tenant reserve in the amount of \$2,725 is maintained by Cameron Commons, LLC for the purpose outlined in the agreement (see Note 9).

In connection with the APAH Line of Credit, APAH, the guarantor, shall maintain a minimum operating account of a least \$1,000,000 with the lender to be measured quarterly and continuing for the duration of the loan. As of December 31, 2016, the amount maintained in this account was \$1,000,016.

Note 11 - Retirement plan

Beginning on the first day of employment, employees of APAH may elect to contribute to a 401(k) retirement account. Employees are automatically vested in their own contributions. APAH will match dollar for dollar up to 3% of each employee's salary. Then, APAH will match 50 cents for every dollar up to 5% of each employee's salary. Retirement plan expense for the year ended December 31, 2016 was \$51,242 and is included in salaries expense.

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, 2016 are:

Net operating loss carryforward	\$	593,896
Valuation allowance		<u>(593,896)</u>
Net deferred tax asset	\$	<u><u>-</u></u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016**

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, 2016, Columbia Grove, Inc. had net operating loss carryforwards of approximately \$1,541,500 for income tax purposes. Operating loss carryforwards (carrybacks) of \$1,212,903, \$122,587, \$46,156, \$32,512, \$110,052, \$15,120, \$48, \$48, \$1,118, and \$830 expire in 2023, 2024, 2027, 2028, 2029, 2031, 2032, 2033, 2034, and 2035, 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 \$593,896 was necessary at December 31, 2016.

Note 13 - Temporarily restricted net assets

APAH received the following grants which are included in temporarily restricted net assets at December 31, 2016 for either time restrictions or restrictions related to specific program services:

Grantor	Restriction	2016
Citi Foundation	Community Progress Makers	\$ 250,000
Capital One	South Arlington Resident Services Program	50,000
Meyer Foundation	Children and Family Capacity-Building Initiative	18,643
Various Individuals	Backpack Drive	400
Various Individuals	Holiday Gift Drive	3,779
JBG Property	Technology Literacy Program	5,000
Arlington County - AHIF	Financial Education Partnership Program	9,208
Arlington County - NSA	North Arlington Health Fair Program	1,000
United Way	Resident Stability and Independence	1,400
NextGenNowFund	Health and Wellness Program	2,119
VHDA	Capacity Building	30,000
		<hr/>
Total		<u>\$ 371,549</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

Note 14 - Construction contracts

On June 2, 2016, Columbia Grove East Limited Partnership entered into a construction contract with Bozzuto Construction Company, an unrelated party, to perform general contractor services in connection with the construction of Columbia Hills East Limited Partnership. The construction contract amounted to \$23,826,146, of which \$1,741,760 has been incurred and capitalized to construction in progress at December 31, 2016. At December 31, 2016, \$469,191 remains payable and is included in construction and development costs payable.

On June 2, 2016, Columbia Grove West Limited Partnership entered into a construction contract with Bozzuto Construction Company, an unrelated party, to perform general contractor services in connection with the construction of Columbia Hills West Limited Partnership. The construction contract amounted to \$30,695,928, of which \$2,238,729 has been incurred and capitalized to construction in progress at December 31, 2016. At December 31, 2016, \$646,103 remains payable and is included in construction and development costs payable.

The Springs Apartments Limited Partnership entered into a construction contract with Bozzuto Construction Company, an unrelated party, to perform general contractor services in connection with the construction of The Springs Apartments and the commercial office space. The construction contract amounted to \$24,437,682, including change orders of \$659,572, of which \$23,575,087 has been allocated to the Springs Apartments and \$862,595 has been allocated as hard construction costs for the commercial office space, all of which has been incurred and capitalized at December 31, 2016. At December 31, 2016, \$1,641,054 remains payable from the Springs Apartments and \$61,466 remains payable from the commercial office space, and is included in construction and development costs payable.

Note 15 - Ground leases

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. Amortization expense during 2016 was \$20,667 and is included in depreciation and amortization expense on the statement of functional expenses. Estimated amortization expense for each of the ensuing years through December 31, 2021 is \$20,667.

Note 16 - Subsequent events

Events that occur after the statement of financial position date but before the consolidated 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 consolidated 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 APAH and Subsidiaries through August 28, 2017 (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 consolidated financial statements, except as described below and in Note 2.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016

On January 12, 2017, APAH Westover LLC acquired two buildings from an unrelated third party in the amount of \$4,125,000. To purchase the buildings, APAH Westover LLC used proceeds from the acquisition loan and the APAH line of credit as more fully described in Note 2. On February 9, 2017, APAH Westover LLC entered into a loan agreement with Arlington County in the amount \$10,573,982. The loan was used to fully repay the APAH line of credit and reduced the balance of the APAH Westover LLC acquisition loan to \$4,720,625.

On January 19, 2017, Montgomery Housing Partnership, Inc. ("MHP") assigned Carlyn Springs/Foxcroft Terrace Development Corporation 21% of its membership interest in BGA MM LLC.

On April 3, 2017, Gilliam Place entered into a construction contract with an unrelated third party in the original amount of \$800,997 relating to ongoing environmental remediation.

On June 22, 2017, Gilliam Place East Limited Partnership and Gilliam Place West Limited Partnership closed and construction commenced on the 83 unit Gilliam Place East project and 90 unit Gilliam Place West project.

On June 22, 2017, Gilliam Place East Limited Partnership (the "Tenant") entered into a ground lease with Gilliam Place, LLC (the "Landlord"). Pursuant to the terms of the agreement, rent under the ground lease shall be \$197,554, per annum, payable from twenty-two percent of the Tenant's available cash flow. If there is insufficient cash flows, unpaid rent shall be accrued at an interest rate of 2.68%, compounded annually. The term of the ground lease shall be seventy five years. The partnership shall pay the landlord a capitalized ground lease payment of \$500,000 upon substantial completion of the project. Amounts paid on this agreement will be amortized over the term of the lease using the straight-line method. No rent was earned under the ground lease during the year ended December 31, 2016.

On June 22, 2017, Gilliam Place West Limited Partnership (the "Tenant") entered into a ground lease with Gilliam Place, LLC (the "Landlord"). Pursuant to the terms of the agreement, rent under the ground lease shall be \$216,000, per annum, payable from twenty-two percent of the Tenant's available cash flow. If there is insufficient cash flows, unpaid rent shall be accrued at an interest rate of 2.68%, compounded annually. The term of the ground lease shall be seventy five years. Amounts paid on this agreement will be amortized over the term of the lease using the straight-line method. No rent was earned under the ground lease during the year ended December 31, 2016.

On June 22, 2017, Gilliam Place LLC sold a parcel and two lots to the Arlington Presbyterian Church for a total purchase price of \$700,000.

On June 23, 2017, the VHDA predevelopment loan in the amount of \$100,000 was repaid in connection with the closing of Gilliam Place LLC.

Supplementary Information

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position December 31, 2016

Assets	APA Organization	APA Westover LLC	APA Rossllyn Ridge, Inc.	Arlington Mill Limited Partnership	Arlington Mill Development Corp.	AVV Apartments, LLC	Barkalow LLC	Buchanan Gardens II, LLC
Cash and cash equivalents including \$1,008,323 of restricted cash	\$ 7,249,243	\$ 77,086	\$ -	\$ 485,540	\$ -	\$ 450,517	\$ 201,709	\$ 41
Grants and pledges receivable	341,608	-	-	-	-	-	-	-
Accounts receivable - residents	-	7,126	-	2,851	-	2,262	30	-
Accounts receivable - other	15,561	-	-	-	-	-	-	-
Development fee receivable	5,840,994	-	-	-	-	-	-	-
Prepaid expenses	16,905	15,394	-	29,569	-	25,319	2,507	-
Prepaid ground lease	-	-	-	1,481,110	-	-	-	-
Deposits	-	52,800	-	61,909	-	2,149	-	13,770
Mortgage escrow deposits	-	-	-	29,987	-	42,258	10,105	-
Replacement and redevelopment reserve	-	-	-	79,598	-	485,158	-	-
Other reserves	-	-	-	1,449,311	-	-	-	-
Property and equipment, net	1,891,079	10,873,616	-	24,525,448	-	13,087,399	736,334	-
Construction in progress	2,891,475	-	-	-	-	-	-	-
Notes receivable - related party	4,427,759	-	-	-	-	-	-	-
Interest receivable - related party	405,299	-	-	-	-	-	-	-
Funded residents' security deposits	-	52,230	-	59,737	-	45,885	7,275	-
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	-	-
Investment in Arlington Mill Limited Partnership	(222)	-	-	-	-	-	-	-
Investment in North Pierce Associates	3,268,871	-	479,248	-	-	-	-	-
Investment in Courthouse Crossing Limited Partnership	(947)	-	-	-	-	-	-	-
Investment in Calvert Manor Limited Partnership	505,076	-	-	-	-	-	-	-
Investment in Lorcom Arms Limited Partnership	(572,333)	-	-	-	-	-	-	-
Investment in Cameron Commons LLC	-	-	-	-	-	-	-	-
Investment in Columbia Grove Limited Partnership	(93,024)	-	-	-	-	-	-	-
Investment in Columbia Grove Development Corp	(11,598)	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	45,176	-	-	-	-	-	-	-
Investment in Rossllyn Ridge Development Corp	(330,509)	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in Barkalow LLC	857,941	-	-	-	-	-	-	-
Investment in Arna Valley	(703,964)	-	-	-	-	-	-	-
Investment in stock	125,000	-	-	-	-	-	-	-
In place leases	-	-	-	-	-	302,277	-	-
Other assets	-	-	-	124,783	-	-	-	-
Total assets	\$ 26,169,390	\$ 11,078,252	\$ 479,248	\$ 28,329,843	\$ -	\$ 14,443,224	\$ 957,960	\$ 13,811
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 152,275	\$ 20,745	\$ -	\$ 3,284	\$ -	\$ 1,508	\$ 732	\$ -
Accrued interest	13,570	-	-	40,802	-	196,197	-	-
Related party payable/(receivable)	(5,881,265)	4,310,254	12,544	134,676	221,246	15,762	91,326	7,856
Development fee payable	-	-	-	-	-	-	-	-
Deferred development fee	4,656,262	-	-	-	-	-	-	-
Deferred gain	2,600,000	-	480,000	-	-	-	-	1,421,838
Prepaid rents	-	2,438	-	12,843	-	28,449	1,136	-
Residents' security deposits	-	52,230	-	59,737	-	45,912	7,275	-
Notes payable	3,923,523	6,711,935	-	8,280,033	-	14,859,360	-	-
Construction and development costs payable	473,618	-	-	8,898	-	-	-	-
Other liabilities	8,333	-	-	-	-	-	-	-
Total liabilities	5,946,316	11,097,602	492,544	8,540,273	221,246	15,147,188	100,469	1,429,694
Net assets								
Unrestricted controlling	19,851,525	(19,350)	(13,296)	19,789,570	(221,246)	(703,964)	857,491	(1,415,883)
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	19,851,525	(19,350)	(13,296)	19,789,570	(221,246)	(703,964)	857,491	(1,415,883)
Temporarily restricted	371,549	-	-	-	-	-	-	-
Total net assets	20,223,074	(19,350)	(13,296)	19,789,570	(221,246)	(703,964)	857,491	(1,415,883)
Total liabilities and net assets	\$ 26,169,390	\$ 11,078,252	\$ 479,248	\$ 28,329,843	\$ -	\$ 14,443,224	\$ 957,960	\$ 13,811

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position December 31, 2016

Assets	Buchanan Gardens Development Corp	Buchanan Gardens, LP	Calvert Manor Limited Partnership	Cameron Commons Development Corp	Cameron Commons LLC	Carlyn Springs Development Corp	Columbia Grove Apartments LP	Columbia Grove Inc.
Cash and cash equivalents including \$1,008,323 of restricted cash	\$ -	\$ 434,596	\$ 11,359	\$ -	\$ 62,740	\$ -	\$ 1,957,089	\$ 58,731
Grants and pledges receivable	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	6,611	8,878	-	1,347	-	15,170	-
Accounts receivable - other	-	-	-	-	-	-	-	-
Development fee receivable	-	-	-	-	-	-	-	-
Prepaid expenses	-	22,317	4,234	-	2,968	-	36,298	-
Prepaid ground lease	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Mortgage escrow deposits	-	14,494	3,838	-	3,048	-	45,494	-
Replacement and redevelopment reserve	-	119,986	34,288	-	15,090	-	532,564	-
Other reserves	-	654,473	-	-	-	-	350,000	-
Property and equipment, net	-	23,615,923	3,216,464	-	1,993,749	-	19,076,561	-
Construction in progress	-	-	-	-	-	-	514,956	-
Notes receivable - related party	-	-	-	-	-	-	-	-
Interest receivable - related party	-	-	-	-	-	-	-	-
Funded residents' security deposits	-	74,630	13,835	-	9,287	-	145,254	-
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	-	-
Investment in Arlington Mill Limited Partnership	-	-	-	-	-	-	-	-
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	-	-	-	(357,987)	-	-	-	-
Investment in Columbia Grove Limited Partnership	-	-	-	-	-	-	-	474,616
Investment in Columbia Grove Development Corp	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in Barkalow LLC	-	-	-	-	-	-	-	-
Investment in Arna Valley	-	-	-	-	-	-	-	-
Investment in stock	-	-	-	-	-	-	-	-
In place leases	-	-	-	-	-	-	-	-
Other assets	-	62,848	-	-	-	-	16,681	-
Total assets	\$ -	\$ 25,005,878	\$ 3,292,896	\$ (357,987)	\$ 2,088,229	\$ -	\$ 22,690,067	\$ 533,347
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ -	\$ 4,851	\$ 693	\$ 800	\$ 3,749	\$ -	\$ 7,576	\$ 15,000
Accrued interest	-	871,647	97,857	-	517,963	-	1,300,474	-
Related party receivable/(payables)	38,938	86,946	182,262	5,630	10,948	-	68,405	30,101
Development fee payable	-	-	-	-	-	-	-	-
Deferred development fee	-	-	-	-	-	-	-	-
Deferred gain	-	-	-	-	-	-	-	2,041,621
Prepaid rents	-	25,338	4,236	-	2,454	-	39,233	-
Residents' security deposits	-	74,630	13,835	-	9,287	-	146,104	-
Notes payable	-	16,056,349	2,488,727	-	1,557,863	-	18,182,491	-
Construction and development costs payable	-	-	-	-	-	-	196,726	-
Other liabilities	-	-	-	-	-	-	-	-
Total liabilities	38,938	17,119,761	2,787,610	6,430	2,102,264	-	19,941,009	2,086,722
Net assets								
Unrestricted controlling	(38,938)	7,886,117	505,286	(364,417)	(14,035)	-	2,749,058	(1,553,375)
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	(38,938)	7,886,117	505,286	(364,417)	(14,035)	-	2,749,058	(1,553,375)
Temporarily restricted	-	-	-	-	-	-	-	-
Total net assets	(38,938)	7,886,117	505,286	(364,417)	(14,035)	-	2,749,058	(1,553,375)
Total liabilities and net assets	\$ -	\$ 25,005,878	\$ 3,292,896	\$ (357,987)	\$ 2,088,229	\$ -	\$ 22,690,067	\$ 533,347

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position December 31, 2016

<u>Assets</u>	<u>Columbia Grove Development Corp.</u>	<u>Columbia Hills East Limited Partnership</u>	<u>Columbia Hills West Limited Partnership</u>	<u>Courthouse Crossings LP</u>	<u>Fisher House Development Corp.</u>	<u>FHDC Corporation</u>	<u>Fisher House, LP</u>	<u>Gilliam Place, LLC</u>
Cash and cash equivalents including \$1,008,323 of restricted cash	\$ -	\$ 99,832	\$ 99,833	\$ 396,135	\$ -	\$ -	\$ 153,684	\$ -
Grants and pledges receivable	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	-	-	7,629	-	-	3,985	-
Accounts receivable - other	-	-	-	-	-	-	-	-
Development fee receivable	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	23,939	-	-	6,902	1,470
Prepaid ground lease	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Mortgage escrow deposits	-	-	-	29,760	-	-	7,833	-
Replacement and redevelopment reserve	-	-	-	120,027	-	-	30,839	-
Other reserves	-	3,400,195	10,701,165	-	-	-	207,713	-
Property and equipment, net	-	558,439	572,692	26,037,132	-	-	6,595,569	8,372,610
Construction in progress	-	5,530,429	6,375,054	-	-	-	-	607,317
Notes receivable - related party	-	-	-	-	-	-	-	-
Interest receivable - related party	-	-	-	-	-	-	-	-
Funded residents' security deposits	-	-	-	66,346	-	-	21,463	-
Investment in Fisher House Limited Partnership	-	-	-	-	-	1,225,595	-	-
Investment in Arlington Mill Limited Partnership	-	-	-	-	-	-	-	-
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	1,656,386	-	-	-	-	-	-	-
Investment in Columbia Grove Development Corp	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in Barkalow LLC	-	-	-	-	-	-	-	-
Investment in Arna Valley	-	-	-	-	-	-	-	-
Investment in stock	-	-	-	-	-	-	-	-
In place leases	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
	<u>-</u>	<u>147,295</u>	<u>95,922</u>	<u>26,879</u>	<u>-</u>	<u>-</u>	<u>6,895</u>	<u>-</u>
Total assets	<u>\$ 1,656,386</u>	<u>\$ 9,736,190</u>	<u>\$ 17,844,666</u>	<u>\$ 26,707,847</u>	<u>\$ -</u>	<u>\$ 1,225,595</u>	<u>\$ 7,034,883</u>	<u>\$ 8,981,397</u>
<u>Liabilities and Net Assets</u>								
Liabilities								
Accounts payable and accrued expenses	\$ -	\$ 26,823	\$ 35,415	\$ 3,398	\$ 800	\$ -	\$ 1,345	\$ 549,405
Accrued interest	-	-	-	4,587,323	-	-	272,701	-
Related party receivable/(payables)	5,369	121,570	(252,697)	-	3,760	2,526	23,925	(73,063)
Development fee payable	-	128,778	80,452	-	-	-	-	-
Deferred development fee	-	-	-	-	-	-	-	-
Deferred gain	-	-	-	-	-	1,555,000	-	-
Prepaid rents	-	-	-	24,067	-	-	15,161	-
Residents' security deposits	-	-	-	66,346	-	-	21,463	-
Notes payable	1,749,175	7,706,429	10,786,665	19,272,294	-	-	3,006,584	8,547,516
Construction and development costs payable	-	491,147	678,746	-	-	-	1,038	-
Other liabilities	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,754,544</u>	<u>8,474,747</u>	<u>11,328,581</u>	<u>23,953,428</u>	<u>4,560</u>	<u>1,557,526</u>	<u>3,342,217</u>	<u>9,023,858</u>
Net assets								
Unrestricted controlling	(98,158)	1,261,443	6,516,085	2,754,419	(4,560)	(331,931)	3,692,666	(42,461)
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
	<u>(98,158)</u>	<u>1,261,443</u>	<u>6,516,085</u>	<u>2,754,419</u>	<u>(4,560)</u>	<u>(331,931)</u>	<u>3,692,666</u>	<u>(42,461)</u>
Total unrestricted net assets	<u>(98,158)</u>	<u>1,261,443</u>	<u>6,516,085</u>	<u>2,754,419</u>	<u>(4,560)</u>	<u>(331,931)</u>	<u>3,692,666</u>	<u>(42,461)</u>
Temporarily restricted	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>(98,158)</u>	<u>1,261,443</u>	<u>6,516,085</u>	<u>2,754,419</u>	<u>(4,560)</u>	<u>(331,931)</u>	<u>3,692,666</u>	<u>(42,461)</u>
Total liabilities and net assets	<u>\$ 1,656,386</u>	<u>\$ 9,736,190</u>	<u>\$ 17,844,666</u>	<u>\$ 26,707,847</u>	<u>\$ -</u>	<u>\$ 1,225,595</u>	<u>\$ 7,034,883</u>	<u>\$ 8,981,397</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position December 31, 2016

<u>Assets</u>	Lorcom Arms LP	Marbella Development LLC	Queen's Court Development Corp.	Rosslyn Ridge Development Corp.	Rosslyn Ridge Limited Partnership	The Springs Apartments LP	Eliminations	Total
Cash and cash equivalents including \$1,008,323 of restricted cash	\$ 95,530	\$ 372,885	\$ 48,115	\$ -	\$ 681,626	\$ 144,847	\$ -	\$ 13,081,138
Grants and pledges receivable	-	-	-	-	-	-	-	341,608
Accounts receivable - residents	7,079	4,200	5,544	-	7,276	14,917	-	94,905
Accounts receivable - other	-	-	-	-	21,476	21,045	-	58,082
Development fee receivable	-	-	-	-	-	-	(4,377,321)	1,463,673
Prepaid expenses	7,937	20,459	5,463	-	35,555	60,673	-	317,909
Prepaid ground lease	-	-	-	-	-	-	-	1,481,110
Deposits	-	-	-	-	-	5,229	-	135,857
Mortgage escrow deposits	8,897	25,977	49,703	-	75,266	-	-	346,660
Replacement and redevelopment reserve	143,040	124,573	127,824	-	313,429	-	-	2,126,416
Other reserves	-	-	-	-	1,788,061	140,887	-	18,691,805
Property and equipment, net	3,025,499	12,009,106	1,239,345	-	55,859,596	32,256,937	(13,164,537)	232,378,961
Construction in progress	-	-	-	-	-	-	-	15,919,231
Notes receivable - related party	-	-	-	-	-	-	(4,427,759)	-
Interest receivable - related party	-	-	-	-	-	-	(405,299)	-
Funded residents' security deposits	16,910	83,267	21,002	-	108,187	51,683	-	776,991
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	(1,225,595)	-
Investment in Arlington Mill Limited Partnership	-	-	-	-	-	-	-	222
Investment in North Pierce Associates	-	-	-	-	-	-	-	(3,748,119)
Investment in Courthouse Crossing Limited Partnership	-	-	-	-	-	-	-	947
Investment in Calvert Manor Limited Partnership	-	-	-	-	-	-	-	(505,076)
Investment in Lorcom Arms Limited Partnership	-	-	-	-	-	-	-	572,333
Investment in Cameron Commons LLC	-	-	-	-	-	-	-	357,987
Investment in Columbia Grove Limited Partnership	-	-	-	-	-	-	-	(2,037,978)
Investment in Columbia Grove Development Corp	-	-	-	-	-	-	-	11,598
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	(45,176)
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	330,509
Investment in Marbella Development LLC	-	-	-	(330,508)	-	-	-	330,508
Investment in Barkalow LLC	-	-	-	-	-	-	-	(857,941)
Investment in Arna Valley	-	-	-	-	-	-	-	703,964
Investment in stock	-	-	-	-	-	-	-	(125,000)
In place leases	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	23,861	162,984	(23,861)	644,287
Total assets	\$ 3,304,892	\$ 12,640,467	\$ 1,496,996	\$ (330,508)	\$ 58,914,333	\$ 32,859,202	\$ (28,635,594)	\$ 288,160,910
<u>Liabilities and Net Assets</u>								
Liabilities								
Accounts payable and accrued expenses	\$ 1,836	\$ 4,336	\$ 1,706	\$ 2,000	\$ 12,071	\$ 30,325	\$ -	\$ 880,673
Accrued interest	584,664	263,837	-	-	2,967,407	354,278	(2,206,351)	9,862,369
Related party receivable/(payables)	492,911	23,185	1,850	9,439	23,686	414,457	(78,584)	53,963
Development fee payable	-	-	-	-	3,289,586	2,354,443	(4,389,586)	1,463,673
Deferred development fee	-	-	-	-	-	-	(4,377,321)	278,941
Deferred gain	-	-	-	-	-	-	(8,098,459)	-
Prepaid rents	13,571	21,634	2,998	-	51,856	7,027	-	252,441
Residents' security deposits	16,910	83,491	21,002	-	113,315	51,983	-	783,520
Notes payable	2,759,107	12,574,492	-	-	51,274,114	30,494,845	(5,045,742)	215,185,760
Construction and development costs payable	-	-	-	-	-	1,737,903	-	3,588,076
Other liabilities	-	-	-	-	-	-	-	8,333
Total liabilities	3,868,999	12,970,975	27,556	11,439	57,732,035	35,445,261	(24,196,043)	232,357,749
Net assets								
Unrestricted controlling	(564,107)	(330,508)	1,469,440	(341,947)	1,182,298	(2,586,059)	(44,934,745)	14,936,418
Unrestricted noncontrolling	-	-	-	-	-	-	40,495,194 (a)	40,495,194
Total unrestricted net assets	(564,107)	(330,508)	1,469,440	(341,947)	1,182,298	(2,586,059)	(4,439,551)	55,431,612
Temporarily restricted	-	-	-	-	-	-	-	371,549
Total net assets	(564,107)	(330,508)	1,469,440	(341,947)	1,182,298	(2,586,059)	(4,439,551)	55,803,161
Total liabilities and net assets	\$ 3,304,892	\$ 12,640,467	\$ 1,496,996	\$ (330,508)	\$ 58,914,333	\$ 32,859,202	\$ (28,635,594)	\$ 288,160,910

(a) Allocation of noncontrolling interest

See Independent Auditor's Report.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2016

	APAH Organization	APAH Westover LLC	APAH Rosslyn Ridge, Inc.	Arlington Mill Limited Partnership	Arlington Mill Development Corp.	AVV Apartments, LLC	Barkalow LLC	Buchanan Gardens II, LLC
Revenue and other support								
Rental revenue - net	\$ -	\$ 153,091	\$ -	\$ 1,802,944	\$ -	\$ 1,397,878	\$ 252,865	\$ -
Grants and contributions	1,076,686	-	-	-	-	-	-	-
Development fee income	1,991,732	-	-	-	-	-	-	-
Interest income	180,030	1	-	1,926	-	2,502	36	-
Loss from equity investment in partnership interest	222,338	-	(8)	-	-	-	-	-
Other income	788,387	1,096	-	93,384	-	13,851	4,687	-
Special events revenue, net of expenses	466,566	-	-	-	-	-	-	-
Total revenue	4,725,739	154,188	(8)	1,898,254	-	1,414,231	257,588	-
Expenses								
Administrative	2,153,249	13,999	602	323,257	212,299	143,576	40,323	100
Operations and maintenance	-	20,162	-	262,292	-	197,793	36,322	-
Utilities	2,293	6,322	-	154,126	-	124,331	11,249	-
Insurance	71,700	5,736	-	55,502	-	49,671	5,816	-
Taxes	-	16,097	100	183,664	100	129,488	25,060	50
Interest	6,471	81,255	-	492,258	-	487,641	-	-
Depreciation and amortization	62,160	29,967	-	827,484	-	231,141	30,323	-
Total expenses	2,295,873	173,538	702	2,298,583	212,399	1,363,641	149,093	150
Excess of revenue over expenses (expenses over revenue)	2,429,866	(19,350)	(710)	(400,329)	(212,399)	50,590	108,495	(150)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ 2,429,866</u>	<u>\$ (19,350)</u>	<u>\$ (710)</u>	<u>\$ (400,329)</u>	<u>\$ (212,399)</u>	<u>\$ 50,590</u>	<u>\$ 108,495</u>	<u>\$ (150)</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2016

	Buchanan Gardens Development Corp.	Buchanan Gardens, LP	Calvert Manor Limited Partnership	Cameron Commons Development Corp.	Cameron Commons LLC	Carlyn Springs Development Corp.	Columbia Grove Apartments LP	Columbia Grove Inc.
Revenue and other support								
Rental revenue - net	\$ -	\$ 1,630,076	\$ 294,912	\$ -	\$ 204,952	\$ -	\$ 3,182,645	\$ -
Grants and contributions	-	-	-	-	-	-	-	-
Development fee income	-	-	-	-	-	-	-	-
Interest income	-	1,975	573	-	120	-	1,369	69
Loss from equity investment in partnership interest	-	-	-	(18,707)	-	-	-	(3)
Other income	45,522	32,303	9,422	-	37,805	-	85,938	-
Special events revenue, net of expenses	-	-	-	-	-	-	-	-
Total revenue	45,522	1,664,354	304,907	(18,707)	242,877	-	3,269,952	66
Expenses								
Administrative	84,435	316,873	51,873	525	40,976	-	395,421	750
Operations and maintenance	-	196,486	56,913	-	44,005	-	480,927	-
Utilities	-	125,218	22,711	-	20,520	-	215,735	-
Insurance	-	52,125	9,946	-	7,249	-	77,778	-
Taxes	25	90,780	29,773	-	15,119	-	291,432	100
Interest	-	743,217	95,487	-	44,278	-	1,330,822	-
Depreciation and amortization	-	671,107	107,434	-	66,557	-	503,619	-
Total expenses	84,460	2,195,806	374,137	525	238,704	-	3,295,734	850
Excess of revenue over expenses (expenses over revenue)	(38,938)	(531,452)	(69,230)	(19,232)	4,173	-	(25,782)	(784)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ (38,938)</u>	<u>\$ (531,452)</u>	<u>\$ (69,230)</u>	<u>\$ (19,232)</u>	<u>\$ 4,173</u>	<u>\$ -</u>	<u>\$ (25,782)</u>	<u>\$ (784)</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2016

	Columbia Grove Development Corp.	Columbia Hills East Limited Partnership	Columbia Hills West Limited Partnership	Courthouse Crossings LP	Fisher House Development Corp.	FHDC Corporation	Fisher House, LP	Gilliam Place, LLC
Revenue and other support								
Rental revenue - net	\$ -	\$ -	\$ -	\$ 1,733,101	\$ -	\$ -	\$ 482,973	\$ 15,000
Grants and contributions	-	-	-	-	-	-	-	-
Development fee income	-	-	-	-	-	-	-	-
Interest income	-	-	-	1,020	-	-	464	-
Loss from equity investment in partnership interest	-	-	-	-	-	(11)	-	-
Other income	-	-	-	78,609	-	-	26,018	56,088
Special events revenue, net of expenses	-	-	-	-	-	-	-	-
Total revenue	-	-	-	1,812,730	-	(11)	509,455	71,088
Expenses								
Administrative	5,270	-	-	198,641	500	600	92,526	50,000
Operations and maintenance	-	-	-	235,328	-	-	72,674	5,191
Utilities	-	-	-	121,412	-	-	26,939	3,932
Insurance	-	-	-	52,484	-	-	15,447	1,050
Taxes	100	-	-	180,517	25	100	47,425	53,376
Interest	-	-	-	1,125,212	-	-	156,914	-
Depreciation and amortization	-	-	-	637,166	-	-	202,558	-
Total expenses	5,370	-	-	2,550,760	525	700	614,483	113,549
Excess of revenue over expenses (expenses over revenue)	(5,370)	-	-	(738,030)	(525)	(711)	(105,028)	(42,461)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ (5,370)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (738,030)</u>	<u>\$ (525)</u>	<u>\$ (711)</u>	<u>\$ (105,028)</u>	<u>\$ (42,461)</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2016

	Lorcom Arms LP	Marbella Development LLC	Queen's Court Development Corp.	Rosslyn Ridge Development Corp.	Rosslyn Ridge Limited Partnership	The Springs Apartments LP	Eliminations	Consolidated
Revenue and other support								
Rental revenue - net	\$ 543,966	\$ 1,759,276	\$ 587,907	\$ -	\$ 5,318,735	\$ 177,534	(33,750)	\$ 19,504,105
Grants and contributions	-	-	-	-	-	-	(300,000)	776,686
Development fee income	-	-	-	-	-	-	-	1,991,732
Interest income	435	1,000	1,018	-	2,784	163	(173,248)	22,237
Loss from equity investment in partnership interest	-	-	-	167,265	-	-	(370,874)	-
Other income	18,960	42,147	14,588	75,436	315,609	11,295	(811,562)	939,583
Special events revenue, net of expenses	-	-	-	-	-	-	-	466,566
Total revenue	563,361	1,802,423	603,513	242,701	5,637,128	188,992	(1,689,434)	23,700,909
Expenses								
Administrative	162,535	231,315	364,272	127,950	696,812	261,206	(1,149,704)	4,820,181
Operations and maintenance	93,045	263,921	70,525	-	440,504	99,832	-	2,575,920
Utilities	38,868	130,233	43,543	-	194,418	12,035	-	1,253,885
Insurance	18,169	52,904	14,322	-	89,967	19,245	-	599,111
Taxes	48,808	168,000	52,715	25	640,796	8,133	-	1,981,808
Interest	187,918	619,958	-	-	3,006,995	157,867	(341,762)	8,194,531
Depreciation and amortization	173,860	168,827	54,345	-	1,799,559	226,316	(618,218)	5,174,205
Total expenses	723,203	1,635,158	599,722	127,975	6,869,051	784,634	(2,109,684)	24,599,641
Excess of revenue over expenses (expenses over revenue)	(159,842)	167,265	3,791	114,726	(1,231,923)	(595,642)	420,250	(898,732)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	(3,751,834) (a)	(3,751,834)
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ (159,842)</u>	<u>\$ 167,265</u>	<u>\$ 3,791</u>	<u>\$ 114,726</u>	<u>\$ (1,231,923)</u>	<u>\$ (595,642)</u>	<u>\$ 4,172,084</u>	<u>\$ 2,853,102</u>

(a) Allocation of noncontrolling interest

See Independent Auditor's Report.