

PROMISSORY NOTE
Elkwood Apartments

Date: [_____], 2026

Amount: \$528,000.00

FOR VALUE RECEIVED, the undersigned, hereinafter referred to as “Borrower,” promises to pay to the order of the City of Flagstaff, Arizona, a municipal corporation of the State of Arizona, hereinafter referred to as "Lender", or its successors, the original principal amount of Five Hundred Twenty-Eight Thousand and 00/100 Dollars (\$528,000.00) (the “Loan”).

LOAN PAYMENT: Borrower shall pay the outstanding principal of the indebtedness evidenced by this Promissory Note (“Note”), and all other charges and indebtedness provided herein, at the times and in the manner provided in this Note. The interest rate on the loan shall be zero percent (0%) simple interest; provided interest at the rate of ten (10) percent shall be charged in the Event of Default as detailed below

The date the Loan will mature is [_____, 2076] (hereinafter referred to as the “Maturity Date”), at which time the full outstanding principal balance of the Loan will be immediately due and payable. No interest and no payments are required during the first thirty (30) years of the term of the Loan if the Borrower has not otherwise defaulted on the Loan and if the affordable units in the Development continuously meet affordability and maintenance requirements as determined by the Lender in its sole discretion. This Note and the principal amount of the indebtedness evidenced by this Note may be forgiven in the sole and absolute discretion of the Lender on a pro rata basis over the remaining twenty (20) years of the term of the Loan as set forth on Exhibit “A” attached hereto and incorporated herein by reference if the Borrower is in compliance with the requirements of that certain Funding Agreement (referred to herein as the “Loan Agreement”) and that certain Declaration of Restrictive Covenants in favor of the Lender in connection with the Development (the “Declaration”), For purposes hereof, “Development” shall mean the 224-unit multifamily apartment development, which will include twenty-two (22) affordable units to be constructed by Borrower on the land described on Exhibit “B” hereto. Notwithstanding the foregoing, interest charged and accrued as a result of an Event of Default or Default, shall not be forgiven and will be due and payable at upon demand of the Lender.

SECURITY: This Note is secured by and is entitled to the benefits of the security interest granted in the Loan Agreement and the rights, benefits and interests granted in the Deed of Trust, Security Agreement and Fixture Filing, executed or to be executed by the Borrower for the benefit of the Lender (the “Deed of Trust”) and encumbering the property more particularly described in the Deed of Trust. Payment and performance of the obligations set forth in the Loan Documents shall be non-recourse to Borrower and Borrower’s general and limited partners.

DEFAULT & ACCELERATION: Lender shall have the optional right to declare the amount of the total unpaid balance hereof to be due and forthwith payable in advance of the Maturity Date of any sum due or installment, as fixed herein, upon the occurrence of any event or failure to perform in accordance with any of the terms and conditions in this Note, after any applicable notice and opportunity to cure.

Any of the following events, subject to the expiration of any applicable cure periods constitute a default (an “Event of Default” or “Default”) all obligations and the Lender may at its option exercise any of its remedies at law or equity including without limitation causing Borrower’s immediate repayment of the Loan. All prior commitments to forgive any portion or all of the Loan shall be terminated and not reinstated notwithstanding the Borrower bringing the Loan into compliance or curing the Default.

(a) Bankruptcy. If there is filed by or against the Borrower a petition in bankruptcy or a petition for the appointment of a receiver or trustee of the property of the Borrower, and any such petition not filed by the Borrower is not dismissed within ninety (90) days of the date of filing; or if the Borrower files a petition for reorganization under any of the provisions of the United States Bankruptcy Code or of any similar law, state, federal, or foreign, and any such petition is not dismissed within ninety (90) days of the date of filing, or if either of them makes a general assignment for the benefit of creditors or makes any insolvency assignment or is adjudicated insolvent by any court of competent jurisdiction, any of which, in the reasonable judgment of the Lender, will cause material interference with the timely completion of the Improvements; or

(b) Payment. The Borrower fails to make any payment of principal or interest required under the Note when due (after the expiration of any applicable notice and cure period set forth in the Loan Documents) after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Borrower by the Lender, and such failure continues for a period of ten (10) business days after written notice having been given.; or

(c) Breach of Covenants, Warranties and Representations. If any warranty or representation made by the Borrower or pursuant to the terms of the Loan Documents shall be false or misleading in any material respect, or if the Borrower shall fail to keep, observe or perform any of the terms, covenants, representations or warranties contained in the Loan Documents (provided, that with respect to nonmonetary Events of Default, the Lender shall give written notice to the Borrower, who shall have thirty (30) days after the date of the written notice to cure, which time may be reasonably extended by the Lender, provided that if Borrower cannot reasonably cure within thirty (30) days, Borrower shall be entitled to such additional period of time as is the Lender deems appropriate in its sole discretion for Borrower to cure such nonperformance, and that with respect to monetary Events of Default, the Borrower shall have a five (5) day grace period), or is unable or unwilling to meet its obligations thereunder; or

(d) Failure to Comply with Requirements of RIBP Fund Recipients. If at any time the Borrower or Development is not in compliance with requirements associated with the RIBP Funds, such funds will be immediately due and payable to the Lender.

ESTOPPEL/WAIVER: Failure of Lender to declare a default shall not constitute a waiver of such default. Upon default, this Note will accrue interest at the highest rate permissible under applicable law, or, if this Note is reduced to judgment, such judgment should bear interest at the highest rate permissible under applicable law.

PREPAYMENT: Borrower reserves the right to prepay at any time all or part of the principal amount of this Note without the payment of penalties or premiums. All payments of this Note, prior to default, shall be first applied to reduce the principal amount of this Note and second to the payment of interest, if any. Upon Borrower’s payment in full of the entire indebtedness under this Note, Lender shall promptly release the Declaration and the Deed of Trust and record a termination of the Declaration and a

satisfaction of the Deed of Trust and a release of covenant, as well as any other documents required to be recorded to evidence the foregoing releases, in the public records of Coconino County, Arizona.

COSTS & ATTORNEYS' FEES: If any legal services by an attorney are required to enforce the requirements of this Note or any of the Loan Documents, the prevailing party will be reimbursed by the other party for all costs and expenses of such action, including reasonable attorneys' fees, and if in legal action costs and expense of such action, including reasonable attorneys' fees as may be fixed by the court.

PARTIES: The words "Borrower" and "Lender" in this Note shall be construed to include the respective heirs, personal representatives, successors, and assigns of the Borrower and the Lender.

SUBORDINATION: The right of the Lender to payment of the indebtedness evidenced by this Note is and will at all times be subordinate to the First Mortgage Loan from First Mortgagee (as described in the Loan Agreement).

CONSTRUCTION AND VENUE: Each party covenants and agrees that any and all legal actions arising out of or connected with this Note shall be instituted in the Superior Court for Coconino County, Arizona, or in the United States District Court for the District of Arizona, as the exclusive forums and venues for any such action, subject to any right of either party to removal from state court to federal court, which is hereby reserved, and each party further covenants and agrees that it will not institute any action in any other forum or venue and hereby consents to immediate dismissal or transfer of any such action instituted in any other forum or venue. This Note is entered into within, and with reference to the internal laws of, the State of Arizona, and shall be governed, construed and applied in accordance with the internal laws (excluding conflicts of law) of the State of Arizona.

LOAN AGREEMENT: This Promissory Note is subject to the terms and conditions of the Loan Agreement of even date between the parties hereto, and the terms and conditions of such Loan Agreement are incorporated by reference herein to the same extent, force, and effect as if they were fully set forth herein. The terms of the Loan Agreement and this Promissory Note should be construed in such manner as not to render any term meaningless or void. However, in the event of a conflict between the terms of this Promissory Note and the Loan Agreement, the Loan Agreement shall govern.

AMENDMENTS. No amendment, modification, change, waiver, release, or discharge hereof and hereunder shall be effective unless evidenced by an instrument in writing and signed by the party against whom enforcement is sought.

NOTICE. All notices must be provided as set forth in the Loan Agreement.

TIME OF ESSENCE. Time is of the essence in the performance of each and every obligation of the Borrower hereunder.

ASSIGNMENT, CONVEYANCE, TRANSFER OF THIS NOTE. Except to the permitted in the Deed of Trust or the Loan Agreement, the obligations of the Borrower under this Note may not be assigned or transferred in whole or in part without the prior written approval of the Lender and then only upon such terms and conditions as the Lender may approve in its reasonable discretion. Any attempted assignment or transfer of this Note without such prior written approval will be automatically null and void.

[SIGNATURE ON FOLLOWING PAGE]

IN WITNESS WHEREOF, this Note has been duly executed by Borrower as of the day and year first written above.

BORROWER

**Flagstaff Elkwood Partners LP,
a Delaware limited partnership**

**By: Flagstaff Elkwood GP LLC, a Delaware
limited liability company**

Its: General Partner

By: _____

Authorized Signatory

ACKNOWLEDGMENT

STATE OF _____)

COUNTY OF _____)

ACKNOWLEDGED before me this ____ day of _____, 2026, by _____, as Authorized Signatory of Flagstaff Elkwood GP LLC, a Delaware limited liability company, the General Partner of Flagstaff Elkwood Partners LP, a Delaware limited partnership, on behalf of the companies and pursuant to authority given to him by said companies. He is personally known to me or has produced _____ as identification. This is an acknowledgement clause. No oath or affirmation was administered to the signor.

In witness whereof I hereunto set my hand and official seal.

NOTARY PUBLIC

Print Name: _____

My Commission Expires: _____

**PROMISSORY NOTE
ELKWOOD APARTMENTS
Exhibit "A"**

Payment Forgiveness Schedule

Year of Loan Term	Loan Value (\$)	Pro-Rata Forgiveness Amount (\$)	Remaining Loan Value (\$)
Commencing after minimum 30-year affordability period		\$528,000/20 years =\$26,400	
31	528,000.00	26,400.00	501,600.00
32	501,600.00	26,400.00	475,200.00
33	475,200.00	26,400.00	448,800.00
34	448,800.00	26,400.00	396,000.00
35	396,000.00	26,400.00	369,600.00
36	369,600.00	26,400.00	343,200.00
37	343,200.00	26,400.00	316,800.00
38	316,800.00	26,400.00	290,400.00
39	290,400.00	26,400.00	264,000.00
40	264,000.00	26,400.00	237,600.00
41	237,600.00	26,400.00	211,200.00
42	211,200.00	26,400.00	184,800.00
43	184,800.00	26,400.00	158,400.00
44	158,400.00	26,400.00	132,000.00
45	132,000.00	26,400.00	105,600.00
46	105,600.00	26,400.00	79,200.00
47	79,200.00	26,400.00	52,800.00
48	52,800.00	26,400.00	26,400.00
49	26,400.00	26,400.00	0

**PROMISSORY NOTE
ELKWOOD APARTMENTS
Exhibit "B"**

Legal Description