

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

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

December 31, 2017

COHN  REZNICK
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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, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. The financial statements of certain subsidiaries included in the consolidated financial statements were not audited in accordance with *Government Audit Standards* as discussed in Note 1 in the Notes to Schedule of Expenditures of Federal Awards.

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, 2017, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2017 supplementary information on pages 53 to 62 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2018, on our consideration of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control over financial reporting and compliance.

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 53 to 62 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
July 27, 2018

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
December 31, 2017**

Assets

Current assets

Cash and cash equivalents, including \$1,002,743 of restricted cash		\$ 17,380,206
Grants and pledges receivable		55,721
Accounts receivable		
Residents	\$ 92,159	
Other	<u>24,110</u>	116,269
Development fee receivable - affiliate		1,549,536
Prepaid expenses		290,999
Prepaid development fee		1,740,155
Prepaid ground lease, current portion		20,667
Deposits		378,107
Mortgage escrow deposits		<u>368,772</u>
 Total current assets		 <u>21,900,432</u>

Property and equipment

Land		73,344,500
Buildings, furniture and equipment		195,191,849
Construction in progress		<u>56,489,323</u>
		325,025,672
Less accumulated depreciation		<u>34,908,369</u>
 Total property and equipment		 <u>290,117,303</u>

Other assets

Residents' security deposits		743,525
In-place leases, net of accumulated amortization of \$248,297		237,504
Replacement reserves		2,225,009
Other reserves		9,017,343
Prepaid ground lease, net of current portion		1,439,776
Other assets		<u>835,474</u>
 Total other assets		 <u>14,498,631</u>
 Total assets		 <u>\$ 326,516,366</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
December 31, 2017**

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	\$ 743,069
Accrued interest, current portion	552,201
Accounts payable - related party	35,681
Prepaid rents	290,667
Notes payable, current maturities	1,888,975
Construction and development costs payable	9,085,967
Development fee payable	2,746,586
Total current liabilities	15,343,146
Other liability	
Residents' security deposits	750,239
Total other liability	750,239
Long-term liabilities	
Notes payable, less current maturities and unamortized debt issuance costs (see Note 2)	217,660,883
Accrued interest, less current portion	9,744,179
Other liabilities	325,000
Total long-term liabilities	227,730,062
Net assets	
Unrestricted controlling	20,511,324
Unrestricted noncontrolling (see Note 1)	62,082,741
Total unrestricted net assets	82,594,065
Temporarily restricted (see Note 14)	98,854
Total net assets	82,692,919
Total liabilities and net assets	\$ 326,516,366

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Activities
Year Ended December 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenue and other support			
Grants and contributions	\$ 1,042,784	\$ 98,854	\$ 1,141,638
Rental revenue - net	21,376,273	-	21,376,273
Development fee income	4,849,185	-	4,849,185
Interest income	41,402	-	41,402
Other income	1,054,886	-	1,054,886
Special events, net of expenses of \$34,419	426,938	-	426,938
	<u>28,791,468</u>	<u>98,854</u>	<u>28,890,322</u>
Net assets released from restrictions	<u>371,549</u>	<u>(371,549)</u>	<u>-</u>
Total revenue and other support	<u>29,163,017</u>	<u>(272,695)</u>	<u>28,890,322</u>
Expenses			
Program services (including interest expense of \$8,757,223 and depreciation and amortization of \$5,980,819)	26,220,306	-	26,220,306
Supporting services			
Management and general (including interest expense of \$15,530 and depreciation of \$136,137)	1,526,872	-	1,526,872
Fundraising	87,848	-	87,848
Total expenses	<u>27,835,026</u>	<u>-</u>	<u>27,835,026</u>
Excess of revenue over expenses (expenses over revenue)	1,327,991	(272,695)	1,055,296
Excess of expenses over revenue attributable to noncontrolling interests	<u>(4,246,915)</u>	<u>-</u>	<u>(4,246,915)</u>
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ 5,574,906</u>	<u>\$ (272,695)</u>	<u>\$ 5,302,211</u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2017**

	Program services			Management and general	Fundraising	Total
	Rental properties	General operations	Subtotal			
Interest expense	\$ 8,757,223	\$ -	\$ 8,757,223	\$ 15,530	\$ -	\$ 8,772,753
Salaries	976,296	1,007,192	1,983,488	880,492	72,401	2,936,381
Depreciation and amortization	5,980,819	-	5,980,819	136,137	-	6,116,956
Loss on sale of land	22,746	-	22,746	-	-	22,746
Utilities	1,484,025	-	1,484,025	5,573	-	1,489,598
Property operating and maintenance	3,080,167	-	3,080,167	10,148	-	3,090,315
Licenses and taxes	2,299,195	-	2,299,195	50,748	-	2,349,943
Management fee	706,876	-	706,876	-	-	706,876
Property administrative expenses	981,741	-	981,741	95,039	12,328	1,089,108
Auditing and accounting	146,711	-	146,711	33,500	-	180,211
Insurance	590,157	-	590,157	91,239	-	681,396
Telephone	144,452	-	144,452	14,979	-	159,431
Legal	42,706	-	42,706	3,794	-	46,500
Development and consulting services	-	-	-	67,365	-	67,365
Printing and copying	-	-	-	4,445	-	4,445
Supplies	-	-	-	13,460	-	13,460
Advertising	-	-	-	995	-	995
Postage and delivery	-	-	-	18,027	3,119	21,146
Training	-	-	-	21,677	-	21,677
Travel	-	-	-	8,071	-	8,071
Sponsorships and subscriptions	-	-	-	43,936	-	43,936
Grant expenses	-	-	-	11,717	-	11,717
	<u>\$ 25,213,114</u>	<u>\$ 1,007,192</u>	<u>\$ 26,220,306</u>	<u>\$ 1,526,872</u>	<u>\$ 87,848</u>	<u>\$ 27,835,026</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, 2017**

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Net assets, December 31, 2016	\$ 14,936,418	\$ 40,495,194	\$ 55,431,612	\$ 371,549	\$ 55,803,161
Capital contributions from noncontrolling interests	-	25,914,870	25,914,870	-	25,914,870
Distributions to noncontrolling interests	-	(80,408)	(80,408)	-	(80,408)
Excess of expenses over revenue attributable to noncontrolling interests	-	(4,246,915)	(4,246,915)	-	(4,246,915)
Excess of revenue over expenses attributable to controlling interests	<u>5,574,906</u>	<u>-</u>	<u>5,574,906</u>	<u>(272,695)</u>	<u>5,302,211</u>
Net assets, December 31, 2017	<u>\$ 20,511,324</u>	<u>\$ 62,082,741</u>	<u>\$ 82,594,065</u>	<u>\$ 98,854</u>	<u>\$ 82,692,919</u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities	
Excess of revenue over expenses	\$ 1,055,296
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	5,994,886
Amortization	122,030
Amortization of debt issuance costs	199,322
Bad debt	50,246
Loss on debt extinguishment	39,979
Loss on sale of land	22,746
Change in fair value of derivative instruments	(222,400)
Accretion of loan fair value adjustment	(83,676)
Decrease in grants and pledges receivable	285,887
Increase in residents' accounts receivable	(47,500)
Decrease in accounts receivable - other	33,972
Increase in development fee receivable	(85,863)
Decrease in mortgage escrow deposits	(22,112)
Decrease in prepaid expenses	26,910
Increase in deposits	(242,250)
Decrease in prepaid ground lease	20,667
Decrease in accounts payable and accrued expenses	(137,604)
Increase in accrued interest	433,164
Increase in prepaid rents	38,226
Increase in other liabilities	316,667
Net increase in residents' security deposits	185
	7,798,778
Net cash provided by operating activities	7,798,778
Cash flows from investing activities	
Net purchases of land, property and equipment, construction in progress and development in progress	(41,954,853)
Proceeds on sale of land	677,254
Increase in replacement and redevelopment reserves	(98,593)
Decrease in other reserves	9,674,462
Prepayment of developer fee	(1,740,155)
	(33,441,885)
Net cash used in investing activities	(33,441,885)

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows
Year Ended December 31, 2017**

Cash flows from financing activities	
Proceeds from notes payable	27,814,063
Repayment of notes payable	(23,403,222)
Capital contributions received from noncontrolling interests	25,914,870
Distributions paid to noncontrolling interests	(80,408)
Proceeds of advances from affiliates	(18,282)
Debt issuance costs paid	(284,846)
	<hr/>
Net cash provided by financing activities	29,942,175
	<hr/>
Net increase in cash and cash equivalents	4,299,068
Cash and cash equivalents, beginning	13,081,138
	<hr/>
Cash and cash equivalents, end	<u>\$ 17,380,206</u>
Supplemental disclosure of cash flow information	
Cash paid for interest during the year, net of amount capitalized	<u>\$ 8,082,139</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, 2017	<u>\$ 5,497,891</u>
Construction in progress increase due to an increase in accrued interest payable at December 31, 2017	<u>\$ 57,281</u>
Construction in progress increased due to an increase in development fee payable at December 31, 2017	<u>\$ 1,003,972</u>

See Notes to Consolidated Financial Statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

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 develop, preserve, and own quality, affordable places to live; to promote stability and opportunity for our residents; and to advocate with the people and communities we serve. 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 APAH Westover Apartments Limited Partnership, 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, Gilliam Place East Limited Partnership, Gilliam Place West 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 Development Corporation, 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, 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 West Development Corporation, Gilliam Retail, LLC, 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, 2017

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. The activity of APAH Commercial, LLC is included with APAH, Inc. in the consolidating statement of financial position and statement of activities.

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 five buildings from an unrelated party. On November 30, 2016, the company acquired one additional building from an unrelated party. On January 12, 2017, the company acquired two additional buildings from an unrelated party. On December 19, 2017, assets comprising of buildings and site improvements were transferred to APAH Westover Apartments Limited Partnership, as more fully described in Note 3.

APAH Westover Development Corporation and APAH Westover Apartments Limited Partnership - APAH Westover Apartments Limited Partnership was formed on June 30, 2017. APAH Westover Development Corporation, a wholly-owned subsidiary, is the .01% general partner in APAH Westover Apartments Limited Partnership. An unrelated limited partner owns 98.99% of partnership interest, an unrelated special limited partner owns 0% of partnership interest, and an unrelated state limited partner owns the remaining 1.00% of partnership interest. On December 19, 2017, assets comprising of buildings and site improvements were transferred to the partnership from APAH Westover LLC, as more fully described in Note 3.

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%.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

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 interest.

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 interest in 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 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 partnership interest and an unrelated special limited partner owns the remaining .01% of partnership interest. On October 31, 2011, Arlington Mill Limited Partnership entered into a ground lease agreement with the County Board of Arlington County, Virginia, effective August 29, 2012, to develop the 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 interest.

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. On October 21, 2013, APAH was assigned 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.

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

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

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 Apartments Limited Partnership, an APAH subsidiary. 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. 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.

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 to 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 land and site improvements were transferred to the partnership.

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 land and site improvements were transferred to the partnership.

Courthouse Crossings Development Corporation and Courthouse Crossings Limited Partnership - Courthouse Crossings Limited Partnership was formed on February 27, 2006.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

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 interest, and an unrelated special limited partner owns the remaining .01% of partnership interest. 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.

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 Limited Partnership. An unrelated limited partner owns the remaining 99.99% of partnership interest.

Gilliam Place, LLC - Gilliam Place, LLC, a wholly-owned subsidiary, was formed on January 15, 2016 for the purpose of acquiring, owning, leasing, and disposing of real estate. On July 28, 2016, Gilliam Place, LLC, acquired land and an existing structure, from an unrelated third party. On June 22, 2017, ground lease agreements were entered into with Gilliam Place East Limited Partnership and Gilliam Place West Limited Partnership, as more fully described in Note 6. The existing structure was demolished in 2017 in preparation for the construction of new apartment units.

Gilliam Place East Development Corporation and Gilliam Place East Limited Partnership - Gilliam Place East Limited Partnership was formed on January 27, 2016. Gilliam Place East Development Corporation, a wholly-owned subsidiary, is the .01% general partner in Gilliam Place East Limited Partnership and an unrelated limited partner owns the remaining 99.99% of partnership interest.

Gilliam Place West Development Corporation and Gilliam Place West Limited Partnership - Gilliam Place West Limited Partnership was formed on January 27, 2016. Gilliam Place West Development Corporation, a wholly-owned subsidiary, is the .01% general partner in Gilliam Place West Limited Partnership and an unrelated limited partner owns the remaining 99.99% of partnership interest.

Gilliam Retail, LLC - Gilliam Retail, LLC was formed on May 16, 2017 and is a wholly-owned subsidiary. The purpose of the company is to lease and sublease commercial space at the rental housing complex owned by Gilliam Place East Limited Partnership.

Lorcom Arms Development Corporation and Lorcom Arms Limited Partnership - 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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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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 partnership interest and an unrelated special limited partner owns the remaining .01% of partnership interest. The Springs Apartments is a five-story 104-unit project located in the Ballston neighborhood. In connection with the project, a commercial office space was constructed and subdivided into a condominium owned by APAH Commercial LLC.

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, 2017 was \$50,246.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

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, 2017, 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.

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, 2017.

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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

Income taxes

APAH and its subsidiaries, 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, 2017. 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, Gilliam Retail LLC and Marbella Development LLC, file separate tax returns.

APAH Commercial LLC, APAH Westover LLC, AVV Apartments, LLC, The Barkalow LLC, Buchanan Gardens II, LLC, Gilliam Place, LLC, Gilliam Retail 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, Gilliam Place LLC, and Gilliam Retail 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 2014 remain open.

Arlington Mill Limited Partnership, APAH Westover Apartments 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, Gilliam Place East Limited Partnership, Gilliam Place West 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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

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 2014 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 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 2017, amortization expense was \$64,773, and accumulated amortization was \$248,297 as of December 31, 2017. Estimated amortization expense for each of the ensuing years through December 31, 2021 is \$64,773, \$64,773, \$64,773 and \$43,185, respectively.

Developer fees

Developer fees are recognized during the construction period based on the percentage of construction completion. 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.

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Notes to Consolidated Financial Statements December 31, 2017

On June 21, 2017, Gilliam Place East Limited Partnership entered into an interest rate cap agreement effective July 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.
- 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, 2017.

Derivative instrument - On a recurring basis, APAH will measure Columbia Hills East Limited Partnership and Gilliam Place East Limited Partnership's derivative instruments at their estimated fair values. 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 and Gilliam Place 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 the partnerships. However, the impact of the credit valuation adjustments is not expected to be significant to the overall valuation of the derivative instruments. As a result, the fair values of the derivative instruments will

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

be considered to be based primarily on Level 2 inputs. The fair values of the interest rate cap for Columbia Hills East Limited Partnership and interest rate cap for Gilliam Place East Limited Partnership was \$15,540 and \$206,900, respectively, as of December 31, 2017, and are reflected in other assets on the statement of financial position.

Note 2 - Notes payable

Arlington Partnership for Affordable Housing ("APAH")

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 bore interest at a rate of 1% effective October 1, 2014. Interest on the predevelopment loan would be reduced to 0% if borrower received VHDA multifamily permanent financing for the development. No payments were due on the note until the maturity date, which was the sooner of April 1, 2017, or the closing of permanent financing for the development. 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 was obtained and on June 23, 2017, the predevelopment loan was repaid in full. No interest was charged to operations in 2017.

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. The Barkalow LLC and APAH Commercial LLC, collectively are the Guarantors. 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. 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. During 2016, loan proceeds in the amount of \$3,863,642 were disbursed to the Borrower. On January 12, 2017, the remaining \$1,136,358 was disbursed to the Borrower. The loan proceeds were advanced to APAH Westover, LLC to acquire certain properties located in the Westover neighborhood of Arlington County. On February 9, 2017, in connection with the APAH Westover, LLC Affordable Housing Investment Fund ("AHIF") loan closing described below, the outstanding balance of \$5,000,000 was repaid in full. On June 22, 2017, in conjunction with the Gilliam Place East Limited Partnership closing, a letter of credit in the amount of \$2,229,000 was executed, reducing the maximum credit amount to \$2,771,000. On December 15, 2017, in conjunction with the APAH Westover Apartments Limited Partnership closing, a letter of credit in the amount of \$500,000 was executed, reducing the maximum credit amount of the loan with Access National Bank to \$2,271,000. The loan bears interest at a rate of 4.15% and is due in full upon maturity on September 30, 2019. During 2017, interest charged to operations was \$50,270, including \$15,530 of amortization of debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$24,589 as of December 31, 2017 and are related to the above note. Debt issuance costs on the above note are being amortized using an imputed rate of 4.82%.

On June 2, 2016, APAH entered into a Promissory Note in the original amount of \$500,000 with the Federal Home Loan Bank of Atlanta Affordable Housing Program on behalf of Columbia Hills East Limited Partnership. The note is secured by a Deed of Trust on Columbia Hills East Apartments. The proceeds from the note were loaned to Columbia Hills East Apartments under a separate promissory note further described below. At December 31, 2017, the outstanding principal balance amounted to \$500,000.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

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 were 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. 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. During 2016, proceeds totaling \$6,760,000 were advanced to the Borrower to acquire six buildings. On January 12, 2017, the remaining \$2,681,250 was advanced to the Borrower in connection with the acquisition of the additional two buildings located in the Westover neighborhood of Arlington County. On February 9, 2017, \$4,720,625 was repaid from proceeds of the Affordable Housing Investment Fund loan described below. On December 19, 2017, in conjunction with the APAH Westover Apartments Limited Partnership closing described below, the outstanding balance on the loan was repaid in full. During the year ended December 31, 2017, interest charged to operations was \$244,460.

On February 9, 2017, the County Board of Arlington County, Virginia, provided financing from the AHIF program in the original amount of \$10,998,494, of which loan proceeds of \$10,573,982 was advanced to APAH Westover, LLC. The note was secured by a deed of trust, and matures on August 1, 2018. The note bore interest at a rate of 1% per annum. Beginning June 1, 2018, 50% of residual receipts from the previous calendar year shall be paid by APAH Westover, LLC in arrears as an annual payment on the outstanding principal and accrued interest on the note. During 2017, interest charged to operations on the loan totaled \$90,676. In conjunction with the closing on December 19, 2017, the loan with County Board of Arlington County, Virginia, was amended and restated. A payment of \$4,323,871 was made on the outstanding principal and accrued interest. Following the payment, the outstanding balance on the loan amounted to \$6,261,710. The amended and restated loan bears interest at 0.43% and is secured by the Amended and Restated 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, APAH Westover, LLC shall disburse an amount equal to the residual receipts from the previous calendar year received from APAH Westover Apartments Limited Partnership on the outstanding principal and accrued interest. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on December 1, 2049, at which time all principal and interest shall be paid in full. As of December 31, 2017, the outstanding principal balance was \$6,261,710.

APAH Westover Apartments Limited Partnership

On December 19, 2017, the County Board of Arlington County, Virginia, provided subordinated financing from the Affordable Housing Investment Fund program in the original amount of \$4,323,871. The note is noninterest-bearing and 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 five percent (5%) 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 December 1, 2049, at which time all principal and interest shall be paid in full. As of December 31, 2017, the outstanding principal balance was \$4,323,871.

On December 19, 2017, the partnership entered into a mortgage note with the Virginia Housing Development Authority ("VHDA") in the original amount of \$6,530,000. The note bears interest at a rate of 2.659% through February 13, 2019, and thereafter bears interest at a rate of 3.095%. Interest-only is due through May 19, 2019, after which monthly payments of principal and interest

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

are due through the maturity date, December 19, 2047. 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, 2017, no proceeds have been received on this note.

On December 19, 2017, the partnership entered into a GAP mortgage loan with VHDA in the original amount of \$5,500,000. The note is secured by a deed of trust. The interest rate on the note shall be 2.81% per annum and interest-only is payable on the first day of each month until the maturity date, December 1, 2019, at which time all outstanding principal, plus accrued interest shall be due and payable. As of December 31, 2017, the outstanding principal balance totaled \$3,726,380. The note is also secured by APAH's \$500,000 Letter of Credit with Access National Bank. Interest expense amounted to \$3,490 for the year ended December 31, 2017, all of which was capitalized to the rental property.

On December 19, 2017, the partnership entered into a sponsor loan agreement with APAH in the amount of \$1,007,600, with a maturity date of December 19, 2050. The note is eliminated in consolidation (see Note 6).

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 2017, interest incurred on the note was \$485,335, including \$12,718 of amortization expense related to the debt issuance costs. Accrued interest payable at December 31, 2017 was \$40,802. As of December 31, 2017, the outstanding principal balance was \$8,470,207.

Debt issuance costs, net of accumulated amortization, totaled \$311,332 as of December 31, 2017 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

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, 2017, outstanding principal amounted to \$7,909,351. Accrued interest outstanding at December 31, 2017 totaled \$33,773. During 2017, interest charged to operations on the note totaled \$395,445, including \$6,556 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$141,027 as of December 31, 2017 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.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
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Interest accrues on outstanding principal at a rate of 2% per annum, compounded annually as defined in the loan agreement. At December 31, 2017, \$1,350,000 has not been disbursed to the Borrower, which will be used to fund the Long Term Capital Improvement Reserve for capital expenditures approved by the lender as defined in the agreement. 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. Any loan proceeds not disbursed by February 28, 2034 will be returned to the County. 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, 2017, \$46,093 was paid from 2016 surplus cash and applied to accrued interest. Beginning June 1, 2030 and subsequent years, 37.5% of the residual receipts from the previous calendar year shall be applied as the annual payment on the outstanding principal balance and accrued interest on the AHIF 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, 2017 is \$3,152,199 and \$162,777, respectively. During 2017, interest charged to operations on the note totaled \$65,350.

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, 2017 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, 2017, \$46,093 was paid from 2016 surplus cash, of which \$19,301 was applied to principal and \$26,792 was 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, 2017 is \$980,699 and \$11,926, respectively. During 2017, interest charged to operations on the note totaled \$19,814.

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, 2017, the outstanding principal balance and

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

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accrued interest payable was \$7,237,033 and \$38,495, respectively. During 2017, interest charged to operations was \$465,207.

Debt issuance costs, net of accumulated amortization, totaled \$72,495 as of December 31, 2017 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 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 2017, a payment in the amount of \$132,535 was made from 2016 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, 2017 was \$11,712,603 and \$844,619, respectively. The carrying value, including accrued interest of \$971,082, was \$9,755,652. During 2017, interest charged to operations was \$271,052, which includes the accretion of fair value adjustment of \$23,958.

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, 2017, the outstanding principal and accrued interest thereon totaled \$2,064,169 and \$587, respectively. During 2017, interest charged to operations amounted to \$71,228, including \$2,051 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$36,872 as of December 31, 2017 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 3.47%.

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

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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. During the year ended December 31, 2017, a payment in the amount of \$1,384 was made from 2016 residual receipts and applied to accrued interest. As of December 31, 2017, the outstanding principal balance and accrued interest were \$415,573 and \$91,210, respectively. During 2017, interest charged to operations amounted to \$19,318.

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, 2017, the outstanding principal balance and accrued interest were \$464,107 and \$1,770, respectively. During 2017, interest incurred on the note was \$20,150, including \$891 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$11,387 as of December 31, 2017 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, 2017, the outstanding principal balance was \$11,082.

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, 2017, 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 was 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,

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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 \$13,817 was made during the year ended December 31, 2017. The County Loan matures on June 1, 2032, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. The entire amount of the Bridge Loan including accrued interest is due on June 1, 2032. The Additional County Loan is payable to the extent of residual receipts. The first payment on the Additional County Loan was due June 1, 2004. If residual receipts are insufficient, then payments can be deferred with interest accruing. The Additional County loan matures on June 1, 2033, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. The loans are secured by a second deed of trust. 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 and accrued interest of \$30,403 was forgiven. As of December 31, 2017, the outstanding principal balance and accrued interest were \$1,048,000 and \$525,735, respectively. During 2017, interest incurred on the note was \$23,359.

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, 2017, the outstanding principal balance and accrued interest were \$13,850,632 and \$85,040, respectively. During 2017, interest on the note was \$1,037,883, including \$7,388 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$210,872 as of December 31, 2017 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 2017, a payment in the amount of \$249,894 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, 2017 was \$4,649,720 and \$2,100,758, respectively. The carrying value, including accrued interest of \$653,669, was \$2,053,669 at December 31, 2017. During 2017, interest charged to

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operations was \$216,587, which includes the accretion of fair value catch up adjustment of \$53,163.

The County Board of Arlington County, Virginia has provided subordinated financing in the form of an AHIF loan dated October 28, 2008 in the amount of \$3,000,000 to the partnership. The note bears interest at a rate of 2% per annum, compounded annually. The note is secured by a deed of trust. No payments shall be due on this loan until the existing AHIF/Home and CDBG loan has been paid in full. Once the existing loan is paid off, annual installments are payable beginning May 1st following the first operating year after the payoff of the existing loan and in an amount equal to 50% of the previous year's residual receipts through the maturity date. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on May 1, 2044, at which time all principal and interest shall be paid in full regardless of the amount of net residual receipts in earlier years. As of December 31, 2017, the outstanding principal balance and accrued interest were \$3,000,000 and \$598,056, respectively. During 2017, interest charged to operations was \$70,553.

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% (3.81% at December 31, 2017). 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 Borrower shall have the option to extend the maturity date to June 2, 2019. 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. During the year ended December 31, 2017, proceeds of \$4,114,602 were received on the loan. At December 31, 2017, outstanding principal and accrued interest amounted to \$4,114,602 and \$11,101, respectively. During 2017, interest incurred amounted to \$30,746, all of which is capitalized to rental property.

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. At December 31, 2017, the fair value of the interest rate cap was \$15,540.

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. The interest rate on the note shall be 2.689% per annum during the construction period. During the year ended December 31, 2017, proceeds in the amount of \$2,184,720 were received on the loan. At December 31, 2017, outstanding principal and accrued interest amounted to \$2,184,720 and \$4,329, respectively. During 2017, interest incurred amounted to \$7,324, all of which was capitalized to building improvements.

On June 2, 2016, the County Board of Arlington County, Virginia, 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 (45%) 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, 2017, the outstanding balance was \$7,706,429.

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On June 2, 2016, the partnership entered into a loan agreement with APAH in the amount of \$289,741. The note is eliminated in consolidation (see Note 6).

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. During the year ended December 31, 2017, proceeds in the amount of \$500,000 was received. At December 31, 2017, the outstanding principal balance amounted to \$500,000 and is eliminated in consolidation.

On June 2, 2016, the partnership entered into a commitment for a deferred loan with the Virginia Housing Trust Fund ("VHTF") 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; however, VHTF will agree to forgive one tenth of the outstanding principal balance and any deferred accumulated interest associated with the original deferred loan upon each annual anniversary of the completion of the VHTF affordability period, as defined in the commitment letter. As of December 31, 2017, no funds have been advanced on this note.

Columbia Hills West Limited Partnership

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. The interest rate on the note is 3.644% per annum. As of December 31, 2017, no proceeds have been received on this note.

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, 2017, the outstanding principal balance and accrued interest amounted to \$5,623,504 and \$8,871, respectively. During 2017, interest incurred amounted to \$15,721, all of which was capitalized to the building improvements.

On June 2, 2016, The County Board of Arlington County, Virginia, 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 (55%) 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, 2017, the outstanding balance was \$10,786,665.

On June 2, 2016, the partnership entered into a loan agreement with APAH in the amount of \$8,856,626, of which \$3,500,000 funded the acquisition costs. The note is eliminated in consolidation (see Note 6).

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

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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, 2017, the outstanding principal balance and accrued interest were \$7,628,100 and \$38,378, respectively. During 2017, interest incurred on the note was \$457,975, including \$7,877 of amortization expense of the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$183,817 as of December 31, 2017 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 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 2017, payments in the amount of \$162,830 were made and applied to accrued interest. As of December 31, 2017, the outstanding principal balance and accrued interest were \$9,139,988 and \$4,528,919, respectively. During 2017, interest charged to operations was \$525,234, including \$1,124 of amortization expense of debt issuance costs.

Debt issuance costs related to the above note, net of accumulated amortization, totaled \$30,749 as of December 31, 2017. 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, 2017, the outstanding principal balance and accrued interest were \$2,213,414 and \$8,878, respectively. During 2017, interest charged to operations was \$111,030, including \$4,657 of amortization expense of debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$61,095 as of December 31, 2017 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.

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Subsequent annual payments shall be payable beginning on March 31, 2009, 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 2017, a payment of \$23,365 was made from 2016 residual receipts, and applied to accrued interest. As of December 31, 2017, the outstanding principal balance and accrued interest were \$795,000 and \$280,391, respectively. During 2017, interest charged to operations was \$41,770.

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 was noninterest-bearing and was secured by the county deed of trust on the property and was due upon maturity, July 1, 2018. On June 22, 2017, the promissory note was amended and restated. The amended and restated promissory note bears interest at a rate of 1.25% per annum, commencing on July 1, 2019 through maturity, July 1, 2049. The amended and restated promissory note is secured by the Amended and Restated AHIF Deed of Trust conveying the Borrower's interest in the Gilliam Place property, including all improvements thereon. No payments shall be due until June 1, 2020, at which time, payments will be made from the annual cash flow received pursuant to the Gilliam Place East and West ground leases from the previous calendar year. As of December 31, 2017, the outstanding principal balance was \$8,568,716.

Gilliam Place East Limited Partnership

On June 22, 2017, the partnership entered into a construction loan agreement with Capital One, National Association in the original amount of \$26,068,803. The loan bears interest at the annual rate equal to the London Interbank Offered Rate daily floating rate ("LIBOR") plus 2.25% (3.81% at December 31, 2017). Commencing on June 22, 2017, and continuing on the first day of each succeeding calendar month thereafter, monthly payments of interest-only are due until the maturity date of October 22, 2019. 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, 2017, no proceeds were received on the loan.

Pursuant to a loan agreement with Capital One, National Association, the partnership entered into an interest rate cap agreement, effective July 1, 2017. The interest rate cap will limit the partnership's LIBOR exposure on a notional amount of up to \$1,396,393. At December 31, 2017, the fair value of the interest rate cap was \$206,900.

On June 22, 2017, the County Board of Arlington County, Virginia, provided subordinated financing from the AHIF in the amount of \$2,767,953. From July 1, 2017 to June 30, 2019, the loan shall be noninterest-bearing. Beginning on July 1, 2019 and through maturity, the note bears interest at 1.50% per annum, compounding annually. The note is secured by the AHIF deed of trust. No payments shall be due until June 1, 2020, at which time payments will be made from the disbursements of residual receipts. Pursuant to the Loan Agreement, the Borrower shall disburse twenty percent (20%) of the residual receipts from the previous calendar year as an annual payment on the outstanding principal and accrued interest on the AHIF loan and twenty-two (22%) of the residential receipts from the previous calendar year to the Ground Lessor as an annual ground lease payment. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on July 1, 2049, at which time all principal and interest shall be paid in full. As of December 31, 2017, the outstanding balance was \$2,240,142.

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On June 22, 2017, the partnership entered into two loan agreements with APAH in the original amounts of \$1,120,380 and \$500,000, respectfully. The notes are eliminated in consolidation (see Note 6).

Gilliam Place West Limited Partnership

On June 22, 2017, the partnership entered into a construction to permanent loan agreement with VHDA in the aggregate amount of \$6,740,000. The note is secured by a deed of trust. As of December 31, 2017, no proceeds have been received on this note. The interest rate on the loan is 3.096% per annum. Monthly interest-only payments are due on the first day of each month until March 1, 2020, at which time, monthly interest and principal payments are due until February 1, 2050, the maturity date.

On June 22, 2017, the partnership entered into a Gap loan deed of trust note with VHDA in the original amount of \$7,430,000. The note is secured by a deed of trust. The interest rate on the note shall be 2.63% per annum, and is payable on the first day of each month until December 22, 2019, the maturity date, at which time all outstanding principal, plus accrued interest shall be due and payable. As of December 31, 2017, no proceeds have been received on this note.

On June 22, 2017, the County Board of Arlington County, Virginia, provided subordinated financing from the AHIF in the amount of \$6,799,795. From July 1, 2017 to June 30, 2019, the loan shall be noninterest-bearing. Beginning on July 1, 2019 and through maturity, the note bears interest at 1.00% per annum, compounding annually. The note is secured by the AHIF deed of trust. No payments shall be due until June 1, 2020, at which time payments will be made from the disbursements of residual receipts. Pursuant to the Loan Agreement, the Borrower shall disburse forty percent (40%) of the residual receipts from the previous calendar year as an annual payment on the outstanding principal and accrued interest on the AHIF loan and twenty-two (22%) of the residential receipts from the previous calendar year to the Ground Lessor as an annual ground lease payment. If residual receipts are insufficient, then payments are deferred with interest accruing. The loan matures on July 1, 2049, at which time all principal and interest shall be paid in full. As of December 31, 2017, the outstanding balance was \$2,501,133.

On June 22, 2017, the partnership entered into a loan agreement with APAH in the original amount of \$590,000. The note is eliminated in consolidation (see Note 6).

Lorcom Arms Limited Partnership

The partnership had 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 ("VHPRF") in the amount of \$1,100,000. The VHDA note bore interest at the rate of 5.00% and required 360 equal monthly payments of principal and interest through maturity in June 2033. Monthly payments of principal and interest of \$4,026 were required. The partnership was also required to make monthly deposits into escrow funds in the amount of \$3,767. The mortgage was secured by a deed of trust, a mortgage lien and an assignment of leases and rents on the rental property. The loan was superior to all other mortgages. During the year ended December 31, 2017, the partnership made principal and interest payments on the note totaling \$543,854 and \$43,457, respectively, of which \$492,767 paid off the loan in full from proceeds of the construction loan. During the year ended December 31, 2017, the partnership charged to operations interest totaling \$43,479, including \$2,925 of amortization expense related to debt issuance costs.

Debt issuance costs on the above note were being amortized using an imputed rate of 6.13%. The partnership recorded a loss on debt extinguishment in the amount of \$39,979 in connection with the repayment of the VHDA loan.

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The VHPRF note bore interest at the rate of 5.00%, required monthly payments of principal and interest of \$5,905 based on a 30-year amortization period, and was to mature in June 2018. The mortgage was secured by a deed of trust, a mortgage lien and an assignment of leases and rents on the rental property. The mortgage was subordinate only to the VHDA mortgage. During the year ended December 31, 2017, the partnership made principal and interest payments on the note totaling \$797,654 and \$40,759, respectively, of which \$773,143 paid off the loan in full from proceeds of the construction loan. During the year ended December 31, 2017, the partnership charged to operations interest totaling \$36,421.

The partnership entered into a commercial term note payable with United Bank in the original amount of \$850,000 on January 18, 2002. The commercial term note bore 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. Monthly payments of principal and interest of \$5,859 were required. The note was to mature on January 18, 2018, at which time all outstanding principal and accrued interest was due and payable. The note was secured by a credit line deed of trust, Assignment of Rents and Security Agreement. Additionally, APAH had guaranteed the repayment of the note. During the year ended December 31, 2017, the partnership made principal and interest payments on the note totaling \$657,503 and \$45,658, respectively, of which \$640,160 paid off the loan in full from proceeds of the construction loan. During 2017, the partnership charged to operations interest totaling \$40,590.

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 bore 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. On December 1, 2017, the partnership entered into the Amended and Restated Affordable Housing Investment Fund Promissory Note, decreasing the interest rate from 3.5% to 1% per annum, compounded annually on the outstanding balance of the note, commencing January 1, 2017. Annual loan payments are due no later than June 1st of each year beginning June 1, 2018 until June 1, 2030, in the form of 50% of the previous year's residual receipts. The note matures on June 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. During the year ended December 31, 2017, no proceeds on the note were received. There were no residual receipts available at December 31, 2016 to make a payment in 2017. As of December 31, 2017, the outstanding principal balance and accrued interest were \$803,000 and \$586,143, respectively. During the year ended December 31, 2017, the partnership charged to operations interest totaling \$13,872, including \$84 of amortization expense related to debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$13,521 as of December 31, 2017 and are related to the Arlington County loan. Debt issuance costs on the above note are amortized using an imputed rate of 1.07%.

The partnership entered into a construction loan payable with Access National Bank in the original amount up to \$2,600,000 on December 8, 2017. Proceeds from the construction loan were used to pay off the existing VHDA and VHPRF notes and the remaining amount is to be used to finance the renovation of the improvements located on the property. The note bears interest at a rate of 4.8%

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per annum. During the initial period (as defined), the note is payable in monthly installments of interest-only. The initial period is January 8, 2018 through December 8, 2018. Upon conclusion of the initial period, the remaining balance shall be amortized over 20 years and shall be due and payable in equal monthly installments of principal and interest. The note shall be due and payable in full with accrued interest on June 8, 2028. The note is secured by a credit line deed of trust and assignment of leases and rents. During the year ended December 31, 2017, advances on the loan totaled \$2,015,139. As of December 31, 2017, the outstanding principal and accrued interest were \$2,015,139 and \$5,980, respectively. During the year ended December 31, 2017, the partnership incurred interest totaling \$6,326, including \$346 of amortization expense related to debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$57,309 as of December 31, 2017 and are related to the construction loan. Debt issuance costs on the above note are amortized using an imputed rate of 5.021%.

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, 2017, the outstanding principal balance and accrued interest were \$8,857,977 and \$44,451, respectively. During 2017, interest charged to operations on the note was \$516,463, including \$4,456 of amortization expense related to the debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$121,343 as of December 31, 2017 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 2017, a payment in the amount of \$132,218 was made from 2016 residual receipts, and was applied to accrued interest. As of December 31, 2017, the outstanding principal balance and accrued interest were \$3,723,150 and \$183,711, respectively. During 2017, interest charged to operations was \$96,543.

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

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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. During 2013, APAH contributed cash in the amount of \$500,000 to Queen's Court Development Corporation to repay a portion of the outstanding principal balance. During July 2015, APAH contributed cash in the amount of \$1,560,562 to Queen's Court Development Corporation to repay the remaining principal balance. As of December 31, 2017, the line of credit had a zero balance.

Rosslyn Ridge Apartments Limited Partnership

The partnership has a mortgage, collateralized by a deed of trust on the rental property, with 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, 2017, the outstanding principal balance and accrued interest were \$44,419,258 and \$223,658, respectively. During 2017, interest incurred on the note was \$2,591,694, including \$34,959 of amortization expense of debt issuance costs.

Debt issuance costs, net of accumulated amortization, totaled \$843,215 as of December 31, 2017 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 bore interest at a rate of 4%, compounded annually, on any outstanding principal. On December 20, 2017, the partnership entered into the Amended and Restated Base Loan Promissory Note ("Base Loan"), decreasing the interest rate to 2.5% per annum, compounded annually, on the outstanding balance of the note, commencing January 1, 2017. Annual loan payments are due no later than June 1st of each year, beginning June 1, 2018 in the form of 50% of the previous year's residual receipts. The note matures on June 1, 2037, 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 original county deed of trust and cash flows from the property. 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, 2016 to make a payment in 2017. The outstanding principal balance and accrued interest on the loan at face value at December 31, 2017 is \$1,791,444 and \$265,825, respectively. The outstanding principal balance and accrued interest at carrying value at December 31, 2017 is \$1,498,204 and \$163,686, respectively. During 2017, interest charged to operations was \$50,321, which includes an accretion of fair value adjustment of \$14,084.

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The partnership entered into a note payable with Arlington County in the original amount of \$5,230,400. The note bore interest at a rate of 4%, compounded annually, on any outstanding principal. No payments were due on this loan until the existing Arlington County loan with an original amount of \$1,800,000 has been paid in full. On December 20, 2017, the partnership entered into the Amended and Restated Density Loan Promissory Note, decreasing the interest rate to 2.5% per annum, compounded annually, on the outstanding balance of the note, commencing January 1, 2017. Once the Base Loan is paid off, annual loan payments are due no later than June 1st of each year, in the form of 50% of the previous year's residual receipts. The note matures on June 1, 2037, 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 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, 2017 was \$5,230,400 and \$2,722,539, respectively. The carrying value of the outstanding principal balance and accrued interest at December 31, 2017 was \$3,948,899 and \$912,566, respectively. During 2017, interest charged to operations was \$194,327, which includes amortization of debt issuance costs of \$33 and the accretion of fair value adjustment of \$119,471.

Debt issuance costs, net of accumulated amortization, totaled \$23,139 as of December 31, 2017 and are related to the Amended and Restated Density Loan Promissory Note. Debt issuance costs in the above note are being amortized using an imputed rate of 2.50%.

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 bore interest at the annual rate of interest equal to the one-month London Interbank Offered Rate ("LIBOR") rate 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 were due until the maturity date of March 30, 2017. The entire unpaid principal and accrued interest thereon was due and payable on the maturity date. The note was secured by a deed of trust on the property. Proceeds in the amount of \$672,616 were received on the loan during the year ended December 31, 2017. During the year ended December 31, 2017, the partnership made principal and interest payments on the loan totaling \$15,704,667 and \$66,111, respectively, from proceeds of Limited Partner capital contributions. As of December 31, 2017, the loan was paid in full. Interest charged to operations during the year ended December 31, 2017 amounted to \$56,264, including amortization of debt issuance costs totaling \$25,101.

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.

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 year ended December 31, 2017, \$1,151,761 was advanced under this loan. The loan bore interest at 2.554% per annum from February 1, 2015 through January 9, 2017, and bears interest 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

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due until the maturity date. The note is secured by the first deed of trust. As of December 31, 2017, the outstanding principal balance and accrued interest were \$8,386,428 and \$30,389, respectively. During the year ended December 31, 2017, interest charged to operations was \$357,396, including amortization of debt issuance costs totaling \$12,211.

Debt issuance costs, net of accumulated amortization, totaled \$290,833 as of December 31, 2017 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 provided subordinated financing in the form of an 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 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 year ended December 31, 2017, the partnership made payments on principal and accrued interest totaling \$657,052 and \$384,063, respectively, from proceeds of Limited Partner capital contributions. The outstanding principal balance and accrued interest on the loan at December 31, 2017 was \$7,170,648 and \$71,617, respectively. During the year ended December 31, 2017, interest charged to operations totaled \$152,128.

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, 2017, the outstanding principal balance was \$550,000.

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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, 2017 are as follows:

Year ending December 31, 2018	\$	1,888,975
2019		2,072,945
2020		2,203,963
2021		2,317,444
2022		2,450,418
Thereafter		<u>210,365,954</u>
Total		221,299,699
Unamortized debt issuance costs		<u>(1,749,841)</u>
Total	\$	<u><u>219,549,858</u></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.

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 Limited Partnership. 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

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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/Foxcroft Terrace 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/Foxcroft Terrace 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 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 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.

On December 19, 2017, APAH Westover LLC transferred assets comprised of buildings and site improvements of the project in a transaction with APAH Westover Apartments Limited Partnership. 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 APAH Westover LLC and APAH Westover Apartments Limited Partnership in the amount of \$1,845,544 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. On January 12, 2017, APAH Westover LLC acquired two additional buildings from an unrelated third party in the amount of \$4,125,000. 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.

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Note 5 - Contingent liabilities

APAH Westover Apartments Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the APAH Westover Apartments Limited Partnership, which received tax credit equity financing for the purpose of developing, constructing, maintaining, operating, leasing, and mortgaging the 68-unit APAH Westover 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.

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 six-month period as defined. APAH has a maximum liability of \$814,997. The Operating Deficit Guaranty expired June 2017. No payments were required as a result of these guarantees.

Buchanan Gardens Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Buchanan Gardens Limited Partnership, which received tax credit equity financing for the purpose of the acquisition and rehabilitation of the 111-unit Buchanan Gardens Apartments. APAH has agreed to fund any operating 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. The Operating Deficit Guaranty expired in November 2017. No payments were 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. 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, constructing, maintaining, 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, 2017, the project was under construction.

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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, constructing, maintaining, 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, 2017, 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.

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, 2017, Gilliam Place, LLC has recorded an accrued liability of \$11,096 on the accompanying consolidated statement of financial position which represents its estimated environmental remediation costs, including estimated associated legal costs. The environmental remediation activities were completed in February 2018.

Gilliam Place East Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Gilliam Place East Limited Partnership, which received tax credit equity financing for the purpose of developing, constructing, maintaining, operating, leasing, and mortgaging the 83-unit Gilliam Place 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, 2019. APAH guarantees payment of all development costs, as more fully described in the Amended and Restated Partnership Agreement. At December 31, 2017, the project was under construction.

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On June 22, 2017, APAH entered into a Guaranty of Lease agreement with Gilliam Place East Limited Partnership, whereby APAH guarantees full, complete, and timely base rent payments due to Gilliam Place East Limited Partnership as described in the Commercial Master Lease Agreement (see Note 7).

Gilliam Place West Limited Partnership

APAH has entered into a Guaranty Agreement for the benefit of the Gilliam Place West Limited Partnership, which received tax credit equity financing for the purpose of developing constructing, maintaining, operating, leasing, and mortgaging 90-unit Gilliam Place 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, 2019. APAH guarantees payment of all development costs, as more fully described in the Amended and Restated Partnership Agreement. At December 31, 2017, the project was under construction.

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, 2017.

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. 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 six-month period as defined. APAH has a maximum liability of \$663,858. The partnership maintains an operating deficit reserve in the amount of \$663,833 as of December 31, 2017. 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 2017, interest charged to operations on the note was \$145,993, which was eliminated in these consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2017, which was eliminated in these consolidated financial statements, was \$2,600,000 and \$359,836, respectively.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

During 2010, Calvert Manor Limited Partnership entered into 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 2017, interest charged to operations on the note was \$3,980, which was eliminated in these consolidated financial statements. The outstanding principal and accrued interest on the note at December 31, 2017, which was eliminated in these consolidated financial statements, was \$78,584 and \$21,152, respectively.

On June 2, 2016, 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, 2017, 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, 2017, the outstanding principal balance was \$8,856,626 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, 2017, totaled \$1,749,175, which was eliminated in these consolidated financial statements.

On June 22, 2017, Gilliam Place East Limited Partnership entered into two loan agreements with APAH in the amounts of \$1,120,380 and \$500,000. The notes bear interest at 8.0%, compounding annually. Interest shall accrue on the outstanding balances beginning November 22, 2019. Beginning with cash flow attributable to 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 notes mature on June 22, 2050, at which time the entire unpaid balances of the notes and accrued interest thereon shall be due in full. As of December 31, 2017, the outstanding principal balances were \$1,076,089 and \$0, and are eliminated in these consolidated financial statements.

On June 22, 2017, Gilliam Place West Limited Partnership entered into a loan agreement with APAH in the amount of \$1,674,007. The note bears interest at 1.0%, compounding annually. Interest shall accrue on the outstanding balance beginning November 22, 2019. Beginning with cash flow attributable to 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 22, 2050, at which time the entire unpaid balance of the note and accrued interest thereon shall be due in full. As of December 31, 2017, the outstanding principal balance was \$590,000 and is eliminated in these consolidated financial statements.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

On December 19, 2017, APAH Westover Apartments Limited Partnership entered into a sponsor loan agreement with APAH in the amount of \$1,007,600. The note bears interest at 2.6%, compounding annually. Beginning on May 1, 2020, 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 of the partnership. The note matures on December 19, 2050, at which time the entire unpaid balance of the note and accrued interest thereon shall be due in full. As of December 31, 2017, no proceeds have been received.

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. The full development fee was capitalized into the rental property in a prior year. 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, 2017, \$1,839,208 has been capitalized into the rental property. The fee is payable from capital contributions and cash flow. Development fees payable from cash flow of the project are eliminated in these consolidated financial statements.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of Columbia Hills West Limited Partnership. The agreement calls for aggregate fees to APAH of \$4,085,676. As of December 31, 2017, \$2,295,553 has been capitalized into the rental property. The fee is payable from capital contributions and cash flow. Development fees payable from cash flow of the project are eliminated in these consolidated financial statements.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of Gilliam Place East Limited Partnership. The agreement calls for aggregate fees to APAH of \$2,776,661. As of December 31, 2017, \$274,385 has been capitalized into the rental property. The fee is payable from capital contributions and cash flow. Development fees payable from cash flow of the project are eliminated in these consolidated financial statements.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of Gilliam Place West Limited Partnership. The agreement calls for aggregate fees to APAH of \$3,173,106. As of December 31, 2017, \$315,094 has been capitalized into the rental property. The fee is payable from capital contributions and cash flow. Development fees payable from cash flow of the project are eliminated in these consolidated financial statements.

Pursuant to a Development Services Agreement, APAH shall earn a development fee in connection with the development of APAH Westover Apartments Limited Partnership. The agreement calls for aggregate fees to APAH of \$3,200,000. As of December 31, 2017, \$780,000 of developer fee has been earned. The fee will be capitalized into the rental property when incurred and is payable from

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2017**

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, 2017 are as follows:

Entity	Development fee income	Development fee receivable	Deferred development fee
Columbia Hills East Limited Partnership	\$ 974,745	\$ 777,291	\$ -
Columbia Hills West Limited Partnership	608,212	484,376	-
Rosslyn Ridge Apartments Limited	-	3,277,321	3,277,321
The Springs Apartments Limited Partnership	648,725	-	733,885
Gilliam Place East Limited Partnership	997,631	164,631	-
Gilliam Place West Limited Partnership	839,872	123,238	-
APAH Westover Apartments Limited Partnership	780,000	-	-
	<hr/>	<hr/>	<hr/>
Total	4,849,185	4,826,857	4,011,206
Eliminations	<hr/>	<hr/>	<hr/>
	-	3,277,321	4,011,206
	<hr/>	<hr/>	<hr/>
Consolidated balance	<u>\$ 4,849,185</u>	<u>\$ 1,549,536</u>	<u>\$ -</u>

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 (22%) of the Tenant's available cash flow, in accordance with the Partnership Agreement. Beginning on June 22, 2017, interest shall accrue on all unpaid amounts at a rate of 2.68%, compounded annually. The term of the ground lease is 75 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 and will be eliminated in consolidation.

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 (22%) of the Tenant's available cash flow. Beginning on June 22, 2017, interest shall accrue on all unpaid amounts at a rate of 2.68%, compounded annually. The term of the ground lease is 75 years. Amounts recorded on this agreement will be eliminated in consolidation.

On December 19, 2017, APAH Westover Apartments Limited Partnership (the "Tenant") entered into a ground lease with APAH Westover, LLC (the "Landlord"). Pursuant to the terms of the agreement, rent under the ground lease shall be \$162,000, per annum, payable from forty-five percent (45%) of annual residual receipts, as defined in the AHIF loan agreement. If there is insufficient cash flows, unpaid rent shall be accrued at an interest rate of 3.25%, compounded annually. The term of the ground lease is 75 years. Amounts recorded on this agreement will be eliminated in consolidation.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

Note 7 - Commercial lease

On June 22, 2017, Gilliam Please East Limited Partnership ("Landlord") entered into a Commercial Master Lease Agreement with Gilliam Retail, LLC ("Tenant"). The Landlord leases to the Tenant 8,982 rentable square feet of commercial space. The term of the lease commences on the date of receipt of a temporary certificate of occupancy and continue for a period of fifteen (15) years. The Tenant will have the right to renew the lease for up to six, five-year option periods. The Tenant will pay the Landlord base rent amounting to \$56,138 per year and escalate 2% per annum.

Note 8 - 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, 2017.

Note 9 - 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 10 - Supervised Residential Program Agreements

On July 7, 2001 and August 24, 2001, APAH entered into Supervised Residential Program Agreements with Arlington County for \$176,000 and \$60,000 of funding, respectively. Under the agreements, Arlington County provided \$236,000 to APAH. Such funds are required to be maintained in an interest-bearing account. The funds are utilized to pay the rent of Qualified Consumers, as defined in the agreements, which are referred to APAH by the County for housing. Interest earned on the program fund is required to be added to the funds available under the agreements. The agreements provide for APAH to receive an annual administration fee from the program fund of \$5,000. The fee increases 5% per year over the 15-year term of the agreements. The County or APAH may terminate the agreements upon 30 days' notice. At the date of termination, all unused funds are required to be returned to the County. During 2017, the remaining cash balance was utilized to pay rent for Qualified Consumers. At December 31, 2017, the cash balance was \$0. During 2017, no administration fees were earned relating to these agreements.

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, 2017 is \$2,727 and is included in restricted cash and cash equivalents.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

Note 11 - Restricted cash

A tenant reserve in the amount of \$2,727 is maintained by Cameron Commons, LLC for the purpose outlined in the agreement (see Note 10).

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, 2017, the amount maintained in this account was \$1,000,016.

Note 12 - 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, 2017 was \$61,275 and is included in salaries expense.

Note 13 - 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, 2017 are:

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

During 2003, APAH acquired the stock interests of Columbia Grove, Inc. The acquisition resulted in an initial carrying amount of fixed assets for financial reporting purposes of \$17,427,684 and an initial carrying amount of fixed assets for income tax purposes of \$3,362,428. At December 31, 2007, the carrying amount of the fixed assets for financial reporting purposes and income tax purposes is \$17,021,038 and \$2,943,364, respectively. The tax which would be due on the difference in the carrying amount is \$3,800,972. 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, 2017, 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, 2017.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2017**

Note 14 - Temporarily restricted net assets

APAH received the following grants which are included in temporarily restricted net assets at December 31, 2017 for either time restrictions or restrictions related to specific program services:

Grantor	Restriction	2017
Local Initiatives Support Corporation	Real estate predevelopment	\$ 25,000
Local Initiatives Support Corporation	Veteran Housing	10,000
Washington Forrest Foundation	Real estate predevelopment	15,000
Enterprise	Real estate predevelopment	29,218
Various individuals	Backpack Drive	1,100
Various individuals	Holiday Gift Drive	3,484
JBG Property	Technology Literacy Program	3,549
Arlington County - AHIF	Technology Literacy Program	2,180
Arlington County - AHIF	Resident Services	4,923
Rock Spring UCC	Eviction prevention	2,000
Kiwanis Club of Arlington	Serve resident children	1,000
United Way	Resident stability and independence	1,400
Total		<u>\$ 98,854</u>

Note 15 - Construction contracts

On June 2, 2016, Columbia Hills 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 Apartments. The construction contract amounted to \$24,441,074, including change orders of \$616,928. At December 31, 2017, \$13,770,269 has been incurred and capitalized to construction in progress and \$3,207,105 remains payable and is included in construction and development costs payable.

On June 2, 2016, Columbia Hills 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 Apartments. The construction contract amounted to \$31,491,517, including change orders of \$795,589. At December 31, 2017, \$17,683,958 has been incurred and capitalized to construction in progress and \$4,096,366 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 in a prior year. At December 31, 2017, \$735,566 remains payable from the Springs Apartments and is included in construction and development costs payable.

On June 1, 2017, Gilliam Place East Limited Partnership entered into a construction contract with Donohoe Construction Company, an unrelated party, to perform general contractor services in connection with the construction of Gilliam Place East Limited Partnership. The construction contract amounted to \$22,788,039, of which \$2,251,880 has been incurred and capitalized to construction in progress at December 31, 2017. At December 31, 2017, \$885,704 remains payable and is included in construction and development costs payable.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2017

On June 1, 2017, Gilliam Place West Limited Partnership entered into a construction contract with Donohoe Construction Company, an unrelated party, to perform general contractor services in connection with the construction of Gilliam Place West Limited Partnership. The construction contract amounted to \$16,501,684, of which \$1,638,643 has been incurred and capitalized to construction in progress at December 31, 2017. At December 31, 2017, \$650,509 remains payable and is included in construction and development costs payable.

On April 3, 2017, Gilliam Place LLC entered into a construction contract with Donohoe Construction Company, an unrelated party, to perform general contractor services in connection with the Gilliam Place Phase 1 work. The construction contract amounted to \$797,031, all of which has been incurred and capitalized to construction in progress at December 31, 2017. At December 31, 2017, \$75,228 remains payable and is included in construction and development costs payable.

On November 9, 2017, APAH Westover Apartments Limited Partnership entered into a construction contract with The Whiting-Turner Contracting Company, an unrelated party, to perform general contractor services in connection with the construction of APAH Westover Apartments Limited Partnership. The construction contract amounted to \$7,076,098. At December 31, 2017, no costs have been incurred relating to this contract.

Note 16 - Ground leases (unrelated party)

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 2017 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, 2022 is \$20,667.

Note 17 - 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 July 27, 2018 (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.

On May 30, 2018, Montgomery Housing Partnership, Inc. ("MHP") assigned Carlyn Springs/Foxcroft Terrace Development Corporation 46% of its membership interest in MHP Art LLC.

On July 24, 2018, Queens South Nine Limited Partnership entered into a construction contract with Donohoe Construction Company, an unrelated party, to perform general contractor services in connection with the Queens Court Phase 1 Dry Utility work. The construction contract amounted to \$484,555.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2017**

On July 24, 2018, Columbia Hills West Limited Partnership executed an amendment to the GAP loan deed of trust note, described in Note 3. The amendment extended the maturity date of the loan to November 1, 2018. Monthly interest only payments are due until the maturity date.

Supplementary Information

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position Year Ended December 31, 2017

	APAH Organization	APAH Westover, LLC	APAH Westover Apartments, LP	APAH Rosslyn Ridge, Inc.	Arlington Mill, LP	Arlington Mill Dev. Corp.	AVV Apartments, LLC	Barkalow, LLC
Assets								
Cash and cash equivalents including \$1,002,743 of restricted cash	\$ 10,049,247	\$ 15,608	\$ -	\$ -	\$ 299,281	\$ -	\$ 356,225	\$ 165,306
Grants and pledges receivable	55,721	-	-	-	-	-	-	-
Accounts receivable - residents	-	-	1,733	-	6,643	-	5,308	178
Accounts receivable - other	24,111	-	(1)	-	-	-	-	-
Development fee receivable	5,564,411	-	-	-	-	-	-	-
Prepaid expenses	10,876	-	-	-	32,251	-	25,223	2,515
Prepaid development fee	-	-	780,000	-	-	-	-	-
Prepaid ground lease	-	-	-	-	1,460,443	-	-	-
Deposits	288,180	5,370	-	-	63,409	-	2,149	-
Mortgage escrow deposits	-	-	-	-	30,847	-	28,821	13,539
Replacement and redevelopment reserve	-	-	-	-	117,005	-	469,764	-
Other reserves	-	-	-	-	1,438,943	-	-	-
Property and equipment, net	1,795,110	7,585,610	7,354,456	-	23,763,528	-	13,026,669	831,306
Construction in progress	1,565,489	-	1,516,616	-	-	-	-	-
Notes receivable - related party	11,950,473	-	-	-	-	-	-	-
Interest receivable - related party	380,988	-	-	-	-	-	-	-
Funded residents' security deposits	-	-	29,177	-	58,097	-	44,060	9,225
Investment in Fisher House Limited Partnership	-	-	-	-	-	-	-	-
Investment in Arlington Mill Limited Partnership	220,269	-	-	-	-	-	-	-
Investment in North Pierce Associates	3,268,871	-	-	479,250	-	-	-	-
Investment in Courthouse Crossing Limited Partnership	(1,021)	-	-	-	-	-	-	-
Investment in Calvert Manor Limited Partnership	441,844	-	-	-	-	-	-	-
Investment in Lorcom Arms Limited Partnership	(722,572)	-	-	-	-	-	-	-
Investment in Cameron Commons LLC	-	-	-	-	-	-	-	-
Investment in Columbia Grove Limited Partnership	(93,036)	-	-	-	-	-	-	-
Investment in Columbia Grove Development Corp	(15,930)	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	164,742	-	-	-	-	-	-	-
Investment in Buchanan Gardens Development Corp	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	(339,873)	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in Barkalow LLC	939,918	-	-	-	-	-	-	-
Investment in Arna Valley	(805,382)	-	-	-	-	-	-	-
Investment in The Springs LP	-	-	-	-	-	-	-	-
Investment in stock	125,000	-	-	-	-	-	-	-
In place leases	-	-	-	-	-	-	237,504	-
Other assets	-	-	-	-	114,384	-	-	-
Total assets	\$ 34,867,436	\$ 7,606,588	\$ 9,681,981	\$ 479,250	\$ 27,384,831	\$ -	\$ 14,195,723	\$ 1,022,069
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 341,453	\$ 7,327	\$ 5,010	\$ -	\$ 5,919	\$ -	\$ 1,618	\$ 61
Accrued interest	-	885	-	-	40,802	-	208,476	-
Related party payable/(receivable)	(3,232,862)	(1,167)	1,058,938	13,294	114,964	81,450	16,077	100,042
Development fee payable	-	-	-	-	-	-	-	-
Deferred development fee	4,011,206	-	-	-	-	-	-	-
Deferred gain	2,600,000	-	-	480,000	-	-	-	-
Prepaid rents	-	-	567	-	18,533	-	29,652	1,766
Residents' security deposits	-	-	29,177	-	59,403	-	44,060	9,225
Notes payable	475,411	6,171,021	8,050,251	-	8,158,875	-	14,701,222	-
Construction and development costs payable	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Total liabilities	4,195,208	6,178,066	9,143,943	493,294	8,398,496	81,450	15,001,105	111,094
Net assets								
Unrestricted controlling	30,573,374	1,428,522	538,038	(14,044)	18,986,335	(81,450)	(805,382)	910,975
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	30,573,374	1,428,522	538,038	(14,044)	18,986,335	(81,450)	(805,382)	910,975
Temporarily restricted	98,854	-	-	-	-	-	-	-
Total net assets	30,672,228	1,428,522	538,038	(14,044)	18,986,335	(81,450)	(805,382)	910,975
Total liabilities and net assets	\$ 34,867,436	\$ 7,606,588	\$ 9,681,981	\$ 479,250	\$ 27,384,831	\$ -	\$ 14,195,723	\$ 1,022,069

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position Year Ended December 31, 2017

	Buchanan Gardens II, LLC	Buchanan Gardens Dev. Corp.	Buchanan Gardens, LP	Calvert Manor, LP	Cameron Commons Dev. Corp.	Cameron Commons, LLC	Carlyn Springs Dev. Corp.	Columbia Grove Apartments, LP
Assets								
Cash and cash equivalents including \$1,002,743 of restricted cash	\$ -	\$ -	\$ 427,560	\$ 17,019	\$ -	\$ 88,955	\$ -	\$ 1,205,314
Grants and pledges receivable	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	-	11,747	5,402	-	5,748	-	22,844
Accounts receivable - other	-	-	-	-	-	-	-	-
Development fee receivable	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	22,251	4,220	-	2,958	-	36,167
Prepaid development fee	-	-	-	-	-	-	-	-
Prepaid ground lease	-	-	-	-	-	-	-	-
Deposits	13,770	-	-	-	-	-	-	-
Mortgage escrow deposits	-	-	15,564	5,746	-	2,975	-	42,657
Replacement and redevelopment reserve	-	-	154,270	36,589	-	18,219	-	547,038
Other reserves	-	-	655,783	-	-	-	-	350,000
Property and equipment, net	-	-	23,054,251	3,118,376	-	1,928,587	-	19,488,623
Construction in progress	-	-	-	-	-	-	-	248,153
Notes receivable - related party	-	-	-	-	-	-	-	-
Interest receivable - related party	-	-	-	-	-	-	-	-
Funded residents' security deposits	-	-	74,642	14,980	-	9,637	-	151,201
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	-	-	-	-	(374,067)	-	-	-
Investment in Columbia Grove Limited Partnership	-	-	-	-	-	-	-	-
Investment in Columbia Grove Development Corp	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	-	11,647	-	-	-	-	-	-
Investment in Buchanan Gardens Development Corp	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in Barkalow LLC	-	-	-	-	-	-	-	-
Investment in Arna Valley	-	-	-	-	-	-	-	-
Investment in The Springs LP	-	-	-	-	-	-	-	-
Investment in stock	-	-	-	-	-	-	-	-
In place leases	-	-	-	-	-	-	-	-
Other assets	-	-	56,863	-	-	-	-	14,240
Total assets	\$ 13,770	\$ 11,647	\$ 24,472,931	\$ 3,202,332	\$ (374,067)	\$ 2,057,079	\$ -	\$ 22,106,237
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ -	\$ -	\$ 72,766	\$ 728	\$ 800	\$ 4,019	\$ -	\$ 19,047
Accrued interest	-	-	1,009,577	112,949	-	527,505	-	1,336,765
Related party receivable/(payables)	7,905	-	89,553	182,262	6,205	11,386	4,349	68,668
Development fee payable	-	-	-	-	-	-	-	-
Deferred development fee	-	-	-	-	-	-	-	-
Deferred gain	1,421,838	-	-	-	-	-	-	-
Prepaid rents	-	-	5,568	6,403	-	5,009	-	42,248
Residents' security deposits	-	-	74,642	14,980	-	9,637	-	153,757
Notes payable	-	-	15,949,108	2,442,870	-	1,536,802	-	18,039,760
Construction and development costs payable	-	-	-	-	-	-	-	168,335
Other liabilities	-	-	-	-	-	-	-	-
Total liabilities	1,429,743	-	17,201,214	2,760,192	7,005	2,094,358	4,349	19,828,580
Net assets								
Unrestricted controlling	(1,415,973)	11,647	7,271,717	442,140	(381,072)	(37,279)	(4,349)	2,277,657
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	(1,415,973)	11,647	7,271,717	442,140	(381,072)	(37,279)	(4,349)	2,277,657
Temporarily restricted	-	-	-	-	-	-	-	-
Total net assets	(1,415,973)	11,647	7,271,717	442,140	(381,072)	(37,279)	(4,349)	2,277,657
Total liabilities and net assets	\$ 13,770	\$ 11,647	\$ 24,472,931	\$ 3,202,332	\$ (374,067)	\$ 2,057,079	\$ -	\$ 22,106,237

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position Year Ended December 31, 2017

	Columbia Grove Inc.	Columbia Grove Dev. Corp.	Columbia Hills East Dev. Corp.	Columbia Hills East, LP	Columbia Hills West Dev. Corp.	Columbia Hills West, LP	Courthouse Crossings, LP	Fisher House Dev. Corp.
<u>Assets</u>								
Cash and cash equivalents including \$1,002,743 of restricted cash	\$ 59,024	\$ -	\$ -	\$ 99,450	\$ -	\$ 99,505	\$ 424,687	\$ -
Grants and pledges receivable	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	-	-	-	-	-	9,331	-
Accounts receivable - other	-	-	-	-	-	-	-	-
Development fee receivable	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	23,453	-
Prepaid development fee	-	-	-	-	-	-	-	-
Prepaid ground lease	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Mortgage escrow deposits	-	-	-	-	-	-	30,346	-
Replacement and redevelopment reserve	-	-	-	-	-	-	126,417	-
Other reserves	-	-	-	-	-	3,500,000	-	-
Property and equipment, net	-	-	-	558,439	-	572,692	25,484,446	-
Construction in progress	-	-	-	18,890,054	-	24,145,692	-	-
Notes receivable - related party	-	-	-	-	-	-	-	-
Interest receivable - related party	-	-	-	-	-	-	-	-
Funded residents' security deposits	-	-	-	-	-	-	63,319	-
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	-	-	-	-	-	-	-	-
Investment in Columbia Grove Limited Partnership	443,503	1,656,375	-	-	-	-	-	-
Investment in Columbia Grove Development Corp	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens Development Corp	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in Barkalow LLC	-	-	-	-	-	-	-	-
Investment in Arna Valley	-	-	-	-	-	-	-	-
Investment in The Springs LP	-	-	-	-	-	-	-	-
Investment in stock	-	-	-	-	-	-	-	-
In place leases	-	-	-	-	-	-	-	-
Other assets	-	-	-	162,835	-	95,922	26,879	-
Total assets	\$ 502,527	\$ 1,656,375	\$ -	\$ 19,710,778	\$ -	\$ 28,413,811	\$ 26,188,878	\$ -
<u>Liabilities and Net Assets</u>								
Liabilities								
Accounts payable and accrued expenses	\$ 14,999	\$ -	\$ -	\$ 62,302	\$ -	\$ 82,889	\$ 12,491	\$ 800
Accrued interest	-	-	-	15,430	-	8,871	4,927,133	-
Related party receivable/(payables)	34,433	442,656	700	108,914	850	112,130	-	4,335
Development fee payable	-	-	-	534,289	-	1,478,412	-	-
Deferred development fee	-	-	-	-	-	-	-	-
Deferred gain	2,041,621	-	-	-	-	-	-	-
Prepaid rents	-	-	-	-	-	-	19,321	-
Residents' security deposits	-	-	-	-	-	-	63,319	-
Notes payable	-	1,749,174	-	14,505,751	-	21,766,795	19,158,899	-
Construction and development costs payable	-	-	-	3,207,106	-	4,096,366	-	-
Other liabilities	-	-	-	-	-	-	-	-
Total liabilities	2,091,053	2,191,830	700	18,433,792	850	27,545,463	24,181,163	5,135
Net assets								
Unrestricted controlling	(1,588,526)	(535,455)	(700)	1,276,986	(850)	868,348	2,007,715	(5,135)
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	(1,588,526)	(535,455)	(700)	1,276,986	(850)	868,348	2,007,715	(5,135)
Temporarily restricted	-	-	-	-	-	-	-	-
Total net assets	(1,588,526)	(535,455)	(700)	1,276,986	(850)	868,348	2,007,715	(5,135)
Total liabilities and net assets	\$ 502,527	\$ 1,656,375	\$ -	\$ 19,710,778	\$ -	\$ 28,413,811	\$ 26,188,878	\$ -

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position Year Ended December 31, 2017

	FHDC Corporation	Fisher House, LP	Gilliam Place, LLC	Gilliam Place East, LP	Gilliam Place West, LP	Lorcom Arms, LP	Marbella Development, LLC	Queen's Court Dev. Corp.
Assets								
Cash and cash equivalents including \$1,002,743 of restricted cash	\$ -	\$ 185,532	\$ 448,348	\$ 99,943	\$ 99,701	\$ 178,425	\$ 328,018	\$ 371,895
Grants and pledges receivable	-	-	-	-	-	-	-	-
Accounts receivable - residents	-	-	-	-	-	3,262	5,932	6,021
Accounts receivable - other	-	-	-	-	-	-	-	-
Development fee receivable	-	-	-	-	-	-	-	-
Prepaid expenses	-	6,883	20,333	-	-	7,810	20,378	5,439
Prepaid development fee	-	-	-	558,615	401,540	-	-	-
Prepaid ground lease	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Mortgage escrow deposits	-	8,324	-	-	-	-	26,882	66,906
Replacement and redevelopment reserve	-	29,890	-	-	-	94,567	125,692	128,607
Other reserves	-	207,966	-	-	-	-	-	-
Property and equipment, net	-	6,431,548	8,741,262	-	-	2,862,948	11,897,515	1,192,461
Construction in progress	-	-	-	5,823,049	4,295,418	4,852	-	-
Notes receivable - related party	-	-	-	-	-	-	-	-
Interest receivable - related party	-	-	-	-	-	-	-	-
Funded residents' security deposits	-	22,358	-	-	-	18,936	78,562	25,239
Investment in Fisher House Limited Partnership	1,225,585	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
Investment in Columbia Grove Development Corp	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens, LP	-	-	-	-	-	-	-	-
Investment in Buchanan Gardens Development Corp	-	-	-	-	-	-	-	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	-	-	-	-
Investment in Marbella Development LLC	-	-	-	-	-	-	-	-
Investment in Barkalow LLC	-	-	-	-	-	-	-	-
Investment in Arna Valley	-	-	-	-	-	-	-	-
Investment in The Springs LP	-	-	-	-	-	-	-	-
Investment in stock	-	-	-	-	-	-	-	-
In place leases	-	-	-	-	-	-	-	-
Other assets	-	5,517	-	206,900	-	-	-	-
Total assets	\$ 1,225,585	\$ 6,898,018	\$ 9,209,943	\$ 6,688,507	\$ 4,796,659	\$ 3,170,800	\$ 12,482,979	\$ 1,796,568
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ -	\$ 568	\$ 11,096	\$ 33,826	\$ 24,495	\$ 174	\$ 9,759	\$ 1,946
Accrued interest	-	289,269	-	-	-	592,123	228,162	-
Related party receivable/(payables)	3,276	24,395	(6,074)	119,882	116,768	515,686	23,881	-
Development fee payable	-	-	-	-	-	-	-	-
Deferred development fee	-	-	-	-	-	-	-	-
Deferred gain	1,555,000	-	-	-	-	-	-	-
Prepaid rents	-	13,105	-	-	-	10,768	19,427	7,878
Residents' security deposits	-	22,358	-	-	-	18,936	81,337	25,239
Notes payable	-	2,947,319	8,568,716	3,253,665	3,079,550	2,747,309	12,459,784	-
Construction and development costs payable	-	1,038	75,228	885,704	650,509	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Total liabilities	1,558,276	3,298,052	8,648,966	4,293,077	3,871,322	3,884,996	12,822,350	35,063
Net assets								
Unrestricted controlling	(332,691)	3,599,966	560,977	2,395,430	925,337	(714,196)	(339,371)	1,761,505
Unrestricted noncontrolling	-	-	-	-	-	-	-	-
Total unrestricted net assets	(332,691)	3,599,966	560,977	2,395,430	925,337	(714,196)	(339,371)	1,761,505
Temporarily restricted	-	-	-	-	-	-	-	-
Total net assets	(332,691)	3,599,966	560,977	2,395,430	925,337	(714,196)	(339,371)	1,761,505
Total liabilities and net assets	\$ 1,225,585	\$ 6,898,018	\$ 9,209,943	\$ 6,688,507	\$ 4,796,659	\$ 3,170,800	\$ 12,482,979	\$ 1,796,568

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Financial Position Year Ended December 31, 2017

	Rosslyn Ridge Dev. Corp.	Rosslyn Ridge Apartments, LP	The Springs Apartments, LP	The Springs Dev. Corp.	Eliminations	Total
<u>Assets</u>						
Cash and cash equivalents including \$1,002,743 of restricted cash	\$ -	\$ 834,603	\$ 1,526,560	\$ -	\$ -	\$ 17,380,206
Grants and pledges receivable	-	-	-	-	-	55,721
Accounts receivable - residents	-	3,188	4,822	-	-	92,159
Accounts receivable - other	-	-	-	-	-	24,110
Development fee receivable	-	-	-	-	(4,014,875)	1,549,536
Prepaid expenses	-	35,445	34,797	-	-	290,999
Prepaid development fee	-	-	-	-	-	1,740,155
Prepaid ground lease	-	-	-	-	-	1,460,443
Deposits	-	-	5,229	-	-	378,107
Mortgage escrow deposits	-	74,043	22,122	-	-	368,772
Replacement and redevelopment reserve	-	337,801	39,150	-	-	2,225,009
Other reserves	-	2,114,068	750,583	-	-	9,017,343
Property and equipment, net	-	54,342,868	31,829,743	-	(12,232,458)	233,627,980
Construction in progress	-	-	-	-	-	56,489,323
Notes receivable - related party	-	-	-	-	(11,950,473)	-
Interest receivable - related party	-	-	-	-	(380,988)	-
Funded residents' security deposits	-	91,691	52,401	-	-	743,525
Investment in Fisher House Limited Partnership	-	-	-	-	(1,225,585)	-
Investment in Arlington Mill Limited Partnership	-	-	-	-	(220,269)	-
Investment in North Pierce Associates	-	-	-	-	(3,748,121)	-
Investment in Courthouse Crossing Limited Partnership	-	-	-	-	1,021	-
Investment in Calvert Manor Limited Partnership	-	-	-	-	(441,844)	-
Investment in Lorcom Arms Limited Partnership	-	-	-	-	722,572	-
Investment in Cameron Commons LLC	-	-	-	-	374,067	-
Investment in Columbia Grove Limited Partnership	-	-	-	-	(2,006,842)	-
Investment in Columbia Grove Development Corp	-	-	-	-	15,930	-
Investment in Buchanan Gardens, LP	-	-	-	-	(176,389)	-
Investment in Buchanan Gardens Development Corp	-	-	-	-	339,873	-
Investment in Rosslyn Ridge Development Corp	-	-	-	-	339,872	-
Investment in Marbella Development LLC	(339,872)	-	-	-	-	-
Investment in Barkalow LLC	-	-	-	-	(939,918)	-
Investment in Arna Valley	-	-	-	-	805,382	-
Investment in The Springs LP	-	-	-	149	(149)	-
Investment in stock	-	-	-	-	(125,000)	-
In place leases	-	-	-	-	-	237,504
Other assets	-	20,453	151,934	-	(20,453)	835,474
Total assets	\$ (339,872)	\$ 57,854,160	\$ 34,417,341	\$ 149	\$ (34,884,647)	\$ 326,516,366
<u>Liabilities and Net Assets</u>						
Liabilities						
Accounts payable and accrued expenses	\$ 2,000	\$ 23,767	\$ 3,209	\$ -	\$ -	\$ 743,069
Accrued interest	-	3,212,022	105,675	-	(2,319,264)	10,296,380
Related party receivable/(payables)	11,464	17,697	96,266	1,375	(114,017)	35,681
Development fee payable	-	3,289,586	1,467,770	-	(4,023,471)	2,746,586
Deferred development fee	-	-	-	-	(4,011,206)	-
Deferred gain	-	-	-	-	(8,098,459)	-
Prepaid rents	-	101,071	9,351	-	-	290,667
Residents' security deposits	-	91,740	52,429	-	-	750,239
Notes payable	-	50,574,748	15,816,243	-	(12,603,415)	219,549,858
Construction and development costs payable	-	-	1,681	-	-	9,085,967
Other liabilities	-	325,000	-	-	-	325,000
Total liabilities	13,464	57,635,631	17,552,624	1,375	(31,169,832)	243,823,447
Net assets						
Unrestricted controlling	(353,336)	218,529	16,864,717	(1,226)	(65,797,556)	20,511,324
Unrestricted noncontrolling	-	-	-	-	62,082,741 (a)	62,082,741
Total unrestricted net assets	(353,336)	218,529	16,864,717	(1,226)	(3,714,815)	82,594,065
Temporarily restricted	-	-	-	-	-	98,854
Total net assets	(353,336)	218,529	16,864,717	(1,226)	(3,714,815)	82,692,919
Total liabilities and net assets	\$ (339,872)	\$ 57,854,160	\$ 34,417,341	\$ 149	\$ (34,884,647)	\$ 326,516,366

See Independent Auditor's Report.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2017

	APA H Organization	APA H Westover, LLC	Westover Apartments, LP	APA H Rosslyn Ridge, Inc.	Arlington Mill, LP	Arlington Mill Dev. Corp.	AVV Apartments, LLC	Barkalow, LLC
Revenue and other support								
Rental revenue - net	\$ -	\$ 620,693	\$ 14,052	\$ -	\$ 1,760,907	\$ -	\$ 1,412,448	\$ 223,563
Grants and contributions	396,340	-	-	-	-	-	-	-
Development fee income	4,849,185	-	-	-	-	-	-	-
Interest income	182,076	650	-	-	2,808	-	4,620	42
Loss from equity investment in partnership interest	347,523	-	-	(6)	-	-	-	-
Other income	1,349,354	30,415	2	-	87,706	220,546	15,486	4,620
Special events revenue, net of expenses	426,938	-	-	-	-	-	-	-
Total revenue	7,551,416	651,758	14,054	(6)	1,851,421	220,546	1,432,554	228,225
Expenses								
Administrative	2,501,522	101,816	30,062	652	359,765	80,650	153,083	65,876
Operations and maintenance	-	119,695	2,755	-	318,217	-	256,423	32,900
Utilities	5,573	72,908	534	-	161,234	-	126,517	13,744
Insurance	91,239	32,873	-	-	61,800	-	47,000	5,993
Taxes	-	111,989	374	90	185,110	100	142,140	25,193
Interest	15,530	425,482	-	-	485,335	-	480,651	-
Depreciation and amortization	136,137	184,667	-	-	832,259	-	236,814	31,035
Total expenses	2,750,001	1,049,430	33,725	742	2,403,720	80,750	1,442,628	174,741
Excess of revenue over expenses (expenses over revenue)	4,801,415	(397,672)	(19,671)	(748)	(552,299)	139,796	(10,074)	53,484
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	\$ 4,801,415	\$ (397,672)	\$ (19,671)	\$ (748)	\$ (552,299)	\$ 139,796	\$ (10,074)	\$ 53,484

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2017

	Buchanan Gardens II, LLC	Buchanan Gardens Dev. Corp.	Buchanan Gardens, LP	Calvert Manor, LP	Cameron Commons Dev. Corp.	Cameron Commons, LLC	Carlyn Springs Dev. Corp.	Columbia Grove Apartments, LP
Revenue and other support								
Rental revenue - net	\$ -	\$ -	\$ 1,643,965	\$ 298,957	\$ -	\$ 210,901	\$ -	\$ 3,202,873
Grants and contributions	-	-	-	-	-	-	-	-
Development fee income	-	-	-	-	-	-	-	-
Interest income	-	-	2,684	391	-	205	-	6,355
Loss from equity investment in partnership interest	-	-	-	-	(16,080)	-	-	-
Other income	-	131,260	31,675	5,480	-	6,577	-	72,733
Special events revenue, net of expenses	-	-	-	-	-	-	-	-
Total revenue	-	131,260	1,678,324	304,828	(16,080)	217,683	-	3,281,961
Expenses								
Administrative	40	80,650	300,810	52,189	575	46,114	-	419,118
Operations and maintenance	-	-	189,671	55,934	-	40,711	-	496,373
Utilities	-	-	123,705	25,890	-	18,051	-	216,446
Insurance	-	-	47,794	9,897	-	7,067	-	69,500
Taxes	50	25	106,061	25,867	-	16,921	4,349	318,204
Interest	-	-	739,414	94,526	-	43,509	-	1,325,023
Depreciation and amortization	-	-	639,424	103,671	-	68,554	-	554,369
Total expenses	90	80,675	2,146,879	367,974	575	240,927	4,349	3,399,033
Excess of revenue over expenses (expenses over revenue)	(90)	50,585	(468,555)	(63,146)	(16,655)	(23,244)	(4,349)	(117,072)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	<u>\$ (90)</u>	<u>\$ 50,585</u>	<u>\$ (468,555)</u>	<u>\$ (63,146)</u>	<u>\$ (16,655)</u>	<u>\$ (23,244)</u>	<u>\$ (4,349)</u>	<u>\$ (117,072)</u>

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2017

	Columbia Grove Inc.	Columbia Grove Dev. Corp.	Columbia Hills East Dev. Corp.	Columbia Hills East, LP	Columbia Hills West Dev. Corp.	Columbia Hills West, LP	Courthouse Crossings, LP	Fisher House Dev. Corp.
Revenue and other support								
Rental revenue - net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,726,985	\$ -
Grants and contributions	-	-	-	-	-	-	-	-
Development fee income	-	-	-	-	-	-	-	-
Interest income	294	-	-	-	-	-	1,644	-
Loss from equity investment in partnership interest	(12)	-	-	-	-	-	-	-
Other income	-	283,463	-	15,543	-	2	74,677	-
Special events revenue, net of expenses	-	-	-	-	-	-	-	-
Total revenue	282	283,463	-	15,543	-	2	1,803,306	-
Expenses								
Administrative	-	720,650	-	-	-	-	190,784	550
Operations and maintenance	-	-	-	-	-	-	239,715	-
Utilities	-	-	-	-	-	-	123,315	-
Insurance	-	-	-	-	-	-	50,703	-
Taxes	-	98	700	-	850	-	175,720	25
Interest	-	-	-	-	-	-	1,129,255	-
Depreciation and amortization	-	-	-	-	-	-	640,518	-
Total expenses	-	720,748	700	-	850	-	2,550,010	575
Excess of revenue over expenses (expenses over revenue)	282	(437,285)	(700)	15,543	(850)	2	(746,704)	(575)
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	\$ 282	\$ (437,285)	\$ (700)	\$ 15,543	\$ (850)	\$ 2	\$ (746,704)	\$ (575)

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2017

	FHDC Corporation	Fisher House, LP	Gilliam Place, LLC	Gilliam Place East, LP	Gilliam Place West, LP	Lorcom Arms, LP	Marbella Development, LLC	Queen's Court Dev. Corp.
Revenue and other support								
Rental revenue - net	\$ -	\$ 487,888	\$ -	\$ -	\$ -	\$ 550,644	\$ 1,761,714	\$ 585,683
Grants and contributions	-	-	745,298	-	-	-	-	-
Development fee income	-	-	-	-	-	-	-	-
Interest income	-	666	2,130	-	-	589	1,704	1,359
Loss from equity investment in partnership interest	(10)	-	-	-	-	-	-	-
Other income	-	30,870	1	206,900	-	12,752	39,887	20,914
Special events revenue, net of expenses	-	-	-	-	-	-	-	-
Total revenue	(10)	519,424	747,429	206,900	-	563,985	1,803,305	607,956
Expenses								
Administrative	650	102,783	51,333	-	-	152,325	236,060	74,904
Operations and maintenance	-	71,109	23,220	-	-	77,167	294,710	71,586
Utilities	-	25,593	369	-	-	36,128	141,169	45,079
Insurance	-	15,631	6,821	-	-	18,525	45,862	14,332
Taxes	100	45,228	62,248	-	-	51,446	163,275	54,170
Interest	-	152,800	-	-	-	202,871	613,249	-
Depreciation and amortization	-	198,980	-	-	-	175,612	171,006	55,820
Total expenses	750	612,124	143,991	-	-	714,074	1,665,331	315,891
Excess of revenue over expenses (expenses over revenue)	(760)	(92,700)	603,438	206,900	-	(150,089)	137,974	292,065
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue) attributable to APAH	\$ (760)	\$ (92,700)	\$ 603,438	\$ 206,900	\$ -	\$ (150,089)	\$ 137,974	\$ 292,065

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2017

	Rosslyn Ridge Dev. Corp.	Rosslyn Ridge Apartments, LP	The Springs Apartments, LP	The Springs Dev. Corp.	Eliminations	Consolidated
Revenue and other support						
Rental revenue - net	\$ -	\$ 5,417,575	\$ 1,457,425	\$ -	\$ -	\$ 21,376,273
Grants and contributions	-	-	-	-	-	1,141,638
Development fee income	-	-	-	-	-	4,849,185
Interest income	-	4,901	461	-	(172,177)	41,402
Loss from equity investment in partnership interest	137,473	-	-	94	(468,982)	-
Other income	(11,135)	283,089	105,485	-	(1,963,416)	1,054,886
Special events revenue, net of expenses	-	-	-	-	-	426,938
Total revenue	126,338	5,705,565	1,563,371	94	(2,604,575)	28,890,322
Expenses						
Administrative	137,702	684,074	295,304	1,295	(1,474,921)	5,366,415
Operations and maintenance	-	523,500	288,709	-	-	3,102,395
Utilities	-	204,946	148,397	-	-	1,489,598
Insurance	-	81,931	74,428	-	-	681,396
Taxes	25	608,832	206,298	25	-	2,305,513
Interest	-	2,836,342	569,457	-	(340,691)	8,772,753
Depreciation and amortization	-	1,729,709	927,752	-	(569,371)	6,116,956
Total expenses	137,727	6,669,334	2,510,345	1,320	(2,384,983)	27,835,026
Excess of revenue over expenses (expenses over revenue)	(11,389)	(963,769)	(946,974)	(1,226)	(219,592)	1,055,296
Excess of expenses over revenue attributable to noncontrolling interest	-	-	-	-	(4,246,915) (a)	(4,246,915)
Excess of revenue over expenses (expenses over revenue) attributable to APAH	\$ (11,389)	\$ (963,769)	\$ (946,974)	\$ (1,226)	\$ 4,027,323	\$ 5,302,211

(a) Allocation of non-controlling interest

See Independent Auditor's Report.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017**

Federal Agency/ (Pass-through Agency)/ Program Title	Federal CFDA Number	Other Award Number	Expenditures		Total Expenditures	Passed through to Subrecipients
			From Pass-through Awards	From Direct Awards		
U.S. Department of Housing and Urban Development						
Arlington County, VA - HUD Home Program	14.239	N/A				
Marbella Development LLC			\$ 2,775,708	\$ -	\$ 2,775,708	\$ - *
AVV Apartments LLC			2,800,000	-	2,800,000	- *
Total HUD Home Program			<u>5,575,708</u>	<u>-</u>	<u>5,575,708</u>	<u>-</u>
CDBG Entitlement Grants Cluster						
Arlington County, VA - Community Development Block Grants	14.218	N/A				
AVV Apartments LLC			1,000,000	-	1,000,000	- *
Total Community Development Block Grants Program			<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>
Total			<u>\$ 6,575,708</u>	<u>\$ -</u>	<u>\$ 6,575,708</u>	<u>\$ -</u>

* Note: This program represents a loan for which no proceeds were received and no payments were made during the year ended December 31, 2017.

See Notes to Schedule of Expenditures of Federal Awards.

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2017

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes federal award activity of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries under various programs of the federal government for the year ended December 31, 2017. The financial statements of certain subsidiaries included in the consolidated financial statements were not audited in accordance with *Government Audit Standards* as they are not subject to the requirements under *Uniform Guidance, "Audits of State, Local Governments, and Non-Profit Organizations"*. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries, it is not intended to and does not present the consolidated financial position, statement of activities, functional expenses, changes in net assets, or cash flows of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries.

The accounting policies of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in OMB Circular A-122, "Cost principles for Non-Profit Organizations" and the cost principles contained in the Uniform Guidance.

Arlington Partnership for Affordable Housing, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

During 2017, there was no non-cash assistance or federal insurance.

As of December 31, 2017, there were three loan programs outstanding in the total amount of \$6,575,708.

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Consolidated Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 27, 2018. The financial statements of certain subsidiaries included in the consolidated financial statements were not audited in accordance with *Government Audit Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these subsidiaries and affiliates.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Boston, Massachusetts
July 27, 2018

Independent Auditor's Report on Compliance for the Major Program and on Internal
Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for each Major Federal Program

We have audited Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2017. Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' compliance.

Opinion on each Major Federal Program

In our opinion, Arlington Partnership for Affordable Housing, Inc. and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Boston, Massachusetts
July 27, 2018

Arlington Partnership for Affordable Housing, Inc. and Subsidiaries

**Summary of Findings, Questioned Costs and Recommendations
December 31, 2017**

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries, were prepared in accordance with generally accepted accounting principles.
2. No significant deficiencies related to the audit of the consolidated financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses were reported.
3. No instances of noncompliance material to the consolidated financial statements of Arlington Partnership for Affordable Housing, Inc. and Subsidiaries, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award program were disclosed in the Independent Auditor's Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance. No material weaknesses were reported.
5. The auditor's report on compliance for each major federal award program for Arlington Partnership for Affordable Housing, Inc. and Subsidiaries expresses an unmodified opinion.
6. There are no audit findings required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The programs tested as major programs were:
 - a. CFDA 14.239 HUD Home Program
 - b. CDFA 14.218 CDBG Program
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Arlington Partnership for Affordable Housing, Inc. and Subsidiaries was not determined to be a low-risk auditee.

B. Findings - Consolidated Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

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