



STATE OF ARIZONA  
CORPORATION COMMISSION  
CORPORATION ANNUAL REPORT  
& CERTIFICATE OF DISCLOSURE

AZ Corp. Commission  
01781307

DUE ON OR BEFORE 10/19/2006

FY06-07

FILING FEE \$10.00

The following information is required by A.R.S. §§10-1622 & 10-11622 for all corporations organized pursuant to Arizona Revised Statutes, Title 10. The Commission's authority to prescribe this form is A.R.S. §§10-121.A & 10-3121.A. YOUR REPORT MUST BE SUBMITTED ON THIS ORIGINAL FORM. Make changes or corrections where necessary. Information for the report should reflect the current status of the corporation. See instructions on page 4 for proper format.

1. -1006321-1  
NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPOR  
% CAPITOL CORPORATE SERVICES  
815 N 1ST AVE #4  
PHOENIX, AZ 85003

RECEIVED  
OCT-27 2006

ARIZONA CORP COMMISSION  
CORPORATIONS DIVISION

Business Phone: \_\_\_\_\_ (Business phone is optional.)

State of Domicile: ARIZONA Type of Corporation: NON-PROFIT

2. Statutory Agent: CAPITOL CORPORATE SERVICES INC Physical Address, If Different.  
Mailing Address: 815 N 1ST AVE #4 Physical Address:  
City, State, Zip: PHOENIX, AZ 85003 City, State, Zip:

ACC USE ONLY

Fee \$ \_\_\_\_\_  
Penalty \$ \_\_\_\_\_  
Reinstate \$ \_\_\_\_\_  
Expedite \$ \_\_\_\_\_  
Resubmit \$ \_\_\_\_\_

Use this box only if appointing a new Statutory Agent

If appointing a new statutory agent, the new agent **MUST** consent to that appointment by signing below.

I, (individual) or We, (corporation or limited liability company) having been designated the new Statutory Agent, do hereby consent to this appointment until my removal or resignation pursuant to law.

Signature of new Statutory Agent

Printed Name of new Statutory Agent

3. Secondary Address:

(Foreign Corporations are  
**REQUIRED** to complete  
this section).

4. Check the one category below which best describes the CHARACTER OF BUSINESS of your corporation.

BUSINESS CORPORATIONS

- |   |  |
|---|--|
| <input type="checkbox"/> 1. Accounting          | <input type="checkbox"/> 20. Manufacturing                   |
| <input type="checkbox"/> 2. Advertising         | <input type="checkbox"/> 21. Mining                          |
| <input type="checkbox"/> 3. Aerospace           | <input type="checkbox"/> 22. News Media                      |
| <input type="checkbox"/> 4. Agriculture         | <input type="checkbox"/> 23. Pharmaceutical                  |
| <input type="checkbox"/> 5. Architecture        | <input type="checkbox"/> 24. Publishing/Printing             |
| <input type="checkbox"/> 6. Banking/Finance     | <input type="checkbox"/> 25. Ranching/Livestock              |
| <input type="checkbox"/> 7. Barbers/Cosmetology | <input type="checkbox"/> 26. Real Estate                     |
| <input type="checkbox"/> 8. Construction        | <input type="checkbox"/> 27. Restaurant/Bar                  |
| <input type="checkbox"/> 9. Contractor          | <input type="checkbox"/> 28. Retail Sales                    |
| <input type="checkbox"/> 10. Credit/Collection  | <input type="checkbox"/> 29. Science/Research                |
| <input type="checkbox"/> 11. Education          | <input type="checkbox"/> 30. Sports/Sporting Events          |
| <input type="checkbox"/> 12. Engineering        | <input type="checkbox"/> 31. Technology(Computers)           |
| <input type="checkbox"/> 13. Entertainment      | <input type="checkbox"/> 32. Technology(General)             |
| <input type="checkbox"/> 14. General Consulting | <input type="checkbox"/> 33. Television/Radio                |
| <input type="checkbox"/> 15. Health Care        | <input type="checkbox"/> 34. Tourism/Convention Services     |
| <input type="checkbox"/> 16. Hotel/Motel        | <input type="checkbox"/> 35. Transportation                  |
| <input type="checkbox"/> 17. Import/Export      | <input type="checkbox"/> 36. Utilities                       |
| <input type="checkbox"/> 18. Insurance          | <input type="checkbox"/> 37. Veterinary Medicine/Animal Care |
| <input type="checkbox"/> 19. Legal Services     | <input type="checkbox"/> 38. Other _____                     |

NON-PROFIT CORPORATIONS

- |  |
|--|
| <input checked="" type="checkbox"/> 1. Charitable  |
| <input type="checkbox"/> 2. Benevolent   |
| <input type="checkbox"/> 3. Educational  |
| <input type="checkbox"/> 4. Civic  |
| <input type="checkbox"/> 5. Political  |
| <input type="checkbox"/> 6. Religious  |
| <input type="checkbox"/> 7. Social   |
| <input type="checkbox"/> 8. Literary   |
| <input type="checkbox"/> 9. Cultural   |
| <input type="checkbox"/> 10. Athletic  |
| <input type="checkbox"/> 11. Science/Research  |
| <input type="checkbox"/> 12. Hospital/Health Care  |
| <input type="checkbox"/> 13. Agricultural  |
| <input type="checkbox"/> 14. Animal Husbandry  |
| <input type="checkbox"/> 15. Homeowner's Association                                     |
| <input type="checkbox"/> 16. Professional, commercial<br>industrial or trade association |
| <input type="checkbox"/> 17. Other _____   |

**5. CAPITALIZATION:** (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)

Business trusts must indicate the number of transferable certificates held by trustees evidencing their beneficial interest in the trust estate. **Please Print or Type Clearly.**

**5a.** Please examine the corporation's original Articles of Incorporation for the amount of **shares authorized**.

Number of Shares/Certificates <b>Authorized</b>	Class	Series Within Class (if any)
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Not Applicable

**5b.** Review all corporation amendments to determine if the original number of shares has changed. Examine the corporation's minutes for the number of **shares issued**.

Number of Shares/Certificates <b>Issued</b>	Class	Series Within Class (if any)
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**6. SHAREHOLDERS:** (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)

List shareholders holding more than 20% of any class of shares issued by the corporation, or having more than a 20% beneficial interest in the corporation. **Please Type or Print Clearly.**

Name:	Name:
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**NONE** ☐

Name:	Name:
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**7. OFFICERS** Please Type or Print Clearly. You Must List at Least One.

Name:	Name:
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Title:	Title:
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Address:	Address:
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Flagstaff, AZ 86004	Flagstaff, AZ 86001
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Date taking office:	Date taking office:
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Name:	Name:
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Title:	Title:
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Address:	Address:
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Date taking office:	Date taking office:
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**8. DIRECTORS** Please Type or Print Clearly. You Must List at Least One.

Name:	Name:
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Address:	Address:
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Date taking office:	Date taking office:
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Name:	Name:
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Address:	Address:
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Date taking office:	Date taking office:
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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
June 30, 2006

ASSETS

CURRENT ASSETS

Capital lease rent receivable (related party)	\$ 29,823
Interest receivable (related party)	390,465
Investments restricted by trust	3,303,772
Prepaid expenses	8,919
Accrued interest	29,603
Net investment in sales-type lease, current portion	<u>111,667</u>
Total current assets	<u>3,874,249</u>

PROPERTY, PLANT AND EQUIPMENT

Property and equipment, net	<u>17,201,407</u>
Total property, plant and equipment	<u>17,201,407</u>

OTHER ASSETS

Bond issuance costs (net of accumulated amortization)	671,726
Investments restricted by trust	358,050
Net investment in sales-type lease	12,998,750
Benefit under interest rate swap	<u>1,769,087</u>
Total other assets	<u>15,797,613</u>

Total Assets \$ 36,873,269

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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	67,486
Deferred revenue	149,137
Bond payable, current	460,000
Accrued project costs, current	13,975
Accrued bond interest and other fiscal costs payable	<u>116,862</u>
Total current liabilities	<u>807,460</u>

LONG-TERM LIABILITIES

Bonds payable (net of discount)	<u>34,930,753</u>
Total long-term liabilities	<u>34,930,753</u>

Total Liabilities 35,738,213

UNRESTRICTED NET ASSETS

1,135,056

Total Liabilities and Net Assets \$ 36,873,269

NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
CONSOLIDATED STATEMENT OF ACTIVITY  
For the year ended June 30, 2006

Unrestricted revenues	
Other rental income under capital lease	\$ 93,273
Interest income - capital lease	416,266
Interest income - restricted by trust indenture	411,311
Capital lease revenue	92,195
Unrealized gain on interest rate swap	863,723
Total unrestricted revenues	<u>1,876,768</u>
Expenses	
Professional fees	61,178
Fiscal charges	120,642
Interest expense	819,849
Insurance	6,975
Amortization	24,956
Total expenses	<u>1,033,600</u>
Increase (decrease) in unrestricted net assets (deficit)	843,168
Net Assets beginning of year	<u>291,888</u>
Net Assets end of year	<u>\$1,135,056</u>

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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the year ended June 30, 2006

Cash Flows from operating activities

Increase (decrease) in net assets (deficit)	\$ 843,168
Adjustments to reconcile decrease in unrestricted net assets	
Amortization of bond issuance costs	24,956
Amortization of bond discount	15,390
Unrealized gain on interest rate swap	(863,723)
Lease revenue from settlement	(92,195)
(Increase) decrease in assets	
Accounts receivable	(22,371)
Related party payable	(390,465)
Interest receivable	12,662
Prepaid expenses	(4,233)
Increase (decrease) in liabilities	
Accounts payable	(63,733)
Related party payable	(628,905)
Deferred revenue	149,137
Accrued interest expense	21,727
Net cash used by operating activities	<u>(998,585)</u>

Cash Flows from investing activities

Payment of construction costs	(15,445,504)
Payments from sales type lease	114,583
Maturity of (investment in) U.S. Treasury funds	16,434,506
Net cash provided by investing activities	<u>1,103,585</u>

Cash Flows from financing activities

Payment of bond maturities	(105,000)
Net cash used by financing activities	<u>(105,000)</u>

Net increase in cash and cash equivalents 0

Cash and cash equivalents beginning of year 0  
Cash and cash equivalents end of year \$0

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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the year ended June 30, 2006  
(Continued)

Supplemental disclosures of cash flow information:

Cash paid during the year for interest (net of capitalized interest of \$323,528)	\$ 794,393
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Schedule of non-cash investing and financing activities

Benefit received in increase of fair value of swap	\$ 2,334,387
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Revaluation of minimum sales-type lease payments for change in interest rates	\$ 2,179,133
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Construction in progress costs capitalized from change in value of swap	\$ 1,470,664
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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies**

Northern Arizona Capital Facilities Finance Corporation (Corporation) was incorporated on October 19, 2001, as a nonprofit corporation under the laws of the State of Arizona for the purpose of acquiring, developing, constructing, maintaining and operating student housing and other capital facilities and equipment for the use and benefit of public institutions of higher education in the State of Arizona.

Pine Ridge Village/Campus Heights LLC (LLC), a limited liability company of which the Corporation is the sole member, was organized on March 14, 2005 to provide assistance to the Arizona Board of Regents (ABOR) by acquiring, constructing, developing and operating capital facilities to provide student housing at the main campus of Northern Arizona University (NAU) located at Flagstaff, Arizona.

A summary of significant accounting policies follows:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiary, the LLC. All material inter-company transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Corporation and its subsidiary, the LLC have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Revenue Recognition

Lease income will be recognized as lease payments become due. Lease payments received in advance will be deferred until earned.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The only current receivables are from NAU. Because of the relationship between the entities, no allowance for probable uncollectible accounts has been established. There were no amounts with due dates of greater than 90 days.

Net investments in Sales-Type Financing Leases

Net investments in sales-type financing leases are stated at the sum of the minimum lease payments less unearned income. Unearned income is amortized over the lease terms, which approximate the related bond terms.

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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies  
(continued)**

Under the sales-type lease, minimum lease payments are based on a variable interest rate determined on a weekly basis. Therefore, the payments and unearned income are periodically revalued to reflect current rates.

No valuation allowance has been established as title to the assets associated with the lease would be transferred back to the LLC in the event of default.

**Property and Equipment**

Property and equipment that are held by the Corporation or the LLC subsequent to the completion of construction will be recorded at cost. Replacements, maintenance and repairs that do not improve or extend the lives of the assets are expensed during the period incurred. Depreciation will be provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	28 years
Furniture, fixtures and equipment	10 years

There is currently no property or equipment held by the Corporation or the LLC other than construction in progress.

**Income Taxes**

The Corporation believes it is exempt from taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less that are not restricted in use by the terms of the trust indenture. Fair value approximates carrying amounts. There were no unrestricted cash or cash equivalents at June 30, 2006.

**Bonds Issuance Costs**

Issuance costs of \$698,762 relating to the Series 2005 Bonds are being amortized on a straight-line basis over the life of the Series 2005 Bonds. Amortization expense for the year ended June 30, 2006 was \$24,956 for issuance costs related to the Series 2005 bonds.



NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
**DRAFT** NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies**  
**(continued)**

Unrestricted Net Assets

Currently, the Corporation does not have any permanently or temporarily restricted net assets. The Corporation does not receive donor support. Accordingly, all net assets are accounted for as unrestricted net assets in accordance with Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-For-Profit Organizations*.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Derivative Instruments

In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, interest rate swap contracts designated and qualifying as cash flow hedges are recognized as assets or liabilities in the balance sheet and measured at fair value. The LLC has not elected hedge accounting; therefore, changes in fair value of the swap contract are allocated between capitalization as direct project costs (for the project currently under construction) and recognition in current earnings.

**Note 2 – Assets held by Trustee**

Pursuant to the terms of the Trust Indenture, relating to the Series 2005 Bonds, proceeds of the Series 2005 Bonds were deposited into certain funds and accounts established with the Trustee. Assets held by Trustee consist of various reserves and operating accounts required by the Trust Indenture and totaled \$3,661,822 at June 30, 2006. These assets are invested in 100% treasury money market funds.

Currently all accounts in use by the Trustee are restricted as to use. Therefore, the amounts held by the Trustee or restricted by the Trust Indenture are not considered cash and cash equivalents for the statement of cash flow purposes. The trust indenture requires a debt service reserve to be maintained over the life of the bonds with a balance equal to one month's interest on outstanding bonds at the maximum rate (12%). The amount is recognized as a non-current asset of \$358,050 at June 30, 2006.

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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

**Note 3 – Related Party Interest Receivable**

As discussed in Note 9, a capitalized interest account for the McKay Village project was funded to cover McKay Village related bond interest payments through the completion of construction. Although this account was funded to cover interest costs for McKay Village based on an interest rate of 4.5%, the swap agreement capped interest at 3.161% during the construction period. Pursuant to the terms of the trust indenture, the excess funding resulted in interest costs for both projects being paid out of the capitalized interest account during the year ended June 30, 2006. Pine Ridge/Campus Heights LLC elected to record a receivable from NAU reflecting the portion of its amortized unearned interest relating to the Pine Ridge project (\$390,465) which was paid from McKay Village bond proceeds. Total unearned income of \$416,266 was amortized as interest during the year ended June 30, 2006.

**Note 4 – Buildings and Equipment**

At June 30, 2006, property and equipment consisted of the following:

Construction in progress	<u>\$17,201,407</u>
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**Note 5 – Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate the value:

Investments held by Trustee – Fair values are based on quoted market prices.

Net investments in sales-type lease and bonds payable – The fair value of the LLC's long-term note and debt approximates its carrying value and is based on the current rates offered to the LLC.

Benefit under Interest Rate Swap – The fair value is based on the difference between the fixed rate on the swap and the current market rate, present valued back at the appropriate discount factors from the LIBOR swap curve using cash flow modeling.

	Carrying Amount	Fair Value
Investments held by Trustee		
U.S. Treasury money market funds	\$3,661,822	\$3,661,822
Net investments in leases	\$13,110,417	\$13,110,417
Benefit under interest rate swap	\$1,769,087	\$1,769,087

**Note 6 – Bonds Payable**

At June 30, 2006 bonds payable consisted of the following:

Variable Rate Demand Revenue Bonds, Series 2005 in the aggregate original principal amount of \$35,910,000 dated May 19, 2005; interest payable monthly at a variable rate determined on a weekly basis, 3.99% at June 30, 2006; interest rate fixed through a swap agreement at 3.161 % from July 1, 2005 through June 1, 2015; principal payable annually in various amounts beginning June 1, 2006 through

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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
 PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2006

**Note 6 – Bonds Payable (continued)**

June 1, 2033; secured by property, leases and revenues including the Trust Funds, excluding the Rebate Fund, under terms of the Trust Indenture.

	\$35,805,000
Less: Unamortized bond discount	<u>(414,247)</u>
Bonds payable, net	35,390,753
Less: current maturities	<u>(460,000)</u>
Bonds payable, non-current portion, net	<u>\$34,930,753</u>

At June 30, 2006, maturities of bonds payable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2007	460,000
2008	355,000
2009	400,000
2010	455,000
2011	510,000
Thereafter	<u>33,625,000</u>
	<u>\$35,805,000</u>

Interest expense related to bonds for 2005 was \$1,143,377. This includes \$37,797 under the terms of the International Swap Dealers Association, Inc Master Agreement and Schedule (Swap Agreement). Of this, \$323,528 was capitalized. Amortization of the bond discount for 2006 was \$15,390 and is included in interest expense in the accompanying financial statements.

**Redemption Provisions**

The Series 2005 Bonds, while in a weekly rate mode, are subject to redemption, at the option of the LLC, on any business day, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. The bonds may be converted to a fixed rate mode at the election of the LLC. If the bonds are converted to a fixed rate mode, the bonds can be redeemed, at the option of the LLC, in whole or in part at any time, at a redemption price equal to the percentages of the principal amount of each Series 2005 bond or portion thereof to be redeemed as set forth below, plus accrued interest.

<u>Number of years remaining to maturity at the date of Conversion</u>	<u>Number of years following conversion to the Fixed Rate Mode when the Series 2005 may be redeemed and redemption price</u>	
	<u>More than 10 but less than 11 years</u>	<u>More than 11 years</u>
11 years or more	101%	100%
10 years but less than 11 years	100%	Not applicable
Less than 10 years	Not subject to redemption	

NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006

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**Note 6 – Bonds Payable (continued)**

Other Provisions

Under the terms of the Trust Indenture and the bond resolution relating to the Series 2005 Bonds, a beneficial owner of the Series 2005 bonds (while in the variable rate mode) has the right to tender all or any portion of the principal amount of his interest in such bonds, in an authorized denomination, for purchase on any optional tender date (any business day while in the variable rate mode) with 7 days prior notice.

Swap Agreement

The LLC entered into an interest rate swap arrangement (Swap Agreement) dated May 26, 2005 that effectively fixed the interest rate on the demand revenue bonds at 3.161 %. Under the swap, The LLC pays interest at the variable rate and receives interest at 70% of the one month LIBOR. An additional payment is made or received by the LLC to effectively fix the interest rate at 3.161. The notional amount of the contract as of June 30, 2006 is \$35,805,000 and expires June 1, 2015. The notional amount under the swap decreases as principal payments are made on the Series 2005 Bonds so that the notional amount equals the principal outstanding under the bonds.

The swap rate is designed to hedge the risk of interest rate increases on the related Series 2005 Bonds. Accordingly, the Swap Agreement is classified as a cash flow hedge and is accounted for as a derivative financial instrument.

The Swap Agreement was issued at market terms so it had no fair value at its inception. The carrying amount of the Swap Agreement has been adjusted to its fair value at June 20, 2006 which, because of changes in forecasted levels of LIBOR resulted in reporting an asset for the fair value of the future net payments forecasted under the Swap Agreement. The asset is classified as non-current since the LLC does not intend to settle it during 2006.

At June 20, 2006, the overall impact of the swap is as follows:

Capitalized gain on change in fair value of swap (based on allocation of the Series 2005 Bonds between construction in progress and completed projects)	\$1,470,664
Unrealized gain reported on interest rate swap in current earnings	<u>863,723</u>
Total	<u>\$2,334,387</u>

**Note 7 – Remarketing Agreement**

On May 1, 2005, the LLC entered into a remarketing agreement with RBC Dain Rauscher, Inc. relating to the Series 2005 Bonds. Under the terms of the agreement the remarketing agent determines the interest rates for each period for the variable rate bonds, and, in accordance with the Trust Indenture, the bond Resolution and the Standby Bond Purchase agreement relating to the Series 2005 Bonds, uses its best efforts to solicit offers to purchase, at the purchase price, tendered bonds as described in Note 6 under

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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006

**Note 7 – Remarketing Agreement (continued)**

“Other Provisions”. Under the terms of the agreement the LLC will pay an aggregate annual fee equal to .125% of the outstanding principal amount for these services. Remarketing fees totaled \$44,877 for the year ended June 30, 2006.

**Note 8 – Standby Bond Purchase Agreement**

On May 1, 2005, the LLC entered into a standby bond purchase agreement with RBC Centura Bank, in the amount of \$35,910,000. As described in Note 7, the remarketing agent will solicit offers to purchase tendered bonds. Under the terms of the standby bond purchase agreement, RBC Centura Bank will, in the event the remarketing agent is unable to remarket tendered bonds, purchase Series 2005 Bonds tendered pursuant to the terms set forth in the standby purchase agreement. Under the terms of the agreement the LLC will pay a commitment fee at the rate of .19% per annum multiplied by the average daily amount of the available commitment. The available commitment at June 30, 2006 was \$36,205,232. No Series 2005 Bonds were purchased pursuant to the standby purchase agreement during the year ended June 30, 2006. Total fees paid under the standby purchase agreement totaled \$75,765 for the year ended June 30, 2006.

**Note 9– Related Party Transactions**

Ground Lease

On October 1, 2001, the Corporation entered into a ground lease agreement with ABOR. As of May 1, 2005 the Corporation assigned its interest in this ground lease to the LLC, who then entered into an amended and restated ground lease agreement with ABOR. The amended and restated ground lease includes the real property and improvements thereon located in Flagstaff, Arizona on NAU’s campus at the Pine Ridge Village project site and the McKay Village project site.

Lease-Purchase Agreement

On May 19, 2005, NAU entered into a lease purchase agreement with the LLC. During the 28 year lease term, the University will make lease payments on two apartment style student housing complexes, Pine Ridge Village, an existing complex, and McKay Village, a complex under construction. The LLC recorded a sales-type lease receivable of \$13,225,000 in fiscal year 2005 for the Pine Ridge complex. The agreement also provides for NAU’s lease purchase of the McKay Village complex for approximately \$22,685,000 upon its completion in fiscal year 2007. Upon expiration of the lease, the real property will become the sole property of NAU without further cost.

Base lease payments for both housing complexes are tied to the variable rate interest payments on the Series 2005 Bonds issued by the LLC. However, through the Swap Agreement, interest payments on the Series 2005 Bonds are fixed for the first 10 years at 3.161%. A capitalized interest account for the McKay Village project was funded to cover McKay Village related bond payments through the completion of construction. As

NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006

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**Note 9 – Related Party Transactions (continued)**

a result, cash flows for the McKay Village related lease payments are not scheduled to begin until the end of fiscal year 2007. Additional rents are provided for in the lease purchase agreement to cover costs incurred by Pine Ridge/Campus Heights LLC for bond related costs (including remarketing fees and standby bond purchase commitment fees) and professional expenses. These rents are recognized when the qualifying expense is incurred.

Components of the net investment in the lease (based on interest at the variable rates in effect at June 30, 2006) are as follows:

Total minimum lease payments to be received	\$21,583,284
Less: Unearned income	<u>(8,472,867)</u>
Net investment in sales-type lease	<u>\$13,110,417</u>

At June 30, 2006, minimum lease payments are as follows:

Year ended June 30,	<u>Amount</u>
2007	524,493
2008	540,257
2009	551,308
2010	566,382
2011	581,240
Thereafter	<u>18,819,604</u>
	<u>\$21,583,284</u>

**Note 10 – Construction Contracts**

The Corporation is currently in negotiations relating to the payment of the final two draws and the retention associated with the construction of the Pine Ridge Village Project. The final outcome of these negotiations cannot be determined at this time and the Corporation has elected to retain the entire amount as a current liability pending the resolution of this dispute. Upon the termination of the trust indenture associated with the Series 2001 Bonds, an amount was established in the current trust funds construction account in the approximate amount of the final draws and retention.

On May 3, 2005 the LLC entered into a construction agreement with Kitchell Contractors, Inc. of Arizona. The contract provides for the construction of the residential facility at the McKay Village project. The anticipated cost of construction is estimated at \$19,563,504 with substantial completion by July 28, 2006. Draws are made upon certification of completion from the architect.

**Note 11 – Subsequent Events**

On July 10, 2006 a settlement agreement and release was entered into between Ambling West NAU I, LLC and Northern Arizona Capital Facilities Finance Corporation. Because of the nature of this subsequent event, the liability which had been recorded at June 30, 2006 was eliminated and additional lease revenue, in the amount of the release,

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NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORPORATION  
PINE RIDGE VILLAGE/CAMPUS HEIGHTS LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006

**Note 11 – Subsequent Events (continued)**

\$92,195, was recognized. Legal fees associated with this agreement were \$37,663 and were included in professional fees for the year ended June 30, 2006.

On July 26, 2006, North Campus Facilities LLC, a limited liability company of which the Corporation is the sole member, was organized to provide assistance to the Arizona Board of Regents (ABOR) with the financing, design, development, construction and equipping of an approximately 41,000-square-foot conference center and an approximately 344-space parking facility on the campus of NAU for use and operation by the University. On September 1, 2006, North Campus Facilities LLC entered into a trust agreement with Wells Fargo Bank, NA as trustee, and agreed to issue and sell bonds not to exceed \$12,400,000. On September 1, 2006, North Campus Facilities LLC also entered into a ground lease with NAU and construction of the conference center and garage commenced in September, 2006. On September 19, 2006 lease revenue bonds were sold in the amount of \$12,400,000 with an additional premium of \$446,747. These bonds will mature over the next 30 years with fixed interest rates ranging between 4.00% and 5.00%. The total cost of the project is estimated to be \$14,000,000.

On July 28, 2006, a certificate of substantial completion was issued for the McKay Village residential complex. The LLC recorded a sales-type lease net receivable of \$22,685,000 in fiscal year 2007 for the McKay Village complex.

**9. FINANCIAL DISCLOSURE (A.R.S. §10-11622.A.9)**

Nonprofit corporations **must attach** a financial statement (e.g. income/expense statement, balance sheet including assets, liabilities). All other forms of corporations are exempt from filing a financial disclosure.

**9A. MEMBERS (A.R.S. § 10-11622.A.6)**

Only Nonprofit Corporations must answer this question.

This corporation **DOES** ☐ **DOES NOT** ☒ have members.

**10. CERTIFICATE OF DISCLOSURE (A.R.S. §§10-1622.A.8 & 10-11622.A.7)**

Has ANY person serving either by election or appointment as an officer, director, trustee, incorporator and/or person controlling or holding more than 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation been: [Underlined portion pertains to business corporations only]

1. Convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven year period immediately preceding the execution of this certificate?
2. Convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses or restraint of trade or monopoly in any state or federal jurisdiction within the seven year period immediately preceding execution of this certificate?
3. Or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven year period immediately preceding execution of this certificate where such injunction, judgment, decree or permanent order involved the violation of:
  - (a) fraud or registration provisions of the securities laws of that jurisdiction, or
  - (b) the consumer fraud laws of that jurisdiction, or
  - (c) the antitrust or restraint of trade laws of that jurisdiction?

One box **must** be marked: YES ☐ NO ☒

If "YES", the following information **must be submitted** as an attachment to this report for each person subject to one or more of the actions stated in Items 1. through 3. above.

- |   |  |
|---|--|
| 1. Full name and prior names used.                          | 5. Date and location of birth.   |
| 2. Full birth name.   | 6. Social Security Number  |
| 3. Present home address.                                    | 7. The nature and description of each conviction or judicial action;                                   |
| 4. Prior addresses (for immediate preceding 7 year period). | the date and location; the court and public agency involved, and the file or cause number of the case. |

**11. STATEMENT OF BANKRUPTCY, RECEIVERSHIP or CHARTER REVOCATION (A.R.S. §§10-202.D.2, 10-3202.D.2, 10-1623 & 10-11623)**

A) Has the corporation filed a petition for bankruptcy or appointed a receiver?

One box **must** be marked: YES ☐ NO ☒

B) Has any person serving as an officer, director, trustee or incorporator of the corporation served in any such capacity OR held or controlled over 20% of the issued and outstanding common shares, or 20% of any other proprietary, beneficial or membership interest in any other corporation which has been placed in bankruptcy, receivership or had its charter revoked, or administratively or judicially dissolved by any state or jurisdiction?

[Underlined portion pertains to business corporations only]

One box **must** be marked: YES ☐ NO ☒

If "YES" to A and/or B, the following information **must be submitted** as an attachment to this report for each person subject to the statement above.

1. The names and addresses of each corporation and the person or persons involved. (e.g. officer, director, trustee or major stockholder)
2. The state in which each corporation was a) incorporated b) transacted business.
3. The dates of corporate operation.
4. If any involved person (listed in #1) has been involved in any other bankruptcy proceeding within the past year, the name and address of each corporation.
5. Date, Case number and Court where the bankruptcy was filed or receiver appointed.
6. Name and address of court appointed receiver.

**12. SIGNATURES:** Annual Reports must be signed and dated by at least one duly authorized officer or they will be rejected.

I declare, under penalty of law that all corporate income tax returns required by Title 43 of the Arizona Revised Statutes have been filed with the Arizona Department of Revenue. I further declare under penalty of law that I (we) have examined this report and the certificate, including any attachments, and to the best of my (our) knowledge and belief they are true, correct and complete.

Name William G. Morrison Date 10/19/06 Name \_\_\_\_\_ Date \_\_\_\_\_

Signature  Signature \_\_\_\_\_

Title President Title \_\_\_\_\_

(Signator(s) must be duly authorized corporate officer(s) listed in section 7 of this report.)