

**NOTICE OF JOINT MEETING OF THE BOARD OF DIRECTORS OF  
THE TOWN OF CAREFREE, AZ UTILITIES COMMUNITY FACILITIES DISTRICT  
AND THE BOARD OF DIRECTORS OF THE CAREFREE WATER COMPANY, INC.**

**WHEN:** TUESDAY, JULY 27, 2021

**WHERE:** ZOOM ONLINE\*

**TIME:** 4:00 P.M.

Pursuant to A.R.S. § 10-822, notice is hereby given of the time, place and purposes of a meeting of the Board of Directors of the Town of Carefree, Arizona Utilities Community Facilities District and the Board of Directors of the Carefree Water Company, Inc., an Arizona corporation.

*Members of the Board of Directors are participating by technological means or methods pursuant to A.R.S. §10-708.*

**CALL TO ORDER**

**SILENT ROLL CALL**

**AGENDA**

**ITEM #1** PUBLIC HEARING on the Feasibility Report for projects to be financed through the issuance of Water System Revenue Bonds, Series 2021, for the Town of Carefree, Arizona Utilities Community Facilities District.

**ITEM #2** Review, discussion, and possible action regarding District Resolution 2021-11 approving the Feasibility Report for certain projects; authorizing the sale and issuance of Water System Revenue Bonds, Series 2021; prescribing certain terms and conditions of such Bonds; approving the form and authorizing the execution and delivery of necessary related documents and an official statement; delegating the determination of certain terms of such Bonds and matters related thereto to District officials and authorizing the taking of all other actions necessary to consummate the transactions contemplated by this Resolution including actions by the District as the sole shareholder of the Carefree Water Company, Inc. in securing payment of the Bonds.

**ITEM #3** Review, discussion, and possible action on Water Company Resolution 2021-12 authorizing and approving a pledge of, lien on, and security interest in, the net revenues of the Water System in connection with the issuance and sale of Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue

Bonds, Series 2021; and authorizing and approving the execution and delivery of certain agreements and instruments related thereto.

**ITEM #4** Adjournment.

DATED this 21<sup>st</sup> day of July, 2021.

UCFD/CWC

*By: Kandace French Contreras*

Kandace French Contreras, Secretary

Items may be taken out of order

\*Due to the risks to public health caused by the possible spread of the COVID-19 virus at public gatherings, it has determined that public meetings will be indefinitely held through technological means. Meetings will be also open to the public through technological means. In reliance on, and compliance with, the March 13, 2020 Opinion issued by Attorney General Mark Brnovich, the Carefree Water Company provides this special advance notice of the technological means through which public meetings may be accessed. While this special notice is in effect, public comment at meetings will only be accepted through written submissions, which may or may not be read aloud during meetings.

**Join Zoom Meeting:**

**Click on the following link or cut and paste it into your browser:**

**<https://us02web.zoom.us/j/3229729660>**

**Or go to <https://www.zoom.us/join> Meeting ID: 322 972 9660**

**A password is not required.**

**By phone:**

**Please call 1-253-215-8782**



**FOR SPECIAL ACCOMMODATIONS**

Please contact the Town Clerk, 8 Sundial Circle (PO Box 740), Carefree, AZ 85377; (480) 488-3686, at least three working days prior to the meeting if you require special accommodations due to a disability.

**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY  
FACILITIES DISTRICT  
AND  
CAREFREE WATER COMPANY**

**BOARD COMMUNICATION**

TO: CHAIRMAN, DISTRICT BOARD MEMBERS, AND COMPANY BOARD MEMBERS

FROM: GREG CROSSMAN, DISTRICT MANAGER AND COMPANY GENERAL MANAGER *GC*

DATE: JULY 22, 2021

SUBJECT: JULY 27, 2021 BOARD MEETING  
BOND FINANCING - CAREFREE SERVICE AREA (CSA) ACQUISITION  
WATER SYSTEM REVENUE BONDS, SERIES 2021

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On July 27, 2021, the Board of Directors of the District and the Water Company will consider a debt financing package to acquire approximately 540 customers in Carefree that are currently served potable water by the Town of Cave Creek. These customers are located in an area that was defined in the Intergovernmental Agreement (IGA) with Cave Creek as the "Carefree Service Area", or "CSA." The CSA is comprised of three distinct geographic regions that are commonly referred to as Neighborhoods A, B, and C (see attached Figure 1).

The first step in the acquisition process since the arbitration was finalized on January 14, 2021, was the payment of \$1 million to the Town of Cave Creek as detailed in the Settlement Agreement dated March 16, 2021. This payment was made by the District on July 8, 2021, and received by Cave Creek on July 9, 2021.

The next step in the acquisition process is disconnecting these neighborhoods from the Cave Creek water system and then connecting them to the Carefree Water Company system. The disconnection, reconnection, and reintegration process requires a major construction effort and a significant capital expenditure. The capital funding necessary to perform this construction is proposed to be obtained by the District through the issuance of Water System Revenue Bonds, Series 2021 (the "Bonds"). The proposed Board actions on July 27<sup>th</sup>, as outlined below, would authorize the issuance of the Bonds and allow the acquisition project to move forward.

Bonding Information

General information and estimated data associated with the Bonds are as follows:

Bond Type: Water System Revenue Bonds (Tax-Exempt)  
Bonding Entity: Town of Carefree, Arizona Utilities Community Facilities District  
Bond Principal: \$18,425,000.00  
Bond Proceeds: \$21,724,238.75\*  
Expected True Interest Cost: Between 2.75 and 3.00%  
Repayment Term: 30 years

\*Difference between the bond principal amount and the bond proceeds represent the "premium" amount paid by investors for interest rates that are set higher than prevailing market yields. This structure is typical for tax-exempt bonds as it provides investors with greater protection from market fluctuations.

The above numeric data will vary depending upon market conditions at the time of the sale of the Bonds.

## Agenda Items

Agenda Item Nos. 1, 2, and 3 are all items that are legally required in order to accomplish the issuance and sale of the Bonds. The following is a discussion of each of the agenda items and the documents covered under each:

**Item No. 1** – Legally required PUBLIC HEARING of the District on the Feasibility Report (attached) for Water System Revenue Bonds, Series 2021, and on the issuance of the Bonds.

**Item No. 2** – Adopts District Resolution 2021-11 (attached) which accomplishes a number items including;





- Approval of the Feasibility Report (see Item No. 1 above).
- Authorization of the sale and issuance of the Bonds and all related matters.
- Approval and authorization of the execution and delivery of all necessary related documents.

### Related Documents Approved Under this Resolution (copies attached)

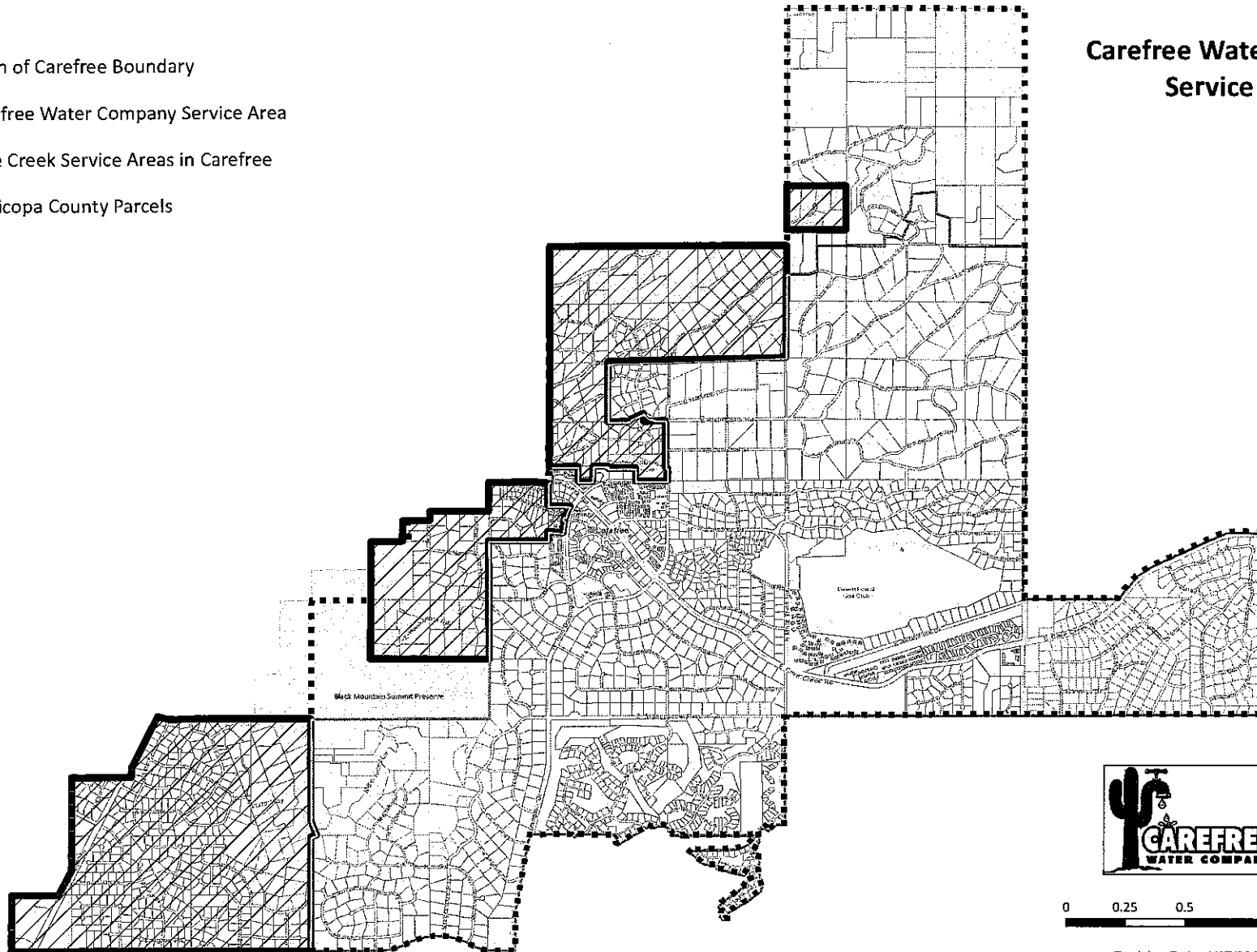
- A) Payment Agreement and Collateral Assignment of Rights and Remedies Thereunder (see Resolution 2021-11 Findings, Paragraph h.): The Carefree Water Company, since its purchase by the District in 1998, has been directed by the District to operate the water system within certain portions of Carefree and to collect revenues from its customers. The referenced Payment Agreement and Collateral Assignment commits the Water Company to pay certain amounts to the bond trustee (U.S. Bank) in order to fulfill the District's Bond repayment obligations and assigns certain remedies to such trustee to enforce payment if necessary.
- B) Written Policies and Procedures for Tax-Advantaged Obligations (see Resolution 2021-11 Findings, Paragraph L.): Written policies and procedures to assist the District with compliance with the Internal Revenue Code of 1986 for tax-advantaged obligations. These policies and procedures must be followed by the District to maintain the tax-exempt status of the Bonds.
- C) Bond Purchase Agreement (see Resolution 2021-11 Findings, Paragraph n.): Identifies the firm of Stifel, Nicolaus & Company, Inc. as the Underwriter and initial purchaser of the Bonds and establishes a contractual relationship with the District and the Water Company for the Underwriter to act on behalf of the District to sell the Bonds.
- D) Procedures for Compliance with Continuing Disclosure Undertakings (see Resolution 2021-11 Findings, Paragraph o.): Written procedures for continuing disclosure in accordance with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, including filings required through the Electronic Municipal Market Access (EMMA) system. Pursuant to federal securities laws, the District will be required to provide ongoing disclosure related to the Bonds.
- E) Preliminary Official Statement (see Resolution 2021-11 Findings, Paragraph q.): Document used by the Underwriter to sell the Bonds to investors. This is an important document to review as it presents to investors all pertinent information for the sale of District Bonds and related District information.

**Item No. 3** – Adopts Water Company Resolution 2021-12 which acknowledges and ratifies, as the Board of Directors for the Water Company, all previous actions taken by the District Board at the July 27<sup>th</sup> meeting including a pledge of, lien on, and security interest in, the net revenues of the Water System in connection with the Bonds. The Resolution approves the form of the Payment Agreement (document A above) and the Bond Purchase Agreement (document C above), similar to the approval by the District Board, as both the Water Company and the District are parties to those agreements. This Resolution also amends the Articles of Incorporation of the Water Company. These amendments are attached to the Resolution as Exhibit A.

Please contact Greg Crossman (480-488-9100; [greg@carefreewaterco.com](mailto:greg@carefreewaterco.com)) with any questions.

-  Town of Carefree Boundary
-  Carefree Water Company Service Area
-  Cave Creek Service Areas in Carefree
-  Maricopa County Parcels

## Carefree Water Company Service Area



Revision Date: 1/17/2018

**FEASIBILITY REPORT**

**FOR THE ISSUANCE OF  
NOT TO EXCEED  
\$21,000,000\* PRINCIPAL AMOUNT**

**OF**

**TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT**

**WATER SYSTEM REVENUE BONDS,  
SERIES 2021**

**July 27, 2021**

*\* Subject to change.*

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**SECTION ONE**

**INTRODUCTION; PURPOSE OF FEASIBILITY REPORT  
AND GENERAL DESCRIPTION OF DISTRICT**

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## **INTRODUCTION**

This Feasibility Report (this "Report") has been prepared by qualified persons for presentation to the Board of Directors of Town of Carefree, Arizona Utility Community Facilities District (the "District") in connection with the proposed issuance by the District of its Water System Revenue Bonds, Series 2021 (the "Bonds") pursuant to the Community Facilities Act of 1988, Title 48, Chapter 4, Article 6 of Arizona Revised Statutes (A.R.S.) (the "Act"). (Terms used herein and not otherwise defined herein have the meanings provided for them in the Act.)

### **PURPOSE OF FEASIBILITY REPORT**

This Report has been prepared for consideration of the feasibility and benefits of certain "public infrastructure" (as such term is defined in the Act and sometimes referred to herein as "project") to be financed by the Bonds and of the plan for financing such public infrastructure in accordance with the provisions of the Act. Pursuant to the Act, this Report includes (i) a description of the public infrastructure to be constructed and acquired; [Section Two]; (ii) an estimate of the cost to construct, acquire, operate and maintain the project [Section Two]; (iii) a map showing, in general, the location of the project and area to be benefited by the project [Section Three]; (iv) an estimated schedule for completion of the project [Section Four]; and (v) a plan for financing the Public Infrastructure [Section Five].

This Report has been prepared for the consideration of the District Board of the District only. It is not intended or anticipated that this Report will be relied upon by other persons, including, but not limited to, purchasers of the Bonds. This Report does not attempt to address the quality of the Bonds as investments or the likelihood of repayment of the Bonds.

### **GENERAL DESCRIPTION OF DISTRICT**

On August 4, 1998, the Town Council of the Town of Carefree, Arizona (the "Town") adopted Resolution 98-20 establishing the District and approving the General Plan (as defined in the Act) for the District. The District was formed over 2.47 acres of noncontiguous property located within the boundaries of the Town and owned by the Carefree Water Company, Inc. (the "Utility"). The Board of Directors of the District (the "Board") is comprised of the Mayor and Council of the Town, acting ex officio. The District issued bonds in 1998 to acquire all of the outstanding stock of the Utility, to improve the water utility system of the Utility (the "System"), and to provide for various costs associated with the acquisition and issuance of such bonds. All of such bonds have matured and been paid.

The District intends to issue the Bonds to (i) acquire from the Town of Cave Creek, Arizona ("Cave Creek") certain property and associated water rights relating to a service area and customers located within the Town which had previously received water service from Cave Creek (the "New Carefree Service Area") and transfer such property to the Utility; (ii) pay for construction costs for the System related to the acquisition; (iii) pay for other capital improvements to the System including the Carefree Highway / Scottsdale Interconnect Project described herein; and (iv) provide for various costs associated with the issuance of the Bonds.

The Utility provides water utility services solely for the benefit of the District and water customers within the service area which the Utility currently serves (the "Existing Service Area") and any future expansion thereof (including in this case the New Carefree Service Area) (the "Service Area"). See Section Three of this Report for a map of the Service Area of the System as expanded by the New Carefree Service Area. The District prescribes fees and charges for providing these services.

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**SECTION TWO**

**DESCRIPTION OF PUBLIC INFRASTRUCTURE / ESTIMATE OF  
COST TO CONSTRUCT, ACQUIRE, OPERATE AND MAINTAIN THE  
PROJECT**

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**DESCRIPTION OF PUBLIC INFRASTRUCTURE / ESTIMATED ACQUISITION AND  
CONSTRUCTION COSTS**

Listed below is a detailed description of the public infrastructure which is to be acquired or constructed by the District with the proceeds of the sale of the Bonds (along with certain public infrastructure purposes to be paid from such proceeds). All such public infrastructure and public infrastructure purposes benefit the Service Area.

<u>Project Descriptions</u>	<u></u>
1. <b>Construction costs for new disconnects, reconnects, water storage unit and engineering for the New Service Area</b> -- includes approximately 34,000 lineal feet of pipeline varying in size from 4-inches to 12-inches in diameter, improvements to 4 active booster pump stations, 2 inactive booster pump stations, and a new 300,000 gallon water storage reservoir.	\$14,500,000
2. <b>Carefree Highway/Scottsdale Interconnect Project</b> -- includes a third interconnection with the City of Scottsdale water system and approximately 4,000 lineal feet of 16-inch water transmission main.	1,000,000
3. <b>Construction "soft" costs for items 1 and 2</b> -- Includes final design and construction management.	1,800,000
4. <b>Acquisition costs for New Carefree Service Area</b> -- Includes arbitration settlement, legal fees, expert witness costs and other arbitration-related expenses.	1,000,000
5. <b>Construction costs for improvements to the Existing Service Area</b> -- Includes approximately 12,000 lineal feet of pipeline primarily 6-inch and 8-inch in diameter.	2,000,000
<b>Total Estimated Bond Project</b>	<b><u>\$20,300,000</u></b>

Proceeds of the sale of the Bonds will also be expended to pay interest on the Bonds for a period of approximately 18 months (estimated to be \$993,000) while the public infrastructure described above are being constructed and acquired. Otherwise, costs to operate and maintain the System (including such infrastructure) will be paid by the Utility from revenues of the System.

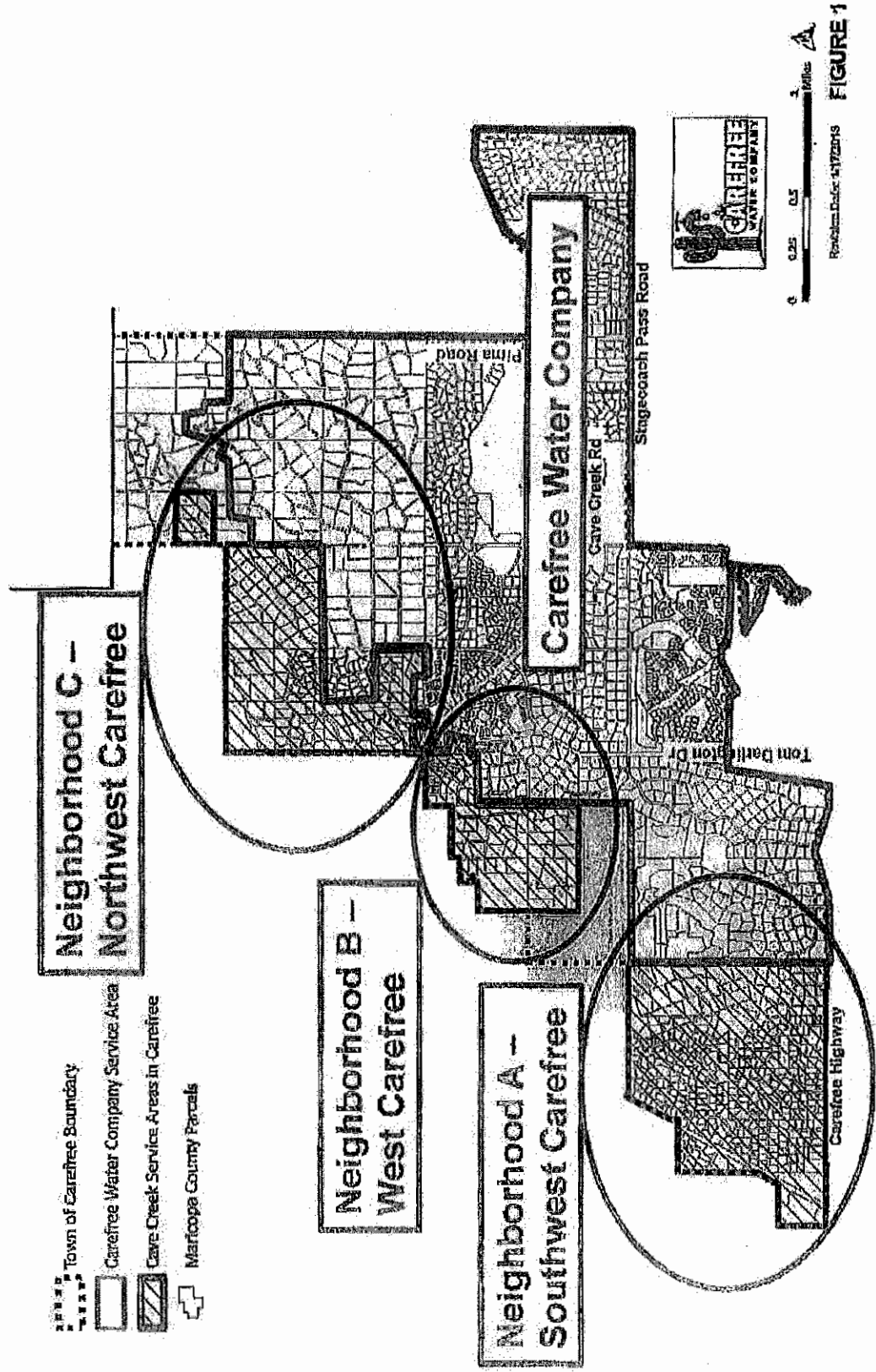
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**SECTION THREE**

**MAP SHOWING LOCATION OF PUBLIC INFRASTRUCTURE AND  
AREA TO BE BENEFITED**

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**MAP SHOWING LOCATION OF NEW CAREFREE SERVICE AREA –  
AREA TO BE BENEFITTED OUTLINED IN BLUE AND IN RED**



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**SECTION FOUR**

**ESTIMATED SCHEDULE OF COMPLETION OF THE PROJECT**

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**ESTIMATED SCHEDULE OF COMPLETION OF THE PROJECT**

Final Design Schedule	March 2021 – December 2021
Project Construction and Acquisition Schedule	September 2021 – December 2022

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**SECTION FIVE**  
**PLAN OF FINANCE**

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## PLAN OF FINANCE

### Proposed Bond Sale

The District currently has no water system revenue bonded debt outstanding. It is anticipated that the District will issue the Bonds in August of 2021. The amount shown on the cover of this Report is a not-to-exceed amount, and the actual principal amount of the Bonds issued may be lower. The Bonds will have a final maturity of approximately 30 years and will be structured to achieve level annual debt service. (A hearing will be held on the question of authorizing the Board to issue the Bonds simultaneously with the hearing to be held with respect to this Report, both as required by the Act.)

The Bonds will be payable solely from a pledge of, and secured solely by a first lien on, and a security interest in, certain payments (the "Agreement Payments") to be paid to the District pursuant to a Payment Agreement and Collateral Assignment of Right and Remedies Thereunder, to be dated the first day of the month of the dated date of the Bonds, by and among the Utility, the District and a trustee (the "Trustee"). The Agreement Payments will be payable solely from a pledge of, and secured solely by a first lien on, and security interest in the Net Revenues derived by the Utility from the operation of the System. (As security for the Agreement Payments, the District will, pursuant to the Payment Agreement, assign to the Trustee, the right to payment and enforcement of the Agreement Payments.) The Net Revenues are that portion of Gross Revenues remaining after providing sufficient funds for Operation and Maintenance Expenses. Gross Revenues are generally all income, moneys, and receipts received or receivable directly or indirectly from the ownership, use or operation of the System, including any waste material or by-products and certain investment income. Operation and Maintenance Expenses are generally all costs and expenses reasonably incurred in connection with the operation, use and maintenance of the System, including repairs necessary to keep the System in efficient and economical operating condition, payments of insurance coverage required to be maintained with respect to the System and the reasonable cost or value of all services rendered by the Company, but excluding depreciation and interest on the Bonds, any parity bonds and subordinate obligations issued or incurred by the District. Rates, fees and charges for all water services supplied by the System will be established and maintained to be fully sufficient at all times, after making reasonable allowance for contingencies and errors in estimates, to pay Operation and Maintenance Expenses and to produce an aggregate amount of the Net Revenues in each fiscal year equal to not less than 120% of the annual debt service for the Bonds. The District may, in the future, issue bonds having a lien on the Agreement Payments on parity with the lien of the Bonds if, among other things, the Net Revenues for the fiscal year next preceding the date of issuance have been at least equal to 120% of the maximum annual debt service for any succeeding fiscal year for the Bonds. (With respect to the calculation of the Net Revenues for this purpose, certain amounts may be added in order to take into account the effect of recent rate adjustments or additions to, or deletions from, the System.)

## Estimated Sources and Uses of Funds

The proceeds of the Bonds will be applied by the District to finance the acquisition and construction of all or a portion of the public infrastructure. The estimated sources and uses of funds related to the sale of the Bonds are as follows:

### Sources:

Principal Amount	\$ 18,425,000.00
[Net] Original Issue Discount/Premium	3,299,238.75
Total Sources	<u>\$ 21,724,238.75</u>

### Uses:

Payment of costs of public infrastructure and public infrastructure purposes	\$ 20,300,000.00
Payment of capitalized interest	992,902.78
Payment of costs of issuance (a)	431,335.97
Total Uses	<u>\$ 21,724,238.75</u>

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\* *Subject to change.*

(a) *Includes compensation and costs of the Underwriter.*

## RESOLUTION NO. 2021-11

A RESOLUTION OF THE BOARD OF DIRECTORS OF TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT (1) AUTHORIZING AND RATIFYING THE GIVING OF NOTICE OF HEARING WITH RESPECT TO APPROVING A FEASIBILITY REPORT WHICH INCLUDES IDENTIFYING CERTAIN PUBLIC INFRASTRUCTURE, THE AREAS TO BE BENEFITTED, THE EXPECTED METHOD OF FINANCING AND THE SYSTEM OF PROVIDING REVENUES TO OPERATE AND MAINTAIN THE PROJECTS, ALL AS PROVIDED IN SUCH REPORT, AND THE ISSUANCE OF REVENUE BONDS WITH RESPECT THERETO; (2) APPROVING SUCH FEASIBILITY REPORT AND THE ISSUANCE OF SUCH REVENUE BONDS INCLUDING THE INTENTION WITH RESPECT TO ALL MATTERS IDENTIFIED IN SUCH REPORT; (3) AUTHORIZING THE SALE AND ISSUANCE OF SUCH REVENUE BONDS IN AN AMOUNT NOT TO EXCEED \$21,000,000 AGGREGATE PRINCIPAL; (4) DELEGATING AUTHORITY TO DISTRICT OFFICIALS TO DETERMINE CERTAIN MATTERS AND TERMS WITH RESPECT TO THE FOREGOING; (5) APPROVING THE FORM AND AUTHORIZING THE EXECUTION AND DELIVERY OF NECESSARY AGREEMENTS, INSTRUMENTS AND DOCUMENTS RELATED TO THE SALE AND ISSUANCE OF SUCH BONDS; (6) AUTHORIZING THE TAKING OF ALL OTHER ACTIONS NECESSARY TO CONSUMMATE THE TRANSACTIONS CONTEMPLATED BY THIS RESOLUTION INCLUDING ACTIONS BY THE DISTRICT AS THE SOLE SHAREHOLDER OF STOCK OF CAREFREE WATER COMPANY, INC. SECURING THE PAYMENT OF THE BONDS AND RELATING TO THE TRANSACTION WITH RESPECT TO THE BONDS AND (7) RATIFYING ALL ACTIONS TAKEN TO FURTHER THIS RESOLUTION

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT as follows:

### FINDINGS

a. Pursuant to (1) Title 48, Chapter 4, Article 6, Arizona Revised Statutes (hereinafter referred to as the "Enabling Act"); (2) Section 9-500.05, Arizona Revised Statutes; (3) Resolution No. 97-14, adopted on August 5, 1997, by the Mayor and Council of the Town of Carefree, Arizona, a municipality duly incorporated and validly existing pursuant to the laws of the State of Arizona (hereinafter referred to as the "Municipality") and (4) Resolution No. 1, adopted on August 4, 1998, by the board of directors of Town of Carefree, Arizona Utilities Community Facilities District (hereinafter referred to as the "District"), the Municipality, the District and certain individuals and entities owning all of the capital stock of Carefree Water Company, Inc., a corporation incorporated and existing pursuant to the laws of the State of Arizona and an instrumentality of the District for all purposes of the Internal Revenue Code of 1986, as amended (hereinafter referred to as the "Code"), and a governmental person for all

purposes of Section 141(b) of the Code and which has interests in real property within the boundaries of the District (hereinafter referred to as the "Company" and such individuals and entities hereinafter referred to, collectively, as the "Owners"), entered into a Water Utilities Development Agreement, dated as of August 1, 1997 (hereinafter referred to as the "Development Agreement"), as a "development agreement" to specify, among other things, conditions, terms, restrictions and requirements for "public infrastructure" (as such term is defined in the Enabling Act) and the financing of public infrastructure.

b. With regard to the property which makes up the real property included within the boundaries of the District, the Municipality, the District and the Owners specified some of such matters in the Development Agreement, particularly matters relating to the acquisition or construction of certain public infrastructure by the District.

c. Such matters included the acquisition of all of the capital stock of the Company by the District by exchange for, or with a portion of the proceeds of the sale of, bonds issued simultaneously with such acquisition.

d. Pursuant to the Enabling Act, a report of the feasibility and benefits of certain new "public infrastructure" (as such term is defined in the Enabling Act) provided for in the General Plan of the District (hereinafter referred to as the "General Plan") heretofore approved by the Municipality and the District and to be financed with proceeds of the sale of revenue bonds of the District (hereinafter referred to as the "Bonds"), particularly the acquisition of certain utility property (including certain water rights) relating to an area within the Municipality which is currently receiving water service from the Town of Cave Creek, Arizona (hereinafter referred to as the "Acquired Addition"), and the improvement of the waterworks system of the Company including for the Acquired Addition (hereinafter referred to as, collectively, the "Project"), was prepared, such report having included a description of certain public infrastructure to be acquired or constructed and all other information useful to understand the projects, a map showing, in general, the location of the projects, an estimate of the cost to construct, acquire, operate and maintain the projects, an estimated schedule for completion of the projects, a map or description of the area to be benefitted by the projects and a plan for financing the projects (hereinafter referred to as the "Report").

e. Pursuant to the Enabling Act, the board of directors of the District (hereinafter referred to as the "District Board") is required to hold a public hearing on the Report as well as on the question of authorizing the District Board to issue the Bonds to provide moneys for any public infrastructure purposes consistent with the General Plan of the District (hereinafter referred to as the "Issuance").

f. A public hearing on the Report as well as on the Issuance was held on the date of, but prior to, the adoption of this Resolution, after provision for publication of notice thereof as provided by law.

g. The District Board has determined that the Bonds should be issued if certain conditions are met to provide moneys for the "public infrastructure purposes" (as such term is defined in the Enabling Act) described in the Report.

h. The District Board has determined to enter into a Payment Agreement and Collateral Assignment of Rights and Remedies thereunder, to be dated as of the first day of the month of the dated date of the Bonds (hereinafter referred to as the "Payment Agreement"), by and among the Company, the District and the hereinafter defined Trustee, pursuant to which the Company, in consideration for issuance of the Bonds, is committing to pay certain amounts to the District, and the District is assigning such payments and remedies to enforce them to the Trustee.

i. As the owner of all of the capital stock of the Company, the District, simultaneously with the issuance of the Bonds, must approve certain actions of the Company relating to the approval of articles of amendment for the Company (hereinafter referred to as, collectively, the "Actions") to provide for, among other things, the execution and delivery of the Payment Agreement.

j. The District Board has determined by this resolution (hereinafter referred to, with any amendatory or supplementary resolutions, as this "Resolution") to authorize the issuance of the Bonds and to provide terms to secure and to provide for authentication and delivery of the Bonds.

k. The District Board has determined that (i) it is advantageous and in the public interest that the Bonds be sold and issued in order to obtain funds to finance the costs of the Project, (ii) the District has the requisite power and authority to issue the Bonds, and (iii) the anticipated revenues and receipts to be pledged to the payment of debt service on the Bonds are and will be sufficient to pay the principal of and interest on the Bonds as the same become due and payable.

l. Pursuant to the Code and the regulations promulgated thereunder (hereinafter referred to as the "Regulations"), issuers of obligations, the interest on which is intended to be excludable from the gross income of the owners thereof for federal income tax purposes (hereinafter referred to as "Tax-Exempt Obligations"), are required to establish policies and procedures to ensure compliance with the applicable provisions of the Code and the Regulations.

m. The District Board has determined that procedures should be adopted in order to ensure that Tax-Exempt Obligations issued by the District comply with the provisions of the Code and the Regulations (the "Tax Compliance Procedures").

n. The District Board has determined to sell of the Bonds to Stifel, Nicolaus & Company, Incorporated (hereinafter referred to as the "Underwriter"), pursuant to a Bond Purchase Agreement, to be dated the date of the sale of the Bonds (hereinafter referred to as the "Purchase Agreement"), by and among the District, the Company and the Underwriter, with such additions and changes as hereinafter provided, pursuant to the terms provided in this Resolution, the Purchase Agreement and the Strategic Alliance of Volume Expenditures (SAVE) Cooperative Response Proposal #C-005-1718.

o. Pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (hereinafter referred to as the "Rule"), Participating Underwriters (as defined in the Rule) are required to reasonably

determine that issuers have entered into written undertakings to make ongoing disclosure in connection with offerings of obligations to investors subject to the Rule, including with respect to the Bonds, to be dated the date of delivery thereof (hereinafter referred to as the "Undertaking").

p. The District Board has determined that procedures should be adopted in order to document practices and describe various procedures for preparing and disseminating such ongoing disclosure for the benefit of the holders of obligations of the District (or interests therein) and to assist the Participating Underwriters in complying with the Rule and such written undertakings (hereinafter referred to, together with the Tax Compliance Procedures, as the "Procedures").

q. There have been presented to the District Board at the meeting at which this Resolution is being adopted the proposed forms of: (1) the Payment Agreement; (2) the Purchase Agreement; (3) the Undertaking; (4) the Preliminary Official Statement, to be dated the date of the dissemination thereof (hereinafter referred to as the "Preliminary Official Statement"), relating to the Bonds, which, as to be revised after the sale of the Bonds, shall constitute the Official Statement, to be dated the date of sale of the Bonds (hereinafter referred to as the "Official Statement"), relating to the Bonds; and (5) the Procedures.

r. All acts, conditions and things required by the Constitution and laws of the State of Arizona (hereinafter referred to as the "State"), and the requirements of the District to happen, exist and be performed precedent to and as a condition to the adoption of this Resolution have happened, exist and been performed in the time and manner required to make this Resolution a valid and binding obligation for the security of the Bonds authorized herein.

## ARTICLE I

### Definitions; Matters Related to Feasibility Report and Issuance

Section 1.01. Definitions. For the purposes hereof, and in addition to those defined in the recitals hereto, the following terms shall have the following respective meanings:

"Agreement Payments" means the payments required to be paid for the Bonds and the Parity Bonds pursuant to the Payment Agreement.

"Annual Debt Service Requirement" means the amount required to be deposited in the Principal Account and the Interest Account of the Debt Service Fund for the current Fiscal Year.

"Assigned Rights" means all right, title and interest in, under and to payment of the Agreement Payments and the present and continuing right to exercise the remedies provided in Section 3(E) of the Payment Agreement.

"Authorized Representatives" means, collectively, the Chairperson, the Vice Chairperson, the District Manager, the District Treasurer, the District Clerk, or any of them, or the designees of any of them.

"Beneficial Owner" means any of DTC's participants or any person on behalf of whom

such participants hold an interest in the Bonds.

“Bond Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds selected by the District.

“Bond Insurer” means any insurer which has issued and delivered to the Trustee its policy guaranteeing the payment, when due, of principal of and interest on the Bonds or any Parity Bonds (or any interests therein) then Outstanding hereunder and which is not then in default of any obligation thereunder.

“Bond Register” means the books of the District kept by the Trustee for the registration and transfer of the Bonds.

“Bond Year” means each one-year period beginning on the day after the expiration of the preceding Bond Year. The first Bond Year shall begin on the date of issuance of the Bonds and shall end on the date selected by the District, provided that the first Bond Year shall not exceed one calendar year. The last Bond Year shall end on the date of retirement of the last Bond.

“Bond Yield” is as indicated in the Tax Certificate. Bond Yield shall be recomputed if required by Regulations section 1.148-4(b)(4) or 4(h)(3). Bond Yield shall mean the discount rate that produces a present value equal to the Issue Price of all unconditionally payable payments of principal, interest and fees for qualified guarantees within the meaning of Regulations section 1.148-4(f) and amounts reasonably expected to be paid as fees for qualified guarantees in connection with the Bonds as determined under Regulations section 1.148-4(b). The present value of all such payments shall be computed as of the date of issue of the Bonds and using semiannual compounding on the basis of a 360-day year.

“Chairperson” means the Chairperson of the District Board.

“DTC” means The Depository Trust Company.

“Debt Service Fund” means the fund established with and held by the Trustee pursuant to Section 4.02(b) hereof.

“Defeasance Obligations” means and includes Government Obligations and, to the extent permitted by law, (i) cash; (ii) evidences of ownership of proportionate interests in future interest and principal payments on Government Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying Government Obligations, and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; (iii) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, and (iv) securities eligible for “AAA” defeasance under then-existing criteria of S&P or any combination thereof.

“District Clerk” means the District Clerk of the District.

“District Manager” means the District Manager of the District.

“District Treasurer” means the District Treasurer of the District.

“Event of Default” means (i) an event of default under Section 3(E)(i) of the Payment Agreement or (ii) a default in the performance or observance of any of the covenants and agreements contained herein or with respect to any Bond or any Parity Bond, which default continues for a period of thirty (30) days following receipt of written notice thereof by the District Treasurer; provided, however, that such default described in this clause (ii) shall not constitute an Event of Default hereunder if, and so long as, in the judgment of the Trustee, the District has initiated and is diligently pursuing corrective action.

“Fiscal Year” means each annual period commencing on July 1 and ending on June 30 of the succeeding calendar year.

“Government Obligations” means obligations issued or guaranteed by the United States of America or any department, agency or instrumentality thereof.

“Gross Proceeds” means:

(i) any amounts actually or constructively received by the District from the sale of the Bonds but excluding amounts used to pay accrued interest on the Bonds within one year of the date of issuance of the Bonds;

(ii) transferred proceeds of the Bonds under Regulations section 1.148-9;

(iii) any amounts actually or constructively received from investing amounts described in (i), (ii) or this (iii); and

(iv) replacement proceeds of the Bonds within the meaning of Regulations section 1.148-1(c). Replacement proceeds include amounts reasonably expected to be used directly or indirectly to pay debt service on the Bonds, pledged amounts where there is reasonable assurance that such amounts will be available to pay principal or interest on the Bonds in the event the District encounters financial difficulties and other replacement proceeds within the meaning of Regulations section 1.148-1(c)(4). Whether an amount is Gross Proceeds is determined without regard to whether the amount is held in any fund or account.

“Gross Revenues” means and includes all income, moneys and receipts received or receivable directly or indirectly from the ownership, use or operation of the Water System, including any waste material or by-products and income and gain realized from investments made with moneys of the Water System.

“Independent Consultant” means, with respect to any subject matter, an individual or firm qualified, experienced and of generally recognized competence with respect to such matter selected by the District, reasonably acceptable to the Trustee and of which no controlling person, partner, director or officer is an official or employee of the District.



“Interest Account” means the account of that name within the Debt Service Fund established pursuant to Section 4.02 hereof.

“Investment Property” means any security, obligation (other than a tax-exempt bond within the meaning of Code section 148(b)(3)(A)), annuity contract or investment-type property within the meaning of Regulations section 1.148-1(b).

“Issue Price” is as indicated in the Tax Certificate and shall be determined as provided in Regulations section 1.148-1(b).

“Maximum Annual Debt Service” means, at the time of computation, the greatest amount required to be paid in any Fiscal Year ending then or thereafter for payment of principal of and interest on the Bonds and any Parity Bonds then Outstanding and any Parity Bonds then being proposed to be issued. For the purposes of such computation, the principal maturities of any obligation having a term maturity but requiring mandatory redemption deposits shall be deemed to occur at the time of the scheduled mandatory redemptions and shall not include the term maturities.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District by notice to the Trustee.

“Net Revenues” means that portion of the Gross Revenues remaining after sufficient funds have been provided for the Operation and Maintenance Expenses.

“Nonpurpose Investment” means any Investment Property acquired with Gross Proceeds, and which is not acquired to carry out the governmental purposes of the Bonds.

“Operation and Maintenance Expenses” means all costs and expenses reasonably incurred in connection with the operation, use and maintenance of the Water System, including repairs necessary to keep the Water System in efficient and economical operating condition, payments of insurance coverages required to be maintained with respect to the Water System and the reasonable cost or value of all services rendered by the Company with respect to the Water System, but excluding depreciation and interest on the Bond, the Parity Bonds and any subordinate obligations issued or incurred by the District.

“Outstanding”, when used with reference to the Bonds or any Parity Bonds, means Bonds or Parity Bonds which are unpaid; provided, however, that such term shall not include Bonds or Parity Bonds (a) which have matured and for which moneys are on deposit with the Trustee, or are otherwise properly available, in an amount sufficient to pay all principal and interest then due and payable thereon, or (b) provision for the payment of which has been made by the District in accordance with Article XII of this Resolution.

“Parity Bonds” mean and include any bonds hereafter issued and Outstanding, meeting the requirements of Section 5.02 hereof.

“Payment” means any payment within the meaning of Regulations section 1.148-3(d)(1) with respect to a Nonpurpose Investment.

“Principal Account” means the account of that name within the Debt Service Fund established pursuant to Section 4.02 hereof.

“Rebate Requirement” means at any time the excess of the future value of all Receipts over the future value of all Payments. For purposes of calculating the Rebate Requirement the Bond Yield shall be used to determine the future value of Receipts and Payments in accordance with Regulations section 1.148-3(c). The Rebate Requirement is zero for any Nonpurpose Investment meeting the requirements of a rebate exception under section 148(f)(4) of the Code or Regulations section 1.148-7.

“Receipt” means any receipt within the meaning of Regulations section 1.148-3(d)(2) with respect to a Nonpurpose Investment.

“Record Date” means the fifteenth (15<sup>th</sup>) day of the month next preceding each interest payment date.

“Regulations” means sections 1.148-1 through 1.148-11 and section 1.150-1 of the regulations of the United States Department of the Treasury promulgated under the Code, including and any amendments thereto or successor regulations.

“Revenue Fund” means the fund established with and held by the Company pursuant to Section 3(C)(ii) of the Payment Agreement.

“S&P” means S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, a limited liability company organized and existing under the laws of the State of New York, its successors and assigns, and, if such limited liability company shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District by notice to the Trustee.

“Tax Certificate” means the Certificate Relating To Federal Tax Matters to be delivered by the District on the date of original issuance of the Bonds.

“Trustee” means U.S. Bank National Association, or any successor appointed and acting in such capacity hereunder.

“Vice Chairperson” means the Vice Chairperson of the District Board.

“Water System” means and includes all of the properties and facilities of the complete waterworks plant and system of the Company, as now existing and as hereafter improved or extended while any of the Bonds herein authorized or the Parity Bonds hereby permitted to be issued remain Outstanding; all improvements, additions and extensions thereto or replacements thereof hereafter constructed or acquired by purchase, contract, or otherwise and all contracts rights, agreements, leases and franchises of every nature owned by the Company and used or useful or help for use in the operation of said plant and system or any part or portion thereof.

Section 1.02. Interpretation.

(a) Any reference herein to the District or any officer thereof shall include those succeeding to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions.

(b) Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender.

(c) Headings of articles and sections herein are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

Section 1.03. Authorization and Ratification of Notice of Hearing on Report and Issuance; Preparation of Report; Approval of Report and Issuance.

(a) Notice of the public hearing on the Report and the Issuance provided by the District Manager in substantially the form set forth as Exhibit "A" hereto is hereby authorized and ratified in all respects as well as the mailing of the Report to the governing body of the Municipality. The providing of such notice as provided by the law and as caused by the District Manager is hereby authorized and ratified.

(b) The preparation of the Report is hereby ratified and confirmed. (Upon completion, a draft of the Report, marked in a conspicuous fashion "DRAFT," was submitted to the District Board for their review and comment).

(c) After review of the Report and based on the public hearing held by the District Board on even date herewith and the mailing of the Report to the governing body of the Municipality, the Report and the Issuance are hereby approved in the form submitted to the District Board. The District Board hereby adopts this Resolution as a resolution of intent to identify all of the matters included in the Report for all purposes of the Enabling Act.

ARTICLE II

Authorization of Bonds

Section 2.01. General. For the purpose of providing funds to finance the costs of the Project, there is hereby authorized an issue of bonds of the District in an aggregate principal amount not to exceed \$21,000,000 which shall be designated "Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds, Series 2021". The Bonds will be dated, will be numbered, will mature, will bear interest, will be in the denominations and form, and will contain such provisions as are hereinafter provided.

Section 2.02. Terms.

(a) The Bonds will be issued only in fully-registered book-entry-only form, without coupons, will be dated the date of delivery, will be in denominations of \$5,000 each or integral

multiples thereof (provided that no single Bond may represent principal amounts maturing on more than one date), will be numbered sequentially as determined by the Trustee and will mature (subject to redemption prior to maturity as provided herein) on July 1 in the years and in the amounts and bear interest at the rates per annum, which interest will be payable semi-annually, and otherwise, on terms and conditions set forth in the Purchase Agreement that are consistent with this Resolution, which are, in all respects, approved. The Bonds will have such other terms as provided herein or in the Purchase Agreement (as executed and delivered).

(b) The Bonds will bear interest from their dated date, or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal sum thereof is paid in accordance with the terms of the Purchase Agreement, such interest (computed on the basis of a 360-day year of twelve 30-day months) being payable on January 1 and July 1 of each year, commencing on the date to be set forth in the Purchase Agreement.

(c) Interest on each Bond will be paid by check of the Trustee payable to the person in whose name such Bond is registered at the close of business on the Record Date; provided, however, that any registered owner of Bonds in an aggregate principal amount of \$1,000,000 or more may receive payment of interest by wire transfer to any bank or trust company in the United States of America upon not less than ten (10) days' prior written notice to the Trustee; provided, further, however, that in the event of any default in the payment of interest, such defaulted interest will be payable to the registered owner of such Bond (or its respective predecessor Bond) on a special record date for the payment of such defaulted interest, which date will be established by notice mailed by or on behalf of the Trustee to the registered owners of the Bonds not less than fifteen (15) days preceding such special record date.

(d) Principal of the Bonds, at maturity or upon any redemption prior to maturity, will be payable upon presentation and surrender of the Bonds at the designated corporate trust office of the Trustee.

(e) Notwithstanding the foregoing, the aggregate principal amount of the Bonds for the Project shall not exceed the amount set forth in Section 2.01 hereof, the Bonds shall mature no later than July 1, 2052, and the Bonds shall be sold at such prices and shall bear interest at such rates as to result in an effective yield as calculated for federal income tax purposes relative to the issuance of obligations, the interest income on which is excluded from gross income, of not to exceed four and one-quarter percent (4.25%) per annum.

Section 2.03. Form. The Bonds will be in substantially the form set forth as Exhibit "B" hereto with such changes, completions and insertions as may be necessary and appropriate for the preparation and delivery of the Bonds in accordance with the provisions hereof.

Section 2.04. Execution and Authentication.

(a) All of the Bonds will be executed on behalf of the District by the manual or facsimile signature of the Chairperson, or if the Chairperson is not available, by the Vice Chairperson, or the District Manager or the District Treasurer and attested by the manual or facsimile signature of the District Clerk, or if the District Clerk is not available, the assistant

clerk of the District. In case any officer whose manual or facsimile signature appears on any of the Bonds ceases to be that officer before the Bonds are issued, authenticated, and delivered, the Bonds will, nevertheless, be valid and binding obligations of the District, and may be issued and delivered by the District with the same effect, as though the person whose manual or facsimile signature appears on the Bonds had not ceased to be such officer.

(b) Each Bond will bear a certificate of authentication in the form included in the form of the Bonds set forth as Exhibit "B" hereto. No Bond will be valid or obligatory for any purpose or entitled to any security or benefit pursuant to this Resolution unless and until the Trustee has duly executed such certificate of authentication by the manual signature of an officer or other authorized representative thereof. A manually executed certificate of authentication appearing on any Bond will be conclusive evidence that such Bond has been authenticated and delivered pursuant to this Resolution. The certificate of authentication on any Bond will be deemed to have been executed by the Trustee if signed by an authorized officer or representative of the Trustee, but it is not necessary that the same officer or representative sign the certificate of authentication on all of the Bonds issued pursuant hereto.

Section 2.05.      Registration, Transfer and Exchange.

(a) The Trustee shall keep the Bond Register. The District is authorized to prepare, and the Trustee will keep custody of, multiple bond blanks executed by the District for use in the transfer and exchange of the Bonds. By its acceptance hereof, the Trustee agrees to hold in trust for the benefit of the registered owners of the Bonds all money delivered to and held by the Trustee for the payment of principal of and interest on the Bonds. The Trustee may make reasonable rules and set reasonable requirements for their respective functions with respect to the registered owners of the Bonds.

(b) Upon surrender for transfer of any Bond at the designated office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee and duly executed by, the registered owner or his attorney duly authorized in writing, the District will execute and the Trustee will authenticate, date and deliver in the name of the transferee or transferees, a new fully-registered Bond or Bonds of the same maturity date and for a like aggregate principal amount in authorized denominations. Any Bond or Bonds may be exchanged at the designated office of the Trustee for a like series and aggregate principal amount of Bond or Bonds of the same maturity of other authorized denominations. The execution by the District of any Bond will constitute full and due authorization for the authentication, dating and delivery of such Bond and the Trustee is hereby authorized to authenticate, date and deliver any such Bond; provided, however, that the principal amount of all Outstanding Bonds of each maturity authenticated by the Trustee may not at any time exceed the original authorized principal amount of Bonds for each maturity less the amount of Bonds of each maturity that have been paid.

(c) The Trustee will transfer or exchange any Bond during the period beginning at the close of business on the fifteenth (15th) day of the month next preceding any interest payment date with respect to any Bond to and including the day preceding such interest payment date, provided that the interest payment on such interest payment date will be made to the registered owner of the Bond on the Record Date. The Trustee will not be required to transfer or

exchange any Bond after notice of redemption with respect to Bond has been mailed, nor during the period of fifteen (15) days next preceding the mailing of any notice of redemption with respect to any Bond.

(d) The person in whose name any Bond is registered will be deemed and regarded as the absolute owner thereof for all purposes, and payment of the principal of or interest on any Bond will be made only to or upon the order of the registered owner or such owner's legal representative. All such payments will be valid and effectual to satisfy and discharge the liability of the District with respect to the Bonds to the extent of the sum or sums so paid.

(e) No service charge will be made for any transfer or exchange of Bonds, but the District or the Trustee will require payment of a sum sufficient to cover any tax or other governmental charge that is imposed in connection with the transfer or exchange of Bonds except in the case of the execution, authentication and delivery of a Bond for the unredeemed portion of a Bond surrendered for redemption.

(f) In case any Bond becomes mutilated, lost or destroyed, the District shall cause to be executed and delivered a new Bond of like date and tenor in exchange and substitution for and upon the cancellation of such mutilated Bond or in lieu of and in substitution for such Bond lost or destroyed, upon the registered owner's payment of the reasonable expenses and charges of the District in connection therewith and, in the case of any Bond destroyed or lost, filing with the Trustee and the District Clerk evidence satisfactory to the Trustee and the District Clerk that such Bond was lost or destroyed, and furnishing the Trustee and the District with a sufficient indemnity bond as provided in Section 47-8405, Arizona Revised Statutes.

Section 2.06. Book-Entry-Only System.

(a) Notwithstanding anything in this Resolution to the contrary, the Bonds will be initially issued in the form of one single fully registered bond for each stated maturity of the Bonds. Upon initial issuance, the ownership of the Bonds will be registered in the Bond Register in the name of Cede & Co., as nominee of DTC, and, except as hereinafter provided, all of the Outstanding Bonds will be registered in the name of Cede & Co., as nominee of DTC.

(b) With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Trustee will have no responsibility or obligation to any Beneficial Owner, nor any responsibility or obligation to any of DTC's participants, any Beneficial Owner or any other person claiming a beneficial ownership interest in the Bonds through DTC or any of its participants, or any other person with respect to (i) the accuracy of any records maintained by DTC or any of its participants, (ii) the payment by DTC or any of its participants of any amount in respect of the Bonds, (iii) the giving of any notice that is permitted or required to be given to owners pursuant to this Resolution, or (iv) any consent given or other action taken by DTC as an owner.

(c) The Beneficial Owners of the Bonds have no right to require the District to maintain a depository system, or any particular depository system, for the Bonds. The District may remove DTC or any successor thereto for any reason at any time. In that event, the District

shall (i) appoint a successor securities depository qualified to act as such pursuant to Section 17(i) of the Securities Exchange Act of 1934, as amended, notify DTC of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository, or (ii) notify DTC of the availability through DTC of Bonds and transfer one or more separate Bonds to any of DTC's participants having Bonds credited to their DTC accounts as directed by DTC. In such event the Bonds will no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the DTC participants receiving such Bonds designate, in accordance with the provisions of this Resolution.

(d) So long as the Bonds are in book-entry-only form, principal of and interest on the Bonds will be paid solely to DTC. DTC's practice is to credit its direct participants' accounts on the payment date in accordance with their respective holdings shown on the DTC records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by DTC's direct participants and indirect participants to the Beneficial Owners will be made in accordance with standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such direct participants or indirect participants and not of DTC, the District or the Trustee, subject to any statutory or regulatory requirements in effect from time to time.

(e) So long as Cede & Co. or its registered assigns is the registered owner of the Bonds, the District and the Trustee will be entitled to treat Cede & Co., or its registered assigns, as the absolute owner thereof for all purposes notwithstanding any notice to the contrary received by the District, or the Trustee, and the District and the Trustee will have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owners of the Bonds.

### ARTICLE III

#### Redemption

Section 3.01. Optional Redemption. The Bonds may be subject to optional redemption prior to maturity, at the option of the District, as specified in the Purchase Agreement.

Section 3.02. Extraordinary Redemption. The Bonds may be subject to extraordinary optional redemption prior to maturity, at the option of the District, as specified in the Purchase Agreement.

Section 3.03. Mandatory Redemption. The Bonds, if any, specified in the Purchase Agreement to be term bonds are subject to mandatory redemption without premium and shall be redeemed on July 1 in the years and amounts specified in the Purchase Agreement.

Section 3.04. Selection of Bonds to be Redeemed.

(a) The Bonds will be redeemed only in principal amounts of \$5,000 each or integral multiples thereof. With respect to optional redemption of the Bonds, the District will, at least thirty (30) days prior to the redemption date, unless a shorter time period is set by the Trustee, notify the Trustee of such redemption date and of the maturities of the Bonds and the principal amount of the Bonds of any such maturity to be redeemed on such date. With respect to extraordinary redemption of the Bonds, the District will notify the Trustee of the redemption date and maturities of the Bonds and the principal amount of the Bonds of any such maturity to be redeemed on such date as will be provided in the Purchase Agreement (if the Purchase Agreement provides for extraordinary redemption of the Bonds).

(b) For the purposes of any redemption of less than all of the Bonds of a single maturity, the particular Bonds or portions of Bonds to be redeemed will be selected by lot not less than thirty (30) days prior to the redemption date, by such selection methods as the Trustee deems fair and appropriate; provided, however, that such selection methods will provide for the selection of Bonds or portions thereof for redemption in principal amounts of \$5,000 or integral multiples thereof such that any Bond or \$5,000 portion of a Bond will be as likely to be called for redemption as any other such Bond or \$5,000 portion thereof.

(c) The Trustee shall promptly notify the District in writing of the Bonds or portions of Bonds selected for redemption and, in the case of any Bond selected for partial redemption, the principal amount thereof to be redeemed.

#### Section 3.05. Notice and Effect.

(a) Unless waived by the registered owner of the Bonds to be redeemed, notice of any redemption will be given by the Trustee on behalf of the District by mailing a notice of redemption by first class mail not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to each registered owner of the Bonds to be redeemed (in whole or in part) at the address shown on the Bond Register or at such other address as is furnished in writing by any registered owner to the Trustee. Neither the failure of any registered owner of Bonds to receive a notice of redemption nor any defect therein will affect the validity of the proceedings for the redemption of Bonds as to which proper notice of redemption was given.

(b) All notices of redemption will include at least the following information (i) the redemption date, (ii) the redemption price, (iii) if less than all of the Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed, (iv) a statement that on the redemption date, the redemption price will become due and payable upon each such Bond or portion thereof called for redemption and that interest thereon will cease to accrue from and after said date, and (v) the place where such Bonds are to be surrendered for payment of the redemption price, which will be the principal corporate trust office of the Trustee.

(c) The obligation of the Trustee to give notice of redemption as provided herein will not be conditioned upon the District's prior deposit with the Trustee of sufficient moneys to pay the redemption price on the Bonds to be called for redemption.



(d) On or prior to any redemption date, the District shall deposit with the Trustee an amount of money sufficient to pay the redemption price (including accrued interest to the date of redemption) of all Bonds or portions of Bonds that are to be redeemed on such date.

(e) Notice of redemption having been given as aforesaid, the Bonds or portions of Bonds to be redeemed will, on the redemption date, become due and payable at the redemption price specified, and from and after such date (unless the District defaults on the payment of the redemption price) the Bonds or portions of Bonds called for redemption will cease to bear interest.

(f) Upon surrender of Bonds for redemption in accordance with said notice, the Bonds surrendered will be paid by the Trustee at the redemption price. Interest on the Bonds due and payable on or prior to the redemption date will be payable as herein provided for the payment of interest. Upon surrender of any Bond for partial redemption, there will be prepared and delivered to the registered owner thereof a new Bond or Bonds of the same maturity in the amount of the unpaid principal. If any Bond or portion of any Bond called for redemption is not paid upon surrender thereof for redemption, the principal will bear interest from the redemption date until paid at the rate of interest borne by the Bonds or portion of Bonds so called for redemption. All Bonds that have been redeemed will be canceled and destroyed by the Trustee with notice thereof to the Trustee and will not be reissued.

#### ARTICLE IV

##### Pledge and Application of Revenues

Section 4.01. General. Each Bond authorized hereunder and each Parity Bond permitted hereby is payable solely from a pledge of, and is secured solely by a first lien on, and a security interest in, the Agreement Payments to the extent necessary for the prompt and punctual payment of the principal of and interest on the Bonds and the Parity Bonds. The District shall prescribe fees and charges, and shall revise them when necessary, to generate the Net Revenues sufficient, together with any moneys from the sources described in the Enabling Act, to pay when due the Agreement Payments. The establishment or revision of any fees and charges with respect to the Water System shall be identified and noticed concurrently with the annual budget process of the District pursuant to the Enabling Act. The pledge of, and lien on and security interest in, the Agreement Payments is hereby irrevocably made and created for the prompt and punctual payment of the principal of and interest on the Bonds and the Parity Bonds, according to their terms, and to create and maintain the funds and accounts and to make the payments hereafter specified in this Article IV. None of the Bonds or the Parity Bonds shall be entitled to priority or distinction one over the other in the application of the Agreement Payments hereby pledged to the payment thereof, regardless of the issuance of any of the Bonds or the Parity Bonds in series, or the delivery of any of the Bonds or the Parity Bonds prior to delivery of any other of the Bonds or the Parity Bonds of said series, or regardless of the time or times the Bonds or the Parity Bonds mature or are redeemed or otherwise. All of the Bonds and the Parity Bonds are co-equal as to the pledge of and lien on said described income and revenues pledged for the

payment thereof and share ratably, without preference, priority or distinction, as to the source or method of payment or security therefor.

Section 4.02. Fund and Accounts. Upon the delivery of and payment for the Bonds, the District Treasurer shall establish, or cause the Trustee to establish, and thereafter maintain so long as any of the Bonds or the Parity Bonds are Outstanding, a separate and special fund hereby designated the "Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds - Debt Service Fund", and therein an Interest Account and a Principal Account, which shall be established with and held by the Trustee. There shall be deposited in the accounts of the Debt Service Fund, upon receipt of payment thereof from the Company, the amounts required in accordance with Section 3(C)(ii)(a) and (b) of the Payment Agreement, which amounts shall be held and invested by the Trustee for the benefit and security of the registered owners from time to time of the Bonds and the Parity Bonds and the District shall not have any beneficial right or interest in any such amounts. Amounts in the Debt Service Fund shall be used solely for the payment of principal of and interest on the Bonds and the Parity Bonds when due, as well as any amounts then due to the Trustee including in its capacity as bond registrar and paying agent for the Bonds and the Parity Bonds.

Section 4.03. Remaining Revenues and Deficiencies. After all payments and transfers shall have been made as provided in Section 4.02 hereof and any deficiencies in any such transfer or transfers which may exist from any previous Fiscal Year have been remedied, all moneys remaining in the Revenue Fund shall constitute available revenues and may be used by the District for any lawful purpose in connection with the Water System. If at any time the moneys in the Revenue Fund are not sufficient to make the transfers hereinabove required in Section 4.02 hereof, any such deficiency shall be made up from the first moneys thereafter received and available for such transfers under the terms of this Resolution, and the transfer of any such sum or sums to said fund or accounts as may be necessary to make up any such deficiency shall be in addition to the then-current transfers required to be made pursuant hereto.

## ARTICLE V

### General Covenants

Section 5.01. General.

(a) The District will establish and maintain schedules of rates, fees and charges for all water and services supplied by the Water System, and will revise them when necessary, to be fully sufficient at all times, after making reasonable allowance for contingencies and errors in estimates, to pay the Operation and Maintenance Expenses and to produce an aggregate amount of the Net Revenues in each Fiscal Year equal to not less than one-hundred-twenty percent (120%) of the Annual Debt Service Requirement.

(b) The District will cause the Water System to be maintained in good repair and working order and to be operated efficiently and will faithfully and punctually perform all duties with reference to the Water System required by the Constitution and laws of the State, including the making and collection of sufficient rates for the water and services supplied thereby.

(c) The District will not permit free water or service to be supplied by the Water System to any person, firm or corporation, public or private, or to any public agency or instrumentality other than for necessary emergency municipal services.

(d) The District will keep or cause to be kept proper books, records and accounts covering the operation of the Water System in accordance with standard accounting practices and procedures customarily used for systems of similar nature.

(e) The District will cause to be purchased casualty insurance on all above-ground components of the Water System on a replacement cost basis, with a deductible which may be no more than one-half percent (.5%) of the replacement value of the Water System. In addition, the District will cause to be purchased or maintain public liability insurance, which may include self-insurance, in such amounts and with such coverages as would be reasonable and prudent as determined by an Independent Consultant. The District Board will cause all moneys received for losses under such insurance policies, other than public liability policies or coverages, to be paid to the District, and such moneys are hereby pledged by the District as security for the Bonds and the Parity Bonds unless and until such proceeds are paid out or obligated to make good the loss or damage in respect to which such proceeds are received, either by repairing the property damaged or replacing the property destroyed. Adequate provision for making good such loss and damage will be made within ninety (90) days from the later of the date of the loss or the date the proof of loss is filed with the insurer. In the event the destroyed property is no longer useful in the operation of the Water System, the proceeds of the insurance will be deposited in the Revenue Fund.

(f) The District will not dispose or allow the disposition of the entire Water System. (The District shall remain the sole shareholder of the Company and not dispose or allow the disposition of the ownership or, except as provided in this subsection, the assets of the Company.) Surplus land and obsolete or depreciated machinery may be sold, and the proceeds deposited in the Revenue Fund. If any other portion of the Water System is sold, the proceeds of the sale will be deposited in the Principal Account of the Debt Service Fund unless the Net Revenues of the remaining portion of the Water System, as estimated by an Independent Consultant, will be sufficient to meet the coverage requirements of subsection (a) hereof and in such event the proceeds may be deposited in the Revenue Fund or the Principal Account of the Debt Service Fund at the discretion of the District. The Independent Consultant, in estimating the Gross Revenues of the remaining portion of the Water System, will make his estimate in the same manner and using the same rates and projections as used in Section 5.02 hereof for calculation of the requirements for Parity Bonds; except that the Net Revenues received from that portion of the Water System no longer owned by the Company will not be used in such computation.

(g) The District will, from time to time, duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges, if any, lawfully imposed upon all or any part of the Water System or the Gross Revenues therefrom, as well as any lawful claims for labor, materials or supplies which if unpaid might by law become a lien or charge upon all or any part of the Water System or the Gross Revenues or which might impair the security of the Bonds and the Parity Bonds. The foregoing sentence will not require the District to pay or cause to be paid any such tax, assessment, charge or claim so long as said

District is in good faith contesting its legal obligation to pay or cause to be paid such tax, assessment, charge or claim.

(h) The District will not, to the extent permitted by law, permit the operation of any competing water system in the District.

(i) The District will cause to be employed competent and experienced management for the Water System, will use its best efforts to see that the Water System is at all times cause to be operated and maintained in good repair and condition, and will use its best efforts to see that the cost of such maintenance and operation is at no time in excess of the money reasonably available for the payment thereof.

(j) If all or any part of the Water System shall be taken by eminent domain proceedings or other proceedings authorized by law, the net proceeds realized therefrom will be deposited in the Principal Account of the Debt Service Fund, subject to the rights of the registered owners of the Bonds and the Parity Bonds to share in such net proceeds equally and ratably in the proportion which the principal amount bears to the total principal amount of all of the Bonds and the Parity Bonds then Outstanding, and without preference or priority of any one Bond or of any one Parity Bond over the other.

(k) No bonds or other obligations will be issued or incurred superior in lien to the Bonds herein authorized and the Parity Bonds hereby permitted.

(l) Subject to the provisions of law and as part of its obligations in subsection (a) hereof, the District will cause the Company to discontinue the water service to any premises the owner or occupant of which is delinquent for more than 90 days in the payment of charges; will not permit the Company to resume the supply of water until all delinquent charges, with interest and penalties, have been paid or provided for and will cause the Company to do all things and exercise all remedies legally available to assure the prompt payment of charges for water and services supplied by the Water System.

Section 5.02. Parity Bonds. The District shall have the right within the limits and for the purposes permitted by law to issue Parity Bonds which shall be on a complete equality with, and shall have a pledge of and a lien on and security interest in the Net Revenues equal to, the Bonds and the Parity Bonds previously issued and shall share ratably and equally in Net Revenues with, any Bonds and any Parity Bonds now or hereafter Outstanding, provided that all of the following conditions are met:

(a) All deposits in or obligations with respect to the fund created pursuant to Section 4.02 hereof are current.

(b) The District is in compliance with all of its covenants herein.

(c) Parity Bonds may be issued solely for the purpose of financing the construction or acquisition of extensions of or betterments, improvements, expansions and replacements of the Water System, or any combination of such purposes, or to provide reasonable reserves for such Parity Bonds, including capitalization of interest, or to refund the Bonds or the Parity Bonds or

to refund subordinate lien bonds or general obligation bonds issued for the purpose of making additions or extensions to the Water System.

(d) With respect to the Agreement Payments to be paid by the Company, the Net Revenues for the Fiscal Year next preceding the date of issuance as shown by a certificate of the District Treasurer have been at least equal to one hundred twenty percent (120%) of the Maximum Annual Debt Service for any succeeding Fiscal Year. For the purposes of this Section 5.02 hereof, additional amounts may be added to the Net Revenues if, as shown by a certificate of the District Treasurer:

(1) Gross Revenues have been increased as a result of construction of additions to the Water System made prior to the issuance of Parity Bonds but during either the Fiscal Year during which such Parity Bonds are to be issued or the preceding Fiscal Year; such increased Gross Revenues may be treated as if such additions to the Water System were completed on the first day of the Fiscal Year used for purposes of computation. The Gross Revenues derived from such additions to the Water System may be converted for purposes of computation of estimated Net Revenues which would have been derived therefrom if said additions had actually been completed on the first day of the Fiscal Year used for computation purposes, such estimates to be made by an Independent Consultant.

(2) All or part of the proceeds of Parity Bonds are to be expended for the acquisition of existing water properties, there may be added to the Net Revenues of such preceding Fiscal Year the Net Revenues derived from the operation of such water properties to be acquired as converted to Net Revenues which would have been derived from the operation such water properties had such properties been under operation of the Company during the entire Fiscal Year, such converted Net Revenues to be estimated by an Independent Consultant.

(3) Prior to the issuance of Parity Bonds and subsequent to the first day of such preceding Fiscal Year, the District shall have increased its rates or charges for water service, there may be added to the Net Revenues of such Fiscal Year the additional Net Revenues which would have been received from the operation of the Water System during such Fiscal Year had such increase been in effect throughout such Fiscal Year, such additional Net Revenues to be estimated by an Independent Consultant.

## ARTICLE VI

### Investments; Limitation on Investment Yield

#### Section 6.01. General.

(a) Any moneys held by the Trustee in any fund or account established or continued pursuant to Article IV of this Resolution shall be invested and reinvested by the Trustee, except as otherwise permitted by law or directed by the District in a written order signed by an Authorized Representative, in Government Obligations, or any other obligations in which the District may lawfully invest in accordance with State law, maturing or redeemable solely at the option of the registered owner thereof in such amounts and on such dates as may be necessary

to provide moneys to make, when due, any payments required to be made from such fund or account.

(b) In computing the value of the assets of any fund or account, investments and accrued interest thereon shall be deemed a part thereof. All such investments shall be valued at fair market value on the date of valuation.

(c) The Trustee may sell or redeem any such obligations in which moneys shall have been invested as in this Section provided, to the extent necessary, in its sole discretion, to provide cash in the respective funds or accounts to make any payments required to be made therefrom, or to facilitate the transfer of moneys between various funds and accounts as may be required or permitted from time to time pursuant to the provisions of Article IV of this Resolution.

(d) The Trustee shall not be liable for any depreciation in the value of any obligations in which moneys of the funds or accounts shall be invested, as aforesaid, or for any loss arising from any such investment, except for its own negligence or willful misconduct.

Section 6.02. Limitation of Investment Yield. In the event the District is of the opinion that it is necessary to restrict or limit the yield on the investment of any amounts paid to or held by the Trustee hereunder in order to avoid the Bonds or the Parity Bonds, or any of them, being considered "arbitrage bonds" within the meaning of section 148 of the Code, an Authorized Representative may issue to the Trustee a written certificate to such effect (along with appropriate instructions), in which event the Trustee will take such action as is instructed so to restrict or limit the yield on such investment in accordance with the specific instructions contained in such certificate.

## ARTICLE VII

### Sale of Bonds and Use of Proceeds; Tax Covenants

Section 7.01. Sale of Bonds. So long as the terms for the Bonds are within the parameters established by Article II of this Resolution, the proposal of the Underwriter pursuant to the Purchase Agreement shall be accepted. Such acceptance shall be evidenced by the execution of the Purchase Agreement pursuant to Section 12.01 hereof. The Bonds shall be prepared and issued following the adoption of this Resolution and shall thereupon be delivered to the Underwriter upon payment therefor in accordance with the terms of the Purchase Agreement.

Section 7.02. Use of Proceeds. The proceeds from the sale and delivery of the Bonds shall be delivered to the District and applied to pay the costs of issuance of the Bonds and the costs of the Project. (Any balance of the former not so applied within six months of issuance of the Bonds shall be transferred to the Interest Account of the Debt Service Fund, and any balance of the latter not so applied within three years of issuance of the Bonds shall be transferred to and deposited in the Principal Account of the Debt Service Fund.) The District Treasurer is hereby authorized determine the specific amounts for purposes of this Section.

Section 7.03. Tax Covenants.

(a) As will be provided in greater detail in the Tax Certificate, the District will not make or direct the making of any investment or other use of the proceeds of any Bonds which would cause such Bonds to be "arbitrage bonds" as that term is defined in section 148 (or any successor provision thereto) of the Code or "private activity bonds" as that term is defined in section 141 (or any successor provision thereto) of the Code, and the District will comply with the requirements of such Code sections and the Regulations throughout the term of the Bonds. (Particularly, the District shall be the owner of the Project for federal income tax purposes. Except as otherwise advised in a Bond Counsel's Opinion, the District shall not enter into (i) any management or service contract with any entity other than a governmental entity for the operation of any portion of the Project unless the management or service contract complies with the requirements of such authority as may control at the time, or (ii) any lease or other arrangement with any entity other than a governmental entity that gives such entity special legal entitlements with respect to any portion of the Project.) Also, the payment of principal of and interest on the Bonds shall not be guaranteed (in whole or in part) by the United States or any agency or instrumentality of the United States. The proceeds of the Bonds, or amounts treated as proceeds of the Bonds, shall not be invested (directly or indirectly) in federally insured deposits or accounts, except to the extent such proceeds (i) may be so invested for an initial temporary period until needed for the purpose for which the Bonds are being issued, (ii) may be so used in making investments of a bona fide debt service fund, or (iii) may be invested in obligations issued by the United States Treasury. The District shall comply with the procedures contained in any arbitrage rebate provision or separate agreement executed in connection with the issuance of the Bonds (initially those in Section 7.04 hereof) for so long as compliance is necessary in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. In consideration of the purchase and acceptance of the Bonds by such registered owners from time to time and of retaining such exclusion as authorized by Title 35, Chapter 3, Article 7, Arizona Revised Statutes, the District shall, and the appropriate officials of the District are hereby directed to, take all action required or to refrain from taking any action prohibited by the Code which would adversely affect in any respect such exclusion.

(b) (1) The District shall take all necessary and desirable steps, as determined by the District, to comply with the requirements hereunder in order to ensure that interest on the Bonds is excluded from gross income for federal income tax purposes under the Code; provided, however, compliance with any such requirement shall not be required in the event the District receives a Bond Counsel's Opinion that either (i) compliance with such requirement is not required to maintain the exclusion from gross income of interest on the Bonds, or (ii) compliance with some other requirement will meet the requirements of the Code. In the event the District receives such a Bond Counsel's Opinion, this Resolution shall be amended to conform to the requirements set forth in such opinion.

(2) If for any reason any requirement hereunder is not complied with, the District shall take all necessary and desirable steps, as determined by the District, to correct such noncompliance within a reasonable period of time after such noncompliance is discovered or should have been discovered with the exercise of reasonable diligence and the District shall pay any required interest or penalty under Regulations section 1.148-3(h) relating to the Code.

(c) Written procedures have been established for the District to ensure that all nonqualified obligations are remediated according to the requirements under the Code and the Regulations and to monitor the requirements of section 148 of the Code relating to arbitrage, with which the District will comply.

Section 7.04. Arbitrage Rebate Procedures.

(a) Terms not otherwise defined herein shall have the meanings given to them in the Tax Certificate.

(b) Within 60 days after the end of each Bond Year, the District shall cause the Rebate Requirement to be calculated and shall pay to the United States of America:

(1) not later than 60 days after the end of the fifth Bond Year and every fifth Bond Year thereafter, an amount which, when added to the future value of all previous rebate payments with respect to the Bonds (determined as of such Computation Date), is equal to at least 90% of the sum of the Rebate Requirement (determined as of the last day of such Bond Year) plus the future value of all previous rebate payments with respect to the Bonds (determined as of the last day of such Bond Year); and

(2) not later than 60 days after the retirement of the last Bond, an amount equal to 100% of the Rebate Requirement (determined as of the date of retirement of the last Bond).

(c) No Nonpurpose Investment shall be acquired for an amount in excess of its fair market value. No Nonpurpose Investment shall be sold or otherwise disposed of for an amount less than its fair market value.

(d) For purposes of subsection (c) hereof, whether a Nonpurpose Investment has been purchased or sold or disposed of for its fair market value shall be determined as follows:

(1) The fair market value of a Nonpurpose Investment generally shall be the price at which a willing buyer would purchase the Nonpurpose Investment from a willing seller in a bona fide arm's length transaction. Fair market value shall be determined on the date on which a contract to purchase or sell the Nonpurpose Investment becomes binding.

(2) Except as provided in subsection (e) or (f) hereof, a Nonpurpose Investment that is not of a type traded on an established securities market, within the meaning of Code section 1273, is rebuttably presumed to be acquired or disposed of for a price that is not equal to its fair market value.

(3) If a United States Treasury obligation is acquired directly from or sold or disposed of directly to the United States Treasury, such acquisition or sale or disposition shall be treated as establishing the fair market value of the obligation.

(e) The purchase price of a certificate of deposit that has a fixed interest rate, a fixed payment schedule and a substantial penalty for early withdrawal is considered to be its fair market value if the yield on the certificate of deposit is not less than.



and (1) the yield on reasonably comparable direct obligations of the United States;

(2) the highest yield that is published or posted by the provider to be currently available from the provider on reasonably comparable certificates of deposit offered to the public.

(f) A guaranteed investment contract shall be considered acquired and disposed of for an amount equal to its fair market value if:

(1) A bona fide solicitation in writing for a specified guaranteed investment contract, including all material terms, is timely forwarded to all potential providers. The solicitation must include a statement that the submission of a bid is a representation that the potential provider did not consult with any other potential provider about its bid, that the bid was determined without regard to any other formal or informal agreement that the potential provider has with the District or any other person (whether or not in connection with the Bonds), and that the bid is not being submitted solely as a courtesy to the District or any other person for purposes of satisfying the requirements in the Regulations that the District receive bids from at least one reasonably competitive provider and at least three providers that do not have a material financial interest in the Bonds.

(2) All potential providers have an equal opportunity to bid, with no potential provider having the opportunity to review other bids before providing a bid.

(3) At least three reasonably competitive providers (i.e. having an established industry reputation as a competitive provider of the type of investments being purchased) are solicited for bids. At least three bids must be received from providers that have no material financial interest in the Bonds (e.g., a lead underwriter within 15 days of the issue date of the Bonds or a financial advisor with respect to the investment) and at least one of such three bids must be from a reasonably competitive provider. If the District uses an agent to conduct the bidding, the agent may not bid.

(4) The highest-yielding guaranteed investment contract for which a qualifying bid is made (determined net of broker's fees) is purchased.

(5) The determination of the terms of the guaranteed investment contract takes into account as a significant factor the reasonably expected deposit and drawdown schedule for the amounts to be invested.

(6) The terms for the guaranteed investment contract are commercially reasonable (i.e. have a legitimate business purpose other than to increase the purchase price or reduce the yield of the guaranteed investment contract).

(7) The provider of the investment contract certifies the administrative costs (as defined in Regulations section 1.148-5(e)) that it pays (or expects to pay) to third parties in connection with the guaranteed investment contract.

(8) The District retains until three years after the last outstanding Bond is retired, (i) a copy of the guaranteed investment contract, (ii) a receipt or other record of the amount actually paid for the guaranteed investment contract, including any administrative costs paid by the District and a copy of the provider's certification described in (7) above, (iii) the name of the person and entity submitting each bid, the time and date of the bid, and the bid results and (iv) the bid solicitation form and, if the terms of the guaranteed investment contract deviates from the bid solicitation form or a submitted bid is modified, a brief statement explaining the deviation and stating the purpose of the deviation.

(g) The District Board further authorize the employment of such experts and consultants to make, as necessary, any calculations in respect of rebates to be made to the United States of America in accordance with section 148(f) of the Code.

## ARTICLE VIII

### Remedies

Section 8.01. Remedies. Upon the occurrence and during the continuance of an Event of Default, the Trustee may, and upon the request of the registered owners of twenty-five percent (25%) of the aggregate principal amount of the Bonds and the Parity Bonds then Outstanding, and upon receipt of indemnity, as provided in Section 9.03 hereof, shall, exercise one or more of the following remedies assigned pursuant to Section 6 of the Payment Agreement: enforce the rights of the registered owners of the Bonds and the Parity Bonds then Outstanding by suit, action or proceeding, at law or in equity, either for the specific performance of any covenant or agreement herein contained, or for the execution of any power herein granted or for the enforcement of any proper legal or equitable remedy, including application to any court of competent jurisdiction for the appointment of a receiver, who may be the Trustee, with respect to the Gross Revenues; provided, however, that notwithstanding anything herein to the contrary, there shall be no right under any circumstances to accelerate the maturity dates of the Bonds or the Parity Bonds or otherwise to declare any of the payments with respect thereto not then past due or in default to be immediately due and payable. Any receiver so appointed may (i) enter upon and take possession of the Water System, (ii) prescribe rates, fees and charges for the use of the Water System, and (iii) collect, receive and apply the Gross Revenues arising therefrom in the same manner and with the same effect as the District itself is required and permitted to do hereunder. Any such receiver will be vested with the sole and exclusive jurisdiction of the Water System and will maintain and operate the Water System for the direct benefit of the registered owners of the Bonds and the registered owners of any of the Parity Bonds issued and Outstanding hereunder, and out of the Gross Revenues so collected will pay the principal of and interest on the Bonds and any of the Parity Bonds issued hereunder in the form and in the manner provided herein. Such receiver so appointed will remain in possession and control of the Water System until any delinquent installments of principal of and interest on the Bonds and any of the Parity Bonds, together with all costs incurred in the receivership, including attorneys' fees, have been paid in full. No registered owner of any Bonds or registered owner of any of the Parity Bonds shall have any right to institute or defend any action, suit or proceeding with respect to this Resolution unless written demand to institute or defend such action, suit or proceeding and reasonable indemnity shall have been provided to the Trustee pursuant to Section 9.03 hereof and the Trustee shall have refused to institute or defend such

action. In that event, upon the written concurrence of the registered owners of at least twenty-five percent (25%) of the aggregate principal amount of all Bonds and Parity Bonds then Outstanding, a registered owner may institute such action in the name of himself and the concurring owners. Nothing in this Section shall be construed to limit or restrict the rights of the registered owner of any Bond or the registered owner of any Parity Bond as otherwise provided in the Enabling Act and any successor provisions or amendments thereto.

## ARTICLE IX

### Trustee

Section 9.01. Appointment. U.S. Bank National Association is hereby appointed as Trustee for all purposes provided in this Resolution and shall have all of the powers and duties herein set forth with no liability in connection with any action or omission to act hereunder, except for its own negligence or willful misconduct. The District reserves the right to remove and replace the Trustee at any time in accordance with the provisions of this Resolution.

Section 9.02. Duties Generally. Notwithstanding any other provisions of this Article, the Trustee shall exercise such of the respective rights and powers vested in it, and perform the duties imposed on it, by this Resolution and use the same degree of skill and care in its exercise and performance as a prudent person would use and exercise under the circumstances in the conduct of its own affairs. Upon the occurrence and during the continuance of an Event of Default, the Trustee shall take such actions, subject to the conditions, as may be necessary and proper as provided in Section 8.02 hereof.

Section 9.03. Indemnity. The Trustee shall be under no obligation to institute any suit or action, or other proceeding, under this Resolution, or to enter any appearance in any suit, action or proceeding in which it may be a defendant, or to take any steps in the enforcement of its, or any, rights and powers hereunder, nor shall the Trustee be deemed to have failed to take any such action, unless and until it shall have been indemnified to its satisfaction by the registered owners of the Bonds or of the registered owners of any of the Parity Bonds against any and all costs and expenses, counsel fees and other disbursements, including its own reasonable fees, and if any judgment, decree or recovery is obtained by the Trustee, payment of all sums due the Trustee, as aforesaid, shall be a first charge against the amount of any such recovery.

Section 9.04. Employment of Attorneys and Agents. The Trustee is hereby authorized to employ such attorneys at law and agents as it may deem necessary and prudent to carry out any of its obligations hereunder and shall be reimbursed for its reasonable expenses and charges in connection therewith. The Trustee shall not have any responsibility with respect to the validity of the Bonds or any Parity Bonds or the legal sufficiency of the proceedings for their issuance, and it shall not be the duty of the Trustee, except as herein provided, to ensure that any duties or obligations herein imposed upon the District or any officer of the District are performed. The Trustee may in good faith buy, sell or hold and deal in any of the Bonds and any of the Parity Bonds with like effect as if it were not such Trustee.

Section 9.05. Removal and Resignation.

(a) The Trustee may be removed at any time (i) by an instrument in writing signed by the registered owners of not less than sixty-five percent (65%) of the aggregate principal amount of the Bonds and the Parity Bonds then Outstanding, or (ii) provided the District is not then in default of any of its covenants or agreements herein, by an instrument in writing signed by any of the Authorized Representatives, and the Trustee may resign and thereby become discharged from the trust hereby created. Written notice of any such resignation shall be given to the District Clerk and the District Treasurer at least thirty (30) days before such resignation becomes effective, and such resignation shall take effect upon the appointment and qualification of a new Trustee if the same be appointed and qualified before the time set forth in such notice. (Any such resignation shall be at no cost to the District.)

(b) In case the Trustee shall resign or be removed, or become dissolved, or otherwise become incapable of acting hereunder, a successor Trustee may be appointed by the registered owners of a majority in aggregate principal amount of the Bonds and any Parity Bonds then Outstanding by an instrument in writing signed by such registered owners and filed with the District Clerk and the District Treasurer, provided that in case there shall be at any time a vacancy in the office of the Trustee hereunder, the District shall appoint, and covenants with the registered owners of the Bonds and any Parity Bonds that it will promptly appoint, a Trustee to fill such vacancy until a new Trustee shall be appointed by the registered owners of the Bonds and any Parity Bonds as herein authorized. Any such temporary or interim Trustee appointed by the District hereunder shall immediately and without further action be superseded by the appointment of a Trustee appointed by the registered owners of the Bonds and any Parity Bonds in the manner hereinabove provided.

(c) Any Trustee hereafter appointed shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by federal or State authority.

(d) Every successor Trustee howsoever appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the District, an instrument in writing accepting such appointment hereunder, and thereupon such successor Trustee, without any further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of such predecessor, and such predecessor shall, on written request of the District, execute and deliver an instrument transferring to such successor Trustee all of the rights, powers, trusts, duties and obligations of such predecessor hereunder.

ARTICLE X

Defeasance

If the District pays or causes to be paid to the registered owner of any Bond or any Parity Bond secured hereby the principal of and premium, if any, and interest due and payable, and thereafter to become due and payable, upon such Bond or Parity Bond, or, any portion of such Bond or Parity Bond (or interest therein), such Bond or Parity Bond or portion thereof shall cease to be entitled to any lien, benefit or security under this Resolution. If the District shall pay

or cause to be paid the principal of and premium, if any, and interest due and payable thereon, and shall pay or cause to be paid all other sums payable hereunder by the District, including all necessary and proper fees, compensation and expenses of the Trustee then, and in that case, the right, title and interest of the Trustee in and to the Net Revenues pledged hereby shall thereupon cease, terminate and become void. In such event, the Trustee shall assign, transfer and turn over to the District the moneys and property held by the Trustee hereunder, including, without limitation, any surplus in the Debt Service Fund and any balance remaining in any other fund created under this Resolution.

Any Bond or any Parity Bond shall be deemed to be paid within the meaning of this Article X and for all purposes of this Resolution when:

(a) payment of the principal of and premium, if any, on such Bond or Parity Bond plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided herein) either:

(1) shall have been made or caused to be made in accordance with the terms thereof, or

(2) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment,

(i) moneys sufficient to make such payment, and/or

(ii) Defeasance Obligations maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to make such payment, and

(b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to the bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

At such time as a Bond or Parity Bond shall be deemed to be paid hereunder, as aforesaid, such Bond or Parity Bond shall no longer be secured by or entitled to the benefits of this Resolution, except for the purposes of any such payment from such moneys or Defeasance Obligations and such Bond or Parity Bond and the debt service thereon refunded pursuant to this Article X shall not thereafter be charged against the District for purposes of Sections 5.01(a) or 5.02 hereof.

Notwithstanding the foregoing, no deposit under clause (a)(2) above shall be deemed a payment of such Bond or Parity Bond as aforesaid until the earlier of: (i) proper notice of redemption of such Bond or Parity Bond shall have been given in accordance with the provisions of Section 3.05 hereof or the provisions of any Parity Bond, respectively, or, in the event said Bond or Parity Bond is not to be redeemed or prepaid within the next succeeding sixty (60) days, until the District shall have given the Trustee irrevocable instructions in form satisfactory to the Trustee, to notify, as soon as practicable, the registered owner of such Bond or Parity Bond in accordance with Section 3.05 hereof or the provisions of any Parity Bond, respectively, that the deposit required by clause (a)(2) above has been made with the Trustee and that said bond is

deemed to have been paid in accordance with this Article X and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption price, if any, on said Bond or Parity Bond, plus interest thereon to the due date or redemption date thereof; or (ii) the maturity of such Bond or Parity Bond.

Notwithstanding anything to the contrary, no payment by any Bond Insurer of principal of or interest on any Bond or any Parity Bond (or interest therein) shall by itself result in a defeasance of this Resolution with respect to such bond and such principal and interest shall remain due and owing thereon until paid in full.

## ARTICLE XI

### Modification and Amendment

#### Section 11.01. Amendments and Supplements.

(a) The District may adopt, and the Trustee may accept, without notice to or the consent of any registered owners of the Bonds or the Parity Bonds, a resolution amending or supplementing any of the terms or provisions contained in this Resolution for any one or more of the following purposes:

- (1) To cure any ambiguity, formal defect or omission herein;
- (2) To correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder which shall not materially and adversely affect the interests of the registered owners of Bonds or Parity Bonds then Outstanding;
- (3) To grant or confer ratably upon all of the registered owners of Bonds or Parity Bonds then Outstanding, any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them or to add to the covenants of the District such further covenants, restrictions or conditions as the District and the Trustee shall consider to be for the protection of the registered owners of Bonds or Parity Bonds then Outstanding hereunder, and to make the occurrence, or the occurrence and continuance, of a default in compliance with any of such additional covenants, restrictions or conditions an event permitting the enforcement of all or any of the several remedies provided in this Resolution as herein set forth; provided, however, that in respect of any such additional covenant, restriction or condition such supplementary or amendatory resolution may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;
- (4) To comply with the requirements of any state or federal securities laws or to qualify this Resolution under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;
- (5) To create and provide for the issuance of a series of Parity Bonds permitted hereunder and the establishment of reserve funds therefor;

(6) To preserve the exclusion of interest represented by the Bonds or the Parity Bonds the interest income on which is exclude from gross income for purposes of federal or State income taxes, from gross income for purposes of federal or State income taxes and to preserve the power of the District to continue to issue bonds or incur other obligations the interest on which is likewise exempt from federal and State income taxes; and

(7) In regard to questions arising hereunder, as the District and the Trustee may deem necessary or desirable, and which shall not materially adversely affect the interests of the registered owners of Bonds or Parity Bonds then Outstanding hereunder as evidenced by a Bond Counsel's Opinion delivered by the District to the Trustee.

(b) Other than supplementary or amendatory resolutions referred to in subsection (a) hereof and subject to the terms and provisions and limitations contained in this Article XI and not otherwise, any Bond Insurers and the registered owners of a majority in aggregate principal amount of the Bonds and the Parity Bonds then Outstanding (exclusive of Bonds or Parity Bonds disqualified as provided in Section 11.04 hereof) shall jointly have the right, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the adoption by the District and the acceptance by the Trustee of such supplementary or amendatory resolutions as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein, provided, however, nothing in this Section shall permit or be construed as permitting the adoption of a supplementary or amendatory resolution which would:

(1) Extend the stated maturity of or time for paying interest on any Bond or any Parity Bond or reduce the principal amount of or the redemption premium or rate of interest payable on any Bond or any Parity Bond without the consent of the registered owner of such Bond or Parity Bond;

(2) Permit the preference or priority of any Bond or any Parity Bond over any other Bond or any other Parity Bond without the consent of the registered owner of each Bond or Parity Bond then Outstanding not receiving such preference or priority; or

(3) Reduce the aggregate principal amount of Bonds or Parity Bonds then Outstanding the consent of the registered owners of which is required to authorize such supplementary or amendatory resolution without the consent of the registered owners of all Bonds or Parity Bonds then Outstanding.

Section 11.02. Amendment Procedure.

(a) Whenever the District shall propose to amend or modify this Resolution under the provisions of Section 11.01(b) hereof, a copy of such supplementary or amendatory resolution, together with a request to the registered owners of the Bonds or the Parity Bonds then Outstanding for their consent thereto, shall be mailed by the Trustee to each registered owner of the Bonds or the Parity Bonds then Outstanding at the address thereof as set forth on the Bond Register, but failure to mail copies of such supplementary or amendatory resolution and

request shall not affect the validity of the supplementary or amendatory resolution when assented to as provided in this Section.

(b) Such supplementary or amendatory resolution shall not become effective unless there shall be filed with the Trustee the written consent of the registered owners of a majority in aggregate principal amount of all Bonds and Parity Bonds then Outstanding (exclusive of Bonds or Parity Bonds disqualified as provided in Section 11.04 hereof) and a notice shall have been mailed as hereinafter in this Section provided. The consent of a registered owner of a Bond or a Parity Bond shall be effective only if accompanied by proof of ownership of the Bonds or the Parity Bonds for which such consent is given, which proof shall be such as is permitted by Section 11.04 hereof. Any such consent shall be binding upon the registered owner of the Bond or the Parity Bond giving such consent and on any subsequent registered owner (whether or not such subsequent registered owner has notice thereof) unless such consent is revoked in writing by the registered owner giving such consent or a subsequent registered owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this Section provided for has been mailed.

(c) After the registered owners of the required percentage of Bonds and Parity Bonds shall have filed their consents to such supplementary or amendatory resolution, the Trustee shall mail a notice to the registered owners of the Bonds and Parity Bonds in the manner hereinbefore provided in this Section for the mailing of such supplementary or amendatory resolution of the notice of adoption thereof, stating in substance that such supplementary or amendatory resolution has been consented to by the registered owners of the required percentage of Bonds and Parity Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of such supplementary or amendatory resolution or consents thereto). A record, consisting of the papers required by this Section to be filed with the Trustee, shall be conclusive proof of the matters therein stated. Such supplementary or amendatory resolution shall become effective upon the mailing of such last-mentioned notice, and such supplementary or amendatory resolution shall be deemed conclusively binding upon the registered owners of all Bonds and Parity Bonds after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within sixty (60) days.

Section 11.03. Execution of Documents and Proof of Ownership.

(a) Any request, direction, consent, revocation of consent or other instrument in writing required or permitted by this Resolution to be signed or executed by the registered owner of a Bond or Parity Bond may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such registered owner in person or by his attorney or agent appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Bond or Parity Bond. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the ownership of the Bonds and the Parity Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein provided), if made in the following manner:



(1) The fact and date of the execution by such registered owner or the attorney or agent thereof of any such instrument and of any instrument appointing any such attorney or agent, may be proved by a certificate, which need not be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the persons signing such instruments acknowledged the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

(2) The fact of the ownership of the Bonds or the Parity Bonds by any person and the amount, the maturity date and the numbers of such Bonds or Parity Bonds and the date of this holding the same be proved on the Bond Register.

(b) Nothing contained in this Article XI shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which the Trustee may deem sufficient. Any request or consent of the registered owners of the Bonds or the Parity Bonds shall bind every future registered owner of the Bonds or the Parity Bonds in respect of anything done or suffered to be done by the Trustee in pursuance of such request or consent.

Section 11.04. Disqualified Bonds or Parity Bonds. Bonds or Parity Bonds owned or held by or for the account of the District or by any person directly or indirectly controlled by, or under direct or indirect common control with the District (except any Bonds or Parity Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Bonds or Parity Bonds provided for in this Resolution and shall not be entitled to vote upon, consent to, or take any other action provided for herein; provided, however, that in determining whether the Trustee shall be protected in relying upon any such approval or consent of a registered owner of Bonds or Parity Bonds, only Bonds or Parity Bonds which an officer of the Trustee actually knows to be owned or held by the District, or by any person directly or indirectly controlled by, or under direct or indirect common control with the District (except any Bonds or Parity Bonds held in any pension or retirement fund) shall be deemed not to be Outstanding unless all Bonds or Parity Bonds (or interests therein) are so owned, in which case such Bonds or Parity Bonds shall be considered Outstanding for the purpose of such determination.

Section 11.05. Effect of Amendment. From and after the time any supplementary or amendatory resolution becomes effective pursuant to this Article XI, this Resolution shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the District, the Trustee and all registered owners of Bonds and Parity Bonds Outstanding, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplementary or amendatory resolution shall be deemed to be part of the terms and conditions of this Resolution for any and all purposes. The Trustee may require each registered owner of Bonds or Parity Bonds, before his consent provided for in this Article XI shall be deemed effective, to reveal whether the Bonds or the Parity Bonds as to which such consent is given are disqualified as provided in Section 11.04 hereof.

## ARTICLE XII

### Execution of Instruments; Authorization of Documents; Ratification of Actions

Section 12.01. Execution. The Authorized Representatives and any other appropriate officer of the District are each hereby authorized and empowered, without further order or action of the District, to complete, execute and deliver the Payment Agreement, the Purchase Agreement, any bond registrar, transfer agent and paying agent agreement in customary form, instruments, certificates and proceedings as are necessary or convenient to provide for the sale and execution and delivery of the Bonds, including the execution and delivery of any agreement and payment of any premium required in connection with the purchase of bond insurance as provided in Article XIII of this Resolution, to establish the various funds, accounts, and subaccounts herein created and described in this Resolution, and to consummate and evidence compliance with all of the terms and conditions of this Resolution.

Section 12.02. Authorization of Official Statement and Undertaking; Adoption of Procedures.

(a) (i) The dissemination by the Underwriter of the Preliminary Official Statement is hereby approved, and (ii) the preparation of and delivery to, and use by, the Underwriter of the Official Statement in substantially the form of the Preliminary Official Statement with such modifications and revisions as are necessary to conform to the terms of the Purchase Agreement are hereby authorized and approved. Any of the Authorized Representatives are hereby authorized to deem the Preliminary Official Statement "final" for purposes of Rule 15c2-12(b) in accordance with the Securities Exchange Act of 1934, as amended, and to execute and deliver the Official Statement on behalf of the District.

(b) The Authorized Representatives are hereby authorized and directed to execute and deliver the Undertaking, which is hereby approved, with such additions, deletions and modifications as shall be approved by the Authorized Representatives, the execution and delivery thereof to constitute conclusive evidence of the applicable Authorized Representative's approval of such additions, deletions and modifications. The Authorized Representatives are hereby further authorized to take all such actions and do all such things as are necessary or appropriate to carry out the obligations pursuant to, and the general terms and intent of, the Undertaking.

(c) The Procedures are hereby adopted to establish policies and procedures related to the purposes set forth in the Recitals hereto. The right to use discretion as necessary and appropriate to make exceptions or request additional provisions with respect to the Procedures as may be determined is hereby reserved. The right to change the Procedures from time to time, without notice, is also reserved.

Section 12.03. Ratification of Actions. All actions of the officers and agents of the District including the District Board and the Authorized Representatives which conform to the purposes and intent of this Resolution and which further the issuance and sale of the Bonds as contemplated by this Resolution, whether heretofore or hereafter taken, are hereby ratified, confirmed and approved. The proper officers and agents of the District are hereby authorized

and directed to do all such acts and things and to execute and deliver all such documents on behalf of the District as may be necessary to carry out the terms and intent of this Resolution.

Section 12.04. Forms, Terms and Provisions, and Execution and Delivery, of Actions. The forms, terms and provisions of the Actions in substantially the forms thereof presented at the meeting at which this Resolution is adopted, are hereby approved, with such insertions, deletions and changes as are not inconsistent herewith and as are approved by the officer authorized to execute the Actions, and, simultaneously with the issuance of the Bonds and the Closing, the Chairperson of the District Board is hereby authorized to execute and deliver the Actions.

### ARTICLE XIII

#### Bond Insurance

Section 13.01. Purchase of Bond Insurance. The Authorized Representatives are hereby authorized and empowered (i) to purchase insurance from a Bond Insurer with respect to payments of debt service on the Bonds and (ii) to pay the premium therefor from the proceeds of the Bonds if the Authorized Representatives determine that the present value of the premium payable on the issue date of the Bonds is less than the present value of the interest expected to be saved on the Bonds as a result of such insurance, as provided in section 1.148-4(f) of the Treasury Regulations.

Section 13.02. Insurance Agreement. The Authorized Representatives are hereby authorized and directed to execute and deliver an insurance agreement, providing the terms and provisions of the insurance described in Section 13.01 hereof. The Authorized Representatives are hereby further authorized to take all such actions and do all such things as are necessary or appropriate to carry out the obligations of the District pursuant to, and the general terms and intent of, such agreement.

### ARTICLE XIV

#### Miscellaneous

Section 14.01. Partial Invalidity. It is the intention hereof to confer upon the District all of the powers provided under the laws of the State in connection with the issuance of the Bonds, as hereinabove provided, and if any one or more sections, clauses, sentences or parts of this Resolution shall for any reason be determined by a court of competent jurisdiction to be unconstitutional or invalid for any reason, such determination shall not affect, impair or invalidate the remaining provisions hereof, but shall be confined to the specific section, clause, sentence and part so determined and all ordinances and resolutions or parts thereof in conflict herewith be and the same are hereby repealed. The District Board hereby declares that it would have adopted this Resolution and each and every specific section, paragraph, sentence, clause or phrase hereof and would have authorized the sale, issuance and delivery of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of this Resolution may be held illegal, invalid or unenforceable.

Section 14.02. Ratification of Actions. All action of the officers and agents of the District which conform to the purposes and intent of this Resolution which further the issuance of the Bonds as contemplated by this Resolution, whether heretofore or hereafter taken, shall be and are hereby ratified, confirmed and approved. The proper officers and agents of the District are hereby authorized and directed to do all such acts and things and to execute and deliver all such documents on behalf of the District as may be necessary to carry out the terms and intent of this Resolution.

Section 14.03. Repeal of Conflicting Resolution, Ordinances and Orders. All resolution, ordinances and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent to such conflict, hereby repealed.

Section 14.04. Resolution a Contract. This Resolution shall remain in full force and effect until all of the Bond and the Parity Bonds are no longer Outstanding. The provision of this Resolution shall constitute a contract between the District and the registered owners of the Bond and the Parity Bonds from time to time, and no change, variation or alteration of any kind in the provisions of this Resolution shall be made in any manner, except as provided in Article XI hereof, until such time as all the Bonds and the Parity Bonds and interest due thereon have been paid in full.

## ARTICLE XV

### Obligations of Municipality and District

No registered owners of the Bonds or the Parity Bonds may compel any exercise of the taxing power of the District, the Company or the Municipality to pay the Bonds or the Parity Bonds or the interest thereon. (Neither the District or the Company have taxing power.) The Bonds and the Parity Bonds are not a debt of the District, the Company or the Municipality, nor is the payment of the Bonds or the Parity Bonds enforceable out of any moneys other than the Net Agreement Payments. Nothing contained in this Resolution or any other instrument shall be construed as obligating or as incurring a charge upon the general credit of the District, the Company or the Municipality nor shall the breach of any agreement contained in this Resolution or any other instrument or documents executed in connection therewith impose any charge upon the general credit of the District, the Company or the Municipality.

[Signature page follows.]

PASSED AND ADOPTED on this 27th day of July 2021.

.....  
Les Peterson, Chairperson  
Town of Carefree, Arizona Utilities Community  
Facilities District

ATTEST:

.....  
Kandace French Contreras, District Clerk  
Town of Carefree, Arizona Utilities Community Facilities District

APPROVED AS TO FORM:

.....  
Michael Wright, District Counsel  
Town of Carefree, Arizona Utilities Community Facilities District

ACCEPTANCE

U.S. Bank National Association, having been appointed as Trustee by and pursuant to the foregoing Resolution, hereby accepts the duties and obligations imposed upon it in such capacities by such Resolution.

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By.....  
Authorized Representative

EXHIBIT "A"

**FORM OF NOTICE OF HEARING ON REPORT AND ISSUANCE**

NOTICE FOR HEARING REQUIRED BY A.R.S. §§48-715 AND 48-720 ON A REPORT OF THE FEASIBILITY AND BENEFITS OF CERTAIN PROJECTS TO BE FINANCED WITH THE PROCEEDS OF THE SALE OF REVENUE BONDS OF TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT AND ON THE ISSUANCE OF SUCH REVENUE BONDS

Pursuant to Sections 48-715 and 48-720, Arizona Revised Statutes, notice is hereby given that a public hearing on a report of the feasibility and benefits of projects to be financed with the proceeds of the sale of certain revenue bonds of Town of Carefree, Arizona Utilities District (the "District") and on the question of authorizing the board of directors of the District to issue such revenue bonds to provide moneys for any public infrastructure purposes described in such report (particularly to acquire certain property (including certain water rights) relating to an area within the Town of Carefree, Arizona, which is currently receiving water service from the Town of Cave Creek, Arizona, and to make certain improvements to the waterworks system of the District) shall be held by the board of directors of the District on July 27, 2021, at 3:30 PM, in the Council Chambers of the Mayor and Common Council of the Town of Carefree, Arizona, located at 100 Easy Street, Carefree, Arizona. Such report is on file with the Town Clerk of the Town of Carefree, Arizona/District Clerk of Town of Carefree, Arizona Utilities Community Facilities District, 100 Easy Street, Carefree, Arizona 85377, telephone number: (602) 488-3686.

Dated this 16th day of July, 2021.

/s/ Greg Crossman

District Manager, Town of Carefree, Arizona  
Utilities Community Facilities District

EXHIBIT "B"

(FORM OF BONDS)

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.\*

REGISTERED  
NO. R-.....

REGISTERED  
\$.....

UNITED STATES OF AMERICA  
STATE OF ARIZONA

TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
WATER SYSTEM REVENUE BOND, SERIES 2021

Interest Rate:	Maturity Date:	Dated Date:	CUSIP:
.....%	July 1, 20....	....., 2021	.....

REGISTERED OWNER: CEDE & CO.\*

PRINCIPAL AMOUNT: .....

The Town of Carefree, Arizona Utilities Community Facilities District (the "District"), hereby acknowledges itself indebted to, and for value received promises to pay to, the Registered Owner identified above, or registered assigns as hereinafter provided, but only out of the income and revenues pledged for that purpose as hereinafter provided, and not otherwise, on the Maturity Date identified above, the Principal Amount identified above and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) on such Principal Amount from the date of this Bond or from the most recent interest payment date to which interest has been paid at the Interest Rate per annum set forth above on January 1 and July 1 of each year, commencing ..... 1, 20...., until said Principal Amount is paid, except as the provisions hereinafter set forth with respect to redemption prior to maturity may be and become applicable hereto.

\* Insert so long as DTC is the Securities Depository.



Principal of this Bond is payable in lawful money of the United States of America at the designated office of the Trustee, which on the initial date of issue is ..... Payment of interest will be made to the Registered Owner hereof on the registration books of the District maintained by the Trustee at the close of business on the fifteenth (15th) day of the month next preceding the interest payment date by check or draft of the Trustee mailed to the address of the Registered Owner as it appears on the registration books or at another address furnished in writing by the Registered Owner to the Trustee; provided, however, that a Registered Owner of \$1,000,000 or more in aggregate principal amount of the Bonds may receive payment of interest by wire transfer to any bank or trust company in the continental United States of America upon not less than ten (10) days' prior written notice to the Trustee.

This Bond is one of a total authorized issue of \$..... in aggregate principal amount (the "Bonds") issued by the District pursuant to the Constitution and laws of the State of Arizona and authorized by Resolution No. .... (the "Resolution") duly adopted and enacted by the Board of Directors of the District on July 27, 2021, to provide funds for the purposes provided by the Resolution.

The Bonds and any bonds hereafter issued on a parity herewith, as provided in the Resolution, are payable solely and ratably from a pledge of, and secured by a first lien on and a security interest in, the Agreement Payments (as defined in the Resolution), to the extent necessary for the prompt and punctual payment of the Bonds.

The District has covenanted and is by law required to establish, maintain and collect rates, fees and charges for all water and services provided by the water utility system owned by the Carefree Water Company, Inc., all of the capital stock of which is owned by the District, sufficient in all respects to pay the operation and maintenance expenses of the water utility system and to pay the Agreement Payments, which are to be adequate to pay principal of and interest on all obligations payable from the revenues derived therefrom, including the series of Bonds of which this Bond is one.

For further definitions, a description of the terms on which the Bonds are issued, a more complete statement of the income and revenues from which, and conditions under which, this Bond is payable, the conditions under which parity bonds may be authorized and issued or incurred, a statement of the terms pursuant to which the Resolution may be modified, supplemented or amended, a statement of the general covenants and provisions pursuant to which this Bond and any parity bond is issued, and of the rights of the Registered Owners of the Bonds, and any parity bonds, reference is made to the Resolution, and to all the provisions thereof the Registered Owner hereof, by acceptance of this Bond, consents and agrees.

The Bonds maturing before or on July 1, ....., are not subject to call for redemption prior to maturity. The Bonds maturing on or after July 1, ....., are subject to call for redemption prior to maturity, at the option of the District, on or after July 1, ....., in whole or in part at any time, by the payment of the principal amount of each Bond called for redemption plus accrued interest to the date fixed for redemption, but without a premium.

The Bonds maturing on July 1, ....., are subject to mandatory redemption prior to maturity, by lot, as selected by the Trustee, at a redemption price of par plus accrued interest to

the date of redemption, but without premium, on the following dates and the in the following principal amounts:

Year (July 1)	Amount
------------------	--------

A remaining principal amount of \$.....,000 of Bonds maturing on July 1, ....., shall mature on July 1, .....

[Insert provisions for extraordinary redemption, if applicable.]

Notice of any redemption, unless waived, will be sent by registered or certified mail not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to each Registered Owner of the Bonds to be redeemed at the address shown on the Bond Register of the District maintained by the Trustee or at such other address as is furnished in writing by such Registered Owners to the Trustee. When so called for redemption, this Bond or appropriate portion hereof will cease to bear interest on the specified redemption date, provided funds for redemption are on deposit at the place of payment at that time, and will not be deemed to be outstanding within the meaning of the Resolution.

This Bond is transferable by the Registered Owner hereof in person or by the Registered Owner's attorney duly authorized in writing at the designated office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Resolution, and upon surrender and cancellation of this Bond. Upon such transfer, a new Bond or Bonds of authorized denominations of the same maturity and for the same aggregate principal amount will be issued to the transferee in exchange therefor.

The Bonds are issued in fully registered form in the denomination of \$5,000 each or integral multiples thereof. This Bond may be exchanged at the designated corporate trust office of the Trustee for a like aggregate principal amount of Bonds of the same maturity of other authorized denominations upon the terms set forth in the Resolution.

The Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any fees, taxes and costs required by law or permitted by the Resolution in connection with the transfer or exchange of this Bond. Should this Bond be submitted to the Trustee for transfer during the period commencing after the close of business on the Record Date and continuing to and including the day preceding the next succeeding interest payment date, ownership will be transferred in the normal manner but the interest payment on such interest payment date will be made payable to and mailed to the owner shown on the registrar's books at the close of business on the Record Date.

The District and the Trustee may deem and treat the Registered Owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof,

premium (if any) hereon and interest due hereon and for all other purposes, and none of the District, the Trustee or the Trustee will be affected by any notice to the contrary.

This Bond does not constitute an obligation or indebtedness or a pledge of the general credit of the District within the meaning or application of any Constitutional, charter or statutory limitation or provision, and the Registered Owner hereof will not have the right to compel any exercise of the taxing power of the District or to demand payment of this Bond or interest here on out of any funds other than the Net Revenues pledged for payment thereof.

This Bond and all bonds that may hereafter be issued as parity bonds, as provided in the Resolution are co-equal as to the pledge of, lien on and security interest in all such income and revenues for the payment thereof, and share ratably without any preference, priority or distinction as to the source or method of payment and security thereof.

It is hereby certified and recited that all acts, conditions and things required to exist, to happen and to be performed precedent to and in the issuance of this Bond have existed, have happened and have been performed in due form, time and manner as required by law, and that the amount of this Bond, and the series of which it is one, do not exceed any limit prescribed by the Constitution or statutes of the State of Arizona.

This Bond is not valid or an obligation for any purpose until the certificate of authentication hereon has been signed by an authorized representative the Trustee.

[Signature page follows.]

IN WITNESS WHEREOF, the District has caused this Bond to be signed by the duly authorized manual or facsimile signature of its Chairperson and attested by the duly authorized manual or facsimile signature of its District Clerk, all as of the Dated Date identified above.

TOWN OF CAREFREE, ARIZONA UTILITIES  
COMMUNITY FACILITIES DISTRICT

By..... (Facsimile).....  
Chairperson

ATTEST:

(Facsimile)

.....  
District Clerk

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in the within-mentioned Resolution and is one of the District of Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds, Series 2021.

Date of Authentication: .....

.....,  
as Trustee

By.....  
Authorized Representative

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

.....  
(Name and Address of Transferee)  
the within Bond and irrevocably constitutes and appoints .....  
attorney to transfer the within Bond on the books kept for registration thereof, with full power of  
substitution in the premises.

Dated: .....  
Signature

Signature Guaranteed:  
.....  
Signature

[Insert proper legend]

Note: The signature(s) on this assignment must correspond with the name(s) as it appears upon the face of the within Bond in every particular, without alteration or any change whatsoever.

The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

- TEN COM - as tenants in common
- TEN ENT - as tenants by the entireties
- JT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT - ..... Custodian .....  
(Cust) (Minor)

under Uniform Gifts to Minors Act .....  
(State)

Additional abbreviations may also be used though not included in the above list.

ALL FEES AND COSTS OF TRANSFER  
SHALL BE PAID BY THE TRANSFEROR

CERTIFICATION

I hereby certify that the foregoing Resolution No. .... was duly passed and adopted by the Board of Directors of Town of Carefree, Arizona Utilities Community Facilities District, at a regular meeting held on the 27th of July, 2021, and the vote was ..... ayes and ..... nays and that ..... Board members were present thereat.

.....  
Kandace French Contreras, District Clerk  
Town of Carefree, Arizona Utilities Community  
Facilities District

DRAFT  
05/26/21  
07/20/21

**PAYMENT AGREEMENT  
AND  
COLLATERAL ASSIGNMENT OF RIGHTS  
AND REMEDIES THEREUNDER**

**\$\_\_\_\_,000  
TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
WATER SYSTEM REVENUE BONDS  
SERIES 2021**

THIS PAYMENT AGREEMENT AND COLLATERAL ASSIGNMENT OF RIGHTS AND REMEDIES HEREUNDER, dated as of \_\_\_\_ 1, 2021 (this "Agreement"), by and among CAREFREE WATER COMPANY, INC. (the "Company"), TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT (the "District") and U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee");

**W I T N E S S E T H:**

WHEREAS, pursuant to a resolution duly adopted by the Board of Directors (the "Board") of the District on July 27, 2021 (the "Bond Resolution"), the Board authorized the sale and issuance of \$\_\_\_\_ principal amount of Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds, Series 2021 (the "Bonds");

WHEREAS, pursuant to section 48-709 Arizona Revised Statutes, the District may, to further the General Plan of the District, enter into this Agreement for the "public infrastructure purpose" provided in Section 48-701(14) of providing for timely payment of debt service on the Bonds and to obtain credit enhancement for the Bonds;

WHEREAS, pursuant to this Agreement, the Company, in consideration of the issuance of the Bonds, is committing to pay certain amounts to the District;

WHEREAS, the District warrants and represents to Trustee that the hereinafter defined Assigned Rights have not been amended, are in full force and effect and have not been assigned by the District, and there are no defaults or events of default, however defined, by either party thereunder; and

WHEREAS, the Company warrants and represents to the Trustee that the Assigned Rights has not been amended, are in full force and effect and have not been assigned by the Company, and there are no defaults or events of default, however defined, by either party thereunder;



NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter contained, including, specifically, the obligation of the District to pay debt service on the Bonds and the hereinafter defined Parity Bonds, the parties hereby agree as follows:

Section 1. The terms used in this Agreement shall have the respective meanings assigned to them in the Bond Resolution unless the context or use requires a different meaning or intent.

Section 2. The term of this Agreement shall be for so long as debt service with respect to the Bonds or the Parity Bonds remains unpaid or unprovided for pursuant to the Bond Resolution. Upon full payment or provision for payment of debt service with respect to the Bonds and the Parity Bonds and in consideration of the timely payment of all of the Agreement Payments and provided that the Company has performed all the covenants and agreements required by the Company to be performed hereunder, this Agreement shall cease.

Section 3. (A) (i) The Company shall pay the Agreement Payments to the District. The Agreement Payments shall be an absolute net return to the District, free and clear of any expenses or charges whatsoever. The obligations of the Company to make the Agreement Payments from the sources described in this Section and to comply with the other provisions of this Section shall be absolute and unconditional and shall not be subject to any defense or any right of set-off, abatement, counterclaim, or recoupment arising out of any breach by the District of any obligation to the District or otherwise, or out of indebtedness or liability at any time owing to the Company by the District. The Company (a) shall not suspend or discontinue the same, (b) shall comply with the other provisions of this Section and (c) shall not terminate this Section for any cause, including, without limiting the generality of the foregoing, the failure of the District to provide for matters with regard to the Water System, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System or the taking by eminent domain of title to or temporary use of any or all of the Water System, commercial frustration of purpose, abandonment of the Water System by the District, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the District to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. Nothing contained in this Section shall be construed to release the District from the performance of any of the agreements on its part contained in this Section and in the event the District shall fail to perform any such agreements on its part, the Company may institute such action against the District as the Company may deem necessary to compel performance so long as such action does not abrogate the obligations of the Company contained in the first sentence of this paragraph.

(ii) Any of the Agreement Payments due on a day which is not a business day may be made on the next business day and will be deemed to have been made on the date due.

(iii) The Agreement Payments shall be paid by the means specified by the District in writing to the Company.

(iv) The Company shall remit to the District from the Net Revenues all amounts due under this Section in the amounts and at the times and for the purposes as required herein.

(v) The Company may provide for the payment of any of the Agreement Payments in same fashion as prescribed in Article X of the Bond Resolution for the Bonds and the Parity Bonds corresponding of the Agreement Payments.

(B) (i) The Agreement Payments authorized hereunder are payable solely from a pledge of, and are secured solely by a first lien on, and a security interest in, the Net Revenues to the extent necessary for the prompt and punctual payment of the principal of and interest on the Bonds and the Parity Bonds. The District shall prescribe fees and charges, and shall revise them when necessary, to generate the Net Revenues sufficient, together with any moneys from the sources described in the Enabling Act, to pay when due the Agreement Payments. The establishment or revision of any fees and charges with respect to the Water System shall be identified and noticed concurrently with the annual budget process of the District pursuant to the Enabling Act. The pledge of, and lien on and security interest in, the Net Revenues is hereby irrevocably made and created for the prompt and punctual payment of the Agreement Payments, according to their terms, and to create and maintain the funds and accounts and to make the payments hereafter specified in this Article IV. None of the Agreement Payments shall be entitled to priority or distinction one over the other in the application of the Net Revenues hereby pledged to the payment thereof. All of the Agreement Payments are co-equal as to the pledge of, and lien on, the Net Revenues and share ratably, without preference, priority or distinction, as to the source or method of payment or security therefor.

(ii) The Net Revenues in excess of amounts, if any, required for payments due under this Section shall constitute surplus revenues and may be used by the Company for any lawful purpose for the benefit of the Company, including the payment of obligations to which the Net Revenues may, from time to time, be pledged on a basis subordinate hereto. If at any time the moneys for payment of amounts due under this Section are not sufficient to make the deposits and transfers required, any such deficiency shall be made up from the first moneys thereafter received and available for such transfers under the terms of this Section and, with respect to payment from the Net Revenues, *prorata*, as applicable, with amounts due with respect to the Bonds and the Parity Bonds, and the transfer of any such sum or sums as may be necessary to make up any such deficiency shall be in addition to the then-current transfers required to be made pursuant hereto.

(C) (i) The District shall establish and maintain schedules of rates, fee and charges for all water and services supplied by the Water System, and shall revise them when necessary, to comply with the requirements of Section 5.01(a) of the Bond Resolution.

(ii) The Company shall establish and thereafter maintain so long as any of the Bonds or the Parity Bonds are Outstanding, a separate and special fund hereby designated the "Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds - Revenue Fund," which shall be established with and maintained by the Company in a bank or banks doing business in the State whose deposits are insured by the Federal Deposit

Insurance Corporation. All Gross Revenues shall be deposited as received to the Revenue Fund. Moneys in the Revenue Fund, after providing sufficient moneys for the Operation and Maintenance Expenses, shall be transferred to the following accounts in the following manner and in the following order to be held, invested, used and withdrawn only for the purposes hereinafter authorized:

(a) On or before the third Monday in each month, commencing \_\_\_\_\_, 20\_\_, there shall be paid by the Company from the Revenue Fund to the District for deposit to the Interest Account of the Debt Service Fund moneys in any amount equal to one-sixth of the next ensuing semiannual interest payment on the Bonds and the Parity Bonds until the amount paid into the Interest Account of the Debt Service Fund, together with any amount then on deposit in the Interest Account of the Debt Service Fund (including the principal amount of any investments therein), is equal to the next ensuing semiannual interest payment on the Bonds and the Parity Bonds as well as any amounts then due to the Trustee including in its capacity as bond registrar and paying agent for the Bonds and the Parity Bonds.

(b) On or before the third Monday of each month, commencing \_\_\_\_\_, 20\_\_, there shall be paid by the Company from the Revenue Fund to the District for deposit to the Principal Account of the Debt Service Fund moneys in an amount equal to one-sixth, and commencing in \_\_\_\_\_, 20\_\_, equal to one-twelfth, of the principal payment which will become due on the Bonds and the Parity Bonds in the next ensuing Fiscal Year until the amount paid into the Principal Account of the Debt Service Fund, together with any amount then on deposit in the Principal Account of the Debt Service Fund, is equal to the principal payment on the Bonds and the Parity Bonds in the next ensuing Fiscal Year.

(iii) Following the payments described in subparagraphs (ii)(a) and (b) above, the Company shall apply the moneys in the Revenue Fund to the payment, as necessary or deemed appropriate by the Company, of the costs of renewals or replacements of the Water System, amounts due under water purchase contracts and payments of principal of and interest on subordinate obligations of the District issued or incurred for water utility purposes.

(D) The District shall only issue the Parity Bonds under the circumstances described in Section 5.02 of the Bond Resolution. The District shall not issue or incur obligations superior in lien to the Bonds or the Parity Bonds.

(E) (i) Upon (a) the nonpayment of the whole or any part of any of the Agreement Payments at the time when the same are to be paid as provided in this Section, (b) the violation by the Company of any other covenant or provision of this Section, or (c) the insolvency or bankruptcy of the Company as the same may be defined under any law of the United States of America or the State, or any voluntary or involuntary action of the Company or others to take advantage of, or to impose, as the case may be, any law for the relief of debtors or creditors, including a petition for reorganization, and

(ii) if such default has not been cured (a) in the case of nonpayment of any of the Agreement Payments as required hereunder on the due date or the nonpayment of principal and interest due with respect to the Bonds or the Parity Bonds on their due dates; (b) in the case of the breach of any other covenant or provision of this Section not cured within thirty

(30) days after notice in writing from the District specifying such default and (c) in the case of any other default under any of the Bonds or the Parity Bonds after any notice and passage of time provided for under the proceedings under which such obligations were issued then,

(iii) the District has the same remedies as provided to the Trustee in Section 8.01 of the Bond Resolution as may appear necessary or desirable to collect the Agreement Payments and any other amounts payable by the Company under this Section then due (but not the Agreement Payments and such other amounts accruing), or to enforce, performance and observance of any pledge, obligation, agreement or covenant of the Company under this Section, and with respect to the Net Revenues, without notice and without giving any bond or surety to the Company or anyone claiming under the Company, have a receiver appointed of the Net Revenues which are pledged to the payment of amounts due under this Section, with such powers as the court making such appointment shall confer (and the Company does hereby irrevocably consent to such appointment); provided, however, that under no circumstances may the Agreement Payments be accelerated.

(iv) Each right, power and remedy of the District provided for in this subsection shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for herein, or, unless prohibited by the terms hereof, now or hereafter existing at law or in equity or by statute or otherwise, in any jurisdiction where such rights, powers and remedies are sought to be enforced, and the exercise or beginning of the exercise by the District of any one or more of the rights, powers or remedies provided for herein or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by either party of any or all of such other rights, powers or remedies. The failure to insist upon strict performance of any of the covenants or agreements in this Section set forth shall not be considered or taken as a waiver or relinquishment for the future of the rights of the District to insist upon a strict compliance by the Company with all the covenants and conditions of this Section. The Company shall, upon not less than 10 days' prior request by the District, execute, acknowledge and deliver to the District a statement in writing certifying that this Section is unmodified and in full force and effect (or, if this Section has been modified, that it is in full force and effect except as modified, and stating the modification), and the dates to which the amounts payable hereunder have been paid in advance, if any.

(F) The District shall in no event be in default in the performance of any of its obligations hereunder unless and until the District shall have failed to perform such obligation within thirty (30) days or such additional time as is reasonably required to correct any such default after notice by the Company properly specifying wherein the District has failed to perform any such obligation. No default by the District shall relieve the Company of its obligations to make the various payments herein required, so long as the Bonds or the Parity Bonds remain Outstanding; however, the Company may exercise any other remedy available at law or in equity to require the District to remedy such default so long as such remedy does not interfere with or endanger the payments required to be made for the Bonds or the Parity Bonds.

(G) Except as otherwise provided in Section 6 hereof, the Company shall not assign, transfer, pledge or hypothecate or otherwise dispose of any interest in this Section, and any assignment in contravention hereof shall be void.

(H) Any term or provision of this Section found to be prohibited by law or unenforceable or which would cause this Section to be invalid, prohibited by law or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without, to the extent reasonably possible, causing the remainder of this Section to be invalid, prohibited by law or unenforceable.

Section 4. In order to secure, to the extent provided by this Agreement, the payment of principal of and interest on the Bonds and the Parity Bonds, the rights of the registered owners of the Bonds and the Parity Bonds and the performance and the observance of the Assigned Rights, the District absolutely and irrevocably pledges and assigns to the Trustee the Assigned Rights, for the equal and proportionate benefit and security of the registered owners, from time to time, of the Bonds and the Parity Bonds, none of the Bonds and the Parity Bonds being entitled to priority or distinction one over the other in the application of the Agreement Payments, regardless of the delivery of any of the Bonds or the Parity Bonds prior to the delivery of any other of the Bonds or the Parity Bonds, or regardless of the time or times principal represented by the Bonds or the Parity Bonds is paid or is subject to redemption with respect to principal represented thereby, all of the Bonds or the Parity Bonds being co-equal as to the pledge of and lien on the Agreement Payments and sharing ratably, without preference, priority or distinction, as to the source or method of payment or security therefor. Conditioned, however, that if District shall well and truly pay or cause to be paid fully and promptly when due all indebtedness, liabilities, obligations and sums at any time secured by this Agreement, including interest and attorneys' fees, and shall promptly, faithfully and strictly keep, perform and observe or cause to be kept, performed and observed all of its covenants, warranties and agreements contained in this Agreement, the assignment provided by this Section shall be and become void and of no further force and effect; otherwise, the same shall remain in full force and effect, and upon the trust and subject to the covenants and conditions herein set forth. This assignment shall not release or affect in any way the other obligations of the District to the Company or the Company to the District, pursuant to this Agreement, and notwithstanding any provision of this assignment, nothing herein contained shall increase the obligations of the Company under the Assigned Rights.

Section 5. (A) The Water System will be maintained in good repair and working order and operated efficiently by the Company, and the Gross Revenues will be segregated and applied in the manner provided herein.

(B) The Company will not permit free water or service to be supplied by the Water System to any person, firm or corporation, public or private, to any public agency or instrumentality other than for necessary emergency municipal services.

(C) The Company will keep proper books, records and accounts covering the operation of the Water System in accordance with standard accounting practices and procedures customarily used for systems of similar nature.

(D) The Company will purchase and maintain casualty insurance on all above-ground components of the Water System on a replacement cost basis, with a deductible which may be no more than one-half percent (.5%) of the replacement value of the Water System. In addition, public liability insurance, which may include self-insurance, in such

amounts and with such coverages as would be reasonable and prudent as determined by an Independent Consultant will be purchased or maintained.

(E) The Company will not dispose or allow the disposition of the entire Water System. (The Company shall remain the sole shareholder of the Company and not dispose or allow the disposition of the ownership or, except as provided in this subsection, the assets of the Company.) Surplus land and obsolete or depreciated machinery may be sold, and the proceeds deposited in the Revenue Fund. If any other portion of the Water System is sold, the proceeds of the sale will be deposited in the Principal Account of the Debt Service Fund unless the Net Revenues of the remaining portion of the Water System, as estimated by an Independent Consultant, will be sufficient to meet the coverage requirements of Section 5.01 (a) of the Bond Resolution and in such event the proceeds may be deposited in the Revenue Fund or the Principal Account of the Debt Service Fund at the discretion of the District. The Independent Consultant, in estimating the Gross Revenues of the remaining portion of the Water System, will make his estimate in the same manner and using the same rates and projections as used in Section 5.02 of the Bond Resolution for calculation of the requirements for Parity Bonds; except that the Net Revenues received from that portion of the Water System no longer owned by the Company will not be used in such computation.

(F) The Company will, from time to time, duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges, if any, lawfully imposed upon all or any part of the Water System or the Gross Revenues therefrom, as well as any lawful claims for labor, materials or supplies which if unpaid might by law become a lien or charge upon all or any part of the Water System or the Gross Revenues or which might impair the security of the Bonds and the Parity Bonds. The foregoing sentence will not require the Company to pay or cause to be paid any such tax, assessment, charge or claim so long as the Company is in good faith contesting its legal obligation to pay or cause to be paid such tax, assessment, charge or claim.

(G) The Company will not permit the operation of any competing water system in the District.

(H) The Water System will be operated by the Company on sound business principles, and the Company will employ competent and experienced management for the Water System, will use its best efforts to see that the Water System is at all times operated and maintained in good repair and condition and will use its best efforts to see that the cost of such maintenance and operation is at no time in excess of the money reasonably available for the payment thereof.

(I) If all or any part of the Water System shall be taken by eminent domain proceedings or other proceedings authorized by law, the net proceeds realized therefrom will be deposited in the Principal Account of the Debt Service Fund, subject to the rights of the registered owners of the Bonds and the Parity Bonds to share in such net proceeds equally and ratably in the proportion which the principal amount bears to the total principal amount of all of the Bonds and the Parity Bonds then Outstanding, and without preference or priority of any one Bond or of any one Parity Bond over the other.

Section 6. (A) This Agreement shall for all purposes be governed by and construed in accordance with the laws of the State.

(B) This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors.

(C) This Agreement represents the entire and integrated agreement among the District, the Company and the Trustee and supersedes all prior negotiations, representations or agreements, either written or oral. This Agreement may only be modified or amended for the same purposes and by the same procedures set forth in Article XI of the Bond Resolution as if the same applied to this Agreement.

(D) Except as provided by Section 4, nothing contained in this Agreement shall create a contractual relationship with, or a cause of action in favor of, a third party against the District or the Company.

(E) The failure of the District at any time to require performance by the Company of any provision of this Agreement shall in no way affect the right of the District thereafter to enforce the same. No waiver by the District of any breach by the Company of any provision of this Agreement shall be construed to be a waiver of any succeeding breach of such provision or a waiver of such provision itself.

Section 7. (A) (i) To the extent applicable by provision of law, the Company acknowledges that this Agreement is subject to cancellation pursuant to Section 38-511, Arizona Revised Statutes, the provisions of which are incorporated herein and which provides that the District may within three (3) years after its execution cancel any contract (including this Agreement) without penalty or further obligation made by the District if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the District is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party to the contract with respect to the subject matter of the contract.

(ii) To the extent applicable under Section 41-4401, Arizona Revised Statutes, the Company shall comply with all federal immigration laws and regulations that relate to its employees and its compliance with the "e-verify" requirements under Section 23-214(A), Arizona Revised Statutes. The breach by the Company of the foregoing shall be deemed a material breach of this Agreement and may result in the termination of the services of the Company by the District. The District retains the legal right to randomly inspect the papers and records of the Company to ensure that the Company is complying with the foregoing. The Company shall keep such papers and records open for random inspection during normal business hours by the District. The Company shall cooperate with the random inspections by the District including granting the District entry rights onto its property to perform such random inspections and waiving its respective rights to keep such papers and records confidential.

(iii) Pursuant to Section 35-393, et seq., Arizona Revised Statutes, the Company hereby certifies it is not currently engaged in, and for the duration of this Agreement shall not engage in, a boycott of Israel. The term "boycott" has the meaning set forth

in Section 35-393, Arizona Revised Statutes. If the District determines that the certification of the Company above is false or that it has breached such agreement, the District may impose remedies as provided by law.

(B) (i) To the extent applicable by provision of law, the Trustee acknowledges that this Agreement is subject to cancellation pursuant to Section 38-511, Arizona Revised Statutes, the provisions of which are incorporated herein and which provides that the District may within three (3) years after its execution cancel any contract (including this Agreement) without penalty or further obligation made by the District if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the District is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party to the contract with respect to the subject matter of the contract.

(ii) To the extent applicable under Section 41-4401, Arizona Revised Statutes, the Trustee shall comply with all federal immigration laws and regulations that relate to its employees and its compliance with the "e-verify" requirements under Section 23-214(A), Arizona Revised Statutes. The breach by the Trustee of the foregoing shall be deemed a material breach of this Agreement and may result in the termination of the services of the Trustee by the District. The District retains the legal right to randomly inspect the papers and records of the Trustee to ensure that the Trustee is complying with the foregoing. The Trustee shall keep such papers and records open for random inspection during normal business hours by the District. The Trustee shall cooperate with the random inspections by the District including granting the District entry rights onto its property to perform such random inspections and waiving its respective rights to keep such papers and records confidential.

(iii) Pursuant to Section 35-393, et seq., Arizona Revised Statutes, the Trustee hereby certifies it is not currently engaged in, and for the duration of this Agreement shall not engage in, a boycott of Israel. The term "boycott" has the meaning set forth in Section 35-393, Arizona Revised Statutes. If the District determines that the certification of the Trustee above is false or that it has breached such agreement, the District may impose remedies as provided by law.

Section 8. This Agreement may be executed in several counterparts, each of which shall be deemed an original.

Section 9. The parties hereto agree that the transactions described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.



IN WITNESS WHEREOF, the parties hereto have executed this Payment Agreement as of the day and year first above written.

CAREFREE WATER COMPANY, INC.

By.....  
Authorized Officer

TOWN OF CAREFREE, ARIZONA UTILITIES  
COMMUNITY FACILITIES DISTRICT

By.....  
Chairperson, District Board

ATTEST:

.....  
District Clerk

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By.....  
Authorized Officer

**TOWN OF CAREFREE, ARIZONA UTILITIES  
COMMUNITY FACILITIES DISTRICT**

**WRITTEN POLICIES AND PROCEDURES  
FOR TAX-ADVANTAGED OBLIGATIONS**

**IMPLEMENTED JULY 27, 2021**

Town of Carefree, Arizona Utilities Community Facilities District (the "Issuer") has issued and may in the future issue tax-exempt obligations (including, without limitation, bonds, notes, loans, leases and certificates) (together, "tax-advantaged obligations") that are subject to certain requirements under the Internal Revenue Code of 1986, as amended (the "Code").

The Issuer has established the policies and procedures contained herein (the "Procedures") in order to ensure that the Issuer complies with the requirements of the Code that are applicable to its tax-advantaged obligations. The Procedures, coupled with requirements contained in the arbitrage and tax certificate or other operative documents (the "Tax Certificate") executed at the time of issuance of the tax-advantaged obligations, are intended to constitute written procedures for ongoing compliance with the federal tax requirements applicable to the tax-advantaged obligations and for timely identification and remediation of violations of such requirements.

**A. GENERAL MATTERS.**

1. Responsible Officer. The \_\_\_\_\_ of the Issuer will have overall responsibility for ensuring that the ongoing requirements described in the Procedures are met with respect to tax-advantaged obligations (the "Responsible Officer").
2. Establishment of Procedures. The Procedures will be included with other written procedures of the Issuer.
3. Identify Additional Responsible Employees. The Responsible Officer shall identify any additional persons who will be responsible for each section of the Procedures, notify the current holder of that office of the responsibilities, and provide that person a copy of the Procedures. (For each section of the Procedures, this may be the Responsible Officer or another person who is assigned the particular responsibility.)
  - a. Upon employee or officer transitions, new personnel should be advised of responsibilities under the Procedures and ensure they understand the importance of the Procedures.
  - b. If employee or officer positions are restructured or eliminated, responsibilities should be reassigned as necessary to ensure that all Procedures have been appropriately assigned.
4. Training Required. The Responsible Officer and other responsible persons shall receive appropriate training that includes the review of and familiarity with the contents of the

Procedures, review of the requirements contained in the Code applicable to each tax-advantaged obligation, identification of all tax-advantaged obligations that must be monitored, identification of all facilities (or portions thereof) financed with proceeds of tax-advantaged obligations, familiarity with the requirements contained in the Tax Certificate or other operative documents contained in the transcript, and familiarity with the procedures that must be taken in order to correct noncompliance with the requirements of the Code in a timely manner.

5. Periodic Review. The Responsible Officer or other responsible person shall periodically review compliance with the Procedures and with the terms of the Tax Certificate to determine whether any violations have occurred so that such violations can be timely remedied through the “remedial action” regulations or the Voluntary Closing Agreement Program available through the Internal Revenue Service (“IRS”) (or successor guidance). Such periodic review shall occur at least annually.
6. Change in Terms. If any changes to the terms of the tax-advantaged obligations are contemplated, bond counsel should be consulted. Such modifications could jeopardize the status of tax-advantaged obligations.

**B. IRS INFORMATION RETURN FILING.** The Responsible Officer will confirm that bond counsel has filed the applicable information reports (such as Form 8038-G) for such issue with the IRS on a timely basis, and maintain copies of such form including evidence of timely filing as part of the transcript of the issue. The Responsible Officer shall file the IRS Form 8038-T relating to the payment of rebate or yield reduction payments in a timely manner as discussed in Section F.12. below. The Responsible Officer shall also monitor the extent to which the Issuer is eligible to receive a refund of prior rebate payments and provide for the timely filing for such refunds using an IRS Form 8038-R.

**C. USE OF PROCEEDS.** The Responsible Officer or other responsible person shall:

1. Consistent Accounting Procedures. Maintain or confirm maintenance of clear and consistent accounting procedures for tracking the investment and expenditures of proceeds, including investment earnings on proceeds.
2. Reimbursement Allocations at Closing. At or shortly after closing of an issue, ensure that any allocations for reimbursement expenditures comply with the Tax Certificate.
3. Timely Expenditure of Proceeds. Monitor that sale proceeds and investment earnings on sale proceeds of tax-advantaged obligations are spent in a timely fashion consistent with the requirements of the Tax Certificate.
4. Requisitions. Utilize or confirm the utilization of requisitions to draw down proceeds, and ensure that each requisition contains (or has attached to it) detailed information in order to establish when and how proceeds were spent; review requisitions carefully before submission to ensure proper use of proceeds to minimize the need for reallocations.

5. Final Allocation. Ensure that a final allocation of proceeds (including investment earnings) to qualifying expenditures is made if proceeds are to be allocated to project expenditures on a basis other than “direct tracing” (direct tracing means treating the proceeds as spent as shown in the accounting records for draws and project expenditures). An allocation other than on the basis of “direct tracing” is often made to reduce the private business use of bond proceeds that would otherwise result from “direct tracing” of proceeds to project expenditures. *This allocation must be made within 18 months after the later of the date the expenditure was made or the date the project was placed in service, but not later than five years and 60 days after the date the tax-advantaged obligations are issued (or 60 days after the issue is retired, if earlier).* Bond counsel can assist with the final allocation of proceeds to project costs. Maintain a copy of the final allocation in the records for the tax-advantaged obligation.
6. Maintenance and Retention of Records Relating to Proceeds. Maintain or confirm the maintenance of careful records of all project and other costs (e.g., costs of issuance, credit enhancement and capitalized interest) and uses (e.g., deposits to a reserve fund) for which proceeds were spent or used. These records should be maintained separately for each issue of tax-advantaged obligations for the period indicated under Section G. below.

**D. MONITORING PRIVATE BUSINESS USE.** The Responsible Officer or other responsible person shall:

1. Identify Financed Facilities. Identify or “map” which outstanding issues financed which facilities and in what amounts.
2. Review of Contracts with Private Persons. Review all of the following contracts or arrangements with non-governmental persons or organizations or the federal government (collectively referred to as “private persons”) with respect to the financed facilities which could result in private business use of the facilities:
  - a. Sales of financed facilities;
  - b. Leases of financed facilities;
  - c. Management or service contracts relating to financed facilities;
  - d. Research contracts under which a private person sponsors research in financed facilities; and
  - e. Any other contracts involving “special legal entitlements” (such as naming rights or exclusive provider arrangements) granted to a private person with respect to financed facilities.
3. Bond Counsel Review of New Contracts or Amendments. Before amending an existing agreement with a private person or entering into any new lease, management, service, or research agreement with a private person, consult bond counsel to review such amendment or agreement to determine whether it results in private business use.

4. Establish Procedures to Ensure Proper Use and Ownership. Establish procedures to ensure that financed facilities are not used for private use without written approval of the Responsible Officer or other responsible person.
  5. Analyze Use. Analyze any private business use of financed facilities and, for each issue of tax-advantaged obligations, determine whether the 10 percent limit on private business use (5 percent in the case of “unrelated or disproportionate” private business use) is exceeded, and contact bond counsel or other tax advisors if either of these limits appears to be exceeded.
  6. Remediation if Limits Exceeded. If it appears that private business use limits are exceeded, immediately consult with bond counsel to determine if a remedial action is required with respect to nonqualified tax-advantaged obligations of the issue or if the IRS should be contacted under its Voluntary Closing Agreement Program. If tax-advantaged obligations are required to be redeemed or defeased in order to comply with remedial action rules, such redemption or defeasance must occur within 90 days of the date a deliberate action is taken that results in a violation of the private business use limits.
  7. Maintenance and Retention of Records Relating to Private Use. Retain copies of all of the above contracts or arrangements (or, if no written contract exists, detailed records of the contracts or arrangements) with private persons for the period indicated under Section G. below.
- E. LOAN OF BOND PROCEEDS.** Consult bond counsel if a loan of proceeds of tax-advantaged obligations is contemplated. If proceeds of tax-advantaged obligations are permitted under the Code to be loaned to other entities and are in fact so loaned, require that the entities receiving a loan of proceeds institute policies and procedures similar to the Procedures to ensure that the proceeds of the loan and the facilities financed with proceeds of the loan comply with the limitations provided in the Code. Require the recipients of such loans to annually report to the Issuer ongoing compliance with the Procedures and the requirements of the Code.
- F. ARBITRAGE AND REBATE COMPLIANCE.** The Responsible Officer or other responsible person shall:
1. Review Tax Certificate. Review each Tax Certificate to understand the specific requirements that are applicable to each tax-advantaged obligation issue.
  2. Arbitrage Yield. Record the arbitrage yield of the issue, as shown on IRS Form 8038-G or other applicable form. If the tax-advantaged obligations are variable rate, yield must be determined on an ongoing basis over the life of the tax-advantaged obligations as described in the Tax Certificate.
  3. Temporary Periods. Review the Tax Certificate to determine the “temporary periods” for each issue, which are the periods during which proceeds of tax-advantaged obligations may be invested without yield restriction.

4. Post-Temporary Period Investments. Ensure that any investment of proceeds after applicable temporary periods is at a yield that does not exceed the applicable yield, unless yield reduction payments can be made pursuant to the Tax Certificate.
5. Monitor Temporary Period Compliance. Monitor that proceeds (including investment earnings) are expended promptly after the tax-advantaged obligations are issued in accordance with the expectations for satisfaction of three-year or five-year temporary periods for investment of proceeds and to avoid "hedge bond" status.
6. Monitor Yield Restriction Limitations. Identify situations in which compliance with applicable yield restrictions depends upon later investments (e.g., the purchase of 0 percent State and Local Government Securities from the U.S. Treasury for an advance refunding escrow). Monitor and verify that these purchases are made as contemplated.
7. Establish Fair Market Value of Investments. Ensure that investments acquired with proceeds satisfy IRS regulatory safe harbors for establishing fair market value (e.g., through the use of bidding procedures), and maintaining records to demonstrate satisfaction of such safe harbors. Consult the Tax Certificate for a description of applicable rules.
8. Credit Enhancement, Hedging and Sinking Funds. Consult with bond counsel before engaging in credit enhancement or hedging transactions relating to an issue, and before creating separate funds that are reasonably expected to be used to pay debt service. Maintain copies of all contracts and certificates relating to credit enhancement and hedging transactions that are entered into relating to an issue.
9. Grants/Donations to Governmental Entities. Before beginning a capital campaign or grant application that may result in gifts that are restricted to financed projects (or, in the absence of such a campaign, upon the receipt of such restricted gifts), consult bond counsel to determine whether replacement proceeds may result that are required to be yield restricted.
10. Bona Fide Debt Service Fund. Even after all proceeds of a given issue have been spent, ensure that debt service funds, if any, meet the requirements of a "bona fide debt service fund," i.e., one used primarily to achieve a proper matching of revenues with debt service that is depleted at least once each bond year, except for a reasonable carryover amount not to exceed the greater of: (i) the earnings on the fund for the immediately preceding bond year; or (ii) one-twelfth of the debt service on the issue for the immediately preceding bond year. To the extent that a debt service fund qualifies as a bona fide debt service fund for a given bond year, the investment of amounts held in that fund is not subject to yield restriction for that year.
11. Debt Service Reserve Funds. Ensure that amounts invested in reasonably required debt service reserve funds, if any, do not exceed the least of: (i) 10 percent of the stated principal amount of the tax-advantaged obligations (or the sale proceeds of the issue if the issue has original issue discount or original issue premium that exceeds 2 percent of the stated principal amount of the issue plus, in the case of premium, reasonable

underwriter's compensation); (ii) maximum annual debt service on the issue; or (iii) 125% of average annual debt service on the issue.

12. Rebate and Yield Reduction Payment Compliance. Review the arbitrage rebate covenants contained in the Tax Certificate. Subject to certain rebate exceptions described below, investment earnings on proceeds at a yield in excess of the yield (i.e., positive arbitrage) generally must be rebated to the U.S. Treasury, even if a temporary period exception from yield restriction allowed the earning of positive arbitrage.
  - a. Ensure that rebate and yield reduction payment calculations will be timely performed and payment of such amounts, if any, will be timely made. Such payments are generally due 60 days after the fifth anniversary of the date of issue, then in succeeding installments every five years. The final rebate payment for an issue is due 60 days after retirement of the last obligation of the issue. The Issuer should hire a rebate consultant if necessary.
  - b. Review the rebate section of the Tax Certificate to determine whether the "small issuer" rebate exception applies to the issue.
  - c. If the 6-month, 18-month, or 24-month spending exceptions from the rebate requirement (as described in the Tax Certificate) may apply to the tax-advantaged obligations, ensure that the spending of proceeds is monitored prior to semiannual spending dates for the applicable exception.
  - d. Make rebate and yield reduction payments and file Form 8038-T in a timely manner.
  - e. Even after all other proceeds of a given issue have been spent, ensure compliance with rebate requirements for any debt service reserve fund and any debt service fund that is not exempt from the rebate requirement (see the Arbitrage Rebate covenants contained in the Tax Certificate).
13. Maintenance and Retention of Arbitrage and Rebate Records. Maintain records of investments and expenditures of proceeds, rebate exception analyses, rebate calculations, Forms 8038-T, and rebate and yield reduction payments, and any other records relevant to compliance with the arbitrage restrictions for the period indicated in Section G. below.

**G. RECORD RETENTION.** The Responsible Officer or other responsible person shall ensure that for each issue of obligations, the transcript and all records and documents described in these Procedures will be maintained while any of the obligations are outstanding and during the three-year period following the final maturity or redemption of that issue, or if the obligations are refunded (or re-refunded), while any of the refunding obligations are outstanding and during the three-year period following the final maturity or redemption of the refunding obligations.

**ATTACHMENT I TO  
WRITTEN PROCEDURES**

**REMEDIAL ACTION PROCEDURES**

Capitalized terms used herein but not defined have the meaning assigned thereto in Section 5 below and in the Written Policies and Procedures for Tax-Advantaged Obligations to which these Remedial Action Procedures are attached. This attachment describes written procedures that may be required to be taken by, or on behalf of, an issuer of tax-advantaged obligations (“Obligations”).

1. **Background.** The maintenance of the tax status of the Obligations (*e.g.*, as tax-exempt obligations under federal tax law) depends on the compliance with the requirements set forth in the Internal Revenue Code of 1986, as amended (the “Code”). *The purpose of this attachment is to set forth written procedures to be used in the event that any deliberate actions are taken that are not in compliance with the tax requirements of the Code (each, a “Deliberate Action”) with respect to the Obligations, the proceeds thereof, or the property financed or refinanced by the Obligations (the “Financed Property”).*

2. **Consultation with bond counsel.** If a Deliberate Action is taken with respect to the Obligations and the Financed Property subsequent to the issuance or execution and delivery of the Obligations, then the Issuer must consult with Greenberg Traurig, LLP or other nationally recognized bond counsel (“bond counsel”) regarding permissible Remedial Actions that may be taken to remediate the effect of any such Deliberate Action upon the federal tax status of the Obligations. Note that Remedial Actions or corrective actions other than those described in this attachment may be available with respect to the Obligations and the Financed Property, including Remedial Actions or corrective actions that may be permitted by the Commissioner through the Voluntary Closing Agreement Program (VCAP) provided by the Internal Revenue Service from time to time.

3. **Conditions to Availability of Remedial Actions.** None of the Remedial Actions described in this attachment are available to remediate the effect of any Deliberate Action with respect to the Obligations and the Financed Property unless the following conditions have been satisfied and unless bond counsel advises otherwise:

(a) The Issuer reasonably expected on the date the Obligations were originally issued or executed and delivered that the Obligations would meet neither the Private Business Tests nor the Private Loan Financing Test of Section 141 of the Code and the Treasury Regulations thereunder for the entire term of the Obligations (such expectations may be based on the representations and expectations of the applicable conduit borrower, if there is one);

(b) The weighted average maturity of the Obligations did not, as of such date, exceed 120 percent of the Average Economic Life of the Financed Property;

(c) Unless otherwise excepted under the Treasury Regulations, the Issuer delivers a certificate, instrument, or other written records satisfactory to bond counsel demonstrating that the terms of the arrangement pursuant to which the Deliberate Action is taken is *bona fide* and arm’s-length, and that the non-exempt Person using either the Financed Property or the proceeds



of the Obligations as a result of the relevant Deliberate Action will pay fair market value for the use thereof;

(d) Any disposition must be made at fair market value and any Disposition Proceeds actually or constructively received by the Issuer as a result of the Deliberate Action must be treated as gross proceeds of the Obligations and may not be invested in obligations bearing a yield in excess of the yield on the Obligations subsequent to the date of the Deliberate Action; and

(e) Proceeds of the Obligations affected by the Remedial Action must have been allocated to expenditures for the Financed Property or other allowable governmental purposes before the date on which the Deliberate Action occurs (except to the extent that redemption or defeasance, if permitted, is undertaken, as further described in Section 4(A) below).

4. **Types of Remedial Action.** Subject to the conditions described above, and only if the Issuer obtains an opinion of bond counsel prior to taking any of the actions below to the effect that such actions will not affect the federal tax status of the Obligations, the following types of Remedial Actions may be available to remediate a Deliberate Action subsequent to the issuance of the Obligations:

(a) Redemption or Defeasance of Obligations.

(i) If the Deliberate Action causing either the Private Business Use Test or the Private Loan Financing Test to be satisfied consists of a fair market value disposition of any portion of the Financed Property exclusively for cash, then the Issuer may allocate the Disposition Proceeds to the redemption of Nonqualified Obligations pro rata across all of the then-outstanding maturities of the Obligations at the earliest call date of such maturities of the Obligations after the taking of the Deliberate Action. If any of the maturities of the Obligations outstanding at the time of the taking of the Deliberate Action are not callable within 90 days of the date of the Deliberate Action, the Issuer may (subject generally to the limitations described in (iii) below) allocate the Disposition Proceeds to the establishment of a Defeasance Escrow for any such maturities of the Obligations within 90 days of the taking of such Deliberate Action.

(ii) If the Deliberate Action consists of a fair market value disposition of any portion of the Financed Property for other than exclusively cash, then the Issuer may use any funds (other than proceeds of the Obligations or proceeds of any obligation the interest on which is excludable from the gross income of the registered owners thereof for federal income tax purposes) for the redemption of all Nonqualified Obligations within 90 days of the date that such Deliberate Action was taken. In the event that insufficient maturities of the Obligations are callable by the date which is within 90 days after the date of the Deliberate Action, then such funds may be used for the establishment of a Defeasance Escrow within 90 days of the date of the Deliberate Action for all of the maturities of the Nonqualified Obligations not callable within 90 days of the date of the Deliberate Action.

(iii) If a Defeasance Escrow is established for any maturities of Nonqualified Obligations that are not callable within 90 days of the date of the Deliberate Action,

written notice must be provided to the Commissioner of Internal Revenue Service at the times and places as may be specified by applicable regulations, rulings, or other guidance issued by the Department of the Treasury or the Internal Revenue Service. Note that the ability to create a Defeasance Escrow applies only if the Obligations to be defeased and redeemed all mature or are callable within ten and one-half (10.5) years of the date the Obligations are originally issued or executed and delivered. If the Obligations are not callable within ten and one-half years, and none of the other remedial actions described below are applicable, the remainder of this attachment is for general information only, and bond counsel must be contacted to discuss other available options.

(b) Alternative Use of Disposition Proceeds. Use of any Disposition Proceeds in accordance with the following requirements may be treated as a Remedial Action with respect to the Obligations:

(i) the Deliberate Action consists of a disposition of all or any portion of the Financed Property for not less than the fair market value thereof for cash;

(ii) the Issuer reasonably expects to expend the Disposition Proceeds resulting from the Deliberate Action within two years of the date of the Deliberate Action;

(iii) the Disposition Proceeds are treated as Proceeds of the Obligations for purposes of Section 141 of the Code and the Regulations thereunder, and the use of the Disposition Proceeds in the manner in which such Disposition Proceeds are in fact so used would not cause the Disposition Proceeds to satisfy the Private Activity Bond Tests;

(iv) no action is taken after the date of the Deliberate Action to cause the Private Activity Bond Tests to be satisfied with respect to the Obligations, the Financed Property, or the Disposition Proceeds (other than any such use that may be permitted in accordance with the Treasury Regulations);

(v) Disposition Proceeds used in a manner that satisfies the Private Activity Bond Tests or that are not expended within two years of the date of the Deliberate Action must be used to redeem or defease Nonqualified Obligations in accordance with the requirements set forth in Section 4(a) hereof; and

(c) Alternative Use of Financed Property. The Issuer may be considered to have taken sufficient Remedial Actions to cause the Obligations to continue their applicable treatment under federal tax law if, subsequent to taking any Deliberate Action with respect to all or any portion of the Financed Property:

(i) the portion of the Financed Property subject to the Deliberate Action is used for a purpose that would be permitted for qualified tax-exempt obligations;

(ii) the disposition of the portion of the Financed Property subject to the Deliberate Action is not financed by a person acquiring the Financed Property with proceeds of any obligation the interest on which is exempt from the gross income of the

registered owners thereof under Section 103 of the Code for purposes of federal income taxation or an obligation described in Sections 54A-54F, 54AA, or 6431 of the Code; and

(iii) any Disposition Proceeds other than those arising from an agreement to provide services (including Disposition Proceeds arising from an installment sale) resulting from the Deliberate Action are used to pay the debt service on the Obligations on the next available payment date or, within 90 days of receipt thereof, are deposited into an escrow that is restricted as to the investment thereof to the yield on the Obligations to pay debt service on the Obligations on the next available payment date.

Absent an opinion of bond counsel, no Remedial Actions are available to remediate the satisfaction of the Private Security or Payment Test regarding the same with respect to the Obligations. Nothing herein is intended to prohibit Remedial Actions not described herein that may become available subsequent to the date the Obligations are originally issued or executed and delivered to remediate the effect of a Deliberate Action taken with respect to the Obligations, the proceeds thereof or the Financed Property.

5. **Additional Defined Terms.** For purposes of this attachment, the following terms have the following meanings:

*“Commissioner”* means the Commissioner of Internal Revenue, including any successor person or body.

*“Defeasance Escrow”* means an irrevocable escrow established to redeem obligations on their earliest call date in an amount that, together with investment earnings thereon, is sufficient to pay the entire principal of, and interest and call premium on, obligations from the date the escrow is established to the earliest call date. A Defeasance Escrow may not be invested in any investment under which the obligor is a user of the proceeds of the obligations, and may not be invested in higher yielding investments unless the Issuer makes rebate payments to the United States at the same time and in the same manner as arbitrage rebate payments are required to be paid.

*“Deliberate Action”* means any action, occurrence, or omission by the Issuer (or, if applicable, by a conduit borrower) that is within the control of the Issuer (or, if applicable, by such conduit borrower) that causes either (1) the Private Business Use Test to be satisfied with respect to the Obligations or the Financed Property (without regard to the Private Security or Payment Test), or (2) the Private Loan Financing Test to be satisfied with respect to the Obligations or the proceeds thereof. An action, occurrence, or omission is not a Deliberate Action if (1) the action, occurrence, or omission would be treated as an involuntary or compulsory conversion under Section 1033 of the Code, or (2) the action, occurrence, or omission is in response to a regulatory directive made by the government of the United States.

*“Disposition Proceeds”* means any amounts (including property, such as an agreement to provide services) derived from the sale, exchange, or other disposition of property (other than Investments) financed with the proceeds of the Obligations.

*“Nonqualified Obligations”* means that portion of the Obligations outstanding at the time of a Deliberate Action in an amount that, if the outstanding Obligations were issued or executed and delivered

on the date on which the Deliberate Action occurs, the outstanding Obligations would not satisfy the Private Business Use Test or the Private Loan Financing Test, as applicable. For this purpose, the amount of private business use is the greatest percentage of private business use in any one-year period commencing with the Deliberate Action.

*“Private Activity Bond Tests”* means, collectively, the Private Business Use Test, the Private Security or Payment Test, and the Private Loan Financing Test.

*“Private Business Tests”* means the Private Business Use Test and the Private Security or Payment Test.

*“Private Business Use Test”* has the meaning set forth in Section 141(b)(1) of the Code.

*“Private Loan Financing Test”* has the meaning set forth in Section 141(c) of the Code.

*“Private Security or Payment Test”* has the meaning set forth in Section 141(b)(2) of the Code.

*“Remedial Action”* means any of the applicable actions described in Section 4 hereof, or such other actions as may be prescribed from time to time by the Department of the Treasury or the Internal Revenue Service, which generally have the effect of rectifying noncompliance by the Issuer with certain provisions of Section 141 of the Code and the Regulations thereunder and are undertaken by the Issuer to maintain the federal tax status of the Obligations.

6. **Change in Law.** This attachment is based on law in effect as of this date. Statutory or regulatory changes, including but not limited to clarifying Treasury Regulations, may affect the matters set forth in this attachment.

§ \_\_\_\_\_  
**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY  
FACILITIES DISTRICT  
WATER SYSTEM REVENUE BONDS, SERIES 2021**

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**BOND PURCHASE AGREEMENT**

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\_\_\_\_\_, 2021

Town of Carefree, Arizona Utilities Community Facilities District  
7181 Ed Everett Way  
Carefree, AZ 85377

Carefree Water Company, Inc.  
7181 Ed Everett Way  
Carefree, AZ 85377

The undersigned, on behalf of Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), offers to enter into the following bond purchase agreement (this “Purchase Agreement”) with Town of Carefree, Arizona Utilities Community Facilities District (the “Issuer”), and Carefree Water Company, Inc., an Arizona corporation, of which the Issuer is the sole shareholder of all capital stock (the “Company”), which, upon written acceptance by the Issuer and the Company of this offer, shall be binding upon the Issuer, the Company and the Underwriter. This offer is made subject to written acceptance hereof by the Issuer on or before 5:00 p.m., Mountain Standard Time, on the date indicated above and shall be subject to withdrawal by the Underwriter upon notice delivered to the Issuer at any time prior to the acceptance hereof by the Issuer. Terms not otherwise defined in this Purchase Agreement shall have the same meanings set forth in the Final Official Statement (as such term is defined herein). The offer of the Underwriter is made by signing the signature line provided and delivering the signed page to the Issuer. The acceptance is made by the Issuer and the Company signing the signature lines provided and delivering the signed pages to the Underwriter. Delivery includes sending in the form of a facsimile or telecopy or via the internet as a portable document format (PDF) file or other replicating image attached to an electronic message.

1. Purchase and Sale of the Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter shall purchase from the Issuer, all, but not less than all, of the Issuer's Water System Revenue Bonds, Series 2021 in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds") at a purchase price of \$\_\_\_\_\_, representing the aggregate of (a) the par amount of the Bonds, plus (b) the [net] reoffering premium on the Bonds of \$\_\_\_\_\_, and less (c) an underwriting discount on the Bonds of \$\_\_\_\_\_.

The Underwriter has not previously made any final agreement with the Issuer to purchase the Bonds in an offering within the meaning of the SEC Rule (as defined herein).

The purchase and sale of the Bonds pursuant to this Purchase Agreement is an "arm's-length," commercial transaction between the Issuer and the Company on the one hand, and the Underwriter on the other hand, (i) in connection therewith and with the discussions, undertakings and proceedings leading up to the consummation of such transaction, the Underwriter is and has been acting for and on behalf of itself, solely as a principal for its own account and is not acting as the agent or fiduciary of the Issuer or the Company or as a municipal advisor (with the meaning of Section 15B of the Securities Exchange Act of 1934, as amended), (ii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the Issuer or the Company with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the Issuer or the Company on other matters) and the Underwriter has no obligation to the Issuer or the Company with respect to the offering contemplated hereby except the obligations expressly set forth in this Purchase Agreement and Rule G-17 of the Municipal Securities Rulemaking Board (the "MSRB"), (iii) the Underwriter has financial and other interests that differ from those of the Issuer or the Company and (iv) each of the Issuer and the Company has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

(b) The principal amount of the Bonds, the dated date, the maturity dates and the rates per annum of the interest amount thereon are set forth in Schedule I attached hereto. The terms of the Bonds shall be as otherwise described in the resolution adopted by the Board of Directors of the Issuer on \_\_\_\_\_, 2021, authorizing the issuance and sale of the Bonds (the "Bond Resolution"). The Bonds shall be issued substantially in the form previously submitted to the Underwriter with only such changes therein as shall be mutually agreed upon between the Underwriter and the Issuer.

(c) The proceeds of the Bonds will be used as described in the Final Official Statement (as defined herein) to make acquisitions and improvements to the Water System (as defined in the Official Statement).

2. Public Offering.

(a) The Underwriter intends to make an initial bona fide public offering of all of the Bonds at not in excess of the public offering prices (or not less than the yields) set forth on

Schedule I hereto and on the inside front cover page of the Final Official Statement of the Issuer relating to the Bonds, dated even date herewith (including all appendices thereto, the "Final Official Statement") and may subsequently change such offering prices (or yields). The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices (or higher than the yields) set forth on Schedule I hereto and on the inside front cover page of the Final Official Statement. The Underwriter also reserves the right (i) to over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market and (ii) to discontinue such stabilizing, if commenced, at any time.

(b) *Establishment of Issue Price.* (1) The Underwriter agrees to assist the Issuer in establishing the issue price of the Bonds and shall execute and deliver to the Issuer at Closing an "issue price" or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit A, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the Issuer and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

(2) [Except as otherwise set forth in Schedule [II] attached hereto,] the Issuer will treat the first price at which 10% of each maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity. At or promptly after the execution of this Bond Purchase Agreement, the Underwriter shall report to the Issuer the price or prices at which it has sold to the public each maturity of Bonds. [If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the Issuer the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the date of Closing has occurred, until either (i) the Underwriter has sold all Bonds of that maturity or (ii) the 10% test has been satisfied as to the Bonds of that maturity, provided that, the Underwriter's reporting obligation after the Closing may be at reasonable periodic intervals or otherwise upon request of the Issuer or Bond Counsel.] For purposes of this Section, if Bonds mature on the same date but have different interest rates, each separate CUSIP number within that maturity will be treated as a separate maturity of the Bonds.

(3) [The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Agreement at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in Schedule [II] attached hereto, except as otherwise set forth therein. Schedule [II] also sets forth, as of the date of this Purchase Agreement, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the Issuer and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the Issuer to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the "hold-the-offering-price rule"). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (A) the close of the fifth (5th) business day after the sale date;
- or
- (B) the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter will advise the Issuer promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.]

(4) [The Underwriter confirms that:

- (A) any selling group agreement and any third-party distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such third-party distribution agreement, as applicable:

- (I) (i) to report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing may be at reasonable periodic intervals or otherwise upon request of the Underwriter, and (ii) to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter,

- (II) to promptly notify the Underwriter of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

- (III) to acknowledge that, unless otherwise advised by the dealer or broker-dealer, the Underwriter shall assume that each order submitted by the dealer or broker-dealer is a sale to the public.]

- (B) any selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require



each broker-dealer that is a party to such third-party distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter or the dealer that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing may be at reasonable periodic intervals or otherwise upon request of the Underwriter or the dealer, and (B) comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter or the dealer and as set forth in the related pricing wires.

(5) [The Issuer acknowledges that, in making the representations set forth in this section, the Underwriter will rely on (i) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and (ii) in the event that a third-party distribution agreement was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The Issuer further acknowledges that the Underwriter shall not be liable for the failure of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement, to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds.]

(6) The Underwriter acknowledges that sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below) shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(A) “public” means any person other than an underwriter or a related party,

(B) “underwriter” means (A) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),

(C) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(D) [“sale date” means the date of execution of this Purchase Agreement by all parties.]

(c) The undersigned, on behalf of the Underwriter, but not individually, hereby represents and warrants:

(1) the Underwriter is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization;

(2) this Purchase Agreement has been duly authorized, executed and delivered by the Underwriter and, assuming the due authorization, execution and delivery by the Issuer and the Company, is the legal, valid and binding obligation of the Underwriter enforceable in accordance with its terms, except as the enforceability of this Purchase Agreement may be limited by application of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally from time to time in effect and from the application of general principles of equity and from public policy limitations on the exercise of any rights to indemnification and contribution (collectively, “Creditors’ Rights Laws”);

(3) the Underwriter is licensed by and registered with the Financial Industry Regulatory Authority as a broker-dealer and the MSRB as a municipal securities dealer; and

(4) by entering into this Purchase Agreement, the Underwriter certifies that it and its parent company, wholly or majority-owned subsidiaries, and other affiliates, if any, are not currently engaged in, or for the duration of this Purchase Agreement will not engage in, a boycott of goods or services from the State of Israel; companies doing business in or with Israel or authorized by, licensed by, or organized under the laws of the State of Israel; or persons or entities doing business in the State of Israel. The Underwriter understands that “boycott” means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations, but does not include an action made for ordinary business purposes.

### 3. The Official Statement.

(a) By all necessary official action of the Issuer prior to or concurrently with the acceptance hereof, the Issuer has duly authorized and approved the distribution and use by the Underwriter of the Preliminary Official Statement of the Issuer relating to the Bonds, dated \_\_\_\_\_, 2021 (including all appendices thereto, the "Preliminary Official Statement" and, together with the Final Official Statement, collectively, the "Official Statement"), and the information therein contained to be used by the Underwriter in connection with the public offering and the sale of the Bonds.

(b) The Issuer caused the Preliminary Official Statement to be prepared and an authorized officer of the Issuer, acting for and on behalf of the Issuer, deemed the Preliminary Official Statement to be "final" for all purposes of Section 240.15c2-12, General Rules and Regulations, Securities Exchange Act of 1934, as amended (the "SEC Rule").

(c) (i) WHILE THE UNDERWRITER HAS PARTICIPATED AND WILL PARTICIPATE WITH THE ISSUER IN THE PREPARATION AND ASSEMBLAGE OF THE PRELIMINARY OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT, RESPECTIVELY, THE ISSUER IS PRIMARILY RESPONSIBLE FOR THE CONTENT OF THE PRELIMINARY OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT and (ii) as of the date thereof, and at the time of the acceptance by the Issuer of this Purchase Agreement, the Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(d) The Issuer shall provide to the Underwriter copies of the Official Statement in sufficient quantity to comply with the SEC Rule and the rules of the MSRB, particularly with respect to the Final Official Statement, within seven (7) business days after the date of this Purchase Agreement.

(e) The Issuer authorizes the Underwriter to file, to the extent required by applicable Securities and Exchange Commission (the "SEC") or MSRB rule, and the Underwriter agrees to file or cause to be filed, the Official Statement with (i) the MSRB or its designee (including submission to the MSRB's Electronic Municipal Market Access system ("EMMA")) or (ii) other repositories approved from time to time by the SEC (either in addition to or in lieu of the filings referred to above). If an amended Official Statement is prepared in accordance with Section 3(g) during the "primary offering disclosure period" (as defined in MSRB Rule G-32) and if required by applicable SEC or MSRB rule, the Underwriter also shall make the required submission of the amended Official Statement to EMMA.

(f) The Official Statement may be delivered in printed and/or electronic form to the extent permitted by applicable rules of the MSRB and as may be agreed by the Issuer and the Underwriter.

(g) During the period ending on the 25th day after the End of the Underwriting Period (as such term is hereinafter defined) or such other period as may be agreed to by the Issuer and the Underwriter, the Issuer (i) shall not supplement or amend the Final Official Statement or cause the Final Official Statement to be supplemented or amended without

the prior written consent of the Underwriter and (ii) shall notify the Underwriter promptly if any event shall occur, or information comes to the attention of the Issuer, that is reasonably likely to cause the Final Official Statement (whether or not previously supplemented or amended) to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. If, in the opinion of the Underwriter or the Issuer, such event requires the preparation and distribution of a supplement or amendment to the Final Official Statement, the Issuer shall prepare and furnish to the Underwriter, at the Issuer's expense, such number of copies of the supplement or amendment to the Final Official Statement, in form and substance mutually agreed upon by the Issuer and the Underwriter, as the Underwriter may reasonably request. If such notification shall be given subsequent to the date of the Closing, the Issuer also shall furnish, or cause to be furnished, such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably deem necessary to evidence the truth and accuracy of any such supplement or amendment to the Final Official Statement.

(h) For purposes of this Purchase Agreement, the "End of the Underwriting Period" is used as defined in the SEC Rule and shall occur on the later of (i) the date of the Closing or (ii) when the Underwriter no longer retains an unsold balance of the Bonds; unless otherwise advised in writing by the Underwriter on or prior to the date of the Closing, or otherwise agreed to by the Issuer and the Underwriter, the Issuer may assume that the End of the Underwriting Period is the date of the Closing.

(i) The Underwriter shall provide to the Issuer such information relating to the Bonds which is not within the scope of knowledge of the Issuer (including, but not limited to, the selling compensation of the Underwriter, offering price(s), interest rate(s), delivery date and other terms of the Bonds dependent upon such matters). The Final Official Statement shall be substantially in the form of the Preliminary Official Statement with only such changes therein as shall be necessary to conform to the terms of this Purchase Agreement and with such other changes and amendments to the date thereof as have been accepted by the Underwriter. The execution and delivery of the Final Official Statement shall evidence the determination by the Issuer that the Final Official Statement is "final" for all purposes of the SEC Rule.

4. Representations and Warranties and Agreements of the Issuer. The undersigned, on behalf of the Issuer, but not acting individually, hereby represents and warrants to and covenants with the Underwriter that:

(a) The Issuer is a community facilities district organized and existing under the laws of the State of Arizona (the "State"), specifically Title 48, Chapter 4, Article 6, Arizona Revised Statutes (the "Act"), with powers required for the purposes of this Purchase Agreement, and has full legal right, power and authority under the Act, and at date of the Closing (as defined herein) will have full legal right, power and authority pursuant to the Bond Resolution (i) to adopt the Bond Resolution and to enter into, execute and deliver this Purchase Agreement, a written undertaking by the Issuer to provide ongoing disclosure for the benefit of certain owners of the Bonds as required under paragraph (b)(5) of the SEC Rule, in form and substance satisfactory to the Underwriter and counsel to the Underwriter which shall be substantially in the form set forth in the Preliminary Official Statement, with such changes as may be agreed in writing by the Underwriter (the "Undertaking"), the Letter of Representations executed by the

Issuer (the "DTC Letter") and delivered to The Depository Trust Company ("DTC"), the Payment Agreement and Collateral Assignment of Rights and Remedies Thereof (the "Payment Agreement"), by and among the Issuer, the Company and \_\_\_\_\_, as the trustee under the Bond Resolution (the "Trustee"), and all documents required hereunder and thereunder to be executed and delivered by the Issuer (this Purchase Agreement, the Bond Resolution, the Undertaking, the DTC Letter and the Payment Agreement are hereinafter referred to as the "Issuer Documents" and this Purchase Agreement and the Payment Agreement are hereinafter referred to as the "Company Documents"), (ii) to cause the sale, execution and delivery of the Bonds to the Underwriter as provided herein, (iii) to carry out and consummate the transactions contemplated by the Issuer Documents and the Official Statement, (iv) to pledge the Agreement Payments (as defined in the Official Statement) paid by the Company to the Issuer under the Payment Agreement and to cause the Company to operate the Water System (as defined in the Official Statement) and (v) to approve, execute and authorize the use and distribution, as applicable, of the Preliminary Official Statement and the Final Official Statement, and the Issuer has complied, and shall at the Closing be in compliance in all respects, with all applicable provisions of law and the Issuer Documents as they pertain to such transactions

(b) By all necessary official action of the Issuer prior to or concurrently with the acceptance hereof, the Issuer has duly authorized all necessary action to be taken by it for (i) the adoption of the Bond Resolution by the Board of Directors of the Issuer for the execution and delivery and sale of the Bonds, (ii) the approval, execution and delivery of, and the performance by the Issuer of the obligations on its part contained in, the Bonds and the Issuer Documents, (iii) the consummation by the Issuer of all other transactions contemplated by the Preliminary Official Statement, the Issuer Documents and the Bond Resolution, (A) authorizes the execution and delivery of the other Issuer Documents and the Bonds as well as the approval, execution and authorization of the use and distribution of the Preliminary Official Statement and the Final Official Statement and the sale of the Bonds to the Underwriter, (B) has been duly and validly adopted by the Board of Directors of the Issuer, and (C) is in full force and effect;

(c) This Purchase Agreement has been duly executed and delivered by the Issuer, and the other of the Issuer Documents (when such Issuer Documents are executed and delivered by the other parties thereto) will constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their respective terms, subject to applicable Creditors' Rights Laws; the Bonds, when executed and delivered and paid for in accordance with the Bond Resolution and this Purchase Agreement, shall constitute legal, valid and binding obligations entitled to the benefits of the Bond Resolution and enforceable in accordance with their terms, subject to applicable Creditors' Rights Laws and, upon the execution and delivery of the Bonds as aforesaid, the Bond Resolution shall provide, for the benefit of the holders from time to time of the Bonds, the legally valid and binding pledge and lien they purport to create as set forth in the Bond Resolution;

(d) The Issuer is not in material breach of or default in any material respect with respect to any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Issuer is a party or to which the Issuer is, or any of its property or assets are, otherwise subject; no event has occurred and is continuing which constitutes or with the passage of time or the giving of notice, or both, would

constitute a material default or event of default by the Issuer pursuant to any of the foregoing or the Issuer Documents and the execution and delivery of the Bonds and the Issuer Documents and the adoption of the Bond Resolution and compliance with the provisions on the part of the Issuer contained therein shall not conflict with or constitute a material breach of or default pursuant to any constitutional provision, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Issuer is a party or to which the Issuer is, or any of its property or assets are, otherwise subject nor shall any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Issuer to be pledged to secure the Bonds or pursuant to the terms of any such law, regulation or instrument, except as provided by the Bonds and the Issuer Documents;

(e) All authorizations, approvals, licenses, permits, consents, orders and other matters of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Issuer, of its obligations pursuant to the Issuer Documents and the Bonds have been duly obtained, except for such approvals, consents and orders as may be required pursuant to the "blue sky" or securities laws of any jurisdiction in connection with the offering and sale of the Bonds, and including particularly, but not by way of limitation, the filing of all reports required to be filed by the Issuer pursuant to Section 35-501, Arizona Revised Statutes;

(f) The Bonds and the Issuer Documents conform to the descriptions thereof contained in the Official Statement, and the proceeds of the sale of the Bonds shall be applied as described in the Official Statement;

(g) There is no litigation, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or overtly threatened against the Issuer (i) affecting the existence of the Issuer or the titles of its officers to their respective offices; or (ii) affecting or seeking to prohibit, restrain or enjoin the sale or execution and delivery of the Bonds or the collection or pledge, as applicable, of the Agreement Payments as described in the Official Statement; or (iii) in any way contesting or affecting the validity or enforceability of the Bonds or the Issuer Documents or contesting the exclusion from gross income of interest with respect to the Bonds for Federal income tax purposes or the exemption from taxation of interest with respect to the Bonds for State income tax purposes; or (iv) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Final Official Statement; or (v) contesting the formation or powers of the Issuer or any authority for the sale and execution and delivery of the Bonds, the adoption of the Bond Resolution or the execution and delivery of the Issuer Documents; or (vi) which, if decided adversely to the Issuer, would have a materially adverse effect on the financial condition of the Issuer nor is there any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Bonds or the Issuer Documents;

(h) The Issuer has not granted a lien on, made a pledge of or agreed to apply the Agreement Payments and other monies payable pursuant to the Bond Resolution, except as provided or permitted in the Bond Resolution or as described in the Official Statement;

(i) Unless the Final Official Statement is amended or supplemented pursuant to paragraph (g) of Section 3 of this Purchase Agreement, at all times subsequent to the acceptance by the Issuer hereof, during the period up to and including the date of the Closing, the Final Official Statement, as of its date, did not, as of the date hereof, does not and, as of the Closing, shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances pursuant to which they were made, not misleading;

(j) If the Final Official Statement is amended or supplemented pursuant to paragraph (g) of Section 3 of this Purchase Agreement, at the time of each amendment or supplement thereto and (unless subsequently again amended or supplemented pursuant to such paragraph) at all times subsequent thereto during the period up to and including the date of the Closing, the Final Official Statement shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances pursuant to which made, not misleading;

(k) The Issuer shall apply, or cause to be applied, the proceeds from sale of the Bonds as provided in and subject to all of the terms and provisions of the Issuer Documents and shall not take or omit to take any action which action or omission will adversely affect the exclusion from gross income for Federal or State income tax purposes of the interest with respect to the Bonds;

(l) The Issuer shall furnish such information and execute such instruments and take such action in cooperation with the Underwriter as the Underwriter may reasonably request (i) to (A) qualify the Bonds for offer and sale pursuant to the "blue sky" or other securities laws and regulations of such States and other jurisdictions in the United States as the Underwriter may designate and (B) determine the eligibility of the Bonds for investment pursuant to the laws of such States and other jurisdictions and (ii) to continue such qualifications in effect so long as required for the distribution of the Bonds (provided, however, that the Issuer shall not be required to qualify as a foreign corporation or to file any general or special consents to service of process pursuant to the laws of any jurisdiction) and shall advise the Underwriter immediately of receipt by the Issuer of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose;

(m) The audited financial statements of the Issuer contained in the Official Statement fairly present the financial position and results of operations and changes in fund balances of the Issuer as of the dates and for the periods therein set forth; the Issuer has no reason to believe that such financial statements have not been prepared in accordance with generally accepted accounting principles consistently applied; since June 30 of the last fiscal year presented in the audited financial statements of the Issuer included in the Official Statement, the Issuer has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Issuer that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business and, prior to the Closing, there will be no adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the Issuer;

(n) The Issuer is not a party to any litigation or other proceeding pending or overtly threatened that, if decided adversely to the Issuer, would have a materially adverse effect on the financial condition of the Issuer; and except as disclosed in the Official Statement, the Issuer is not a party to any contract or agreement or subject to any restriction, the performance of or compliance with which may have a material adverse effect on the financial condition, operations or prospects of the Issuer or ability of the Issuer to comply with all the requirements set forth in the Official Statement, the Bond Resolution, the Issuer Documents or the Bonds;

(o) Prior to the Closing, and to the extent it may legally agree to do so, the Issuer will not offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from or secured by any of the revenues or assets which will secure the Bonds without the prior approval of the Underwriter;

(p) The representations of the Issuer set forth herein and in the Bond Resolution and the Issuer Documents are, as of the date hereof, true and correct, and between the date hereof and the date of the Closing, the Issuer shall not take any action that will cause the representations and warranties made herein to be untrue as of the date of the Closing;

(q) The officers and officials of the Issuer executing the Official Statement and the Issuer Documents and the Bonds and the officers and officials of the Issuer listed on the certificate of the Issuer to be delivered at the Closing have been or will have been duly appointed and are or will be qualified to serve as such officers and officials of the Issuer, and any certificate, signed by any official of the Issuer authorized to do so in connection with the transactions contemplated by this Purchase Agreement shall be deemed a representation and warranty by the Issuer to the Underwriter as to the statements made therein; and

(r) The Issuer is the only "obligated person" (as defined in the Rule) with respect to the Bonds, and there have not been and, as of the Closing, there will not have been, any instances during the preceding five years in which the Issuer failed to comply, in all material respects, with any previous continuing disclosure agreement made by the Issuer for purposes of the Rule, except as disclosed under "CONTINUING DISCLOSURE" in the Official Statement.

5. Representations and Warranties and Agreements of the Company. The undersigned, on behalf of the Company, but not acting individually, hereby represents and warrants to and covenants with the Underwriter that:

(a) The Company is an Arizona corporation with powers required for the purposes of this Purchase Agreement, and has full legal right, power and authority, and at date of the Closing (as defined herein) will have full legal right, power and authority (i) to adopt the resolution of the Board of Directors of the Company authorizing the transaction contemplated by this Purchase Agreement (the "Board Resolution") and to enter into, execute and deliver the Company Documents, (ii) to carry out and consummate the transactions contemplated by the Company Documents and the Official Statement, and (iv) to collect and pledge the Net Revenues under the Payment Agreement and to operate the Water System, and the Company has complied, and shall at the Closing be in compliance in all respects, with all applicable provisions of law and the Company Documents as they pertain to such transactions;



(b) By all necessary official action of the Company prior to or concurrently with the acceptance hereof, the Company has duly authorized all necessary action to be taken by it for (i) the adoption of the Board Resolution by the Board of Directors of the Company, (ii) the approval, execution and delivery of, and the performance by the Company of the obligations on its part contained in, the Company Documents, (iii) the consummation by the Company of all other transactions contemplated by the Preliminary Official Statement, the Company Documents;

(c) The Board Resolution, (A) authorizes the execution and delivery of the other Company Documents (B) has been duly and validly adopted by the Board of Directors of the Company, and (C) is in full force and effect;

(d) This Purchase Agreement has been duly executed and delivered by the Company, and the other of the Company Documents (when such Company Documents are executed and delivered by the other parties thereto) will constitute legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms, subject to applicable Creditors' Rights Laws;

(e) The Company is not in material breach of or default in any material respect with respect to any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Company is a party or to which the Company is, or any of its property or assets are, otherwise subject; no event has occurred and is continuing which constitutes or with the passage of time or the giving of notice, or both, would constitute a material default or event of default by the Company pursuant to any of the foregoing or the Company Documents and the Company Documents and the adoption of the Board Resolution and compliance with the provisions on the part of the Company contained therein shall not conflict with or constitute a material breach of or default pursuant to any constitutional provision, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Company is a party or to which the Company is, or any of its property or assets are, otherwise subject nor shall any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Company to be pledged to secure the Bonds or pursuant to the terms of any such law, regulation or instrument, except as provided by the Company Documents;

(f) All authorizations, approvals, licenses, permits, consents, orders and other matters of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Company, of its obligations pursuant to the Company Documents;

(g) There is no litigation, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or overtly threatened against the Company (i) affecting the existence of the Company or the titles of its officers to their respective offices; or (ii) affecting or seeking to prohibit, restrain or enjoin the sale or execution and delivery of the Company Documents or the collection or pledge, as applicable, of the Net Revenues as described in the Payment Agreement; or (iii) in any way

contesting or affecting the validity or enforceability of the Company Documents; or (iv) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Final Official Statement applicable to the Company or the Payment Agreement; or (v) contesting the formation or powers of the Company, the adoption of the Board Resolution or the execution and delivery of the Company Documents; or (vi) which, if decided adversely to the Company, would have a materially adverse effect on the financial condition of the Company nor is there any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Bonds or the Company Documents;

(h) The Company has not granted a lien on, made a pledge of or agreed to apply the Net Revenues and other monies payable pursuant to the Payment Agreement, except as provided or permitted in the Payment Agreement or as described in the Official Statement;

(i) The Company is not a party to any litigation or other proceeding pending or overtly threatened that, if decided adversely to the Company, would have a materially adverse effect on the financial condition of the Company; and except as disclosed in the Official Statement, the Company is not a party to any contract or agreement or subject to any restriction, the performance of or compliance with which may have a material adverse effect on the financial condition, operations or prospects of the Company or ability of the Company to comply with all the requirements set forth in the Official Statement, the Board Resolution, the Company Documents or the Bonds;

(j) Prior to the Closing, and to the extent it may legally agree to do so, the Company will not offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from or secured by any of the revenues or assets which will secure the Bonds except in the ordinary course of its business;

(k) The representations of the Company set forth herein and in the Board Resolution and the Company Documents are, as of the date hereof, true and correct, and between the date hereof and the date of the Closing, the Company shall not take any action that will cause the representations and warranties made herein to be untrue as of the date of the Closing; and

(l) The officers and officials of the Company executing the Official Statement and the Company Documents and the officers and officials of the Company listed on the certificate of the Company to be delivered at the Closing have been or will have been duly appointed and are or will be qualified to serve as such officers and officials of the Company, and any certificate, signed by any official of the Company authorized to do so in connection with the transactions contemplated by this Purchase Agreement shall be deemed a representation and warranty by the Company to the Underwriter as to the statements made therein.

6. Closing.

(a) The Closing shall take place at 8:00 a.m. Mountain Standard Time, on \_\_\_\_\_, 2021 (the "Closing"), at the offices of the Greenberg Traurig, LLP, or at such other time, date and place as shall have been mutually agreed upon by the Issuer, the Trustee and the Underwriter. On the date of Closing, the Trustee will, subject to the terms and conditions hereof, execute, deliver and register the Bonds in the name of Cede & Co., as nominee of DTC pursuant to the executed DTC Letter and delivered to the Trustee pursuant to DTC's "F.A.S.T." delivery procedures. Also on the date of Closing, the Underwriter will, subject to the terms and conditions hereof, accept delivery of the Bonds and the items identified in Section 6(k) hereof and pay the purchase price of the Bonds as set forth in Section 1 of this Purchase Agreement by wire transfer payable in immediately available funds to the Trustee.

(b) It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriter to accept delivery of the Bonds in accordance with the terms of this Purchase Agreement

7. Closing Conditions. The Underwriter has entered into this Purchase Agreement in reliance upon the representations, warranties, covenants and agreements of the Issuer and the Company contained herein and in reliance upon the representations, warranties, covenants and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Issuer and the Company of its obligations hereunder, both as of the date hereof and as of the date of the Closing. Accordingly, the obligations of the Underwriter pursuant to this Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Issuer and the Company of its obligations to be performed hereunder and pursuant to such documents and instruments at or prior to the Closing and shall also be subject to the following additional conditions, including the delivery by the Issuer and the Company of such documents as are enumerated herein, in form and substance reasonably satisfactory to the Underwriter:

(a) The representations and warranties of the Issuer contained herein and in the Issuer Documents shall be true, complete and correct on the date hereof and on and as of the date of the Closing, as if made on the date of the Closing;

(b) The representations and warranties of the Company contained herein and in the Company Documents shall be true, complete and correct on the date hereof and on and as of the date of the Closing, as if made on the date of the Closing;

(c) All representations, warranties and covenants made herein, and in certificates or other instruments delivered pursuant hereto or in connection herewith, shall be deemed to have been relied upon by the Underwriter notwithstanding any investigation heretofore or hereafter made by the Underwriter or on their behalf, and that all representations, warranties and covenants made by the Issuer herein and therein and all of the Underwriter's rights, hereunder and thereunder shall survive the offering of the Bonds;

(d) The Issuer, the Company and the Trustee shall have performed and complied with all covenants, agreements and conditions required by the Issuer Documents to be performed or complied with by it prior to or at the Closing;

(e) As of the date of the Closing, (i) the Issuer Documents, the Company Documents and the Bonds shall be in full force and effect in the form heretofore approved by the Underwriter and shall not have been amended or modified; (ii) the Final Official Statement shall not have been amended or supplemented, except in any such case as may have been agreed to by the Underwriter; and (iii) all actions of the Issuer and the Company required to be taken by the Issuer and the Company, respectively, shall be performed in order for Bond Counsel and counsel to the Underwriter to deliver their respective opinions referred to hereafter;

(f) As of the date of the Closing, all official action of the Issuer relating to the Bonds and the Issuer Documents shall be in full force and effect and shall not have been amended, modified or supplemented;

(g) As of the date of the Closing, all official action of the Company relating to the Company Documents shall be in full force and effect and shall not have been amended, modified or supplemented;

(h) As of or prior to the Closing, the Issuer Documents shall have been duly executed and delivered by the Issuer, the Company Documents shall have been duly executed and delivered by the Company and the Trustee shall have duly executed and delivered the Bonds;

(i) As of the date of the Closing, there shall not have occurred any change or any development involving a prospective change in the condition, financial or otherwise, or in the revenues or operations of the Issuer or the Company, from those set forth in the Final Official Statement that, in the judgment of the Underwriter, is material and adverse and that makes it, in the judgment of the Underwriter, impractical to market the Bonds on the terms and in the manner contemplated in the Final Official Statement;

(j) As of the date of the Closing, no "event of default" shall have occurred or be existing pursuant to the Issuer Documents or the Company Documents nor shall any event have occurred which, with the passage of time or the giving of notice, or both, shall constitute an event of default pursuant to the Issuer Documents or the Company Documents;

(k) Neither the Issuer nor the Company shall have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money;

(l) All steps to be taken, all instruments and other documents to be executed and all other legal matters in connection with the transactions contemplated by this Purchase Agreement shall be reasonably satisfactory in legal form and effect to the Underwriter;

(m) On the date of or prior to the Closing, the Underwriter shall have received two copies of the transcript of all proceedings of the Issuer relating to the execution and delivery of the Bonds, certified, as necessary, by appropriate officials of the Issuer and the Company, including, but not limited to, the following opinions, certificates and other documents:

(1) The approving opinion of Greenberg Traurig, LLP, Bond Counsel, dated the date of Closing, with respect to the Bonds, in substantially the form attached to the Official Statement, along with a reliance letter with respect thereto, dated the date of the Closing and addressed to the Underwriter;

(2) The supplemental opinion of Bond Counsel dated the date of the Closing, addressed to the Underwriter and substantially in the form attached hereto as Exhibit B;

(3) The opinion of counsel to the Issuer dated the date of the Closing, addressed to the Underwriter and substantially in the form attached hereto as Exhibit C;

(4) The opinion of counsel to the Company dated the date of the Closing, addressed to the Underwriter and substantially in the form attached hereto as Exhibit D;

(5) An opinion of Squire Patton Boggs (US) LLP, as counsel to the Underwriter, dated the date of the Closing, addressed to the Underwriter and in form and substance reasonably satisfactory thereto;

(6) A certificate, dated the date of Closing and signed by the Chairperson of the Board of Directors of the Issuer, the District Manager and the District Treasurer or other officer of the Issuer, to the effect that (i) the representations and warranties of the Issuer contained herein are true and correct in all material respects on and as of the date of the Closing with the same effects if made on the date of the Closing; (ii) there is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or overtly threatened in any way affecting the existence of the Issuer or the titles of its officials to their respective positions, or seeking to restrain or to enjoin the sale or delivery of the Bonds, or the collection and pledge of the Agreement Payments collected and pledged to pay debt service on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds or the Issuer Documents, or contesting in any way the completeness or accuracy of the Final Official Statement or the exclusion from gross income of interest with respect to the Bonds, or contesting the powers of the Issuer or its authority with respect to the Bonds or the Issuer Documents; and (iii) the Issuer has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing;

(7) A certificate, dated the date of Closing and signed by the Chairperson of the Board of Directors of the Company, the General Manager and the Controller/Accountant or other officer of the Company, to the effect that (i) the representations and warranties of the Company contained in the Company Documents are true and correct in all material respects on and as of the date of the Closing with the same effects if made on the date of the Closing; (ii) there is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or overtly threatened in any way affecting the existence of the Company or the titles of its officials to their respective positions, or seeking to restrain or to enjoin the sale or delivery of the Company Documents, or the collection and pledge of the Agreement Payments collected and pledged to make the Agreement Payments due under the Payment Agreement, or in any way contesting or affecting the validity or enforceability of the Company Documents and (iii) the Company has complied with all the

agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing;

(8) A certificate, dated the date of Closing and signed by the Chairperson of the Board of Directors of the Issuer, the District Manager and the District Treasurer, to the effect that (i) the Official Statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances pursuant to which they were made, not misleading; (ii) the financial statements of the Issuer contained in the Official Statement fairly present the financial position and results of operations and changes in fund balances of the Issuer as of the dates and for the periods therein set forth and the Issuer has no reason to believe that such financial statements have not been prepared in accordance with generally accepted accounting principles consistently applied; (iii) since June 30 of the last fiscal year presented in the audited financial statements of the Issuer included in the Official Statement, the Issuer has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the results of operations or financial condition of the Issuer that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business, nor are there any deficits in any fund of the Issuer except as disclosed in the Official Statement; (iv) no event affecting the Issuer has occurred since the date of the Preliminary Official Statement to the sale date of the Bonds and the date of the Final Official Statement to the date of Closing that should be disclosed in the Preliminary Official Statement or the Final Official Statement, as applicable, for the purpose for which it is to be used or which it is necessary to disclose therein with respect to the Issuer in order to make the information therein in the light of the circumstances pursuant to which they were made or set forth not misleading in any material respect; and (v) the Issuer has complied with all of the terms of this Purchase Agreement and the Issuer Documents to be complied with by it prior to or concurrently with the Closing;

(9) A specimen of the Bonds;

(10) A certified copy of the Bond Resolution and the Board Resolution;

(11) A counterpart original of the Final Official Statement manually executed on behalf of the Issuer by the Chairperson of the Board of Directors of the Issuer;

(12) A non-arbitrage certificate with respect to the Bonds of the Issuer in form and substance satisfactory to Bond Counsel;

(13) A filing copy of the Information Return Form 8038-G for the Bonds and of the Report Relating to Bond and Security Issuance for the Bonds pursuant to section 35-501, Arizona Revised Statutes;

(14) An executed copy of each of the other of the Issuer Documents and the Company Documents;

(15) A certificate or certificates, dated the date of the Closing, signed by an authorized representative of the Trustee and in form and substance satisfactory to Bond Counsel and the Underwriter, in which such official states that (i) the Trustee has accepted its appointment as Trustee pursuant to the Bond Resolution, and (ii) no litigation is pending or

threatened against the Trustee before any judicial, quasi-judicial or administrative forum (A) to restrain or enjoin the performance by the Trustee of its obligations and duties pursuant to the Bond Resolution, (B) in any way contesting or affecting any authority for, or the validity of, the Bonds or the applications of the proceeds of the Bonds or (C) in any way contesting the existence or corporate trust powers of the Trustee, together with evidence of the authority of the Trustee to accept the role as Trustee pursuant to the Bond Resolution and execute and deliver the Bonds and an incumbency certificate;

(16) A letter from S&P Global Ratings, a division of Standard & Poor's Financial Services LLC has assigned the rating of “\_\_” to the Bonds, which rating shall be in effect on the date of Closing;

(17) Such additional opinions, letters, certificates, instruments and other documents as the Underwriter or counsel to the Underwriter may reasonably deem necessary to satisfy conditions to the execution and delivery of the Bonds and to evidence the truth and accuracy as of the date of the Closing, or prior to such time, of the representations, warranties and covenants of the Issuer and the Company and the due performance or satisfaction by the Issuer and the Company of all agreements then to be performed and all conditions then to be satisfied by the Issuer and the Company.

(All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriter.)

If the Issuer or the Company shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Underwriter nor the Issuer shall be under any further obligation hereunder, except that the respective obligations of the Issuer and the Underwriter set forth in Section 9(c) hereof shall continue in full force and effect.

8. Termination. The Underwriter shall have the right to cancel its obligation to purchase the Bonds and to terminate this Purchase Agreement by written notice to the Issuer if, between the date of this Purchase Agreement to and including the date of the Closing, in the Underwriter's sole and reasonable judgment any of the following events shall occur:

(a) the market price or marketability of the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds, shall be materially adversely affected by any of the following events:

(1) legislation shall have been enacted by the Congress of the United States or the legislature of the State or shall have been favorably reported out of committee of either body or be pending in committee of either body, or shall have been recommended to the Congress for passage by the President of the United States or a member of the President's Cabinet, or a decision shall have been rendered by a court of the United States or the State or the Tax Court of the United States, or a ruling, resolution, regulation or temporary regulation, release

or announcement shall have been made or shall have been proposed to be made by the Treasury Department of the United States or the Internal Revenue Service, or other federal or state authority with appropriate jurisdiction, with respect to federal or state taxation upon interest received on obligations of the general character of the Bonds; provided that, this paragraph (A)(1) shall not apply if the Bonds are being issued as taxable obligations; or

(2) there shall have occurred (a) an outbreak or escalation of hostilities or the declaration by the United States of a national emergency or war, (b) any other calamity or crisis in the financial markets of the United States or elsewhere or the escalation of such calamity or crisis, (c) the sovereign debt rating of the United States is downgraded by any major credit rating agency or a payment default occurs on United States Treasury obligations, or (d) a default with respect to the debt obligations of, or the institution of proceedings under any federal bankruptcy laws by or against, any state of the United States or any city, county or other political subdivision located in the United States having a population of over 500,000; or

(3) a general suspension of trading on the New York Stock Exchange or other major exchange shall be in force, or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on any such exchange, whether by virtue of determination by that exchange or by order of the SEC or any other governmental authority having jurisdiction; or

(4) legislation shall have been enacted by the Congress of the United States or shall have been favorably reported out of committee or be pending in committee, or shall have been recommended to the Congress for passage by the President of the United States or a member of the President's Cabinet, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of the SEC or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that any obligations of the general character of the Bonds, or any comparable securities of the Issuer, are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended, or the Trust Indenture Act of 1939, as amended, or otherwise, or would be in violation of any provision of the federal securities laws; or

(5) except as disclosed in or contemplated by the Official Statement, any material adverse change in the affairs of the Issuer shall have occurred; or

(6) any rating on obligations of the Issuer is reduced or withdrawn or placed on credit watch with negative outlook by any major credit rating agency; or

(b) any event or circumstance shall exist that either makes untrue or incorrect in any material respect any statement or information in the Final Official Statement (other than any statement provided by the Underwriter) or is not reflected in the Final Official Statement but should be reflected therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading and, in either such event, the Issuer refuses to permit the Final Official Statement to be supplemented to supply such statement or information, or the effect of the Final Official Statement as so supplemented is to materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or



(c) a general banking moratorium shall have been declared by federal or State authorities having jurisdiction and be in force; or

(d) a material disruption in securities settlement, payment or clearance services affecting the Bonds shall have occurred; or

(e) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a charge to the net capital requirements of, underwriters shall have been established by the New York Stock Exchange, the SEC, any other federal or State agency or the Congress of the United States, or by Executive Order;

(f) a decision by a court of the United States shall be rendered, or a stop order, release, regulation or no-action letter by or on behalf of the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made, to the effect that the issuance, offering or sale of the Bonds, including the underlying obligations as contemplated by this Purchase Agreement or by the Final Official Statement, or any document relating to the issuance, offering or sale of the Bonds, is or would be in violation of any provision of the federal securities laws at the date of the Closing, including the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Trust Indenture Act of 1939, as amended; or

#### 9. Expenses.

(a) The Underwriter shall be under no obligation to pay, and the Issuer shall pay, any expenses incident to the performance of the obligations of the Issuer hereunder, including, but not limited to (i) the cost of preparation and printing of the Bonds, the Preliminary Official Statement, the Official Statement and the Issuer Documents in reasonable quantities and all other documents (other than as set forth in the next succeeding paragraph) prepared in connection with the transactions contemplated hereby, (ii) the fees and disbursements of Bond Counsel, counsel to the Issuer, counsel to the Company, counsel to the Underwriter and the Trustee; (iii) the fees and disbursements of any other accountants, and other experts, consultants or advisers retained by the Issuer; (iv) the fees for the Rating and of DTC and (v) reasonable miscellaneous, normally occurring, "out-of-pocket" expenses including, but not limited to, meals, transportation and lodging, if any, and any other miscellaneous closing costs incurred by the Underwriter in connection with the sale and execution and delivery of the Bonds. The Issuer acknowledges that it has had an opportunity, in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider the fees and expenses being incurred as part of the issuance of the Bonds.

(b) The Underwriter shall pay (i) all advertising expenses in connection with the public offering of the Bonds, and (ii) all other expenses incurred by it in connection with the public offering of the Bonds.

(c) If this Purchase Agreement shall be terminated by the Underwriter because of any failure or refusal on the part of the Issuer to comply with the terms or to fulfill any of the conditions of this Purchase Agreement, the Issuer shall reimburse the Underwriter for

all “out-of-pocket” expenses (including the fees and disbursements of counsel to the Underwriter) reasonably incurred by the Underwriter in connection with this Purchase Agreement and the offering contemplated hereunder.

10. Notices. Any notice or other communication to be given to the Issuer pursuant to this Purchase Agreement may be given by delivering the same in writing at the address set forth on the first page of this Purchase Agreement to the attention of the District General Manager, and any notice or other communication to be given to the Underwriter pursuant to this Purchase Agreement may be given by delivering the same in writing to Stifel, Nicolaus & Company, Incorporated, 2801 East Camelback Road, Suite 300, Phoenix, AZ 85016, Attention: Mark Reader, Managing Director.

11. Parties in Interest. This Purchase Agreement as heretofore specified shall constitute the entire agreement between us and is made solely for the benefit of the Issuer, the Company, the Trustee and the Underwriter (including successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. This Purchase Agreement may not be assigned by the Issuer or the Company. All of the representations, warranties and agreements of the Issuer and the Company contained in this Purchase Agreement shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the Bonds pursuant to this Purchase Agreement and (iii) any termination of this Purchase Agreement.

12. Effectiveness. This Purchase Agreement shall become effective upon the acceptance hereof by the Issuer and the Company, and shall be valid and enforceable at the time of such acceptance.

13. Choice of Law; Venue. This Purchase Agreement shall be governed by and construed in accordance with the law of the State. The venue for any proceedings on any and all controversies arising pursuant to this Purchase Agreement will be Maricopa County, Arizona.

14. Severability. If any provision of this Purchase Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions because it conflicts with any provisions of any Constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance or of rendering any other provision or provisions of this Purchase Agreement invalid, inoperative or unenforceable to any extent whatever.

15. Business Day. For purposes of this Purchase Agreement, “business day” means any day on which the New York Stock Exchange is open for trading.

16. Section Headings. Section headings have been inserted in this Purchase Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Purchase Agreement and will not be used in the interpretation of any provisions of this Purchase Agreement.

17. Counterparts. This Purchase Agreement may be executed in several counterparts each of which shall be regarded as an original (with the same effect as if the signatures thereto and hereto were upon the same document) and all of which shall constitute one and the same document

18. Notice Concerning Cancellation of Contracts. As required by the provisions of Section 38-511, Arizona Revised Statutes, notice is hereby given that the State, its political subdivisions (including the Issuer) or any department or agency of either may, within three (3) years after its execution, cancel any contract, without penalty or further obligation, made by the State, its political subdivisions or any of the departments or agencies of either if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any of the departments or agencies of either is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. The cancellation shall be effective when written notice from the Governor or the chief executive officer or governing body of the political subdivision is received by all other parties to the contract unless the notice specifies a later time. The State, its political subdivisions or any department or agency of either may recoup any fee or commission paid or due to any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any department or agency of either from any other party to the contract arising as the result of the contract. This Section is not intended to expand or enlarge the rights of the Issuer hereunder except as required by such Section. Each of the parties hereto hereby certifies that it is not presently aware of any violation of such Section which would adversely affect the enforceability of this Purchase Agreement and covenants that it shall take no action which would result in a violation of such Section.

If you agree with the foregoing, please sign the enclosed counterpart of this Purchase Agreement and return it to the Underwriter. This Purchase Agreement shall become a binding agreement between you and the Underwriter when at least the counterpart of this letter shall have been signed by or on behalf of each of the parties hereto.

Sincerely,

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

By \_\_\_\_\_  
Authorized Representative

Accepted and agreed to at \_\_\_\_\_  
\_\_\_\_.m. this \_\_\_\_ day of \_\_\_\_\_, 2021

TOWN OF CAREFREE, ARIZONA UTILITIES  
COMMUNITY FACILITIES DISTRICT

By \_\_\_\_\_  
Name:  
Title:

CAREFREE WATER COMPANY, INC.

By \_\_\_\_\_  
Name:  
Title:

(Signature Page to Bond Purchase Agreement)

**SCHEDULE I**

**\$ \_\_\_\_\_**  
**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES**  
**DISTRICT**  
**WATER SYSTEM REVENUE BONDS, SERIES 2021**

Dated Date: Date of Delivery

Interest Payment Dates: Each January 1 and July 1, commencing January 1, 2022.

Payment Schedule

<u>Payment Date</u> <u>(July 1)</u>	<u>Principal</u>	<u>Interest</u> %	<u>Yield</u> %
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Redemption Provisions: The Bonds maturing before or on July 1, 20\_\_, will not be subject to redemption prior to the stated maturity dates. The Bonds maturing on or after July 1, 20\_\_, may be redeemed prior to their maturity dates, in whole or in part on any date, in any order of maturity date and by lot within any payment date, by the District, on or after July 1, 20\_\_, at a redemption price equal to the principal amount thereof plus accrued interest on such principal to the date fixed for redemption, but without premium.

**SCHEDULE II**

**\$ \_\_\_\_\_**  
**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES**  
**DISTRICT**  
**WATER SYSTEM REVENUE BONDS, SERIES 2021**

**Maturities for Which the 10% Test Has Been Met**

<u>Maturity Date</u> <u>(July 1)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
	\$	%	%	%

**Maturities for Which the 10% Test Has Not Been Met**

<u>Maturity Date</u> <u>(July 1)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
	\$	%		%

**EXHIBIT A**

**FORM OF UNDERWRITER'S CERTIFICATE**

§ \_\_\_\_\_  
**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES  
DISTRICT  
WATER SYSTEM REVENUE BONDS, SERIES 2021**

The undersigned, Stifel, Nicolaus & Company, Incorporated ("Stifel"), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

**1. Bond Purchase Agreement.** On \_\_\_\_\_, 2021 (the "Sale Date"), Stifel, Town of Carefree, Arizona Utilities Community Facilities District (the "Issuer") and Carefree Water Company, Inc. executed a Bond Purchase Agreement (the "Purchase Agreement") in connection with the sale of the Bonds. Stifel has not modified the Purchase Agreement since its execution on the Sale Date.

**2. Price.**

(a) As of the date of this Certificate, for each Maturity of the Bonds, the first price or prices at which at least 10% of each such Maturity of the Bonds was sold to the Public (the "10% Test") are the respective prices listed in Schedule A attached hereto.

(b) **[To be used if not using Hold-the-Offering-Price Rule and 10% was not sold for all Maturities]** **\*\*** With respect to each of the \_\_\_\_\_ Maturities of the Bonds:

(i) As of the date of this Certificate, Stifel has not sold at least 10% of the Bonds of these Maturities at any price or prices.

(ii) As of the date of this Certificate, Stifel reasonably expects that the first sale to the Public of Bonds of these Maturities will be at or below the respective price or prices listed on the attached Schedule A as the "Reasonably Expected Sale Prices for Undersold Maturities."

(iii) The Underwriter will provide actual sales information (substantially similar to the information contained on Schedule B) as to the price or prices at which the first 10% of each such Maturity (i.e., the Undersold Maturity or Maturities) is sold to the Public.

(iv) On the date the 10% Test is satisfied with respect to all Maturities of the Bonds, the Underwriter will execute a supplemental certificate substantially in the form attached hereto as Schedule C with respect to any remaining Maturities for which the 10% Test has not been satisfied as of the Closing Date.\*\*]

(b) **[To be used if using Hold-the-Offering-Price Rule] [Alternative 1 - All Maturities Use Hold-the-Offering-Price Rule:** Stifel offered the Bonds to the Public for

purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.] **[Alternative 2 - Select Maturities Use Hold-the-Offering-Price Rule:** Stifel offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.]

**[Alternative 1 - All Maturities use Hold-the-Offering-Price Rule:** As set forth in the Purchase Agreement, Stifel has agreed in writing that, (i) for each Maturity of the Bonds, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Bonds at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period. **[Alternative 2 - Select Maturities Use Hold-the-Offering-Price Rule:** As set forth in the Purchase Agreement, Stifel has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

### 3. Defined Terms.

- (a) [*Hold-the-Offering-Price Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”]
- (b) [*Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (\_\_\_\_\_, 2021), or (ii) the date on which the Underwriter has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.]
- (c) *Issuer* means Town of Carefree, Arizona Utilities Community Facilities District.
- (d) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.



- (e) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.
- (f) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is \_\_\_\_\_, 2021.
- (g) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate of the Issuer dated \_\_\_\_\_, 2021 and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bond Counsel, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED, as underwriter

By: \_\_\_\_\_  
Mark Reader, Managing Director

By: \_\_\_\_\_  
[underwriter]

Dated: \_\_\_\_\_, 2021

SCHEDULE A

Actual Sales Information as of Closing Date

<u>Maturity</u> <u>(August 1)</u>	<u>Coupon</u> %	<u>Date Sold</u>	<u>Par Amount</u> \$	<u>Sale Price</u>
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\*\*Reasonably Expected Sales Prices for Undersold Maturities as of Closing Date

<u>Maturity</u> <u>(August 1)</u>	<u>Coupon</u>	<u>Par Amount</u>	<u>Offering Prices</u>
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\*\*]

SCHEDULE B

[Actual Sales for Undersold Maturities as of the Closing Date

<u>Maturity</u> <u>(August 1)</u>	<u>Date Sold</u>	<u>Time Sold</u>	<u>Par Amount</u>	<u>Sale Price</u>
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\*\*]

[PRICING WIRE OR EQUIVALENT COMMUNICATION]

(Attached)

[SCHEDULE C

**SUPPLEMENTAL ISSUE PRICE CERTIFICATE OF UNDERWRITER**

\$ \_\_\_\_\_  
**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES  
DISTRICT  
WATER SYSTEM REVENUE BONDS, SERIES 2021**

The undersigned, Stifel, Nicolaus & Company, Incorporated (the "Stifel"), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

1. *Issue Price.*

(a) Stifel sold at least 10% of the \_\_\_\_\_ Maturities of the Bonds to the Public at the price or prices shown on the Issue Price Certificate dated as of the Closing Date (the "10% Test"). With respect to each of the \_\_\_\_\_ Maturities of the Bonds, Stifel had not satisfied the 10% Test as of the Closing Date (the "Undersold Maturities").

(b) As of the date of this Supplemental Certificate, Stifel has satisfied the 10% Test with respect to the Undersold Maturities. The first price or prices at which at least 10% of each such Undersold Maturity was sold to the Public are the respective prices listed on Exhibit A attached hereto.

2. *Defined Terms.*

(a) "Issuer" means Town of Carefree, Arizona Utilities Community Facilities District.

(b) "Maturity" means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) "Underwriter" means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate of the Issuer dated [closing date] and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bond Counsel, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED, as underwriter

By: \_\_\_\_\_  
Mark Reader, Managing Director

By: \_\_\_\_\_  
[underwriter]

Dated: \_\_\_\_\_

EXHIBIT A  
TO  
SUPPLEMENTAL ISSUE PRICE CERTIFICATE\*\*]

EXHIBIT B

[LETTERHEAD OF GREENBERG TRAURIG, LLP]

[Date of Closing]

Stifel, Nicolaus & Company, Incorporated  
Phoenix, Arizona

Re: Town of Carefree, Arizona Utilities Community Facilities District  
Water System Revenue Bonds, Series 2021

Pursuant to a Bond Purchase Agreement, dated \_\_\_\_\_, 2021 (the "Purchase Agreement"), among Town of Carefree, Arizona Utilities Community Facilities District, Carefree Water Company, Inc. and Stifel, Nicolaus & Company, Incorporated, we have delivered to you our approving opinion of even date herewith (the "Approving Opinion") relating to the captioned Bonds. All terms used herein shall have the same meaning assigned in the Purchase Agreement.

We hereby supplement the Approving Opinion and further advise you as follows:

1. The Issuer has all requisite power and authority pursuant to the Constitution and laws of the State (a) to execute and deliver, as applicable, the Issuer Documents, (b) to approve, execute and authorize the use and distribution of the Preliminary Official Statement and the Final Official Statement and (c) to carry out and consummate the transactions contemplated by the Final Official Statement, the Issuer Documents and the Bonds (including performing the applicable obligations pursuant thereto).

2. The Issuer has complied with all applicable provisions of law and has taken all actions required to be taken by it to the date hereof in connection with the transactions contemplated by the Final Official Statement, the Issuer Documents and the Bonds.

3. The Issuer Documents have been duly authorized, executed and delivered, as applicable, by the Issuer, are in full force and effect and, assuming due and valid authorization, execution and delivery by, and enforceability against, if any, the other party thereto, constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their respective terms. The foregoing is subject to applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting the enforcement of creditors' rights and the principles of equity in the event equitable remedies are sought.

4. Adoption of the Bond Resolution, authorization, execution and delivery, as applicable, of, and the due performance by the Issuer of the Issuer Documents and the approval, execution and authorization of the use and distribution of, the Final Official Statement (including, as applicable, the Preliminary Official Statement) by the Issuer under the circumstances contemplated thereby and each of such instruments, do not and will not conflict with, or constitute on the part of the Issuer a material breach of or default under, any federal or State constitutional or statutory provision.

5. No consent of any other party, and no consent, license, approval or authorization of, exemption by or registration with any governmental body, authority, bureau or agency (other than those that have been obtained or will be obtained prior to the delivery of the Bonds and other than approvals that may be required under "blue sky" laws of any jurisdiction) is required in connection with the adoption by the Board of Directors of the Issuer of the Bond Resolution or the authorization, execution, delivery and performance, as applicable, by the Issuer of the Issuer Documents and the consummation of the transactions contemplated by the Final Official Statement.

6. The information contained (but not incorporated by reference) in the Preliminary Official Statement and the Final Official Statement in the tax caption on the cover thereof, under the headings "INTRODUCTORY STATEMENT," "THE BONDS," "SECURITY AND SOURCE OF PAYMENT OF THE BONDS," "TAX EXEMPTION," and "CONTINUING DISCLOSURE" (except as it relates to compliance with prior undertakings as to which we express no opinion) therein, and in Appendix C – "SELECTED PROVISIONS OF BOND RESOLUTION," Appendix F – "FORM OF OPINION OF BOND COUNSEL," and Appendix H – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" thereto, insofar as such information purports to summarize certain provisions of the laws of the State and the United States of America, the Bonds, the Bond Resolution and the Undertaking fairly present the information purported to be shown; provided, however, that such information does not purport to summarize all the provisions of, and is qualified in its entirety by, the complete laws and documents that are summarized, and, based solely on our participation in the transaction as Bond Counsel, nothing has come to our attention that would lead us to believe that the information and statements in the Preliminary Official Statement, as of its date and as of \_\_\_\_\_, 2021, and the Official Statement, as of \_\_\_\_\_, 2021 and as of the date hereof, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that we express no view as to the financial statements of the Issuer, any other financial forecast, technical or statistical data, and any information in the Preliminary Official Statement or the Official Statement regarding DTC. We have not undertaken to review or determine independently, and assume no responsibility for, the accuracy or completeness of the information in the Preliminary Official Statement or the Official Statement except to the extent indicated hereinabove.

7. It is not necessary in connection with the sale and execution of the Bonds to the public to register the Bonds pursuant to the Securities Act of 1933, as amended, or to qualify the Trust Agreement pursuant to the Trust Indenture Act of 1939, as amended.

You may rely upon the Approving Opinion as though it were specifically addressed to you.

This letter is provided pursuant to Section 7(m)(2) of the Purchase Agreement and is being given solely for the information of and assistance to the addressee of this letter in its capacity as the underwriter of the Bonds. In giving this opinion to such underwriter, it is expressly understood that no attorney-client relationship is being created thereby. Without our express prior written permission, this opinion may not be relied upon by any person other than such underwriter and is not to be used, circulated, quoted, or otherwise referred to in connection



with the offering of the Bonds, except that reference may be made to this opinion in any list of closing documents pertaining to the execution and delivery of the Bonds.

Respectfully submitted,

EXHIBIT C

[LETTERHEAD OF COUNSEL TO THE ISSUER]

[Date of Closing]

Stifel, Nicolaus & Company, Incorporated  
Phoenix, Arizona

Greenberg Traurig, LLP  
Phoenix, Arizona

Re: Town of Carefree, Arizona Utilities Community Facilities District  
Water System Revenue Bonds, Series 2021

We have acted as District Counsel for Town of Carefree, Arizona Utilities Community Facilities District (the "Issuer") in connection with its issuance and sale of the above-referenced bonds (the "Bonds"). We are rendering this opinion pursuant to Section 7(m)(3) of the Bond Purchase Agreement, dated \_\_\_\_\_, 2021 (the "Purchase Agreement"), by and among the Issuer, Carefree Water Company, Inc. and Stifel, Nicolaus & Company, Incorporated. All terms used herein shall have the same meaning assigned to such terms as the Purchase Agreement.

We have examined the transcript of proceedings (the "Transcript") relating to the issuance and sale of the Bonds, including originals or copies, certified or otherwise identified to our satisfaction, of the included documents, resolutions, instruments, records, certificates and opinions, and have reviewed laws and information and have made investigations, as we have considered necessary or appropriate for the purpose of rendering this opinion. In such examination of the Transcript, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to me as copies. As to any facts material to this opinion, we have, when relevant facts were not independently established, relied upon the aforesaid proceedings and proofs.

Based upon such examination, we are of the opinion that, pursuant to the law existing on the date of this opinion:

1. The Issuer is duly organized and validly existing as a political subdivision in accordance with the Constitution and laws of the State of Arizona and has all requisite power and authority thereunder to enter into and perform its agreements in accordance with the Bond Resolution and its covenants and agreements pursuant to the Issuer Documents.

2. The Bond Resolution has been duly adopted and approved by the Board of Directors of the Issuer in conformance with the applicable open meeting and other laws and procedures of the Issuer and the State of Arizona.

3. The Issuer Documents have been duly authorized and validly executed and delivered by the Issuer, and the distribution of the Preliminary Official Statement and the Final Official Statement has been duly authorized by the Issuer.

4. The adoption and approval of the Bond Resolution, the authorization, execution and delivery of the Issuer Documents and compliance with the respective provisions thereof under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Issuer a breach of or default under any agreement or other instrument to which the Issuer is a party or, to our actual knowledge, of any existing law, administrative regulation, court order or consent decree to which the Issuer, or any of its property, is subject.

5. Based solely upon a search of the available records of the Superior Court in and for the State of Arizona, County of Maricopa, dated \_\_\_\_, 2021, and the United States District Court for the District of Arizona dated \_\_\_\_, 2021, and upon inquiry of Issuer officials, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or overtly threatened against or affecting the Issuer (a) that in any way question (i) the validity and the proper authorization, approval and execution of any of the Issuer Documents, (ii) the validity and proper approval and adoption of the Bond Resolution, (iii) the authority of the Issuer or its officials to enter into any of the Issuer Documents, or to perform its obligations under such documents or the Bond Resolution and to carry out the transactions contemplated thereby, or (b) wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Bond Resolution, the Bonds, any of the Issuer Documents or the Official Statement, or would in any way materially adversely affect the validity or enforceability of the Bonds, the Bond Resolution, any of the Issuer Documents or of any other instruments required or contemplated for use in consummating the transactions contemplated thereby or by the Official Statement, or that, individually or collectively, would have a material adverse effect on the financial condition of the Issuer or impair the Issuer's ability to comply with all of its duties under the Bond Resolution, or (c) contesting in any way the completeness or accuracy of the Official Statement.

6. To our actual knowledge, the statements in the Official Statement under the headings "THE DISTRICT AND THE COMPANY" and "LITIGATION," taken as a whole and to the extent applicable to the Issuer, are true and correct in all material respects and do not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

The phrase "to our actual knowledge", or words of similar import, means the actual knowledge of the Sherman & Howard L.L.C. attorneys that have provided substantive attention to the matters related to the transaction described in the Transcript on behalf of the Issuer, without consulting any federal, state or local government, commission, bureau, agency, court or licensing authority, except as listed above."

Respectfully submitted,

EXHIBIT D

[LETTERHEAD OF GENERAL COUNSEL TO THE COMPANY]

[Date of Closing]

Stifel, Nicolaus & Company, Incorporated  
Phoenix, Arizona

Greenberg Traurig, LLP  
Phoenix, Arizona

Re: Town of Carefree, Arizona Utilities Community Facilities District  
Water System Revenue Bonds, Series 2021

We are general counsel for Carefree Water Company, Inc., an Arizona corporation (the "Company"). We are rendering this opinion pursuant to Section 7(m)(4) of the Bond Purchase Agreement, dated \_\_\_\_\_, 2021 (the "Purchase Agreement"), by and among the Town of Carefree, Arizona Utilities Community Facilities District (the "Issuer"), the Company and Stifel, Nicolaus & Company, Incorporated. All terms used herein shall have the same meaning assigned to such terms as the Purchase Agreement.

As such counsel, we have reviewed the following documents, each of which is dated the date hereof unless otherwise indicated (collectively, the "Documents"):

1. The Preliminary Official Statement;
2. The Official Statement;
3. The Purchase Agreement;
4. The Payment Agreement;
5. UCC-1 Financing Statement] to be filed with the Arizona Secretary of State on Closing Date;
6. The Board Resolution;
7. Articles of Incorporation of Carefree Water Company, Inc., dated [September 23, 1957], filed with the Arizona Corporation Commission on [September 23, 1957], as amended by the Articles of Amendment to the Articles of Incorporation of Carefree Water Company, Inc., dated December 31, 1998, filed with the Arizona Corporation Commission on December 31, 1998, and as amended by the Articles of Amendment to the Articles of Incorporation of Carefree Water Company, Inc., dated \_\_\_\_\_, 2021, filed with the Arizona Corporation Commission on \_\_\_\_\_, 2021;

8. Amended and Restated Bylaws of the Carefree Water Company, Inc., dated November 12, 2002;
9. Certificate of Good Standing of the Company, dated \_\_\_\_\_, 2021, issued by the Arizona Corporation Commission (the "Certificate of Good Standing"); and
10. [Closing Certificate of the Company,] dated [Closing Date] (the "Company Closing Certificate").

The documents listed in items 7 and 8 are sometimes hereinafter referred to together as the "Company Organizational Documents," and the documents listed in items 3 through 5, inclusive, are sometimes hereinafter referred to collectively as the "Company Documents." We have relied upon the above-referenced certificates of officials of the Company with respect to the accuracy of material or factual matters contained in such certificates, which were not independently established.

In rendering this opinion, we have assumed that:

- (a) (i) Each of the other parties (the "Other Parties") to the Company Documents is duly formed and validly existing under the laws of its state of organization; (ii) the execution, delivery and performance of the Company Documents by each of the applicable Other Parties has been duly authorized by all governmental or corporate action required of such Other Party, and the Company Documents have been duly executed and delivered by each of the applicable Other Parties; (iii) each of the Other Parties has obtained all necessary governmental consents, authorizations, approvals, permits or certificates that are required as a condition to the execution and delivery of the Company Documents by such Other Party and to the consummation of the transaction contemplated by the Company Documents and the Official Statement (the "Transaction"); (iv) the Company Documents constitute legal, valid, binding and enforceable obligations of each of the Other Parties under federal law, the laws of the State of Arizona, and the laws of any other applicable jurisdiction; (v) except for the Company Documents, there are no other documents or agreements between any of the Other Parties and others that would expand or otherwise modify the obligations of the parties under the Company Documents; (vi) each of the Other Parties has the power and authority under applicable laws and regulations to enter into and perform the Transaction and has complied in all material respects with all applicable laws and regulations with respect thereto; and (vii) each of the Other Parties will at all times during the term of the Company Documents act in good faith and only in a manner that under the circumstances is commercially reasonable.
- (b) The Company Documents accurately and completely describe and contain the parties' mutual intent, understanding and business purposes, and there are no oral or written statements, agreements, understandings or

negotiations, nor any usage of trade or counsel of prior dealing among the Other Parties that directly or indirectly modify, define, amend, supplement, or vary or purport to modify, define, amend, supplement or vary any of the terms of the Company Documents or any of the parties' rights or obligations thereunder by waiver or otherwise, and there are no facts or events (such as fraud or duress) that have occurred in connection with the execution, acknowledgment and delivery of the Company Documents that would impair their enforceability.

- (c) No fraud, misrepresentation, unilateral mistake or concealment has occurred in connection with the Company Documents, the Company Closing Certificate or any aspect of the Transaction.
- (d) All parties to the Transaction have complied with any requirement of good faith, fair dealing, conscionability and have acted in good faith and without notice of any defense against enforcement of any rights created by, or any adverse claim to any property transferred as a part of or contemplated by, the Company Documents or any aspect of the Transaction.
- (e) The parties' representations and warranties contained in the Company Documents are truthful and accurate.
- (f) The Company Documents to the extent required to be executed, ratified, notarized, filed, recorded or indexed to be effective (and any UCC-1 or other financing statements required to perfect same) have been or will be timely and properly executed, ratified, notarized, filed, recorded or indexed in the appropriate governmental offices and the filing party will timely file any and all necessary continuation statements, and that all fees, charges, and taxes due and owing as of this date have been paid.
- (g) No interest, fees, charges or other benefits or compensation in the nature of interest will be collected with respect to the Transaction that are not clearly specified in the Company Documents and that are not permitted by applicable law.
- (h) At the time any of the Other Parties seeks to enforce its rights under the Company Documents, such Other Party will not be in breach thereof, the document will still be in force, and no applicable statute of limitations will have expired.
- (i) Each of the Other Parties will diligently and timely pursue its rights and remedies under the Company Documents in a commercially reasonable manner and in accordance with the law, and the required standards of good faith and fair dealing.
- (j) All consents, approvals, licenses or authorizations by, and all notifications of and filings with, any court, governmental body or other person required

to be obtained or made in connection with the Company Documents and the Transaction have been so obtained or made; provided, however, that the foregoing does not limit the opinions expressed herein as they relate to the Company.

- (k) Without investigation the completeness, genuineness and authenticity of any document submitted to us as an original, the conformity to the original of any document submitted to us as a copy, the authenticity of the original of such latter documents, the conformity to the executed document of any document submitted to us as the form to be executed, the genuineness of all signatures, and the legal competency and capacity of natural persons. We have assumed without investigation that any certificate, representation (oral or otherwise), telegram, telex, telecopy, email or other document on which we have relied, whether or not given or dated earlier than the date hereof, is authentic and remains accurate insofar as relevant to this opinion from such earlier date through and including the date hereof, and we are not aware of any facts inconsistent with this assumption.
- (l) The Company holds the requisite title and rights to any real or personal property involved in the Transaction or otherwise purported to be owned by it.
- (m) The Company has paid all income taxes, ad valorem property taxes, fines, jeopardy or fraud assessments, and interest due from each of them, respectively, and payable to the State of Arizona or Maricopa County, Arizona.
- (n) All reports and other documents prepared by third party consultants relating to the Transaction, the Water System or any of the property within or assets of the District are true and accurate.
- (o) The result of the application of Arizona law as specified in the Company Documents will not be contrary to a fundamental policy of the law of any other state with which the parties may have material or relevant contact in connection with the Transaction and as to which there is a materially greater interest in determining an issue of choice of law.

Based on the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, it is our opinion that, pursuant to the law existing on the date of this opinion:

1. The Company is duly organized and validly existing as a corporation in accordance with the Constitution and laws of the State of Arizona and, in reliance of the Certificate of Good Standing accompanying this opinion, is in good stand and qualified to do business in the State of Arizona.

2. The Company has all requisite power and authority under the laws of the State of Arizona and in accordance with the Board Resolution, (i) to carry out the terms and conditions

applicable to it under the Company Documents; (ii) to own and operate its properties and assets as described in the Official Statement, and (iii) to carry out its business as such business is currently being conducted as described in the Official Statement.

3. The Company has complied with all applicable provisions of law and has taken all actions required to be taken by it to the date hereof in connection with the Transactions.

4. The Board Resolution has been duly adopted and approved by the Board of Directors of the Company in conformance with the laws and procedures of the Company and the State of Arizona.

5. The execution, delivery and performance of the Company Documents by the Company and the carrying out, giving effect to and consummation of the Transaction contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company, and the Company Documents have been duly executed and delivered by or on behalf of the Company, are in full force and effect and, assuming due and valid authorization, execution and delivery by, and enforceability against, if any, the Other Party thereto, constitute legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms. The foregoing is subject to applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting the enforcement of creditors' rights and the principles of equity in the event equitable remedies are sought.

6. Adoption of the Board Resolution, authorization, execution and delivery, as applicable, of, and the due performance by the Company of the Company Documents under the circumstances contemplated thereby and each of such instruments, do not and will not conflict with, or constitute on the part of the Company a material breach of or default under, any federal or State constitutional or statutory provision.

7. The adoption and approval of the Board Resolution, the authorization, execution and delivery of the Company Documents and compliance with the respective provisions thereof under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Company a breach of or default under the Company Organizational Documents, any material agreement or other instrument to which the Company is a party or of the laws of Arizona, administrative regulation, court order or consent decree to which the Company, or any of its property, is subject.

8. No consent of any other party, and no consent, license, approval or authorization of, exemption by or registration with any governmental body, authority, bureau or agency (other than those that have been obtained or will be obtained prior to the delivery of the Bonds) is required in connection with the adoption by the Board of Directors of the Company of the Board Resolution or the authorization, execution, delivery and performance, as applicable, by the Company of the Company Documents and the consummation of the Transaction.

9. Based solely upon a search of the available records of the Superior Court in and for the State of Arizona, County of Maricopa, dated \_\_\_\_, 2021, and the United States District Court for the District of Arizona dated \_\_\_\_, 2021, and upon inquiry of Company officials, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court,



governmental agency, public board or body, pending or overtly threatened against or affecting the Company (a) that in any way question (i) the validity and the proper authorization, approval and execution by the Company of the Company Documents, (ii) the validity and proper approval and adoption of the Board Resolution, (iii) the authority of the Company to enter into the Company Documents, or to perform its obligations under such documents or the Board Resolution and to carry out the Transaction, or (b) wherein an unfavorable decision, ruling or finding would adversely affect the Transaction, or would in any way adversely affect the validity or enforceability of the Bonds or the collection and pledge of Net Revenues for payment of the Bonds, the Board Resolution, any of the Company Documents or of any other instruments required or contemplated for use in consummating the Transaction, or that, individually or collectively, would have a material adverse effect on the financial condition of the Company or impair the Company's ability to comply with all of its duties under the Company Documents or impair the Company's ability to comply with all of its duties under the Board Resolution.

10. The statements in the Official Statement under the headings "THE DISTRICT AND THE COMPANY" and "LITIGATION" are true and correct in all material respects and do not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

The opinions expressed in this letter are subject to the following qualifications, limitations and exceptions:

- (i) Our opinions are limited by the internal laws of the State of Arizona (notwithstanding Arizona choice-of-law rules), and applicable federal law. Accordingly, we express no opinion as to the possible impact upon the matters of the laws, orders or judgments of any jurisdiction other than the local laws of the State of Arizona (notwithstanding Arizona choice-of-law rules), and applicable federal law.
- (ii) We express no opinion concerning the legal validity and sufficiency of the acts of any of the Other Parties.
- (iii) The opinions herein are based upon and limited to the laws and facts now in effect, and we assume no obligation to update, revise or supplement the opinion.
- (iv) Our opinion is limited to the matters set forth herein and to the date hereof. No opinion may be inferred or implied beyond the matters expressly stated herein. Our opinion is applicable only to the addressees of this opinion and will not be applicable to any other person. Further, nothing in this letter is intended to and shall not be deemed to undertake or assume any responsibility or obligation to file or record any documents, file any continuation statements, prepare or file any amendments or modifications, or take any other steps or actions whatsoever after the date of this letter.

- (v) The enforceability of the Company Documents is subject to:
- (1) Bankruptcy, insolvency, fraudulent transfer or conveyance, reorganization, arrangement, receivership, conservatorship, moratorium and other similar laws now or hereafter enacted affecting the enforcement of creditors' and property rights generally.
  - (2) The doctrines of waiver, estoppel, election of remedies or commercial reasonableness, the implied covenant of good faith and fair dealing, or by the application of other equitable principles, whether remedies are sought in equity or at law.
  - (3) The qualification that certain waivers, procedures, remedies, indemnities, consents to jurisdiction and other provisions of the Company Documents may be unenforceable under or limited by the law of the State of Arizona; provided, however, such possible unenforceability or limitations will not render the Company Documents invalid as a whole or substantially prevent the practical realization of the principal benefits intended by the Company Documents, except for the economic consequences of any procedural delay, and except that the application of the principles of guaranty and suretyship to the Company Documents may, under certain circumstances, prevent the practical realization of the benefits intended by the Company Documents against the Company through a release or discharge of Company.
- (vi) We express no opinion as to the enforceability of any indemnity provision with respect to any claims or other matters that result from the negligence or misconduct of any indemnitee or the failure of any indemnitee to act in a commercially reasonable manner.
- (vii) We express no opinion as to the enforceability of any indemnity or contribution provision with respect to any claims or other matters relating to or arising under federal or state securities laws, as they may be held to violate public policy.
- (viii) We express no opinion as to the compliance of the Company Documents or the offer and sale of the Bonds with any securities law or regulation.
- (ix) Any opinion as to the enforceability of the Company Documents is limited to enforceability as between the original parties thereto.

- (x) We express no opinion as to the effect on enforceability of the Company Documents of any covenants that might be implied under the doctrine of good faith and fair dealing.

The phrase "to our actual knowledge", or words of similar import, means the actual knowledge of the Sherman & Howard L.L.C. attorneys that have provided substantive attention to the matters related to the Transaction and the Documents on behalf of the Company, without consulting any federal, state or local government, commission, bureau, agency, court or licensing authority, except as listed above. The phrase "consummation of the Transaction" means the closing of the Transaction and the performance of obligations to be performed prior to the closing of the Transaction, but does not include performance of obligations or compliance with terms and conditions of the Company Documents after the closing of the Transaction.

We are furnishing this letter of opinion to you solely for your benefit and may be relied on by you only for the purpose contemplated in the Transaction. Our opinion is not to be reproduced or filed publicly, or used or relied on by, or quoted or delivered to any other person or entity, or used or relied upon for any purpose other than the purpose contemplated in the Transaction without, in each instance, our prior written consent.

Respectfully submitted,

**TOWN OF CAREFREE, ARIZONA UTILITIES  
COMMUNITY FACILITIES DISTRICT**

**PROCEDURES FOR COMPLIANCE WITH  
CONTINUING DISCLOSURE UNDERTAKINGS**

**IMPLEMENTED JULY 27, 2021**

These Procedures for Compliance with Continuing Disclosure Undertakings (these "Procedures") set forth procedures of Town of Carefree, Arizona Utilities Community Facilities District (the "Issuer") to assist in compliance with the continuing disclosure undertakings ("Continuing Disclosure Undertakings") entered into by the Issuer in connection with the offering of obligations of the Issuer subject to the continuing disclosure requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

These Procedures document practices and describe various procedures for preparing and disseminating annual financial information and reporting "listed events" for the benefit of the holders of the Issuer's obligations and to assist Participating Underwriters (within the meaning of the Rule) in complying with the Rule.

Compliance with pertinent law is an ongoing process; necessary during the entire term of any obligations issued by the Issuer, and is an integral component of the Issuer's debt management. Implementation of these Procedures will require ongoing monitoring and consultation with bond/disclosure counsel and the Issuer's accountants and advisors.

**General Policies and Procedures**

1. The \_\_\_\_\_ of the Issuer (the "Compliance Officer") will be responsible for monitoring post-issuance compliance.
2. The Compliance Officer will coordinate procedures for record retention and review of such records.
3. All documents and other records relating to obligations issued by the Issuer shall be maintained by or at the direction of the Compliance Officer.
4. The Compliance Officer will review post-issuance compliance procedures and systems on a periodic basis, but not less than annually.
5. The Compliance Officer will review the annual information required to be filed pursuant to each Continuing Disclosure Undertaking.
6. The Compliance Officer will train at least one other employee of the Issuer with respect to the matters contained in these Procedures to facilitate compliance with the Continuing Disclosure Undertakings in the event the Compliance Officer is no longer employed by the Issuer.

**Continuing Disclosure**

In order to monitor compliance by the Issuer with its Continuing Disclosure Undertakings, the Compliance Officer will take the actions listed below, if and as required by such Continuing Disclosure

Undertakings. The Compliance Officer may coordinate with staff, and may engage a dissemination agent, counsel, and/or other professionals to assist in discharging the Compliance Officer's duties under these Procedures as the Compliance Officer deems necessary.

**A. Compilation of Currently Effective Continuing Disclosure Undertakings**

The Compliance Officer shall compile and maintain a set of all currently effective Continuing Disclosure Undertakings of the Issuer. Such agreements are included in the transcript of proceedings for the Issuer's respective obligation issue. Continuing Disclosure Undertakings are "Currently Effective" for purposes of these Procedures (and hence shall be included in the set of Currently Effective Continuing Disclosure Undertakings) for so long as the obligations to which they relate are outstanding. As obligations are completely repaid or redeemed, the Compliance Officer shall remove the related Continuing Disclosure Undertakings from the set of Currently Effective Continuing Disclosure Undertakings.

**B. Compilation of Currently Effective Financial Obligations**

The Compliance Officer shall compile and maintain a list of all currently effective Financial Obligations of the Issuer. "Financial Obligations" means, for purposes of the Rule, a (i) debt obligation, (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, and existing or planned debt obligation, or (iii) a guarantee of (i) or (ii). For purposes of the Rule, Financial Obligation shall not include municipal securities of the Issuer as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule and as to which a continuing disclosure undertaking has been executed and delivered by the Issuer consistent with the Rule.

Such list shall include key terms of each Financial Obligation, such as date of incurrence, principal amount, maturity, amortization, interest rate, default rates, security and source of payment and key covenants.

**C. Annual Review and Annual Reporting Requirements**

The Compliance Officer shall ensure that all necessary financial statements, financial information and operating data is filed in the manner and by the filing dates set forth in the Currently Effective Continuing Disclosure Undertakings. The Compliance Officer shall review the set of Currently Effective Continuing Disclosure Undertakings annually, prior to each annual filing, keeping in mind:

- The financial information and operating data required to be reported under a particular Continuing Disclosure Undertaking may differ from the financial information and operating data required to be reported under another Continuing Disclosure Undertaking; and
- The timing requirements for reporting under a particular Continuing Disclosure Undertaking may differ from the timing requirements for filing under another Continuing Disclosure Undertaking.

**D. Calendar; EMMA Notification System**

The Compliance Officer shall keep a calendar of all pertinent filing dates required under the Issuer's Currently Effective Continuing Disclosure Undertakings. The Compliance Officer shall also subscribe to notification services made available through the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board.

## **E. Annual Review of Prior Filings**

As part of the annual review process, the Compliance Officer shall also review prior filings made within the past five years subsequent to the last such review of prior filings. If the Compliance Officer discovers any late or missing filings, the Compliance Officer (after discussing the circumstances with the Issuer's dissemination agent, counsel or other agents as necessary) shall file the missing information.

## **F. Monitoring of Listed Events**

The Compliance Officer shall monitor the occurrence of any of the following events and/or other events set forth in the Currently Effective Continuing Disclosure Undertakings and shall provide notice of the same in the required manner and by the relevant reporting deadline (generally within 10 days of the occurrence):

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Issuer's obligations, or other material events affecting the tax status of the Issuer's obligations;
7. Modification to rights of holders of the Issuer's obligations, if material;
8. Calls of the Issuer's obligations, if material, and tender offers;
9. Defeasances of the Issuer's obligations;
10. Release, substitution or sale of property securing repayment of the Issuer's obligations, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Issuer;
13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

The list of Currently Effective Financial Obligations compiled pursuant to B. above will assist in making determinations with respect to Listed Events 15 and 16.

**G. Review of Official Statements**

The Compliance Officer shall review drafts of any offering document for a new offering of obligations, with assistance from its dissemination agent, counsel or other agents of the Issuer as necessary, and shall determine that the offering document accurately and completely describes the Issuer's continuing disclosure compliance history within the five years prior to the date of the respective Official Statement. This compliance review is not meant to limit the Issuer's other reviews of or diligence procedures relating to its offering documents.

**H. Record Retention**

The Compliance Officer shall retain documentation evidencing the Issuer's annual reviews and its reviews of offering documents in connection with new offerings as set forth above. This Issuer shall retain this documentation, for each Continuing Disclosure Undertaking, for the period that the related obligations are outstanding.

**I. Annual Review Checklist**

The Compliance Officer may use and retain the attached Annual Review Checklist to assist in implementing these Procedures.

**CONTINUING DISCLOSURE ANNUAL REVIEW CHECKLIST**

- 1. **Fiscal Year Ending:** \_\_\_\_\_
- 2. **Compliance Officer:** \_\_\_\_\_
- 3. **Checklist Completion Date:** \_\_\_\_\_
- 4. **Obligations for which there are Currently Effective Continuing Disclosure Undertakings**

**- Attach Agreements:**

- \$ \_\_\_\_\_, \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_
- \$ \_\_\_\_\_, \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_
- \$ \_\_\_\_\_, \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_
- \$ \_\_\_\_\_, \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_
- \$ \_\_\_\_\_, \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_
- \$ \_\_\_\_\_, \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_
- \$ \_\_\_\_\_, \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_

**5. Have any new Obligations subject to Continuing Disclosure Been Issued this Year?**

\_\_\_\_\_ No

\_\_\_\_\_ Yes (Add Agreement to Currently Effective Continuing Disclosure Undertakings)

If Yes, did the Compliance Officer review the Offering Document's Description of the Issuer's Continuing Disclosure Compliance History within the Prior 5 Years?

Circle: Y/N (If N, review and discuss any issues with counsel.)

**6. Have any Obligations subject to Continuing Disclosure Been Completely Paid or Redeemed this Year?**

\_\_\_\_\_ No

\_\_\_\_\_ Yes (Remove Agreement from Currently Effective Continuing Disclosure Undertakings)

**7. (a) Has the Compliance Officer Reviewed the Annual Continuing Disclosure Filing to Ensure that all Necessary Financial Statements, Financial Information and Operating Data is Included?**

\_\_\_\_\_ Yes

\_\_\_\_\_ No (Compliance Officer must review the Annual Continuing Disclosure Filing)

**(b) For purposes of this review, please keep in mind:**

	Checked?
Different Continuing Disclosure Undertakings may require different information to be file (so check each one).	Y / N
Different Continuing Disclosure Undertakings may have different filing timing requirements (so check each one).	Y / N

**8. Have any of the Following Listed Events Occurred this Year?**

Event	Circle
1. Principal and interest payment delinquencies.	Y / N
2. Non-payment related defaults, if material.	Y / N
3. Unscheduled draws on debt service reserves reflecting financial difficulties.	Y / N
4. Unscheduled draws on credit enhancements reflecting financial difficulties.	Y / N
5. Substitution of credit or liquidity providers, or their failure to perform.	Y / N
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Issuer's obligations, or other material events affecting the tax status of the Issuer's obligations.	Y / N
7. Modification to rights of holders of the Issuer's obligations, if material.	Y / N
8. Calls of the Issuer's obligations, if material, and tender offers.	Y / N
9. Defeasances of the Issuer's obligations.	Y / N
10. Release, substitution or sale of property securing repayment of the Issuer's obligations, if material.	Y / N



- |     |  |       |
|-----|--|-------|
| 11. | Rating changes.  | Y / N |
| 12. | Bankruptcy, insolvency, receivership or similar event of the Issuer.   | Y / N |
| 13. | The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material. | Y / N |
| 14. | Appointment of a successor or additional trustee or the change of name of a trustee, if material.  | Y / N |
| 15. | Incurrence of a Financial Obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders, if material.   | Y / N |
| 16. | Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.  | Y / N |

**9. If any such Event Occurred, was Proper Notice Provided?**

\_\_\_\_\_ Yes

\_\_\_\_\_ No (Call your dissemination agent or counsel immediately to discuss)

\_\_\_\_\_ N/A

**10. Has the Issuer Retained a Dissemination Agent?**

\_\_\_\_\_ Yes: Name/Contact: \_\_\_\_\_

\_\_\_\_\_ No

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**PRELIMINARY OFFICIAL STATEMENT DATED JULY \_\_, 2021**

**NEW ISSUE – BOOK-ENTRY-ONLY**

**RATING: See “RATING” herein.**

*In the opinion of Bond Counsel, assuming the accuracy of certain representations and certifications and the continuing compliance with certain tax covenants, under existing statutes, regulations, rulings and court decisions, interest on the Bonds (i) is excludable from gross income for federal income tax purposes and (ii) is exempt from income taxation under the laws of the State of Arizona. Further, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. See “TAX EXEMPTION” herein for a description of certain federal tax consequences of ownership of the Bonds.*

**\$18,425,000\***

**TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
WATER SYSTEM REVENUE BONDS, SERIES 2021**

**DRAFT IV –  
7/20/21**

**Dated: Date of Delivery**

**Due: July 1, as shown on the inside front cover**

The Water System Revenue Bonds, Series 2021 (the “Bonds”) will be issued by the Town of Carefree, Arizona Utilities Community Facilities District (the “District”) for the purpose of (i) acquiring certain utility property (including certain water rights) for the Water System (as defined herein), (ii) making improvements to the Water System, (iii) funding capitalized interest on the Bonds through January 1, 2023\*, and (iv) paying the costs relating to the issuance of the Bonds. See “SOURCES AND USES OF FUNDS” herein.

The Bonds, when issued, will be initially registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry-only form. Purchasers of beneficial interests in the Bonds will not receive certificates representing their interests in the Bonds. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made directly to DTC. Disbursements of such payments to Direct Participants (as defined herein) will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as defined herein) will be the responsibility of Direct Participants and Indirect Participants (as defined herein). See APPENDIX I – “BOOK-ENTRY-ONLY SYSTEM” herein. The Bonds will be available in amounts of \$5,000 of principal due on a specified maturity date or integral multiples thereof and will mature on the dates and in the amounts and bear interest at the rates as set forth on the inside front cover page hereof. Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2022\* until maturity or prior redemption.

**SEE MATURITY SCHEDULE ON INSIDE FRONT COVER**

The Bonds will be subject to redemption prior to maturity as described herein. See “THE BONDS - Redemption Provisions” herein.

Principal of and interest on the Bonds, together with principal of and premium, if any, and interest on future parity bonds, will be payable solely from a pledge of, and secured solely by a first lien on, and a security interest in, certain payments (the “Agreement Payments”) to be paid to the District pursuant to a Payment Agreement and Collateral Assignment of Right and Remedies Thereunder, to be dated as of August 1, 2021\*, by and among the District, Carefree Water Company, Inc. (the “Company”) and U.S. Bank National Association, as trustee (the “Trustee”). The Agreement Payments will be payable solely from a pledge of, and secured solely by a first lien on, and a security interest in, the Net Revenues (as defined herein) derived by the Company from the operation of the Water System. (As security for the Agreement Payments, the District will, pursuant to the Payment Agreement, assign to the Trustee, the rights to payment and enforcement of the Agreement Payments.) See “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS” herein.

THE BONDS DO NOT CONSTITUTE A DEBT OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT, THE TOWN OF CAREFREE, ARIZONA, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF FOR CONSTITUTIONAL OR STATUTORY PURPOSES. THE BONDS DO NOT OBLIGATE THE DISTRICT TO LEVY OR PLEDGE ANY FORM OF AD VALOREM OR OTHER TAXES. THE BONDS ARE A LIMITED OBLIGATION OF THE DISTRICT SECURED SOLELY BY AGREEMENT PAYMENTS AND OTHERWISE AS PROVIDED IN THE BOND RESOLUTION.

*Investment in the Bonds involves certain risks that each prospective investor should consider prior to investing. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS” and “BONDHOLDERS’ RISKS” herein.*

The Bonds will be offered when, as and if issued by the District and received by the underwriter identified below (the “Underwriter”), subject to the legal opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Bond Counsel, as to validity and tax exemption. In addition, certain legal matters will be passed upon for the District and for Carefree Water Company, Inc. by Sherman & Howard L.L.C., Phoenix, Arizona, and solely for the Underwriter by Squire Patton Boggs (US) LLP, Phoenix, Arizona. It is expected that the Bonds will be available for delivery through DTC on or about August \_\_, 2021\*.

*This cover page contains certain information for quick reference only. It is not a summary of the Bonds. Investors must read this entire Official Statement and all appendices to obtain information essential to the making of an informed investment decision.*

**STIFEL**

\* Subject to change.

**MATURITY SCHEDULE\***

**\$18,425,000\***

**TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
WATER SYSTEM REVENUE BONDS, SERIES 2021**

Maturity Date (July 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP® <sup>(1)</sup> No.
2023	\$ 110,000	%	%	
2024	365,000			
2025	380,000			
2026	395,000			
2027	415,000			
2028	430,000			
2029	445,000			
2030	465,000			
2031	485,000			
2032	500,000			
2033	520,000			
2034	545,000			
2035	565,000			
2036	585,000			
2037	610,000			
2038	635,000			
2039	660,000			
2040	685,000			
2041	715,000			
2042	745,000			
2043	770,000			
2044	805,000			
2045	835,000			
2046	870,000			
2047	905,000			
2048	940,000			
2049	975,000			
2050	1,015,000			
2051	1,055,000			

\$ \_\_\_\_\_ Term Obligation due July 1, 20\_\_ – Price/Yield \_\_\_ CUSIP®<sup>(1)</sup> No. \_\_\_\_\_

\* *Subject to change.*

<sup>(1)</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright© 2021 CGS. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, Bond Counsel, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES  
DISTRICT**

**BOARD OF DIRECTORS OF THE DISTRICT**

Les Peterson, *Chairperson*

John Crane, *Vice Chairperson*

Vince D'Aliesio, *Boardmember*

Tony Geiger, *Boardmember*

Stephen Hatcher, *Boardmember*

Cheryl Kroyer, *Boardmember*

There is currently one vacancy on the Board of Directors of the District.

**DISTRICT ADMINISTRATIVE STAFF**

Greg Crossman, *District Manager*

Kandace French Contreras, *District Clerk*

Meghan Orem, *District Treasurer*

**COUNSEL TO THE DISTRICT**

Sherman & Howard L.L.C.  
*Phoenix, Arizona*

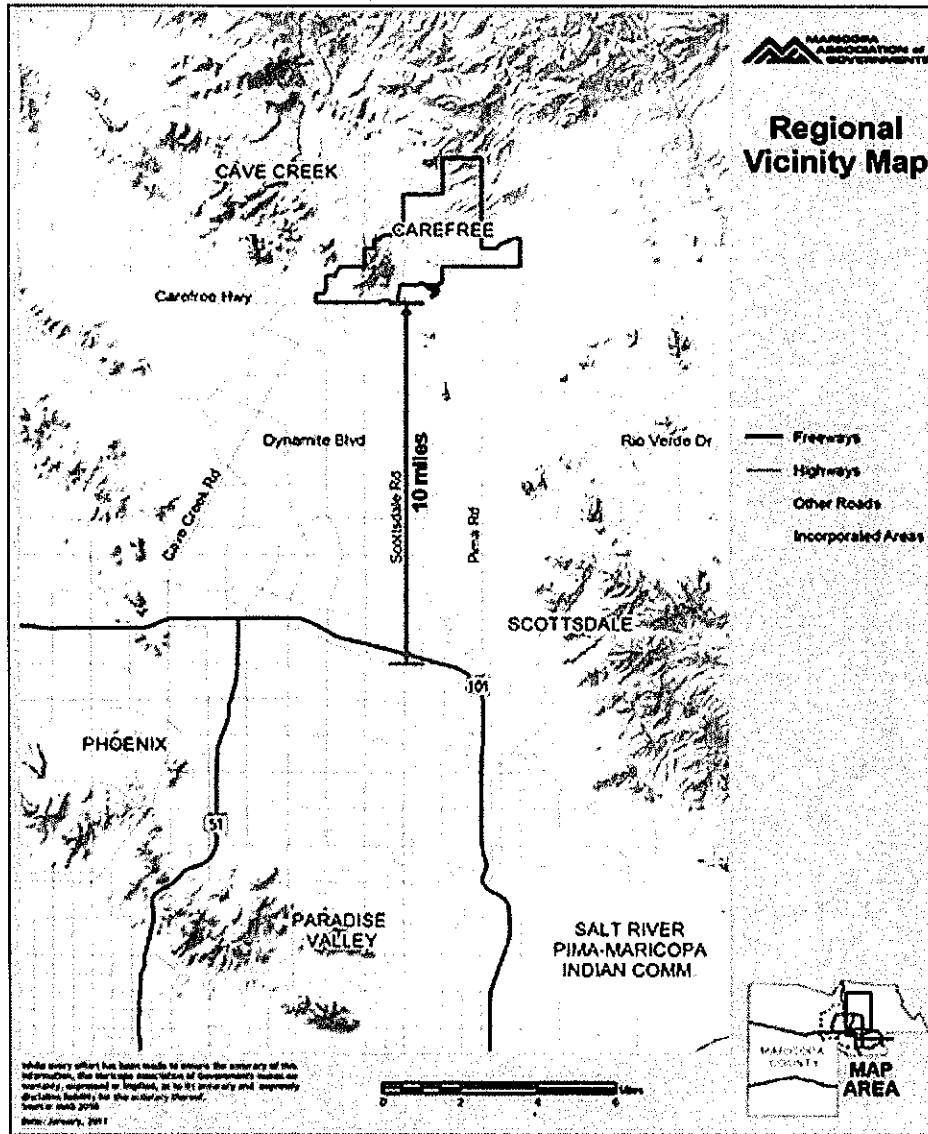
**BOND COUNSEL**

Greenberg Traurig, LLP  
*Phoenix, Arizona*

**TRUSTEE**

U.S. Bank National Association  
*Phoenix, Arizona*

# MAP OF CAREFREE IN PHOENIX METRO AREA



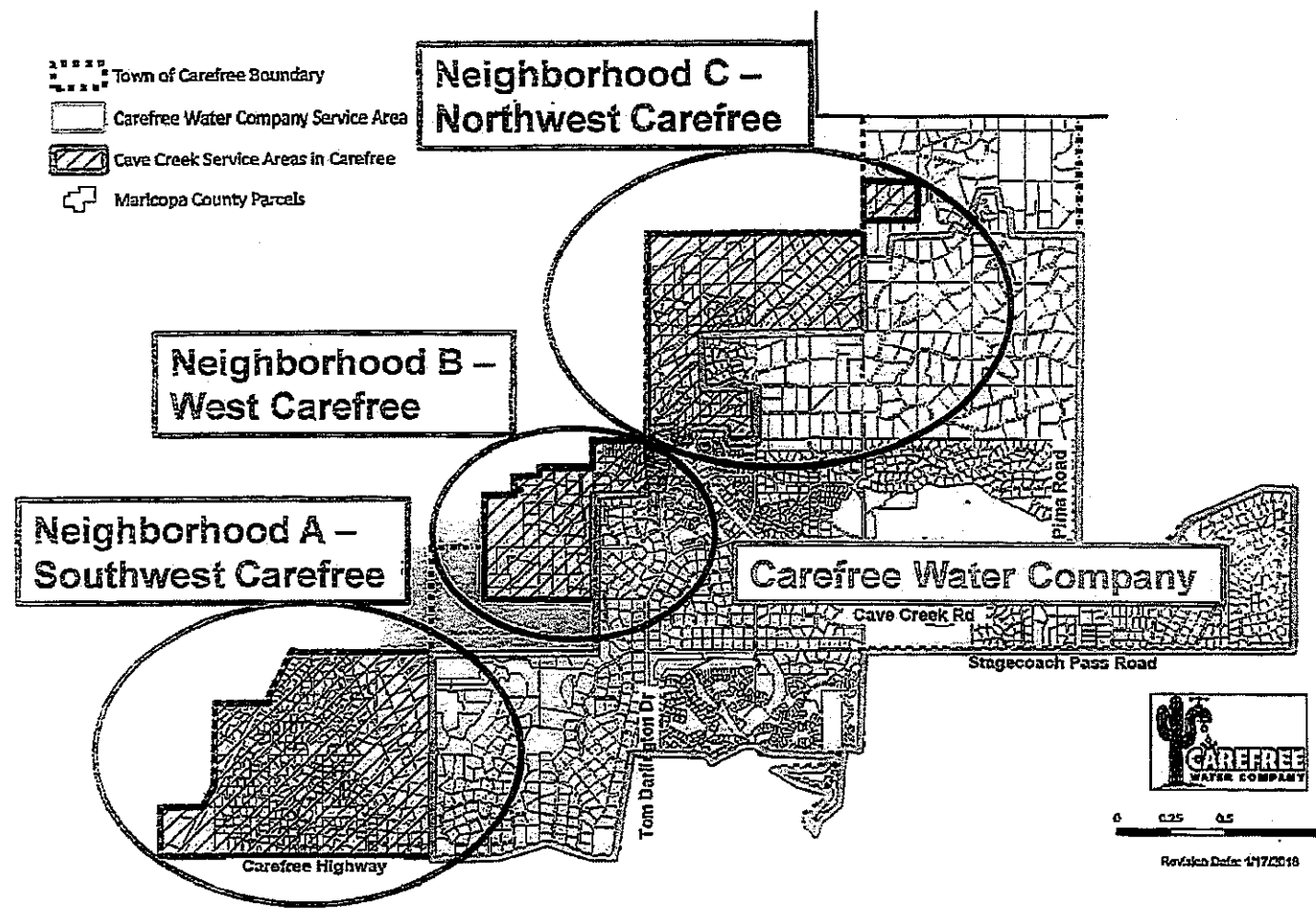


FIGURE 1

(iii)

## REGARDING THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the Town of Carefree, Arizona Utilities Community Facilities District (the "District"), or Stifel, Nicolaus & Company, Incorporated (the "Underwriter"), to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement, which includes the cover page, inside front cover page and appendices hereto, has been obtained from the District and other sources that are considered to be accurate and reliable and customarily relied upon in the preparation of similar official statements, but such information has not been independently confirmed or verified by the District or the Underwriter, is not guaranteed as to accuracy or completeness, and is not to be construed as the promise or guarantee of the District or the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement: "The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information."

The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. All information, estimates and assumptions contained herein have been based on past experience and on the latest information available and are believed to be accurate and reliable, but no representations are made that such information, estimates and assumptions are correct, will continue, will be realized or will be repeated in the future. To the extent that any statements made in this Official Statement involve matters of forecasts, projections, opinions, assumptions, or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty, and no representation is made that any of these statements have been or will be realized. All forecasts, projections, assumptions, opinions or estimates, including, without limitation, certain statements contained in the information in APPENDIX B – "2021 FINANCIAL FORECAST AND LONG-TERM RATE PLAN," are "forward looking statements" that must be read with an abundance of caution and that may not be realized or may not occur in the future. Information other than that obtained from official records of the District has been identified by source and has not been independently confirmed or verified by the District or the Underwriter and its accuracy cannot be guaranteed. The information and forward looking statements herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any of the other parties or matters described herein since the date hereof.

The Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange in reliance upon certain exemptions. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the merits of the Bonds, the accuracy or adequacy of this Official Statement, or approved the Bonds for sale.

A wide variety of information, including financial information, concerning the District is available from publications and websites of the District and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such publications and websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

The District has undertaken to provide continuing disclosure as described in this Official Statement under the heading "CONTINUING DISCLOSURE" and in APPENDIX H – "FORM OF CONTINUING DISCLOSURE UNDERTAKING," all pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED

HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The information in APPENDIX I -- "BOOK-ENTRY-ONLY SYSTEM" attached hereto has been furnished by The Depository Trust Company and no representation is made by the District or the Underwriter, or any of their counsel or agents, as to the accuracy or completeness of such information.



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## OFFICIAL STATEMENT

**\$18,425,000\***

### **TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT WATER SYSTEM REVENUE BONDS, SERIES 2021**

#### INTRODUCTORY STATEMENT

This Official Statement, including the cover page, the inside front cover page and the appendices hereto (this "Official Statement"), has been prepared on behalf of the Town of Carefree, Arizona Utilities Community Facilities District (the "District"), in connection with the original sale, issuance and delivery by the District of \$18,425,000\* in principal amount of its Water System Revenue Bonds, Series 2021 (the "Bonds"). Certain information concerning the authorization, purpose, terms, conditions of sale and sources of payment of and security for the Bonds is included in this Official Statement.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as shown by that financial and other information, will necessarily continue or be repeated in the future.

Reference to provisions of State of Arizona law, whether codified in the Arizona Revised Statutes or uncoded, or of the State of Arizona Constitution (the "Constitution"), are references to those provisions in their current form. Those provisions may be amended, repealed or supplemented.

As used in this Official Statement, "Debt Service" means principal of and interest on the obligations referred to, "County" means Maricopa County, Arizona, and "State" or "Arizona" means the State of Arizona.

Certain capitalized terms used in this Official Statement and not otherwise defined have meanings given to such terms in APPENDIX C – "SELECTED PROVISIONS OF BOND RESOLUTION AND PAYMENT AGREEMENT."

#### THE DISTRICT AND THE COMPANY

The Community Facilities District Act of 1988, constituting Title 48, Chapter 4, Article 6, Arizona Revised Statutes (the "Enabling Act"), was enacted to provide a method of financing (including through the issuance of water system revenue bonds) certain "public infrastructure purposes" (as such term is defined in the Enabling Act) relating to a community facilities district. The Town Council of the Town of Carefree, Arizona (the "Town"), formed the District pursuant to a resolution adopted on August 4, 1998, over approximately 2.47 acres of noncontiguous property located within the boundaries of the Town and owned by Carefree Water Company, Inc. (the "Company"), an Arizona corporation then providing water service within a service area comprising most of the Town. A map showing the service area of the Water System within the Town appears on page (iii).

In 1998, the District issued \$4,731,000 aggregate principal amount of its water system revenue bonds to acquire all of the outstanding capital stock of the Company, to make improvements to the Water System and to pay costs associated with the issuance of such bonds. All of the bonds have been retired. The sale of all outstanding stock of the Company to the District was approved by the Arizona Corporation Commission (the "ACC") and the Company ceased to be a rate-regulated utility company under the ACC's jurisdiction and became a governmental utility system. Since its acquisition by the District, the Company has provided water utility services for the benefit of the District to the water customers within the geographic area which the Company serves (the "Service Area"). (All of the Service Area is outside of the 2.47 acre geographical boundaries of the District.) As the sole shareholder of the Company, the District controls the operation of the Company and prescribes the fees and charges to be imposed by the Company for

\* *Subject to change.*

providing its services. All management and staff of the Water System are employees of the Company and not of the District or the Town, provided, however, that certain employees of the Company also serve as officers of the District. The Company owns all real and personal property of the Water System except for the following: (i) the real and personal water system property in the hereinafter described Added Service Area located outside the boundaries of the District which is being acquired with a portion of the proceeds of the bonds and added to the Water System as described under "PLAN OF FINANCE; PENDING EMINENT DOMAIN CASE AND CIRCULATION OF INITIATIVE PETITION RELATING TO BOULDERS WATER RESERVOIR – Plan of Finance," (ii) a 1,000,000 gallon tank and other equipment related to water quality compliance located on two parcels of real property all titled in the name of the District and the subject of a lease-purchase agreement between the District, as lessee, and the Town, as lessor, as further described herein; provided that such real property and equipment are subject to use by the Company to provide water service, and (iii) a 150,000 gallon tank and water storage reservoir located on two parcels of real property titled in the name of the District; provided that such real property and improvements are subject to joint use by the Company in accordance with an intergovernmental agreement by and among the District, the Town and the County.

A map showing the service area of the Water System, including areas becoming a part of the System in connection with the issuance of the Bonds, appears on page (iii).

The Town and the District are separate and distinct legal entities, and neither entity is legally or otherwise liable for the obligations of the other. However, the members of the Town Council serve, *ex-officio*, as the members of the Board of Directors of the District and the Board of Directors of the District serve as the members of the Board of Directors of the Company.

As described below under "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS – Covenant to Maintain Sole Control of the Company; Covenant Against Disposition," the District has covenanted and agreed in the hereinafter-described Bond Resolution that, so long as any of the Bonds remain Outstanding, it will remain the sole shareholder of the Company and will not dispose of the ownership or assets of the Company except as provided in the Bond Resolution.

## **PLAN OF FINANCE; PENDING EMINENT DOMAIN CASE AND CIRCULATION OF INITIATIVE PETITION RELATING TO BOULDERS WATER RESERVOIR**

### **Plan of Finance**

*Added Service Area Acquisition Reimbursement.* Upon delivery of the Bonds, \$1,000,000 of proceeds of the sale of the Bonds will be used to reimburse the District for an advance of funds used to acquire from the Town of Cave Creek, Arizona ("Cave Creek"), certain utility property, including certain water rights and approximately 525 water customer accounts and associated water rights, in three areas aggregating approximately 1,400 acres within the Town, but located outside the boundaries of the District, that were previously served by the Cave Creek water system under a 2005 intergovernmental agreement between Cave Creek and the Town (the "Added Service Area"), identified generally as Neighborhoods A, B and C on the map shown on page (iii).

*Added Service Area Integration Project.* Approximately \$14,500,000 of proceeds of the sale of the Bonds are thereafter expected to be expended to pay costs of disconnecting the Added Service Area from the Cave Creek water system and connecting it to the Water System, including approximately \$2,600,000 to acquire and construct the 300,000-gallon Boulders Water Reservoir described below to provide fire protection and potable water to approximately 340 customer accounts in Neighborhood A of the Added Service Area ("Neighborhood A"). Upon completion of such work, expected to occur by December 31, 2022, the Added Service Area will be fully integrated as a part of the Water System. Acquisition by the District of the Added Service Area was completed on July 9, 2021, with the receipt by the Town of Cave Creek of the \$1,000,000 acquisition payment. Via District Resolution 2021-05, the District has assigned the Added Service Area to the Company, without cost, to further its integration into the Water System as described below under "THE WATER SYSTEM."

*Carefree Highway/Scottsdale Interconnect Project.* Approximately \$1,000,000 of proceeds of the sale of the Bonds are expected to be expended to pay costs of creating a third water interconnection for the Water System with the City of Scottsdale water system.

*Existing Service Area Improvements.* Approximately \$2,000,000 of proceeds of the sale of the Bonds are expected to be expended to pay costs of existing Service Area capital improvements, including the installation of approximately 12,000 feet of new 6-inch and 8-inch diameter water line replacements (the "Existing Service Area Improvements").

The remaining proceeds of the sale of the Bonds will be used (i) to pay capitalized interest on the Bonds through January 1, 2023\*, and (ii) to pay costs of issuance of the Bonds.

### **Circulation of Initiative Petition Regarding Boulders Water Reservoir**

On June 30, 2021, an initiative petition was filed with Town Clerk by Carefree Citizens for Responsible Government (the "Initiative Petition"), which, if it qualifies for the ballot and is approved, would add two new chapters to the Town Code ("New Chapter 16" and "New Chapter 17"), each of which could impact the acquisition, construction or operation of the Boulders Water Reservoir. *The text of the Initiative Petition appears in Appendix J to this Official Statement.*

New Chapter 16 would restrict the development, alteration or improvement of Town-owned property that was designated as open space/recreation uses in the Town's General Plan as of January 1, 2021 (which includes the site for the Boulders Water Reservoir) unless the proposed actions were submitted to the Town's electors by a two-thirds vote of the Town Council and approved by the Town electors. New Chapter 16 would also prohibit the Town from using the power of eminent domain to acquire any land that was designated as open space/recreation uses in the Town's General Plan as of January 1, 2021, except where the Town immediately upon acquisition dedicates the land in perpetuity for open space/recreational uses. New Chapter 16 would also require that, if the Town has seized or acquired any property by eminent domain between January 1, 2021, and the date that New Chapter 16 becomes effective and that acquisition would be prohibited under New Chapter 16, the Town must stop all activities on the property, offer to convey the property back to the owner from which it was taken at the same price paid by the Town plus interest or seek Town Council and Town elector approvals for the taking and, if such approvals are not given, the Town must restore the seized property to its condition immediately prior to the Town obtaining possession, including demolition and removal of any facility, improvement, structure, equipment, roadway or other element.

New Chapter 17, which would be effective as of January 1, 2021, would provide that the Town may exercise the power of eminent domain only after the use thereof is submitted to the Town's electors by a two-thirds vote of the Town Council and approved by the Town electors. New Chapter 17 would also require that if the Town seized or acquired any property by eminent domain between January 1, 2021, and the date that New Chapter 17 becomes effective, and that acquisition would be prohibited under the New Chapter 17, the Town must stop all activities on the property, offer the property back to the owner from which it was taken at the same price paid by the Town plus interest or seek Town Council and Town elector approvals for the taking and, if such approvals are not given, the Town must restore the seized property to its condition immediately prior to the Town obtaining possession including demolition and removal of any facility, improvement, structure, equipment, roadway or other element.

In order to qualify for the ballot, not less than 203 valid signatures supporting the Initiative Petition must be filed with the Town Clerk by April 4, 2022. If, after review by the Town Clerk and a random sample review that will be conducted by the Maricopa County Recorder (and any litigation that may be brought by a third party under A.R.S. § 19-122(C)), a sufficient number of valid signatures are found to have been submitted, the Town Code changes that are the subject of the Initiative Petition would be submitted to the Town electors at an election to be held on August 2, 2022. As of the date hereof, the District is unable to determine or predict whether the Initiative Petition will obtain enough petition signatures to be on the August 2, 2022 election ballot. Likewise, as of the date hereof, the District is unable to determine or predict whether voters of the Town will approve the Town Code amendments at the August 2, 2022 election.

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\* *Subject to change.*

### **Pending Eminent Domain Case Regarding Boulders Water Reservoir Site**

As noted above, it is expected that approximately \$2,600,000 of proceeds of the sale of the Bonds will be expended to pay costs of acquiring and constructing a 300,000-gallon water storage tank within the Service Area (the "Boulders Water Reservoir") in order to provide adequate fire protection water and potable water to approximately 340 customer accounts in Neighborhood A. A site for the Boulders Water Reservoir, which is at an optimal location and elevation for such a purpose, has been identified. Following unsuccessful negotiations with the owner of the site, The Boulders Homeowners Association, a nonprofit corporation, an eminent domain lawsuit was filed in Maricopa County Superior

Court (the "Superior Court") on April 23, 2021 (No. CV 2021-006704) to acquire the site for the Boulders Water Reservoir (the "Eminent Domain Case"). Although the District has statutory authority to acquire real property by eminent domain, Arizona municipalities have the additional authority to obtain immediate possession and operating control of real property in an eminent domain case by posting a cash possession bond (a "Possession Bond") in an amount determined by the trial court to be the probable damages to the property owner for the taking of its interests. Therefore, in order to obtain immediate possession and operating control of the site for the Boulders Water Reservoir site pending a jury trial to determine the final acquisition price to acquire legal title to the site, the Eminent Domain Case was brought by the Town instead of by the District.

Following an evidentiary hearing held on July 29, 2021, the Superior Court will rule that the Town could take immediate possession and operating control (but not legal title) of the site upon posting a Possession Bond with the Superior Court, which the Town expects to post prior to the delivery of the Bonds (using funds advanced by the Company). Upon posting of the Possession Bond by the Town, the Eminent Domain Case will continue as a jury trial, unless settled or terminated by the Town, until a final acquisition cost is determined and, upon payment by the Town of such acquisition cost, if any, beyond the amount of the Possession Bond, the Superior Court will direct the conveyance of legal title of the Boulders Water Reservoir site to the Town.

Upon obtaining immediate possession of the Boulders Water Reservoir site, the Town will concurrently convey possession of the site to the Company pursuant to an agreement between the Town and the Company. Likewise, upon obtaining full legal title to the site following the jury trial and payment of any additional amounts due to the landowner beyond the Possession Bond, the Town will convey title to the Company.

### **District and Company Intention to Proceed with Construction of Boulders Water Reservoir**

The construction of the Boulders Water Reservoir at its currently intended location will proceed following delivery of the Bonds and in advance of the final resolution of the Eminent Domain Case and a determination of whether sufficient qualified signatures are filed in support of the Initiative Petition or its submission to the Town electors on August 2, 2022.

Acquisition, construction and operation of the Boulders Water Reservoir at its currently selected site is an important component of plans to provide fire protection and potable water to approximately 340 customer accounts in Neighborhood A by December 31, 2022, being the schedule assumed by the 2021 Financial Forecast and Long-Term Rate Plan prepared by Willdan Financial Services appearing in Appendix B of this Official Statement. Such water services to customer accounts in Neighborhood A could, however, be provided by alternate means in the same amounts and on the same schedule assumed in the 2021 Financial Forecast and Long-Term Rate Plan, notwithstanding (a) delays or the ultimate site acquisition costs resulting from the Eminent Domain Case, or (b) Town elector approval and enactment of New Chapter 16 or New Chapter 17.

If acquisition of title to the intended site for the Boulders Water Reservoir by the Town, and concurrent conveyance to the [District] [Company], is delayed or prevented by [the Eminent Domain Case] or if construction or operation of the Boulders Water Reservoir is blocked or delayed by New Chapter 16 or New Chapter 17, if it qualifies for the ballot and is approved by Town electors, or if the Town is required by New Chapter 16 or New Chapter 17 to dismantle the already-constructed Boulders Water Reservoir at its selected site, at least five other less-optimal, but suitable, sites for location of the Boulders Water Reservoir have been identified. If delays in completion of the Boulders Water Reservoir at its current site or construction of the Boulders Water Reservoir at an alternate site could not be completed and operational by December 31, 2022, the date assumed in the 2021 Financial Forecast and Long-Term Rate Plan, full fire protection and potable water could, however, be provided to the approximately 340 customer accounts in

Neighborhood A on such schedule, and pending completion of the Boulders Water Reservoir at its intended or an alternate site, by utilization of two existing water interconnections within the Water System, one with the City of Scottsdale and the other with Cave Creek.

In order to provide a source of funds, if needed, to pay any additional unbudgeted costs of acquiring or constructing the Boulders Water Reservoir at its intended or an alternate site, and/or to pay costs of dismantling the already-constructed Boulders Water Reservoir at its selected site, if required by New Chapter 16 or New Chapter 17, the expenditure of approximately \$2,000,000 of Bond proceeds of the sale of the Bonds for capital projects described under "Existing Service Area Improvements" above, would be, to the extent possible, deferred, pending resolution of matters surrounding completion of the Boulders Water Reservoir at its intended or an alternate site. Thereafter, any remaining funds from the deferred projects will be applied for the originally intended purposes. Although the Existing Service Area Improvements represent improvements which will benefit the Water System, their completion is not necessary to produce the amounts of Net Revenues assumed in the 2021 Financial Forecast and Long-Term Rate Plan. If the additional costs of acquiring or constructing the Boulders Water Reservoir and/or dismantling the already-constructed Boulders Water Reservoir exceeded available Bond proceeds, the District would pay such costs from available cash from the Water System or from additional borrowing, with any related necessary water rate adjustments.

## **THE WATER SYSTEM**

Since its acquisition by the District in 1999, the Company has provided water utility services for the benefit of the District to the water customers within the Service Area. As the sole shareholder of the Company, the District controls the operation of the Company and prescribes the fees and charges to be imposed by the Company for providing its services. Upon acquisition and connection of the property and customer accounts located in the Added Service Area, the Company's service area will encompass all areas within the Town (except for a small number of parcels which will continue to use well water). For operating, financial and other information about the Water System, see APPENDIX A – "TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – THE WATER SYSTEM," APPENDIX B – "2021 FINANCIAL FORECAST AND LONG-TERM RATE PLAN" and APPENDIX E – "TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – FINANCIAL DATA" herein.

## **THE BONDS**

### **Authorization**

The Bonds are being issued pursuant to the Constitution and laws of the State, including Title 48, Chapter 4, Article 6 of the Arizona Revised Statutes, and the provisions of a Resolution adopted by the Board of Directors of the District on July 27, 2021\* (as amended or supplemented pursuant to its terms, the "Bond Resolution"). See APPENDIX C – "SELECTED PROVISIONS OF BOND RESOLUTION AND PAYMENT AGREEMENT" herein.

### **General Terms**

The Bonds will be dated the date of delivery and will bear interest from their date of delivery payable on January 1, 2022\*, and semiannually thereafter on July 1 and January 1 of each year (each, an "Interest Payment Date") until maturity or prior redemption of the Bonds. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on the inside front cover of this Official Statement. Interest will be computed on the basis of a year comprised of three hundred sixty (360) days consisting of twelve (12) months of thirty (30) days each.

The Bonds will be issuable only in fully registered form, initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). For a description of registration and transfer of the Bonds through DTC, see APPENDIX I – "BOOK-ENTRY-ONLY SYSTEM." The Bonds will be available in amounts of \$5,000 of principal due on a specified maturity date or integral multiples thereof.

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\* *Subject to change.*

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES IN THIS OFFICIAL STATEMENT TO THE REGISTERED OWNERS OF THE BONDS (EXCEPT UNDER THE HEADING "TAX EXEMPTION") WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS (AS DEFINED IN APPENDIX I) OF THE BONDS.

**The Trustee**

U.S. Bank National Association will serve as the initial Trustee (the "Trustee") for the Bonds so long as no Event of Default has occurred and is continuing. The Trustee may resign or be replaced by the District or by owners of the Bonds as provided in the Bond Resolution.

**Redemption Provisions\***

*Optional Redemption.* Principal represented by the Bonds payable before or on July 1, 20\_\_, will not be subject to redemption prior to the stated payment dates. Principal represented by the Bonds payable on or after July 1, 20\_\_, may be prepaid prior to the stated payment dates, in whole or in part on any date, in any order of payment date and by lot within any payment date, by the District, on or after July 1, 20\_\_, at a redemption price equal to the principal amount thereof plus accrued interest on such principal to the date fixed for redemption, but without premium.

*Mandatory Redemption.* The Bonds payable as to principal on July 1 in the year 20\_\_ (the "Term Bonds"), are subject to mandatory redemption and shall be paid on July 1 in the respective years set forth below, in the amounts set forth below, by payment of a redemption price equal to the principal amount of such Term Bonds called for redemption plus the interest accrued to the date fixed for redemption, but without premium.

Term Bonds Maturing July 1, 20\_\_

Payment Date

Sinking Fund Requirement

Whenever Bonds subject to mandatory redemption are purchased, paid (other than pursuant to mandatory redemption) or delivered by the District to the Trustee for cancellation, the principal amount of the Bonds so retired shall satisfy and be credited against the mandatory redemption requirements for such Bonds for such years as the District may direct.

*Manner of Selection for Redemption.* Principal represented by the Bonds will be prepaid only in amounts of \$5,000 payable on a specific payment date or integral multiples thereof. The District will, at least 45 days prior to the redemption date, notify the Trustee of such redemption date and of the payment dates of the Bonds and the principal amount of the Bonds of any such payment date to be prepaid on such date. For the purposes of any redemption of less than all of the Bonds due on a single payment date, the particular Bonds or portions of the Bonds to be prepaid will be selected through the procedures of DTC. While the District intends that allocations be made in accordance with the foregoing proportional provisions, the selection of the Bonds for redemption will be subject to practices and procedures of DTC as in effect from time to time.

*Notice of Redemption.* Redemption notices will be sent only to DTC by electronic media, not more than 60 nor less than 30 days prior to the date set for redemption. See APPENDIX I - "BOOK-ENTRY-ONLY SYSTEM." Such notice will state that if, on the specified redemption date, moneys for redemption of all the Bonds to be prepaid together with interest to the date of redemption, is held by the Trustee, then, from and after said date of redemption, interest with respect to the Bonds will cease to accrue and become payable and that if such moneys are not so held, the redemption will not occur.

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\* Subject to change.



## SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

The Bonds will be payable solely from a pledge of, and secured by a first lien on, and a security interest in, certain payments (the "Agreement Payments") to be paid to the District pursuant to the Payment Agreement and Collateral Assignment of Rights and Remedies Thereunder, to be dated as of August 1, 2021\* (the "Payment Agreement"), by among the District, the Company and the Trustee. See "APPENDIX C – SELECTED PROVISIONS OF BOND RESOLUTION AND PAYMENT AGREEMENT – PAYMENT AGREEMENT". The Agreement Payments will be required to be sufficient to pay the principal of and premium, if any, and interest on the Bonds and the Parity Bonds pursuant to the Payment Agreement and will be payable solely from a pledge of, and secured solely by a first lien on, and a security interest in, the Net Revenues. The "Net Revenues" are defined in the Bond Resolution as that portion of Gross Revenues remaining after providing sufficient funds for Operation and Maintenance Expenses. "Gross Revenues" are generally all income, moneys, and receipts received or receivable directly or indirectly from the ownership, use or operation of the Water System, including any waste material or by-products and certain investment income. "Operation and Maintenance Expenses" are generally all costs and expenses reasonably incurred in connection with the operation, use and maintenance of the Water System, including repairs necessary to keep the Water System in efficient and economical operating condition, payments of insurance coverage required to be maintained with respect to the Water System and the reasonable cost of value of all services rendered by the Company with respect to the Water System, but excluding depreciation and interest on the Bonds, the Parity Bonds and subordinate obligations issued or incurred by the District. The District will prescribe fees and charges, and will revise them when necessary, to generate the Net Revenues sufficient, together with any moneys from the sources described in the Enabling Act, to pay when due the principal of and interest on the Bonds and the Parity Bonds for the payment of which the Net Revenues have been pledged pursuant to the Bond Resolution. The establishment or revision of any fees and charges with respect to the Water System will be identified and noticed concurrently with the annual budget process of the District pursuant to the Enabling Act.

The Net Revenues pledged to the Payment Agreement will be paid monthly by the Company to the District and then deposited monthly by the District into the Debt Service Fund, which contains an Interest Account and Principal Account and is maintained for the payment of principal of and interest on the Bonds. On or before the third Monday of each month, the District is required to deposit one-sixth of the interest requirement due on the next ensuing Interest Payment Date into the Interest Account of the Debt Service Fund and one-twelfth of the principal requirement due on the next ensuing principal payment date into the Principal Account of the Debt Service Fund. See APPENDIX C – "SELECTED PROVISIONS OF BOND RESOLUTION AND PAYMENT AGREEMENT – Pledge and Application of Revenues."

For information concerning the Water System, see APPENDIX A – "TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – THE WATER SYSTEM" and APPENDIX B – "2021 FINANCIAL FORECAST AND LONG-TERM RATE PLAN" herein.

*THE BONDS DO NOT CONSTITUTE A DEBT OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT, THE TOWN, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF FOR CONSTITUTIONAL OR STATUTORY PURPOSES. THE BONDS DO NOT OBLIGATE THE DISTRICT TO LEVY OR PLEDGE ANY FORM OF AD VALOREM OR OTHER TAXES. THE BONDS ARE A LIMITED OBLIGATION OF THE DISTRICT SECURED SOLELY BY AGREEMENT PAYMENTS AND OTHERWISE AS PROVIDED IN THE BOND RESOLUTION.*

### **Rate Covenant**

The District agrees in the Bond Resolution to establish and maintain schedules of rates, fees and charges for all water services supplied by the Water System fully sufficient at all times, after making reasonable allowance for contingencies and errors in estimates, to pay Operation and Maintenance Expenses and to produce an aggregate of the Net Revenues in each Fiscal Year equal to not less than 120% of the Annual Debt Service Requirement. See APPENDIX C – "SELECTED PROVISIONS OF BOND RESOLUTION AND PAYMENT AGREEMENT – General Covenants."

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\* Subject to change.

### **No Prior Lien Obligations; Parity Bonds**

The District agrees in the Bond Resolution that, so long as any Bonds remain Outstanding, it will not issue any bonds or other obligations which are payable from or secured by a lien on the Net Revenues which is senior or prior to the lien of the Bonds.

Pursuant to the provisions of the Bond Resolution, the District may, in the future, issue bonds ("Parity Bonds") having a lien on the Net Revenues on parity with the lien of the Bonds if, among other things, the Net Revenues for the Fiscal Year next preceding the date of issuance have been at least equal to 120% of the Maximum Annual Debt Service for any succeeding Fiscal Year.

With respect to the calculation of the Net Revenues for this purpose, the Bond Resolution permits certain amounts to be added in order to take into account the effect of recent rate adjustments or additions to, or deletions from the Water System. See APPENDIX C – "SELECTED PROVISIONS OF THE BOND RESOLUTION AND THE PAYMENT AGREEMENT."

The District has covenanted and agreed in the Bond Resolution that, so long as any of the Bonds remain Outstanding, it will remain the sole shareholder of the Company and will not dispose of the ownership or assets of the Company except pursuant to a merger or transfer of assets to the District.

### **THE 2021 FINANCIAL FORECAST AND LONG-TERM RATE PLAN**

Willdan Financial Services has prepared for the District the 2021 Financial Forecast and Long-Term Rate Plan, which is included as Appendix B herein. *Although this report contains certain information and projections about the Water System and its financial performance, the 2021 Financial Forecast and Long-Term Rate Plan has a more limited scope than would be contained in a commissioned feasibility study and it does not purport to be a commissioned feasibility study.* Investors should read the entire 2021 Financial Forecast and Long-Term Rate Plan, including particularly all assumptions as to future operational or financial forecasts with respect to the Water System. These assumptions are material to any forecasts, and variations in the assumptions could produce substantially different financial results. Actual performance and financial results may vary materially from the forecasts in the 2021 Financial Forecast and Long-Term Rate Plan. See BONDHOLDERS' RISKS -- Dependence on Financial Performance of Water System."

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied as follows:

### Source of Funds:

Principal Amount	\$18,425,000.00*
[Net] Original Issue Discount/ Premium	_____
<b>Total Sources</b>	<b>\$</b>

### Uses of Funds:

Acquisition of Carefree Service Area	
Reintegration of Carefree Service Area	
Deposit to Improvement Fund	
Capitalized Interest (a)	
Payment of Costs of Issuance (b)	_____
<b>Total Uses</b>	<b>\$</b>

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\* *Subject to change.*

(a) *Capitalized interest on the Bonds to January 1, 2023. \**

(b) *Includes compensation and costs of the Underwriter (as defined herein).*

## ESTIMATED DEBT SERVICE REQUIREMENTS

The following schedule sets forth (i) the estimated annual debt service requirements of the Bonds and (ii) the projected debt service coverage provided by the projected Net Revenues available for debt service.

### Town of Carefree, Arizona Utilities Community Facilities District Schedule of Annual Water Revenue Bond Estimated Debt Service Requirements and Projected Debt Service Coverage (a)

Fiscal Year	Net Revenues (b)	The Bonds*		Total Estimated Annual Debt Service Requirements	Estimated Maximum Annual Debt Service Coverage (d)
		Principal	Interest (c)		
2019/20	\$ 1,128,593				
2020/21	1,060,659				
2021/22	978,902	\$ -	\$ 624,403 (e)	\$ 624,403	
2022/23	1,696,437	110,000	737,000	847,000	
2023/24		365,000	732,600	1,097,600	
2024/25		380,000	718,000	1,098,000	
2025/26		395,000	702,800	1,097,800	
2026/27		415,000	687,000	1,102,000	1.54x
2027/28		430,000	670,400	1,100,400	
2028/29		445,000	653,200	1,098,200	
2029/30		465,000	635,400	1,100,400	
2030/31		485,000	616,800	1,101,800	
2031/32		500,000	597,400	1,097,400	
2032/33		520,000	577,400	1,097,400	
2033/34		545,000	556,600	1,101,600	
2034/35		565,000	534,800	1,099,800	
2035/36		585,000	512,200	1,097,200	
2036/37		610,000	488,800	1,098,800	
2037/38		635,000	464,400	1,099,400	
2038/39		660,000	439,000	1,099,000	
2039/40		685,000	412,600	1,097,600	
2040/41		715,000	385,200	1,100,200	
2021/42		745,000	356,600	1,101,600	
2042/43		770,000	326,800	1,096,800	
2043/44		805,000	296,000	1,101,000	
2044/45		835,000	263,800	1,098,800	
2045/46		870,000	230,400	1,100,400	
2046/47		905,000	195,600	1,100,600	
2047/48		940,000	159,400	1,099,400	
2048/49		975,000	121,800	1,096,800	
2049/50		1,015,000	82,800	1,097,800	
2050/51		1,055,000	42,200	1,097,200	
		<u>\$ 18,425,000</u>	<u>\$ 13,821,403</u>	<u>\$ 32,246,403</u>	

\* Subject to change.

(a) Prepared by Stifel, Nicolaus & Company, Incorporated (the "Underwriter").

(b) Reflects Net Revenues and projected Net Revenues available for Debt Service for each respective fiscal year, as provided by the District and in the 2021 Financial Forecast and Long-Term Rate Plan prepared by Willdan Financial Services.

- (c) *Interest is estimated.*
- (d) *Coverage calculations are based on the Fiscal Year ended June 30, 2023 Net Revenues, the projected annual debt service requirement and the projected, aggregate maximum annual debt service requirement. Projected Net Revenues for the Fiscal Year ended June 30, 2023 are derived from the 2021 Financial Forecast and Long-Term Rate Plan prepared by Willdan Financial Services.*
- (e) *The first interest payment on the Bonds will be due on January 1, 2022\*. Thereafter, interest payments will be made semiannually on July 1 and January 1 until the final maturity or prior redemption of the Bonds.*

## **BONDHOLDERS' RISKS**

*The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented herein. Certain of these investment risks are described below. The list of risks described below is not intended to be definitive or exhaustive and the order in which the following factors are presented is not intended to indicate relative importance of risks.*

### **Limited Obligation**

The Bonds will be payable solely from and secured by the Agreement Payments which, in turn, will be payable solely from and secured by Net Revenues of the Water System. The Bonds will not constitute a debt or a pledge of the full faith and credit of the District, the Town, the State or any political subdivision thereof. The District will not pledge any form of ad valorem or other taxes to the payment of the Bonds. No security interest will be held by any owner of the Bonds in any portion of the Water System. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" herein.

### **Limitations on Remedies; No Recourse to Water System**

Upon the occurrence of an Event of Default by the District under the Bond Resolution, the owner of any Bonds may exercise any of the available remedies at law or in equity, including, but not limited to, specific performance. The obligations of the District under the Bond Resolution or the Bonds may *not* be accelerated.

Although the Bonds are payable from and secured by the Agreement Payments which, in turn, will be payable from the Net Revenues of the Water System, no portion of the Water System constitutes a part of the security for the Bonds and no holder of Bonds shall have any claim upon, or right to proceed against, or foreclose upon the Water System upon the occurrence of an Event of Default under the Bond Resolution.

### **Dependence on Financial Performance of Water System**

The District believes that the Net Revenues resulting from operation of the Water System will be sufficient to pay the principal of and interest on the Bonds when due as well as the costs of the necessary additional Water System improvements. Such belief is based on the District's current projections and assumptions and those in the 2021 Financial Forecast and Long-Term Rate Plan, including, without limitation, those relating to water rates and charges, customer connections, occupancy of homes and businesses, water usage and the ability of customers to pay charges related to the Water System. However, there can be no assurance that the actual events will correspond with the projections and assumptions, including those reflected in APPENDIX B -- "2021 FINANCIAL FORECAST AND LONG-TERM RATE PLAN" herein.

All such projections, assumptions and estimates are "forward looking statements," which must be read with an abundance of caution and which may not be realized or may not occur in the future. Any or all of the sources of Net Revenues could decline or fail to achieve the level of growth assumed by the District or the 2021 Financial

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\* *Subject to change.*

Forecast and Long-Term Rate Plan due to numerous economic, political or other factors, including some discussed elsewhere in this "BONDHOLDERS' RISKS" section, and many of which are beyond the control of the District or the Company. Likewise, the District's and the Company's expenditures for the Operations and Maintenance Expenses of the Water System could exceed, possibly by a significant amount, those assumed in making the projections. To the extent that any source of Net Revenues declined or failed to achieve the level of growth assumed in making projections, or to the extent that the Operation and Maintenance Expenses exceeded those assumed by the District or in the 2021 Financial Forecast and Long-Term Rate Plan, the projected Net Revenues and projected debt service coverage levels might deviate, possibly materially and adversely, from the levels projected in this Official Statement. It is likely that actual future revenues and expenditures will vary over time from the projections, and it is not possible to assess whether those variations will be favorable or unfavorable. In addition, the continued performance of the Water System and the projected growth of Net Revenues depends, in some part, on the growth of the water service area. See APPENDIX A – "TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – THE WATER SYSTEM" and APPENDIX B – "2021 FINANCIAL FORECAST AND LONG-TERM RATE PLAN." As a consequence, no assurance can be given that in all events Net Revenues will be sufficient to pay scheduled principal of and interest on the Bonds.

### **Adequacy of Water Supply**

Despite the District's present or future actions toward the development of future and additional water supplies, it cannot be currently determined whether such actions will be sufficient or what additional actions will be required of the District to secure adequate water supplies for the Water System, or what the cost of such water supplies might be; accordingly, no present assurance can be made that all necessary supplies will be available at reasonable costs.

### **Regulatory Requirements**

The Water System is subject to a variety of federal and State statutory and regulatory requirements. Laws and regulations governing water treatment and the delivery of water are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly and, as more stringent standards are developed to ensure safe drinking water standards and the provision of water for other purposes, such costs will likely increase.

The District's or the Company's failure to comply with applicable laws and regulations could result in significant fines and penalties. Such claims are payable from assets of the Water System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the District may also lead to administrative orders issued by federal or State regulators. The District is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations of the Water System or financial condition of the District or the Company. Future compliance with such orders can also impose substantial additional costs on the Water System.

No assurance can be given that the cost of compliance with such laws, regulations, and orders would not adversely affect the ability of the Water System to generate Net Revenues sufficient to pay the debt service on any outstanding Bonds and other revenue obligations.

### **Security of the Water System**

To ensure water quality and delivery service are maintained, the District intends to continually plan and prepare for emergency situations such as fire, power failure, or possible terrorist activities. The District intends to cause the Company to monitor the water supply for possible contamination in a variety of ways, including taking hundreds of water samples throughout the year. Additional emergency preparation procedures include: routinely training staff on critical security and safety; conducting disaster drills to improve coordination efforts throughout the region; collaborating with law enforcement and fire-rescue agencies in order to improve multiple agency response to water emergencies; implementing a water quality notification plan to keep customers informed in emergency situations; and, implementing additional security measures throughout the Water System.

There can be no assurance that any existing or additional safety and security measures will prove adequate in the event of an emergency situation affecting the Water System, or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the District to increase

expenditures for repairs to the Water System significantly enough to adversely impact the District's ability to make payments of the principal of and interest on the Bonds.

**Initiative Petition Affecting Boulders Water Reservoir**

As discussed herein under “PLAN OF FINANCE; PENDING EMINENT DOMAIN CASE AND CIRCULATION OF INITIATIVE PETITION RELATING TO BOULDERS WATER RESERVOIR -- Circulation of Initiative Petition Regarding Boulders Water Reservoir,” on June 30, 2021, the Initiative Petition was filed with Town Clerk. If it qualifies for the ballot and is approved to Town electors, it would add two new chapters to the Town Code, each of which could impact the acquisition, construction or operation of the Boulders Water Reservoir. The text of the Initiative Petition appears in Appendix J to this Official Statement.

New Chapter 16 would restrict the development, alteration or improvement of Town-owned property that was designated as open space/recreation uses in the Town’s General Plan as of January 1, 2021 (which includes the site for the Boulders Water Reservoir) unless the proposed actions were submitted to the Town’s electors by a two-thirds vote of the Town Council and approved by the Town electors. New Chapter 17, which would be effective as of January 1, 2021, provides that the Town may exercise the power of eminent domain only after being submitted to the Town’s electors by a two-thirds vote of the Town Council and approved by the Town electors. New Chapter 16 and New Chapter 17 would require that if the Town has seized or acquired any property by eminent domain between January 1, 2021 and the date that they become effective, and that acquisition would be prohibited thereunder, the Town must stop all activities on the property, offer the property back to the owner from which it was taken at the same price paid by the Town plus interest or seek Town Council and Town elector approvals for the taking and, if such approvals are not given, the Town must restore the seized property to its condition immediately prior to the Town obtaining possession, including demolition and removal of any facility, improvement, structure, equipment, roadway or other element.

In order to qualify for the ballot, not less than 203 valid signatures supporting the Initiative Petition must be filed with the Town Clerk by April 4, 2022. If, after review by the Town Clerk and a random sample review that will be conducted by the Maricopa County Recorder (and any litigation that may be brought by a third party under A.R.S. § 19-122(C)), a sufficient number of valid signatures are found to have been submitted, New Chapter 16 and New Chapter 17 would be submitted to the Town electors at an election to be held on August 2, 2022. As of the date hereof, the District is unable to determine or predict whether the Initiative Petition will obtain enough petition signatures to be on the August 2, 2022 election ballot. Likewise, as of the date hereof, the District is unable to determine or predict whether voters of the Town will approve the Town Code amendments at the August 2, 2022 election.

Acquisition, construction and operation of the Boulders Water Reservoir at its currently selected site is an important component of plans to provide fire protection and potable water to approximately 340 customer accounts in Neighborhood A by December 31, 2022, being the schedule assumed by the 2021 Financial Forecast and Long-Term Rate Plan prepared by Willdan Financial Services appearing in Appendix B of this Official Statement. However, as described under “PLAN OF FINANCE; PENDING EMINENT DOMAIN CASE AND CIRCULATION OF INITIATIVE PETITION RELATING TO BOULDERS WATER RESERVOIR -- District and Company Intention to Proceed with Construction of Boulders Water Reservoir,” construction of the Boulders Water Reservoir at its currently intended location will proceed following issuance of the Bonds and in advance of a determination of whether sufficient qualified signatures are filed in support of the Initiative Petition or its submission to the Town electors on August 2, 2022. Fire protection and potable water services to approximately 340 customer accounts in Neighborhood A could, if necessary, be provided by alternate means in the same amounts and on the same schedule assumed in the 2021 Financial Forecast and Long-Term Rate Plan, notwithstanding Town elector approval and enactment of the Town Code amendments proposed in the Initiative Petition.

**Pending Eminent Domain Case**

As discussed herein under “PLAN OF FINANCE; PENDING EMINENT DOMAIN CASE AND CIRCULATION OF INITIATIVE PETITION RELATING TO BOULDERS WATER RESERVOIR -- Pending Eminent Domain Case Regarding Boulders Water Reservoir Site” herein, approximately \$2,600,000 of proceeds of the sale of the Bonds are expected to be expended to pay costs of acquiring and constructing Boulders Water Reservoir in order to provide adequate fire protection water and potable water to approximately 340 new customer accounts in Neighborhood A.

The Town filed the Eminent Domain Case on April 23, 2021 to acquire the site for the Boulders Water Reservoir. Following an evidentiary hearing held on July 29, 2021, the Superior Court will rule that the Town could take immediate possession and operating control (but not legal title) of the site upon posting a Possession Bond with the court, which the Town expects to post prior to the delivery of the Bonds (using funds advanced by the Company). Upon posting of the Possession Bond by the Town, the Eminent Domain Case will continue as a jury trial, unless settled or terminated by the Town, until a final acquisition cost is determined and, upon payment by the Town of such acquisition cost, if any, additional amounts are due beyond the Possession Bond, the Superior Court will direct the conveyance of legal title of the Boulders Water Reservoir site to the Town.

The District has budgeted only the amount of the Possession Bond, to be paid from the proceeds of the sale of the Bonds. If additional payments are required to be paid to the landowner at the end of the Eminent Domain Case in order for the Town (and concurrently, the District) to obtain full legal title to the site, such amounts will need to be paid from available cash from the Water System or from additional borrowing, with any related necessary water rate adjustments.

### **Changes in Law**

Description of and references to provisions of Arizona and federal law are descriptions and references to provisions of law currently in effect. Those provisions are subject to being amended, repealed or supplemented.

### **Water System's Production and Storage Facilities**

The costs of maintenance, repairs or replacements of the Water System's production, distribution and storage facilities may be affected by factors beyond the control of the District, including strikes, energy shortages, material shortages, inflation, regulatory requirements, adverse weather conditions, subcontractor defaults and other unknown contingencies. These factors could increase the Operation and Maintenance Expenses, thereby decreasing Net Revenues available to pay Agreement Payments and, in turn, debt service on the Bonds. Additionally, failure to complete such maintenance, repairs and replacements on a timely basis and in a proper manner could result in a loss of revenues.

### **Other Obligations of the District**

The District has the capacity to enter into other obligations that are payable from the same Net Revenues it will use to pay debt service payments on the Bonds. In the Bond Resolution, the District covenants and agrees not to pledge or encumber the Net Revenues on a basis senior to the Bonds and not to pledge or encumber the Net Revenues on a parity with the Bonds, except for refunding purposes, unless the Net Revenues collected in the next preceding Fiscal Year of the District amount to at least 120% of the highest combined principal and interest requirements for any such parity bonds. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" herein. The District may, however, pledge the Net Revenues on a subordinate basis without limitation.

### **Secondary Market**

There can be no assurance that there will be a secondary market for the purchase or sale of the Bonds. From time to time, there may be no market for the Bonds, depending upon prevailing market conditions, the financial condition of the District or the market position of any firms which may attempt to make a secondary market for the Bonds.

### **Factors Affecting Future Growth and Customer Base Stability**

The District's ability to generate sufficient Net Revenues for the payment of the Bonds and Parity Bonds will be affected to some degree upon or maintaining a stable customer base or growth in the customer base resulting from continued development of real property within or near the Service Area, including residential development. There is no way to predict whether or at what rate such development may occur. The long-term availability of and demand for lots suitable for the construction of residences and other structures in and near the District depend on many factors. Such factors include general economic conditions, fluctuations in land price, both locally and nationally, and the availability and costs of utilities necessary for development, the quality of, and costs for, the services supplied by the District and other political subdivisions, changes in income tax treatment of land ownership, changes in the availability of borrowed funds and numerous other factors.



In addition, land development operations are subject to comprehensive federal, state and local regulation, which may include conservation measures. Approval is required from various agencies in connection with layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements and many other matters.

It is not possible to determine what impact the foregoing factors will have on further development which will affect customer growth within the area served by the Water System or the production of revenues from operations of the Water System. Events or conditions that limit, delay or prevent further customer or service growth could materially and adversely affect the production of Net Revenues of the Water System, which are the source of payment for principal of and interest on the Bonds.

#### **Possible Capital Gains Taxation**

At the time of the District's acquisition of all capital stock of the Company in 1998, the Internal Revenue Service provided a Private Letter Ruling stating the Company's income is exempt from federal income taxes in accordance with Section 115 of the Code (as defined herein). Neither the District nor the Company have received any notice or indication from the Internal Revenue Service that the Internal Revenue Service has changed its determination with respect to the application of Section 115 of the Code to the Company. Nevertheless, in the event the Internal Revenue Service changed its historical position regarding the application of Section 115 of the Code to the Company and determined the Company is an "integral part" of either the District or the Town, the separate corporate status of the Company would be disregarded and the Company could be deemed to have liquidated into the Town or the District, as appropriate, at the point in time it became an integral part. As part of the liquidation, the Company could be required to recognize any unrealized gain on its assets and pay the accompanying federal tax liability. If the Internal Revenue Service were to make such a determination, the resulting taxes would be payable from the Water System revenues which are pledged to the payment of the Agreement Payments. This could require an increase in water rates and charges, and potentially could result in an increase of Operation and Maintenance Expenses. Although the District and its advisors consider a change in the Internal Revenue Service's historical treatment of the Company under Section 115 of the Code unlikely, no assurance can be given by the District that such determination by the Internal Revenue Service would not materially adversely affect the financial performance of the Water System.

#### **Ad Valorem Property Taxation**

Since the formation of the District and its original acquisition of all capital stock of the Company in 1998, no ad valorem property taxes have been levied by the State or the County, on the real or personal property comprising the Water System. Furthermore, the property comprising the Water System has not appeared on the State or County taxable rolls and neither the District nor the Company has paid ad valorem property taxes on the Water System. The District is unable to determine or predict whether any such ad valorem property taxes may be levied in the future, or the potential amounts of any such taxes. The 2021 Financial Forecast and Long-Term Rate Plan included as Appendix B herein do not reflect or project the payment of any such ad valorem property taxes as a component of the Operation and Maintenance Expenses of the Water System. If historical positions by taxing authorities are changed in the future and it is finally determined by appropriate processes that the real and personal property of the Company is not exempt from ad valorem property taxes, the payment of such taxes would increase the Operation and Maintenance Expenses of the Water System. In such situation, the District could be required to increase water rates and charges of the Water System in order to maintain rate and debt service coverage requirements contained in the Bond Resolution and the Payment Agreement. No assurance can be given that the levy of such ad valorem property taxes would not materially adversely affect the financial performance of the Water System.

#### **Coronavirus Disease 2019**

Coronavirus Disease 2019 ("COVID-19"), which has been designated a global pandemic by the World Health Organization, is negatively affecting local, state and global economies. While economic activity is adversely impacted as governments, businesses and citizens react to, plan for, and try to prevent or slow further transmission of the virus, this adverse economic impact is somewhat mitigated by federal stimulus packages and state and local laws and programs to support business activity. Financial markets, including the stock markets in the United States and globally, have seen significant volatility as a result of COVID-19 concerns. On March 11, 2020, as part of the State's response to address the outbreak, Arizona Governor, Doug Ducey (the "Governor"), declared a state of emergency.

On March 13, 2020, President Donald Trump declared a national emergency, freeing up funding for federal assistance to state and local governments. An initial State of Arizona stay home Executive Order expired after six weeks on May 15, 2020. The Governor has since issued several executive orders in response to then-current virus conditions. These orders cover topics including physical distancing, virus testing and reporting, contact tracing, face coverings, closing and reopening of business operations, large gatherings and the start of the 2020/21 school year.

Most recently, on March 25, 2021, the Governor issued Executive Order 2021-06. The combination of Executive Order 2021-06 and Executive Order 2021-05 issued on March 5, 2021, essentially permits the Arizona economy to operate under regular conditions, while encouraging continuation of appropriate COVID-19 prevention protocols. The items addressed in such Executive Orders include operation of Spring Training and Major League sports; permitting large gatherings without local government approval; lifting business occupancy percentage limitations; and transitioning imposed business operation guidance to general recommendations for safe operations.

Vaccine distribution is underway in the State. Executive Order 2020-58 requires all insurers regulated by the State to waive all cost sharing requirements for consumers.

The Net Revenues collections and the ability of the District to receive Agreement Payments may be materially adversely affected by the continued spread of COVID-19. The District, however, cannot predict the effect the continued spread of COVID-19 will have on the finances or operations of the District or the Water System, which could have a negative impact on the Net Revenues pledged to pay operating expenses and debt service on the Bonds, if for example, the customers of the Water System become unable to pay the amounts billed for use of the Water System. The Bonds will not constitute an obligation or indebtedness or pledge of the general credit of the District within the meaning or application of any constitutional or statutory limitation or provision, and the owners of the Bonds will never have the right to compel any exercise of the taxing power of the District or to demand payment of the Bonds or interest thereon out of any funds other than from the Net Revenues. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS."

#### **Risk of Internal Revenue Service Audit**

The Internal Revenue Service (the "Service") has announced a program of auditing tax-exempt bonds which can include those issued by special purpose governmental units, such as the District, for the purpose of determining whether the Service agrees (a) with the determination of bond counsel that interest on the Bonds is tax-exempt for federal income tax purposes or (b) that the District is in or remains in compliance with Service regulations and rulings applicable to governmental bonds such as the Bonds. The commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds, regardless of the final outcome. An adverse determination by the Service with respect to the tax-exempt status of interest on the Bonds could be expected to adversely impact the secondary market, if any, for the Bonds, and, if a secondary market exists, would also be expected to adversely impact the price at which the Bonds can be sold. The Bond Resolution does not provide for any adjustment to the interest rates borne by the Bonds in the event of a change in the tax-exempt status of the Bonds. Owners of the Bonds should note that, if the Service audits the Bonds, under current audit procedures the Service will treat the District as the taxpayer during the initial stage of the audit, and the owners of the Bonds will have limited rights to participate in such procedures. There can be no assurance that the District will have revenues available to contest an adverse determination by the Service. No transaction participant, including the District, the Company, Bond Counsel, counsel to the Underwriter, or the Underwriter is obligated to pay or reimburse the owner of any of the Bonds for audit or litigation costs in connection with any legal action, by the Service or otherwise, relating to the Bonds.

There can be no assurance that an audit by the Service of the Bonds will not be commenced. However, the District has no reason to believe that any such audit will be commenced, or that if commenced, an audit would result in a conclusion of noncompliance with any applicable Service position, regulation or ruling. No rulings have been or will be sought from the Service with respect to any federal tax matters relating to the issuance, purchase, ownership, receipt or accrual of interest upon, or disposition of the Bonds. See also "TAX EXEMPTION" herein.

## LITIGATION

To the knowledge of appropriate representatives of the District and the Company, as of the date of this Official Statement and as of the date of delivery of the Bonds, no litigation or administrative action or proceeding is pending or threatened restraining or enjoining, or seeking to restrain or enjoin, the issuance or delivery of the Bonds, or contesting or questioning the proceedings or the authority pursuant to which the Bonds have been authorized, issued, secured and sold, or the validity of the Bonds or the collection of the Net Revenues or Agreement Payments to pay debt service on the Bonds. Certificates of officers of the District and the Company to that effect will also be delivered at the time of delivery of the Bonds to the Underwriter.

## RATING

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") has assigned the rating of "\_\_\_" to the Bonds. Such rating reflects only the view of S&P. An explanation of the significance of a rating assigned by S&P may be obtained at One California Street, 31st Floor, San Francisco, California 94111. Such rating may be revised or withdrawn entirely at any time by S&P if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the Bonds. The District has covenanted in its continuing disclosure undertaking that it will file notice of any formal change in any rating relating to the Bonds. See "CONTINUING DISCLOSURE" and APPENDIX H – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" herein.

## TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the District must continue to meet after the issuance of the Bonds in order that the interest on the Bonds be and remain excludable from gross income for federal income tax purposes. The District's failure to meet these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The District has covenanted in the Bond Resolution to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds.

In the opinion of Bond Counsel, assuming the accuracy of certain representations and certifications of the District and continuing compliance by the District with the tax covenants referred to above, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excludable from gross income of the holders thereof for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. Bond Counsel is further of the opinion that the interest on the Bonds is exempt from income taxation under the laws of the State. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state other than the State.

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the interest on the Bonds, or the ownership or disposition of the Bonds. Prospective purchasers of Bonds should be aware that the ownership of Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by the applicable statutory percentage of certain items, including the interest on the Bonds, (iii) the inclusion of the interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of the interest on the Bonds in the passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year and (v) the inclusion of interest on the Bonds in the determination of the taxability of certain Social Security and Railroad Retirement benefits to certain recipients of such benefits. The nature and extent of the other tax consequences described above will depend on the particular tax status and situation of each owner of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors as to the impact of these other tax consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

### **Original Issue Discount and Original Issue Premium**

Certain of the Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond determined under Code Section 1273 or 1274 (i.e., for obligations issued for money in a public offering, the initial offering price to the public (other than to bond houses and brokers) at which a substantial amount of the obligation of the same maturity is sold pursuant to that offering). For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

Certain of the Bonds ("Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity (or earlier for certain Premium Bonds callable prior to maturity). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually (or over a shorter permitted compounding interval selected by the owner). No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences, and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

### **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals suggested, debated, introduced or pending in congress or in the State legislature that, if enacted into law, could alter or amend one or more of the federal tax matters, or state tax matters, respectively, described above including, without limitation, the excludability from gross income of interest on the Bonds, adversely affect the market price or marketability of the Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would affect the Bonds. Prospective purchasers of the Bonds should consult their tax advisors as to the impact of any proposed or pending legislation.

### **Information Reporting and Backup Withholding**

Interest paid on tax-exempt bonds such as the Bonds is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Bonds from gross income for federal income tax purposes. However, in conjunction with that

information reporting requirement, the Code subjects certain non-corporate owners of the Bonds, under certain circumstances, to “backup withholding” at the rates set forth in the Code, with respect to payments on the Bonds and proceeds from the sale of the Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of the Bonds. This withholding generally applies if the owner of the Bonds (i) fails to furnish the payor such owner’s social security number or other taxpayer identification number (“TIN”), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other “reportable payments” as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner’s securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

## LEGAL MATTERS

Legal matters incident to the execution and delivery of the Bonds and with regard to the tax-exempt status of the interest on the Bonds are subject to the legal opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Bond Counsel, whose services have been retained by the District. The signed legal opinion of Bond Counsel, dated and premised on the law in effect as of the date of the Bonds, will be delivered to the Underwriter at the time of original delivery of the Bonds.

The proposed text of the legal opinion is set forth as APPENDIX G – “FORM OF APPROVING LEGAL OPINION.” The legal opinion to be delivered may vary from the text of APPENDIX G if necessary to reflect the facts and law existing on the date of delivery. The opinion will speak only as of its date, and subsequent distribution, by recirculation of this Official Statement or otherwise, should not be construed as a representation that Bond Counsel has reviewed or expressed any opinion concerning any matters relating to the Bonds subsequent to the original delivery of the Bonds.

In addition, certain legal matters will be passed upon for the District and for the Company by Sherman & Howard L.L.C., Phoenix, Arizona, and solely for the Underwriter by Squire Patton Boggs (US) LLP, Phoenix, Arizona.

## UNDERWRITING

The Underwriter has agreed to purchase the Bonds, subject to certain conditions, at a purchase price of \$ \_\_\_\_\_ (which represents the aggregate principal amount plus the [net] original issue premium of the Bonds, less Underwriter’s compensation). If the Bonds are sold to produce the yields shown on the inside front cover page hereof, the Underwriter’s compensation will be \$ \_\_\_\_\_. The Underwriter will be obligated to accept delivery and pay for all of the Bonds if any are delivered. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the initial public offering prices. The initial public offering prices may be changed from time to time by the Underwriter.

## CONTINUING DISCLOSURE

The District has covenanted for the benefit of beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than February 1 in each year commencing February 1, 2022 (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notices of Listed Events”). The Annual Reports and the Notices of Listed Events will be filed with the Municipal Securities Rulemaking Board (the “MSRB”) through the MSRB’s Electronic Municipal Market Access system as described in APPENDIX H – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” The specific nature of the information to be contained in the Annual Reports and the Notices of Listed Events is set forth in APPENDIX H – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” These covenants have been made in order to assist the Underwriter in complying with the Securities and Exchange Commission’s Rule 15c2-12(b)(5) (the “Rule”). A failure by the District to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the

secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The District has no prior continuing disclosure undertakings.

### **FINANCIAL STATEMENTS**

The financial statements of the District for the period ended June 30, 2020, a copy of which is included in APPENDIX F – “TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2020” of this Official Statement, includes the District’s financial statements for the fiscal year ended June 30, 2020 that were audited by Heinfeld Meech & Co. P.C., Certified Public Accountants, to the extent indicated in its report thereon. **The District has not requested the consent of Heinfeld Meech & Co., P.C. to include its report and Heinfeld Meech & Co., P.C. has performed no procedures subsequent to rendering its report on the financial statements.** Representatives of the District are not aware of any facts that would make such audited financial statements misleading.

**THE FINANCIAL STATEMENTS INCLUDED IN APPENDIX F OF THIS OFFICIAL STATEMENT ARE CURRENT AS OF THEIR DATE ONLY AND MAY NOT REPRESENT THE CURRENT FINANCIAL CONDITION OF THE DISTRICT.**

### **RELATIONSHIP AMONG PARTIES**

Bond Counsel has previously represented, and is currently representing, the Underwriter with respect to other financings and has acted or is acting as bond counsel with respect to other obligations underwritten by the Underwriter and may do so in the future. Bond Counsel also serves and has served as bond counsel for one or more of the political subdivisions that the District territorially overlaps. Counsel to the Underwriter has previously acted as bond counsel with respect to bonds underwritten by the Underwriter and may continue to do so in the future if requested.

### **CONCLUDING STATEMENT**

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these statements have been or will be realized. Information in this Official Statement has been derived by the District from official records and other sources and is believed by the District to be accurate and reliable. Information other than that obtained from official records of the District has been identified by source and has not been independently confirmed or verified by the District and its accuracy is not guaranteed.

Neither this Official Statement nor any statements that may have been or that may be made orally or in writing are to be construed as a part of a contract with the owners of the Bonds.

This Official Statement has been prepared by the District and executed for and on behalf of the District by its officer indicated below.

**TOWN OF CAREFREE, ARIZONA UTILITIES  
COMMUNITY FACILITIES DISTRICT**

By \_\_\_\_\_  
Chairman

**TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES  
DISTRICT**

**THE WATER SYSTEM**

**Organizational Overview**

The Town of Carefree, Arizona Utilities Community Facilities District (the "District") is the sole shareholder in the Carefree Water Company (the "Company"). This structure was established during the original formation of the District in 1998 as the legal mechanism for the purchase of the Company, a private provider, from the then existing shareholders. Since its purchase by the District in 1998, the Company has been tasked by the District with the responsibility of delivering water to the residents and customers within the Town of Carefree ("Carefree") service area.

At the time of the District formation, a Board of Directors (the "Board") was established pursuant to state statutes. In order to facilitate a close but separate relationship between Carefree, the District, and the Company, the membership of the Board for both the District and the Company was established as the members of the Carefree Town Council.

**Community and Water System Overview**

Carefree is located in the far northeast portion of the Phoenix metropolitan area, bordering Scottsdale on the south and east, Cave Creek on the west, and unincorporated property within Maricopa County on the north. Carefree consistently maintains one of the highest rankings for median and average household income within the State of Arizona.

The water service area for the Company currently encompasses approximately 75% of Carefree and is roughly 5.5 square miles in size. There are nearly 2,000 active water connections within the Company serving an estimated population (both full time and part time) of 3,587.

As the entity responsible for day-to-day operations and water deliveries within the majority of Carefree, the Company owns the water delivery system and performs all normal operations, maintenance, repair, and replacement functions. Contractual relationships related to water deliveries, such as the subcontract for Central Arizona Project ("CAP") water and Treatment and Transportation Agreements with Scottsdale and Cave Creek, are held by the Company.

**Additional Water Service Areas**

The majority of the funding generated by these Water System Revenue Bonds will be utilized to expand the service area of the Company under the direction of the District. As stated above, approximately 75% of Carefree is served by the Company. The remaining 25% of Carefree is served potable water by the Town of Cave Creek.

Pursuant to an Intergovernmental Agreement ("IGA") with Cave Creek, Carefree is acquiring the water assets and water customers within the 25% of Carefree that is served potable water by Cave Creek. This acquisition will increase both the Company service area size by roughly 2.5 square miles and the number of active accounts by about 530. This produces a significant increase in the customer base of the Company to roughly 2,530 active accounts, an increase of 25%. In addition, this action will result in nearly the entire population of Carefree being consolidated under one water provider, the Company.

**Description of Water System**

The Water System that is owned and operated by the Company consists of approximately  miles of water mains varying in size from 2-inches to 14-inches in diameter. Existing pipe materials within the Water System include ductile iron ("DI"), polyvinyl chloride ("PVC"), and asbestos cement ("AC"). A small percentage of small diameter



pipe within the system (3-inch diameter or less) is galvanized steel that is functioning adequately but is scheduled for replacement.

The Water System also includes five active groundwater wells varying in pumping capacity from 100 to 1,000 gallons per minute (“gpm”); 14 booster pumps varying in size from 5 to 125 horsepower; 6 water storage reservoirs (both concrete and steel) varying in size from 10,000 gallons to 1 million gallons; and 3-5,000 gallon hydro-pneumatic pressure tanks. The total water storage within the Water System is 1.86 million gallons.

The primary control of the Water System is achieved through Supervisory Control and Data Acquisition (“SCADA”) via remote terminal units (“RTUs”) and onsite programmable logic controllers (“PLCs”). Centralized viewing and control of the Water System is accomplished at the Company headquarters. Smaller facilities that are not integrated into the SCADA system are controlled by pressure switches and/or water level controls.

Nine critical sites within the Water System are provided emergency backup power via diesel or liquid propane (“LP”) generators. In addition, the Company has access to one portable backup generator. The Company is a member of Arizona’s Water/Wastewater Agency Response Network (“AZWARN”) which streamlines requesting assistance during emergency situations on both a statewide and national level.

The Company presently has 7 full-time employees and 1 part-time employee.

The Company is currently in full regulatory compliance with the Arizona Department of Water Resources (“ADWR”) as well as with all health standards established by the Maricopa County Environmental Services Department (“MCESD”), Arizona Department of Environmental Quality (“ADEQ”), and U.S. Environmental Protection Agency (“EPA”).

The acquisition of the water system serving Carefree residents currently being provided potable water by Cave Creek will result in the result in the following additional infrastructure being added to the assets of the Company’s water system;        miles of pipeline varying in size from 2-inches to 12-inches in diameter, 3 active booster pump stations, and 2 inactive booster pump stations.

Water system improvements funded by this bond issue which will become part of the Company’s water system include; nearly 50,000 feet of pipeline varying in size from 6-inches to 16-inches in diameter, improvements to 4 booster pump stations, a third water interconnection with the City of Scottsdale water system, and a new 300,000 gallon water storage reservoir.

**TABLE A-1  
SCHEDULE OF TEN LARGEST CUSTOMERS FOR FISCAL YEAR 2020/21 BY INDUSTRY**

Industry of Customer	Revenue (a)	% of Total
Hotel/Resort	\$32,822	17.28%
Home Owners Association	22,030	11.60
Nursing Home	21,288	11.21
Home Owners Association	25,939	13.66
Grocery Store	18,637	9.81
Hotel/Resort	16,065	8.46
Home Owners Association	15,268	8.04
Residential Customer	13,155	6.93
Residential Customer	11,848	6.24
Hotel/Resort	12,850	6.77
Total:	\$189,902	100.00%

(a) Data through May 2021.



## **Description of Water Supply**

The current annual water demand of the Company is approximately 1,000 acre-feet ("AF"). Sixty-five percent (65%), or approximately 650 AF, of this annual demand is met with surface water from the Colorado River delivered via the CAP canal. Thirty-five percent (35%), or approximately 350 AF, of this annual demand is met with groundwater pumped from wells within the Company service area.

The Company currently holds an annual allocation of 1,300 AF of CAP water via Subcontract No. 07-XX-30-W0461 with the U.S. Bureau of Reclamation ("BOR") and the Central Arizona Water Conservation District ("CAWCD"). Company's groundwater pumping is currently limited only by its well capacity which, if needed, exceeds the annual water demand within the system. As policy, the District and the Company have chosen to limit the pumping of groundwater, opting to utilize a larger percentage of renewable CAP water and conserve its groundwater resources for emergency and drought situations.

In order to efficiently utilize its CAP allocation, the Company holds Treatment and Transportation Agreements with two neighboring communities; the City of Scottsdale, Arizona ("Scottsdale") and the Town of Cave Creek, Arizona ("Cave Creek"). Both of these agreements allow these two neighboring communities to access a portion, or all, of Company's CAP allocation, at Company's discretion. This CAP water is treated through the respective surface water treatment facilities and delivered to the Company utilizing agreed upon bulk water rates. Each of these agreements allow for Company to treat up to 2,000 AF of CAP water per year through either community, giving the Company a significant amount of flexibility in treating their current CAP allocation of 1,300 AF. These Treatment and Transportation Agreements have allowed the Company to utilize our CAP allocation for upwards of 30 years without the capital and operating expenditures associated with owning and maintaining a surface water treatment facility.

As part of the acquisition of the Carefree residents currently being served potable water by Cave Creek, the two entities have agreed upon the assignment of additional CAP water rights to the District to support the water demand of the 530 acquired customers. The amount of CAP water rights to be assigned from Cave Creek is 378 AF, established using the historic water demands of these customers and including an allowance for currently undeveloped properties. This transfer of water rights is under review by the Arizona Department of Water Resources (ADWR) with the support of both communities and is expected to be forwarded with a favorable recommendation for BOR approval.

The Company has also applied for and been offered an allocation of 112 AF of CAP Non-Indian Agricultural Water. The Subcontract for this CAP allocation is being finalized and is expected to be executed by the Board of Directors by September 2021 for final ratification by the BOR before the end of the year.

## **Rates and Charges**

The District Board of Directors is authorized to set rates and charges for the Company after a noticed public hearing. Company staff are responsible for developing a proposed set of rates and charges for an upcoming fiscal year to be ratified concurrently by District and Company Board of Directors in a joint meeting in June for a July 1 implementation. The FY21-22 rates and charges were ratified by the District Board of Directors on July 6, 2021, in order to assure consistency with the 5-Year Rate Plan that was approved by the Company Board of Directors in June.

As a tax levying community facilities district of the State, the District's water rates and charges are not subject to review or approval by the Arizona Corporation Commission ("ACC"), as is the case with respect to privately owned Arizona public utilities.

## **Summary of Water System Financial Operations**

The District's and Company's accounting practices are maintained in conformance with generally accepted accounting principles ("GAAP") and Governmental Accounting Standards Board ("GASB") as applicable to governmental entities. The District's audited Financial Statements presenting the results of operations for Fiscal Year 2020 is shown in APPENDIX F – "TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2020" to this Official Statement.

## Accounting, Billing, and Revenue

Accounting and billing operations for the Company are performed by Company staff. Meters are read and bills are issued monthly based upon the twelve billing cycles. Meters are read at the end of the month and bills issued the first week of the next month. 50% of bills are delivered electronically via email, while the remaining 50% are mailed to customers via the U.S. Postal Service. Bills are due approximately 21 days after distribution. Acceptable payment methods include electronic fund transfers (“EFTs”), checks, cash, and automatic payment option via bank draft or credit card. 60% of customers pay utilizing an automatic payment option.

## Delinquent Accounts

Delinquent accounts are given three notices of delinquency after the account balance has been outstanding for thirty days. The first notice is reflected on the next month’s bill and a service charge of \$7.00 is assessed on the account. After sixty days, a second service charge of \$7.00 is assessed in addition to 1.5% interest on the amount that is sixty days past due. The total past due balance is again reflected on the next bill to the customer. A third notice is hand delivered to the property using a high-visibility “green card”, and a copy of the notice is mailed and emailed, if an email address is on file. This notice states that a 10-day discontinuance of service is imminent, and informs the customer to immediately contact Company regarding the delinquent amount.

If the customer does not issue payment or arrange for a payment plan within ten days of the third notice, water service is shut off and the meter is locked. Prior to re-establishing service, the customer must pay the entire account balance via credit card or cash plus a service re-establishment fee of \$125.00. An additional “green card” notice is left at the property to inform the customer of the re-establishment process and charges.

Historically, about 5% of accounts reflect a delinquent status at any given time, though less than 1% of accounts reach the point of service turn-off. Beginning in March 2020, the Company temporarily suspended the water shut-off of delinquent accounts due to the COVID-19 pandemic. The Company resumed normal shut off procedures starting at the beginning of May 2021. Typical total water revenue balances past due over 60 and 90 days is low, and currently is less than \$6,000 even after the impacts of the COVID-19 pandemic.

## Water Service Connection Fees

New service connections for residential and commercial meters require the payment of a one-time Water Capacity Fee and a Service Connection Fee based on meter size. Service connections can be upgraded by paying a Service Connection Upgrade Fee.

The following table presents the Company’s schedule of fees that must be paid prior to the installation of a new service line and meter.

**TABLE A-2  
NEW CONSTRUCTION CHARGES AND FEES**

Meter and Service Size	Service Connection Charge	Water Capacity Fee (a)	Total
1” Meter and Service	\$3,080.00	\$3,639.00	\$6,719.00
1” Meter Only-New Subdivision	965.00	3,639.00	4,604.00
1-½” Meter and Service	4,275.00	6,595.00	10,870.00
2” Meter and Service	6,480.00	10,244.00	16,724.00
3” Compound Meter	20,175.00	20,806.00	40,981.00
4” Compound Meter	25,000.00	31,880.00	56,880.00
1” Meter & Serv. Upgrade (from ¾”)	2,515.00	-	2,515.00
1” Meter Only Upgrade (from ¾”)	400.00	-	400.00

(a) Water Capacity Fee consists of Distribution, Storage and Pumping Capacity.

**TABLE A-3  
NUMBER OF METERS CONNECTED DURING EACH FISCAL YEAR**

Fiscal Year	Number of New Meters Connected During Each Fiscal Year	Running Total of Number of Meters Connected During Each Fiscal Year (a)(b)
2010/11	0	1,824
2011/12	2	1,826
2012/13	2	1,828
2013/14	8	1,836
2014/15	68	1,904
2015/16	1	1,905
2016/17	17	1,922
2017/18	49	1,971
2018/19	8	1,979
2019/20	9	1,988

Source: The District.

**Water Rates**

The following rates for Fiscal Year 2020/21, plus the applicable proportionate part of any taxes or any governmental impositions which are assessed on water sales currently apply to all individually metered water services:

**TABLE A-4  
CURRENT WATER RATES**

Base Rate		
Meter Type	Meter Size	Monthly Base Fee
Residential	5/8 x 3/4 inch	\$48.31
	1 inch	48.31
Commercial	1 inch	\$86.97
	1 ½ inch	215.85
	2 inch	517.41
	3 inch	689.68
Master Meters	Master Meter 1	\$367.14
	Master Meter 2	183.58
	Master Meter 3	367.14
	Master Meter 4	275.37
	Master Meter 5	562.15
	Master Meter 6	1,743.92
	Master Meter 7	826.09
	Master Meter 8	504.82
	Master Meter 9	458.93
	Master Meter 10	504.82
Stand Pipe		-
Fire Hydrant Meter		\$151.84

**TABLE A-5  
VOLUME CHARGES**

Monthly Commodity (Usage) Charges and Tier Breakdown  
(\$ per gal.)

Meter Type	Tier	Volume	Rate
Residential / Commercial / Master	Tier 1	0 - 8,000 gal.	\$3.90
Residential / Commercial / Master	Tier 2	8,001 - 20,000 gal.	\$5.25
Residential / Commercial / Master	Tier 3	20,001 - 30,000 gal.	\$6.90
Residential / Commercial / Master	Tier 4	30,001 - 50,000 gal.	\$8.92
Residential / Commercial / Master	Tier 5	50,001 gal. - over	\$11.59
Stand Pipe		\$6.91 per 1,000 gallons - Minimum Billing \$5.00	
Fire Hydrant Meter		\$6.91 per 1,000 gallons after the first 20,000 gallons	

**TABLE A-6  
NEW ACCOUNT SETUP FEES**

Account Type	Fee
Residential and Commercial	\$50.00
Landlord (Transfer to Info on File)	10.00
Fire Hydrant	100.00

**TABLE A-7  
PAYMENT AND BILLING FEES**

Payment or Billing Type	Fee
Credit Card Convenience Fee (per transaction)	
Monthly Billings & Other Charges Under \$500	\$3.50
Other Charges Over \$500	3.00% of Amount
Late Payment or Delinquent Charge (per month)	7.00
Foreign Currency Transaction	5.00
Foreign Mailing Fee	2.00
Insufficient Funds or Returned Check Fee	Bank Charge Amount
Interest on Outstanding Balance	1.50% per month

**Water Rate Increases**

In the past ten years, water rate increases have been implemented as indicated in the chart below:

**TABLE A-8  
WATER RATE INCREASES**

<u>Fiscal Year</u>	<u>Percentage Increase</u>	<u>Fiscal Year</u>	<u>Percentage Increase</u>
2009/10	3% B&C	2015/16	1.5% B&C
2010/11	1.8% CO	2016/17	2% B&C
2011/12	6.5%/\$0.20 (B/C)	2017/18	2% B&C
2012/13	2%/2.9% (B/C)	2018/19	3% B&C
2013/14	2% B&C	2019/20	4.4% B&C
2014/15	2% B&C	2020/21	4.4% B&C

Source: The District.

B&C = Base and Commodity  
(B/C) = Base/Commodity  
CO = Commodity Only

**Planned Future Rate Increases**

The chart below outlines the currently planned rate increases. However, the Board of Directors will annually review rates to address debt coverage requirements and operational needs of the District.

**TABLE A-9  
PLANNED FUTURE RATE INCREASES**

<u>Fiscal Year</u>	<u>Percentage Increase</u>
2021/22*	4.4% B&C
2022/23	4.4% B&C
2023/24	4.4% B&C
2024/25	4.4% B&C
2025/26	4.4% B&C

\* Rate increase approved on June 1, 2021.

Source: The District.

B&C = Base and Commodity

## **Factors Affecting Water Cost**

The cost for the Company to have its annual CAP water allocation treated and delivered to it by the Company's two neighboring communities, Scottsdale and Cave Creek, represent a significant component of the District's Operating Expenses.

By agreement with Scottsdale in 2007, the Company has limited its groundwater pumping within the Carefree Groundwater Subbasin to 500 AF or less annually. In return, Scottsdale established preferred treatment and transportation rates for the Company and agreed to implement annual increases consistent with Scottsdale's annual rate increases for their residential customers. Over the last 5 years, the cost of Scottsdale treated water has increased and average of 2.1%, lower than the annual rate increase for Company customers over the same period which averaged 3.5%.

Historically, the bulk treatment and transportation rates charged the Company by Cave Creek have been lower than Scottsdale's bulk rates although water deliveries from Cave Creek were suspended by the Company in June of 2019 due to water quality concerns. Since that time, Cave Creek has made significant improvements to their surface water treatment plant and the Company and Cave Creek are in discussions that could result in the re-initiation of water deliveries. Cave Creek's bulk rates are also being discussed.

Energy costs are the major component of the Company's Operating Expenses associated with its use of groundwater wells. Energy costs vary from well to well and can be affected by the amount of water that is being pumped and the depth from which the groundwater is extracted. The Company has implemented initiatives to monitor energy costs at every well to ensure that each well is operating as efficiently as possible. When necessary, motors and pumps are replaced with more efficient units as part of the Company's operations and maintenance program. Groundwater wells represent the Company's most cost effective source of water, although its use has been limited by agreement with Scottsdale and in order to retain for emergency use and during periods of extreme drought.

## **Agencies and Regulations**

### **State Regulatory Water Delivery Agencies**

The Company's water system operates in a complex regulatory water delivery environment. The Arizona Department of Water Resources ("ADWR") and the Arizona Department of Environmental Quality ("ADEQ") are the major state agencies responsible for the regulation of the Water System. The Central Arizona Water Conservation District ("CAWCD") is the major state agency responsible for delivery of Colorado River water to central and southern Arizona via the Central Arizona Project ("CAP").

### **Arizona Department of Water Resources ("ADWR")**

#### **Groundwater Management Act**

In 1980, Arizona made a commitment to the long-term management and conservation of its limited groundwater supplies through the passage of the Groundwater Management Act ("GMA"). The goals of the GMA are to eliminate severe groundwater overdraft in areas of the State where groundwater supplies have been rapidly diminishing and to provide the means for allocating Arizona's limited groundwater resources to most effectively meet the State's changing water needs. This comprehensive and progressive piece of water legislation was designed to provide a framework for the management and regulation of the withdrawal, transportation, use and conveyance of rights to use groundwater in the State through the establishment of active management areas ("AMA") with identified goals for specific AMAs. The ADWR was created by the GMA to manage the water resources of Arizona. The ADWR administers State laws, explores methods of augmenting water supplies to meet future demands and works to develop public policies that promote efficient use and equitable allocation of available water supplies.

Each AMA is subject to a groundwater management program that is dictated by a management plan. The management plans coincide with five legislatively defined management periods. These management plans address water supply augmentation, water quality and water conservation for all agricultural, municipal and industrial providers and water users in the AMA. The Water System is located within the Phoenix Active Management Area ("Phoenix AMA"). The

current management plan (the "Fourth Management Plan") is the fourth in this series of five management plans required by the GMA. The Fourth Management Plan, which began in 2019 and will remain in effect until ADWR develops and approves a fifth management plan, represents continued efforts to achieve Phoenix AMA's goal of safe yield by 2025. The GMA defines safe yield as "a management goal which attempts to achieve and thereafter maintain a long-term balance between the annual amount of water withdrawn in an active management area and the annual amount of natural and artificial groundwater recharge in an active management area." The Plan continues and refines the mandatory conservation requirements implemented pursuant to the prior management plan, continues to encourage and support the use and storage of renewable water supplies and discusses the future direction of water management programs in the AMA.

The Water System is in compliance with its GMA conservation requirements. Public education outreach efforts, increased usage of renewable water resources, and preventive maintenance of the Water System are important components of the District's program to maintain compliance with its conservation requirements.

### **Assured Water Supply**

ADWR's Assured Water Supply Program (the "AWS Program") is designed to encourage municipal water providers to shift their reliance from groundwater to renewable water sources. The AWS Program is ADWR's primary way of assuring long-term sustainable water management practices. To demonstrate an assured water supply ("AWS") means that sufficient water of adequate quality will be continuously available to meet the water needs of the proposed use for at least 100 years, and that the projected use is consistent with the management plan and achievement of the management goal for the Phoenix AMA. The Company has enough CAP allocation (1300 AF/year) to meet its current demand (approximately 1000 AF/year) with a buffer for future growth. In addition, the Company has access to groundwater production wells which supplement the Company's CAP supply.

All new subdivision developments within the Company's service area are required to obtain a Certificate of Assured Water Supply ("CAWS") from the ADWR prior to development. The CAWS commits the development to fund the recharge of the amount of groundwater delivered to it in any given year by way of a replenishment tax payable to the Central Arizona Groundwater Replenishment District ("CAGRDR"). Individual subdivision membership in the CAGRDR, the Company's proactive maintenance of its CAP allocation, and robust portfolio of renewable water resources enable the Water System to meet all criteria required for receipt of an AWS Designation.

### **Arizona Department of Environmental Quality ("ADEQ")**

#### **Water Quality**

The United States Environmental Protection Agency ("EPA") is authorized by federal law to set drinking water quality standards to protect potable drinking water supplies. This is accomplished by limiting the levels of certain chemicals or microorganisms that can adversely affect public health and are likely to be present in the water. The maximum contaminant levels ("MCLs") and action levels ("ALs") are the health standards established by the EPA that public water systems, such as the Company's, must meet to ensure safe drinking water. The MCL or AL is the highest level of a contaminant that is allowed in drinking water.

In Arizona, ADEQ has been granted primacy for drinking water rules and programs. This means that the EPA has granted ADEQ the right and responsibility to oversee these water quality rules and programs that are federally mandated. Under the ADEQ Primacy agreement, federal drinking water rules have been incorporated into the Arizona Administrative Code where they are enforceable by the State. When EPA develops a new standard, the rule is sent to ADEQ for incorporation into the Arizona Administrative Code. For certain programs and rules, ADEQ has issued primacy to the Maricopa County Environmental Services Department ("MCESD") for oversight and to ensure compliance.

While ADEQ and MCESD adopt, build upon, and enforce drinking water standards, local governments and water suppliers, like the Company, have direct responsibility for the quality of the water that flows to the tap. The Company tests and treats the water provided to its customers, maintains the distribution systems that deliver water, and reports on water quality to ADEQ and MCESD. Currently, the Company is required to monitor for over 100 regulated drinking water contaminants to comply with the drinking water rules. In addition, ADEQ and MCESD provide technical

assistance to water suppliers and can take legal action against systems that fail to provide water that meets these standards.

Because the Company serves less than 10,000 people, it is required to participate in the State's Monitoring Assistance Program (MAP). The MAP was developed by the State in the 1990s to help small drinking water systems comply with the complex rules of the Safe Drinking Water Act. The MAP assists in the collection, transportation, analysis, and reporting of regulated contaminants including inorganic, volatile organic, synthetic organic, asbestos, radionuclides, nitrite, nitrate, sodium, and nickel. The Company retains responsibility for sampling for total coliform, disinfection by-products, disinfection levels, and lead and copper. The Company remains in compliance with all State and Federal MCLs and ALs.

The Company also tracks water quality issues that are emerging on the national level and what impact these issues might have on the Company and its customer base. In addition, the Company partners with local, state and national organizations focused on drinking water issues in order to track emerging water quality concerns. As new issues arise, the Company mobilizes its resources to evaluate the water quality of all of its water resources with respect to these emerging concerns.

#### **Central Arizona Project ("CAP") and Central Arizona Water Conservation District ("CAWCD")**

The CAP was established by federal legislation that authorized the United States Department of the Interior, Bureau of Reclamation ("BOR"), to construct a multi-billion dollar water transportation system within Arizona. The system employs a series of canals, pump stations, dams, and other facilities to transport and store water from the Colorado River for use in central and southern Arizona. The CAP principally provides Colorado River water to the Phoenix-Casa Grande-Tucson urban and agricultural corridor as well as to various Native American communities and reservations. The Company presently has a CAP water allocation totaling 1,300 acre-feet per year. As previously mentioned, the acquisition of those customers within Carefree currently served water by the Town of Cave Creek will increase the Company's annual CAP allocation by 378 AF to 1,678 AF. In addition, the Company has been offered, and intends to accept, a new allocation of CAP non-Indian agricultural (NIA) water of 112 AF, which will bring the Company's total CAP allocation to 1,790 AF.

The CAWCD is a tax levying authority established by the State of Arizona as the entity responsible for contracting with the Secretary of the Interior for the repayment of reimbursable costs associated with the construction of the CAP. The CAWCD taxing authority primarily covers the Arizona counties of Pima, Pinal, and Maricopa. In addition to repaying construction, operation, maintenance, and replacement costs connected with the CAP system, CAWCD's responsibilities include contracting with the Secretary of the Interior of the United States for water to be provided by the CAP, subcontracting with local water users for delivery of CAP water, and operating and maintaining the CAP facilities. The Company pays CAWCD an annual capital cost for the Company's CAP allocation as well as an operation and maintenance cost on a per AF basis associated with the amount of CAP allocation delivered to the Company in a given year.

For ease of identification, the CAWCD has adopted the acronym "CAP" as a generally accepted term within Arizona which reflects one of their primary functions which is operating the CAP canal.



**TABLE A-10  
SCHEDULE OF WATER SYSTEM REVENUE, OPERATING EXPENSES AND NET REVENUE**

Set forth below is a historical record of District revenue and operating expenses with respect to Fiscal Years 2015/16 through and including 2019/20, budgeted amounts with respect to Fiscal Year 2020/21 and projected annual amounts with respect to Fiscal Year 2020/21. Figures for fiscal years 2015/16 through 2019/20 are from audited financial statements of the District for such fiscal years. The budgeted and projected amounts for Fiscal Year 2020/21 are "forward looking" figures that may not be realized and should be viewed with an abundance of caution. This information is not intended to indicate future or continuing trends in the financial affairs of the District. Audited financial statements for the District's Fiscal Year 2019/20 are included in APPENDIX F attached hereto.

	Actual					Budgeted	Projected
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 (a)	Actual 2020/21 (a)
<b>Operating Revenues:</b>							
Charges for services	\$ 2,494,810	\$ 2,745,830	\$ 2,786,188	\$ 2,696,582	\$ 2,927,403	\$ 2,951,989	\$ 3,164,300
Other	21,658	19,600	20,780	26,941	47,983	70,600	45,141
<b>Total Operating Revenue</b>	<b>\$ 2,516,468</b>	<b>\$ 2,765,430</b>	<b>\$ 2,806,968</b>	<b>\$ 2,723,523</b>	<b>\$ 2,975,386</b>	<b>\$ 3,022,589</b>	<b>\$ 3,209,441</b>
<b>Operating Expenses:</b>							
Cost of sales and services	\$ 665,487	\$ 721,446	\$ 866,684	\$ 869,246	\$ 885,941	\$ 969,962	\$ 927,097
Salaries	362,484	387,690	373,703	388,936	418,537	447,638	396,500
Employee benefits	146,199	147,126	157,747	170,868	183,474	190,604	132,681
Services, supplies and other	329,264	312,553	333,181	438,934	358,841	458,362	338,131
Depreciation and amortization	528,349	509,373	512,212	507,989	517,144	504,000	519,531
<b>Total Operating Expenses</b>	<b>\$ 2,031,783</b>	<b>\$ 2,078,188</b>	<b>\$ 2,243,527</b>	<b>\$ 2,375,973</b>	<b>\$ 2,363,937</b>	<b>\$ 2,570,566</b>	<b>\$ 2,313,940</b>
<b>Net Revenues</b>	<b>\$ 484,685</b>	<b>\$ 687,242</b>	<b>\$ 563,441</b>	<b>\$ 347,550</b>	<b>\$ 611,449</b>	<b>\$ 452,023</b>	<b>\$ 895,501</b>
<b>Non-operating revenues (expenses)</b>							
Investment income	\$ 712	\$ 720	\$ 3,861	\$ 5,766	\$ 5,861	\$ -	\$ 1,717
Gain on sale of equipment	2,227	11,723	561	-	2,721	12,000	1,785
Interest expense and fiscal charges	(156,843)	(126,401)	(93,920)	(66,567)	(59,925)	(52,643)	(52,711)
<b>Total non-operating expense</b>	<b>\$ (153,904)</b>	<b>\$ (113,958)</b>	<b>\$ (89,498)</b>	<b>\$ (60,801)</b>	<b>\$ (51,343)</b>	<b>\$ (40,643)</b>	<b>\$ (49,209)</b>
<b>Income before capital contributions</b>	<b>\$ 330,781</b>	<b>\$ 573,284</b>	<b>\$ 473,943</b>	<b>\$ 286,749</b>	<b>\$ 560,106</b>	<b>\$ 411,380</b>	<b>\$ 846,292</b>
Contributed capital	98,539	182,001	-	-	-	-	41,960
<b>Changes in net position</b>	<b>\$ 429,320</b>	<b>\$ 755,285</b>	<b>\$ 473,943</b>	<b>\$ 286,749</b>	<b>\$ 560,106</b>	<b>\$ 411,380</b>	<b>\$ 888,252</b>
<b>Total net position, beginning of year</b>	<b>\$ 1,523,414</b>	<b>\$ 1,952,734</b>	<b>\$ 2,708,019</b>	<b>\$ 3,181,962</b>	<b>\$ 3,468,711</b>	<b>\$ 4,028,817</b>	<b>\$ 4,028,817</b>
<b>Total net position, end of year</b>	<b>\$ 1,952,734</b>	<b>\$ 2,708,019</b>	<b>\$ 3,181,962</b>	<b>\$ 3,468,711</b>	<b>\$ 4,028,817</b>	<b>\$ 4,440,197</b>	<b>\$ 4,917,069</b>

(a) The budgeted and projected amounts for Fiscal Year 2020/21 are "forward looking" figures that may not be realized and should be viewed with an abundance of caution.

Source: The District.

**APPENDIX B**

**2021 FINANCIAL FORECAST AND LONG-TERM RATE PLAN**

**SELECTED PROVISIONS OF BOND RESOLUTION AND PAYMENT AGREEMENT**

DEFINITIONS

For the purposes hereof, and in addition to those described elsewhere herein, the following terms shall have the following respective meanings:

“Administrative Expenses” means the reasonable cost or value of all services rendered by the District with respect to the Water System.

“Annual Debt Service Requirement” means the amount required to be deposited in the Principal Account and the Interest Account of the Debt Service Fund for the current Fiscal Year.

“Assigned Rights” means all right, title and interest in, under and to payment of the Agreement Payments and the present and continuing right to exercise the remedies provided in the Payment Agreement described under the “Payment Agreement - Payments”.

“Authorized Representatives” means, as indicated in the Bond Resolution for the instance at hand, the Chairperson of the District Board, the Vice Chairperson of the District Board, the District Manager, the District Treasurer, the District Clerk, or the designees of any of them, as the case may be.

“Bond Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds selected by the District.

“Bond Insurer” means any insurer which has issued and delivered to the Trustee its policy guaranteeing the payment, when due, of principal of and interest on the Bonds or any of the Parity Bonds (or any interests therein) then Outstanding under the Bond Resolution and which is not then in default of any obligation thereunder.

“Bond Register” means the books of the District kept by the Trustee for the registration and transfer of the Bonds.

“Debt Service Fund” means the fund established with and held by the Trustee pursuant to the Bond Resolution.

“Defeasance Obligations” means and includes Government Obligations and, to the extent permitted by law, (i) cash; (ii) evidences of ownership of proportionate interests in future interest and principal payments on Government Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying Government Obligations, and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; (iii) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, and (iv) securities eligible for “AAA” defeasance under then-existing criteria of S&P or any combination thereof.

“Event of Default” means (i) an event of default under the Payment Agreement described under the subheading PAYMENT AGREEMENT- DEFAULTS; REMEDIES” or (ii) a default in the performance or observance of any of the covenants and agreements contained in the Bond Resolution or with respect to any Parity Bond, which default continues for a period of thirty (30) days following receipt of written notice thereof by the District Treasurer; provided, however, that such default described in this clause (ii) shall not constitute an Event of Default under the Bond Resolution if, and so long as, in the judgment of the Trustee, the District has initiated and is diligently pursuing corrective action. “Fiscal Year” means each annual period commencing on July 1 and ending on June 30 of the succeeding calendar year.

"Government Obligations" means obligations issued or guaranteed by the United States of America or any department, agency or instrumentality thereof.

"Gross Revenues" means and includes all income, moneys and receipts received or receivable directly or indirectly from the ownership, use or operation of the Water System, including any waste material or by-products and income and gain realized from investments made with moneys of the Water System

"Independent Consultant" means, with respect to any subject matter, an individual or firm qualified, experienced and of generally recognized competence with respect to such matter selected by the District, reasonably acceptable to the Trustee and of which no controlling person, partner, director or officer is an official or employee of the District.

"Interest Account" means the account of that name within the Debt Service Fund established pursuant to the Bond Resolution.

"Maximum Annual Debt Service" means, at the time of computation, the greatest amount required to be paid in any Fiscal Year ending then or thereafter for payment of principal of and interest on the Bonds and any Parity Bonds then Outstanding and any Parity Bonds then being proposed to be issued. For the purposes of such computation, the principal maturities of any obligation having a term maturity but requiring mandatory redemption deposits shall be deemed to occur at the time of the scheduled mandatory redemptions and shall not include the term maturities.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the District by notice to the Trustee.

"Net Revenues" means that portion of the Gross Revenues remaining after sufficient funds have been provided for the Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" means all costs and expenses reasonably incurred in connection with the operation, use and maintenance of the Water System, including repairs necessary to keep the Water System in efficient and economical operating condition, payments of insurance coverages required to be maintained with respect to the Water System and the reasonable cost or value of all services rendered by the Company with respect to the Water System but excluding depreciation and interest on the Bonds and the Parity Bonds and subordinate obligations issued or incurred by the District.

"Outstanding", when used with reference to the Bonds or the Parity Bonds, means Bonds or Parity Bonds which are unpaid; provided, however, that such term shall not include Bonds or Parity Bonds (a) which have matured and for which moneys are on deposit with the Trustee, or are otherwise properly available, in an amount sufficient to pay all principal and interest then due and payable thereon, or (b) provision for the payment of which has been made by the District in accordance with the Bond Resolution.

"Parity Bonds" mean and include any bonds hereafter issued and Outstanding, meeting the requirements of the Bond Resolution.

"Principal Account" means the account of that name within the Debt Service Fund established pursuant to the Bond Resolution.

"Revenue Fund" means the fund established with and held by the Company pursuant to the Payment Agreement.

"Trustee" means the Trustee, or any successor appointed and acting in such capacity under the Bond Resolution.

“Water System” means and includes all of the properties and facilities of the complete waterworks plant and system of the District, whether lying within or without the boundaries of the District, as now existing and as hereafter improved or extended while any of the Bonds authorized in the Bond Resolution or the Parity Bonds permitted by the Bond Resolution to be issued remain Outstanding; all improvements, additions and extensions thereto or replacements thereof hereafter constructed or acquired by purchase, contract, or otherwise; and all contracts rights, agreements, leases and franchises of every nature owned by the District and used or useful or help for use in the operation of said plant and system or any part or portion thereof.

## BOND RESOLUTION

### PLEDGE AND APPLICATION OF REVENUES

General. Each Bond authorized under the Bond Resolution and each Parity Bond permitted by the Bond Resolution is payable solely from a pledge of, and is secured solely by a first lien on, and a security interest in, the Agreement Payments to the extent necessary for the prompt and punctual payment of the principal of and interest on the Bonds and the Parity Bonds. The District shall prescribe fees and charges, and shall revise them when necessary, to generate the Net Revenues sufficient, together with any moneys from the sources described in the Enabling Act, to pay when due the Agreement Payments. The establishment or revision of any fees and charges with respect to the Water System shall be identified and noticed concurrently with the annual budget process of the District pursuant to the Enabling Act. The pledge of, and lien on and security interest in, the Agreement Payments is irrevocably made and created for the prompt and punctual payment of the principal of and interest on the Bonds and the Parity Bonds, according to their terms, and to create and maintain the funds and accounts and to make the payments specified in the Bond Resolution. None of the Bonds or the Parity Bonds shall be entitled to priority or distinction one over the other in the application of the Agreement Payments pledged to the payment thereof, regardless of the issuance of any of the Bonds or the Parity Bonds in series, or the delivery of any of the Bonds or the Parity Bonds prior to delivery of any other of the Bonds or the Parity Bonds of said series, or regardless of the time or times the Bonds or the Parity Bonds mature or are redeemed or otherwise. All of the Bonds and the Parity Bonds are co-equal as to the pledge of and lien on said described income and revenues pledged for the payment thereof and share ratably, without preference, priority or distinction, as to the source or method of payment or security therefor.

Fund and Accounts. Upon the delivery of and payment for the Bonds, the Authorized Representative shall establish, or cause the Trustee to establish, and thereafter maintain so long as any of the Bonds or the Parity Bonds are Outstanding, a separate and special fund designated the “Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds - Debt Service Fund”, and therein an Interest Account and a Principal Account, which shall be established with and held by the Trustee. There shall be deposited in the accounts of the Debt Service Fund, upon receipt of payment thereof from the Company, the amounts required in accordance with the Payment Agreement which amounts shall be held and invested by the Trustee for the benefit and security of the registered owners from time to time of the Bonds and the Parity Bonds and the District shall not have any beneficial right or interest in any such amounts. Amounts in the Debt Service Fund shall be used solely for the payment of principal of and interest on the Bonds and the Parity Bonds when due as well as any amounts due to the Trustee, including in its capacity as bond registrar and paying agent.

Remaining Revenues and Deficiencies. After all payments and transfers shall have been made as provided above and any deficiencies in any such transfer or transfers which may exist from any previous Fiscal Year have been remedied, all moneys remaining in the Revenue Fund shall constitute available revenues and may be used by the District for any lawful purpose in connection with the Water System. If at any time the moneys in the Revenue Fund are not sufficient to make the transfers hereinabove required, any such deficiency shall be made up from the first moneys thereafter received and available for such transfers under the terms of the Bond Resolution, and the transfer of any such sum or sums to said fund or accounts as may be necessary to make up any such deficiency shall be in addition to the then-current transfers required to be made pursuant to the Bond Resolution.

## GENERAL COVENANTS

The District will establish and maintain schedules of rates, fees and charges for all water and services supplied by the Water System, and will revise them when necessary, to be fully sufficient at all times, after making reasonable allowance for contingencies and errors in estimates, to pay the Operation and Maintenance Expenses and to produce an aggregate amount of the Net Revenues in each Fiscal Year equal to not less than one-hundred-twenty percent (120%) of the Annual Debt Service Requirement.

The District will cause the Water System to be maintained in good repair and working order and to be operated efficiently and will faithfully and punctually perform all duties with reference to the Water System required by the Constitution and laws of the State, including the making and collection of sufficient rates for the water and services supplied thereby.

The District will not permit free water or service to be supplied by the Water System to the Company or any department thereof or to any person, firm or corporation, public or private, or to any public agency or instrumentality. The reasonable cost and value of all water and service rendered to the Company and its various departments by the Water System will be charged against the Company and its various departments by the Water System and will be applied in the manner hereinabove provided for the application of the Gross Revenues.

The District will keep or cause to be kept proper books, records and accounts covering the operation of the Water System in accordance with standard accounting practices and procedures customarily used for systems of similar nature.

The District will cause to be purchased casualty insurance on all above-ground components of the Water System on a replacement cost basis, with a deductible which may be no more than one-half percent (.5%) of the replacement value of the Water System. In addition, the District will purchase or maintain or cause to be purchased or maintained public liability insurance, which may include self-insurance, in such amounts and with such coverages as would be reasonable and prudent as determined by an Independent Consultant. The District will cause all moneys received for losses under such insurance policies, other than public liability policies or coverages, to be paid to the District, and such monies are pledged by the Bond Resolution by the District as security for the Bonds and the Parity Bonds unless and until such proceeds are paid out or obligated to make good the loss or damage in respect to which such proceeds are received, either by repairing the property damaged or replacing the property destroyed. Adequate provision for making good such loss and damage will be made within ninety (90) days from the later of the date of the loss or the date the proof of loss is filed with the insurer. In the event the destroyed property is no longer useful in the operation of the Water System, the proceeds of the insurance will be deposited in the Revenue Fund.

The District will not dispose or allow the disposition of the entire Water System. (The District shall remain the sole shareholder of the Company and not dispose of the ownership or, except as provided in this subsection, the assets of the Company.) Surplus land and obsolete or depreciated machinery may be sold, and the proceeds deposited in the Revenue Fund. If any other portion of the Water System is sold, the proceeds of the sale will be deposited in the Principal Account of the Debt Service Fund unless the Net Revenues of the remaining portion of the Water System, as estimated by an Independent Consultant, will be sufficient to meet the coverage requirements of subsection (a) hereof and in such event the proceeds may be deposited in the Revenue Fund or the Principal Account of the Debt Service Fund at the discretion of the District. The Independent Consultant, in estimating the Gross Revenues of the remaining portion of the Water System, will make his estimate in the same manner and using the same rates and projections as used in "Parity Bonds" below for calculation of the requirements for the Parity Bonds; except that the Net Revenues received from that portion of the Water System no longer owned by the District will not be used in such computation.

The District will, from time to time, duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges, if any, lawfully imposed upon all or any part of the Water System or the Gross Revenue as well as any lawful claims for labor, materials or supplies which if unpaid might by law become a lien or charge upon all or any part of the Water System or the Gross Revenues or which might impair the security of the Bonds and the Parity Bonds. The foregoing sentence will not require the District to pay or cause to be paid any such tax, assessment, charge or claim so long as said District is in good faith contesting its legal obligation to pay such tax, assessment, charge or claim.

The District will not, to the extent permitted by law, grant a franchise or permit for the operation of any competing water system in the District.

The District will employ or cause to be employed competent and experienced management for the Water System, will use its best efforts to see that the Water System is at all times operated and maintained or caused to be operated and maintained in good repair and condition, and will use its best efforts to see that the cost of such maintenance and operation is at no time in excess of the money reasonably available for the payment thereof.

That, if all or any part of the Water System shall be taken by eminent domain proceedings or other proceedings authorized by law, the net proceeds realized by the District therefrom will be deposited in the Principal Account of the Debt Service Fund, subject to the rights of the registered owners of the Bonds and the Parity Bonds to share in such net proceeds equally and ratably in the proportion which the principal amount bears to the total principal amount of all of the Bonds and the Parity Bonds then Outstanding, and without preference or priority of any one Bond or of any one Parity Bond over the other.

No bonds or other obligations will be issued or incurred superior in lien to the Bonds and the Parity Bonds.

Subject to the provisions of law and as part of its obligations to set fees, rates, and charges for the Water System, the District will cause the Company to discontinue the water service to any premises the owner or occupant of which is delinquent for more than 90 days in the payment of charges; will not permit the Company to resume the supply of water until all delinquent charges, with interest and penalties, have been paid or provided for; and will do all things and exercise all remedies legally available to assure the prompt payment of charges for water and services supplied by the Water System.

That the Administrative Expenses will be charged against and payable solely from the Revenue Fund as provided in the Bond Resolution.

Parity Bonds. The District shall have the right within the limits and for the purposes permitted by law to issue the Parity Bonds which shall be on a complete equality with, and shall have a pledge of and a lien on and security interest in the Net Revenues equal to, the Bonds and Parity Bonds previously issued and shall share ratably and equally in the Net Revenues with, any Bonds and any Parity Bonds now or hereafter Outstanding, provided that all of the following conditions are met:

All deposits in or obligations with respect to the fund created pursuant to the Bond Resolution are current.

The District is in compliance with all of its covenants in the Bond Resolution.

The Parity Bonds may be issued solely for the purpose of financing the construction or acquisition of extensions of or betterments, improvements, expansions and replacements of the Water System, or any combination of such purposes, or to provide reasonable reserves for such Parity Bonds, including capitalization of interest, or to refund the Bonds or the Parity Bonds or to refund subordinate lien bonds or general obligation bonds issued for the purpose of making additions or extensions to the Water System.

With respect to the Agreement Payments to be paid by the Company, the Net Revenues for the Fiscal Year next preceding the date of issuance as shown by a certificate of the Authorized Representative have been at least equal to one hundred twenty percent (120%) of the Maximum Annual Debt Service for any succeeding Fiscal Year. For the purposes of this section, additional amounts may be added to the Net Revenues if, as shown by a certificate of the Authorized Representative:

Gross Revenues have been increased as a result of construction of additions to the Water System made prior to the issuance of the Parity Bonds but during either the Fiscal Year during which such Parity Bonds are to be issued or the preceding Fiscal Year; such increased Gross Revenues may be treated as if such additions to the Water System were completed on the first day of the Fiscal Year used for purposes of computation. The Gross Revenues derived from such additions to the Water System may be converted for purposes of computation of estimated

Net Revenues which would have been derived therefrom if said additions had actually been completed on the first day of the Fiscal Year used for computation purposes, such estimates to be made by an Independent Consultant.

All or part of the proceeds of the Parity Bonds are to be expended for the acquisition of existing water properties, there may be added to the Net Revenues of such preceding Fiscal Year the Net Revenues derived from the operation of such water properties to be acquired as converted to the Net Revenues which would have been derived from the operation such water properties had such properties been under operation of the Company during the entire Fiscal Year, such converted Net Revenues to be estimated by an Independent Consultant.

Prior to the issuance of the Parity Bonds and subsequent to the first day of such preceding Fiscal Year, the District shall have increased its rates or charges for water service, there may be added to the Net Revenues of such Fiscal Year the additional Net Revenues which would have been received from the operation of the Water System during such Fiscal Year had such increase been in effect throughout such Fiscal Year, such additional Net Revenues to be estimated by an Independent Consultant.

#### INVESTMENTS; LIMITATION ON INVESTMENT YIELD

Any moneys held by the Trustee in any fund or account established or continued pursuant to the Bond Resolution shall be invested and reinvested by the Trustee, except as otherwise permitted by law or directed by the District in a written order signed by the Authorized Representative, in Government Obligations, or any other obligations in which the District may lawfully invest in accordance with State law, maturing or redeemable solely at the option of the registered owner thereof in such amounts and on such dates as may be necessary to provide moneys to make, when due, any payments required to be made from such fund or account.

In computing the value of the assets of any fund or account, investments and accrued interest thereon shall be deemed a part thereof. All such investments shall be valued at fair market value on the date of valuation.

The Trustee may sell or redeem any such obligations in which moneys shall have been invested as in this Section provided, to the extent necessary, in its sole discretion, to provide cash in the respective funds or accounts to make any payments required to be made therefrom, or to facilitate the transfer of moneys between various funds and accounts as may be required or permitted from time to time pursuant to the provisions of the Bond Resolution.

The Trustee shall not be liable for any depreciation in the value of any obligations in which moneys of the funds or accounts shall be invested, as aforesaid, or for any loss arising from any such investment, except for its own negligence or willful misconduct.

#### REMEDIES

Upon the occurrence and during the continuance of an Event of Default under the Bond Resolution, the Trustee may, and upon the request of the registered owners of twenty-five percent (25%) of the aggregate principal amount of the Bonds and the Parity Bonds then Outstanding, and upon receipt of indemnity, as provided in the Bond Resolution, shall, proceed to protect and enforce the rights of the registered owners of the Bonds and the Parity Bonds then Outstanding by suit, action or proceeding, at law or in equity, either for the specific performance of any covenant or agreement contained in the Bond Resolution, or for the execution of any power in the Bond Resolution granted or for the enforcement of any proper legal or equitable remedy, including application to any court of competent jurisdiction for the appointment of a receiver, who may be the Trustee, with respect to the Gross Revenues; provided, however, that notwithstanding anything to the contrary in the Bond Resolution, there shall be no right under any circumstances to accelerate the maturity dates of the Bonds or the Parity Bonds or otherwise to declare any of the payments with respect thereto not then past due or in default to be immediately due and payable. Any receiver so appointed may (i) enter upon and take possession of the Water System, (ii) prescribe rates, fees and charges for the use of the Water System, and (iii) collect, receive and apply the Gross Revenues arising therefrom in the same manner and with the same effect as the District itself is required and permitted to do under the Bond Resolution. Any such receiver will be vested with the sole and exclusive jurisdiction of the Water System and will maintain and operate the



Water System for the direct benefit of the registered owners of the Bonds and the Parity Bonds issued and Outstanding, and out of the Gross Revenues so collected will pay the principal of and interest on the Bonds and any of the Parity Bonds in the form and in the manner provided in the Bond Resolution. Such receiver so appointed will remain in possession and control of the Water System until any delinquent installments of principal of and interest on the Bonds and any of the Parity Bonds, together with all costs incurred in the receivership, including attorneys' fees, have been paid in full. No registered owner of any Bonds or registered owner of any of the Parity Bonds shall have any right to institute or defend any action, suit or proceeding with respect to the Bond Resolution unless written demand to institute or defend such action, suit or proceeding and reasonable indemnity shall have been provided to the Trustee pursuant to the Bond Resolution, and the Trustee shall have refused to institute or defend such action. In that event, upon the written concurrence of the registered owners of at least twenty-five percent (25%) of the aggregate principal amount of all Bonds and Parity Bonds then Outstanding, a registered owner may institute such action in the name of himself and the concurring owners. Nothing in this section shall be construed to limit or restrict the rights of the registered owner of any Bond or the registered owner of any Parity Bond as otherwise provided in the Enabling Act and any successor provisions or amendments thereto.

## TRUSTEE

Appointment. The Trustee is appointed as Trustee for all purposes provided in the Bond Resolution and shall have all of the powers and duties set forth in the Bond Resolution with no liability in connection with any action or omission to act under the Bond Resolution, except for its own negligence or willful misconduct. The District reserves the right to remove and replace the Trustee at any time in accordance with the provisions of the Bond Resolution.

Duties Generally. Notwithstanding any other provisions of the Bond Resolution, the Trustee shall exercise such of the respective rights and powers vested in it, and perform the duties imposed on it, by the Bond Resolution and use the same degree of skill and care in its exercise and performance as a prudent person would use and exercise under the circumstances in the conduct of its own affairs. Upon the occurrence and during the continuance of an Event of Default, the Trustee shall take such actions, subject to the conditions, as may be necessary and proper as provided in the Bond Resolution.

Indemnity. The Trustee shall be under no obligation to institute any suit or action, or other proceeding, under the Bond Resolution, or to enter any appearance in any suit, action or proceeding in which it may be a defendant, or to take any steps in the enforcement of its, or any, rights and powers under the Bond Resolution, nor shall the Trustee be deemed to have failed to take any such action, unless and until it shall have been indemnified to its satisfaction by the registered owners of the Bonds or the Parity Bonds against any and all costs and expenses, counsel fees and other disbursements, including its own reasonable fees, and if any judgment, decree or recovery is obtained by the Trustee, payment of all sums due the Trustee, as aforesaid, shall be a first charge against the amount of any such recovery.

Removal and Resignation. The Trustee may be removed at any time (i) by an instrument in writing signed by the registered owners of not less than sixty-five percent (65%) of the aggregate principal amount of the Bonds and the Parity Bonds then Outstanding, or (ii) provided the District is not then in default of any of its covenants or agreements in the Bond Resolution, by an instrument in writing signed by any of the Authorized Representatives, and the Trustee may resign and thereby become discharged from the trust created by the Bond Resolution. Written notice of any such resignation shall be given to the Authorized Representative at least thirty (30) days before such resignation becomes effective, and such resignation shall take effect upon the appointment and qualification of a new Trustee if the same be appointed and qualified before the time set forth in such notice.

In case the Trustee shall resign or be removed, or become dissolved, or otherwise become incapable of acting under the Bond Resolution, a successor Trustee may be appointed by the registered owners of a majority in aggregate principal amount of the Bonds and any Parity Bonds then Outstanding by an instrument in writing signed by such registered owners and filed with the Authorized Representative, provided that in case there shall be at any time a vacancy in the office of the Trustee under the Bond Resolution, the District shall appoint, and covenants with the registered owners of the Bonds and any Parity Bonds that it will promptly appoint, a Trustee to fill such vacancy until a new Trustee shall be appointed by the registered owners of the Bonds and any Parity Bonds as authorized in the Bond Resolution. Any such temporary or interim Trustee appointed by the District under the Bond Resolution shall

immediately and without further action be superseded by the appointment of a Trustee appointed by the registered owners of the Bonds and any Parity Bonds in the manner hereinabove provided.

Any Trustee hereafter appointed shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by federal or State authority.

Every successor Trustee howsoever appointed under the Bond Resolution shall execute, acknowledge and deliver to its predecessor and also to the District, an instrument in writing accepting such appointment, and thereupon such successor Trustee, without any further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of such predecessor, and such predecessor shall, on written request of the District, execute and deliver an instrument transferring to such successor Trustee all of the rights, powers, trusts, duties and obligations of such predecessor under the Bond Resolution.

### DEFEASANCE

If the District pays or causes to be paid to the registered owner of any Bond or any Parity Bond secured by the Bond Resolution the principal of and premium, if any, and interest due and payable, and thereafter to become due and payable, upon such Bond or Parity Bond, or, any portion of such Bond or Parity Bond, such Bond or Parity Bond or portion thereof shall cease to be entitled to any lien, benefit or security under the Bond Resolution. If the District shall pay or cause to be paid the principal of and premium, if any, and interest due and payable thereon, and shall pay or cause to be paid all other sums payable under the Bond Resolution by the District, including all necessary and proper fees, compensation and expenses of the Trustee then, and in that case, the right, title and interest of the Trustee in and to the Net Revenues shall thereupon cease, terminate and become void. In such event, the Trustee shall assign, transfer and turn over to the District the moneys and property held by the Trustee under the Bond Resolution, including, without limitation, any surplus in the Debt Service Fund and any balance remaining in any other fund created under the Bond Resolution.

Any Bond or Parity Bond shall be deemed to be paid within the meaning of the Bond Resolution and for all purposes of the Bond Resolution when:

(a) payment of the principal of and premium, if any, on such Bond or Parity Bond plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Bond Resolution) either:

(1) shall have been made or caused to be made in accordance with the terms of the Bond Resolution, or

(2) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment,

moneys sufficient to make such payment, and/or

Defeasance Obligations maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to make such payment, and

(b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to the bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

At such time as a Bond or Parity Bond shall be deemed to be paid under the Bond Resolution, as aforesaid, such Bond or Parity Bond shall no longer be secured by or entitled to the benefits of the Bond Resolution, except for the purposes of any such payment from such moneys or Defeasance Obligations and such Bond or Parity Bond and

the debt service thereon refunded shall not thereafter be charged against the District for purposes of the Bond Resolution.

Notwithstanding the foregoing, no deposit under clause (a)(2) above shall be deemed a payment of such Bond or Parity Bond as aforesaid until the earlier of: (i) proper notice of redemption of such Bond or Parity Bond shall have been given in accordance with the provisions of the Bond Resolution or the provisions of any Parity Bond, respectively, or, in the event said Bond or Parity Bond is not to be redeemed or prepaid within the next succeeding sixty (60) days, until the District shall have given the Trustee irrevocable instructions in form satisfactory to the Trustee, to notify, as soon as practicable, the registered owner of such Bond or Parity Bond in accordance with the Bond Resolution or the provisions of any Parity Bond, respectively, that the deposit required by clause (a)(2) above has been made with the Trustee and that said bond is deemed to have been paid in accordance with the Bond Resolution and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption price, if any, on said Bond or Parity Bond, plus interest thereon to the due date or redemption date thereof; or (ii) the maturity of such Bond or Parity Bond.

Notwithstanding anything to the contrary, no payment by any Bond Insurer of principal of or interest on any Bond or any Parity Bond (or interest therein) shall by itself result in a defeasance of the Bond Resolution with respect to such bond and such principal and interest shall remain due and owing thereon until paid in full.

#### MODIFICATION AND AMENDMENT

Amendments and Supplements. The District may adopt, and the Trustee may accept, without notice to or the consent of any registered owners of the Bonds or the Parity Bonds, a resolution amending or supplementing any of the terms or provisions contained in the Bond Resolution for any one or more of the following purposes:

To cure any ambiguity, formal defect or omission in the Bond Resolution;

To correct or supplement any provision in the Bond Resolution which may be inconsistent with any other provision in the Bond Resolution, or to make any other provisions with respect to matters or questions arising under the Bond Resolution which shall not materially and adversely affect the interests of the registered owners of Bonds or Parity Bonds then Outstanding;

To grant or confer ratably upon all of the registered owners of Bonds or Parity Bonds then Outstanding, any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them or to add to the covenants of the District such further covenants, restrictions or conditions as the District and the Trustee shall consider to be for the protection of the registered owners of Bonds or Parity Bonds then Outstanding under the Bond Resolution, and to make the occurrence, or the occurrence and continuance, of a default in compliance with any of such additional covenants, restrictions or conditions an event permitting the enforcement of all or any of the several remedies provided in the Bond Resolution; provided, however, that in respect of any such additional covenant, restriction or condition such supplementary or amendatory resolution may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

To comply with the requirements of any state or federal securities laws or to qualify the Bond Resolution under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;

To create and provide for the issuance of a series of the Parity Bonds permitted under the Bond Resolution and the establishment of reserve funds therefor;

To preserve the exclusion of interest represented by the Bonds or the Parity Bonds the interest income on which is exclude from gross income for purposes of federal or State income taxes, from gross income for purposes of federal or State income taxes and to preserve the power of the District to continue to issue bonds or incur other obligations the interest on which is likewise exempt from federal and State income taxes; and

In regard to questions arising under the Bond Resolution, as the District and the Trustee may deem necessary or desirable, and which shall not materially adversely affect the interests of the registered owners of Bonds or Parity Bonds then Outstanding under the Bond Resolution as evidenced by a Bond Counsel's Opinion delivered by the District to the Trustee.

Other than supplementary or amendatory resolutions referred to above and subject to the terms and provisions and limitations contained in the Bond Resolution and not otherwise, any Bond Insurers and the registered owners of a majority in aggregate principal amount of the Bonds and the Parity Bonds then Outstanding (exclusive of Bonds or Parity Bonds disqualified as provided in the Bond Resolution) shall jointly have the right, from time to time, anything contained in the Bond Resolution to the contrary notwithstanding, to consent to and approve the adoption by the District and the acceptance by the Trustee of such supplementary or amendatory resolutions as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Resolution, provided, however, nothing shall permit or be construed as permitting the adoption of a supplementary or amendatory resolution which would:

Extend the stated maturity of or time for paying interest on any Bond or any Parity Bond or reduce the principal amount of or the redemption premium or rate of interest payable on any Bond or Parity Bond without the consent of the registered owner of such Bond or Parity Bond;

Permit the preference or priority of any Bond or any Parity Bond over any other Bond or any other Parity Bond without the consent of the registered owner of each Bond or Parity Bond then Outstanding not receiving such preference or priority; or

Reduce the aggregate principal amount of Bonds or Parity Bonds then Outstanding the consent of the registered owners of which is required to authorize such supplementary or amendatory resolution without the consent of the registered owners of all Bonds or Parity Bonds then Outstanding.

Amendment Procedure. Whenever the District shall propose to amend or modify the Bond Resolution, a copy of such supplementary or amendatory resolution, together with a request to the registered owners of the Bonds or the Parity Bonds then Outstanding for their consent thereto, shall be mailed by the Trustee to each registered owner of the Bonds or the Parity Bonds then Outstanding at the address thereof as set forth on the Bond Register, but failure to mail copies of such supplementary or amendatory resolution and request shall not affect the validity of the supplementary or amendatory resolution when assented to as provided in this Section.

Such supplementary or amendatory resolution shall not become effective unless there shall be filed with the Trustee the written consent of the registered owners of a majority in aggregate principal amount of all Bonds and Parity Bonds then Outstanding (exclusive of Bonds or Parity Bonds disqualified as provided in the Bond Resolution) and a notice shall have been mailed as in the Bond Resolution. The consent of a registered owner of a Bond or a Parity Bond shall be effective only if accompanied by proof of ownership of the Bonds or the Parity Bonds for which such consent is given, which proof shall be such as is permitted by the Bond Resolution. Any such consent shall be binding upon the registered owner of the Bond or the Parity Bond giving such consent and on any subsequent registered owner (whether or not such subsequent registered owner has notice thereof) unless such consent is revoked in writing by the registered owner giving such consent or a subsequent registered owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this section provided for has been mailed.

After the registered owners of the required percentage of Bonds and Parity Bonds shall have filed their consents to such supplementary or amendatory resolution, the Trustee shall mail a notice to the registered owners of the Bonds and the Parity Bonds in the manner hereinbefore provided in this section for the mailing of such supplementary or amendatory resolution of the notice of adoption thereof, stating in substance that such supplementary or amendatory resolution has been consented to by the registered owners of the required percentage of Bonds and Parity Bonds and will be effective as provided in this section (but failure to mail copies of said notice shall not affect the validity of such supplementary or amendatory resolution or consents thereto). A record, consisting of the papers required by this section to be filed with the Trustee, shall be conclusive proof of the matters therein stated. Such supplementary or amendatory resolution shall become effective upon the mailing of such last-mentioned notice, and such supplementary or amendatory resolution shall be deemed conclusively binding upon the registered owners of all Bonds and Parity Bonds after such filing, except in the event of a final decree of a court of competent jurisdiction

setting aside such consent in a legal action or equitable proceeding for such purpose commenced within sixty (60) days.

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent or other instrument in writing required or permitted by the Bond Resolution to be signed or executed by the registered owner of a Bond or Parity Bond may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such registered owner in person or by his attorney or agent appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Bond or Parity Bond. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the ownership of the Bonds and the Parity Bonds shall be sufficient for any purpose of the Bond Resolution (except as otherwise provided), if made in the following manner:

The fact and date of the execution by such registered owner or the attorney or agent thereof of any such instrument and of any instrument appointing any such attorney or agent, may be proved by a certificate, which need not be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the persons signing such instruments acknowledged the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

The fact of the ownership of the Bonds or the Parity Bonds by any person and the amount, the maturity date and the numbers of such Bonds or Parity Bonds and the date of this holding the same be proved on the Bond Register.

Nothing shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters in the Bond Resolution stated which the Trustee may deem sufficient. Any request or consent of the registered owners of the Bonds or the Parity Bonds shall bind every future registered owner of the Bonds or the Parity Bonds in respect of anything done or suffered to be done by the Trustee in pursuance of such request or consent.

Disqualified Bonds or Parity Bonds. Bonds or Parity Bonds owned or held by or for the account of the District or by any person directly or indirectly controlled by, or under direct or indirect common control with the District (except any Bonds or Parity Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Bonds or Parity Bonds provided for in the Bond Resolution and shall not be entitled to vote upon, consent to, or take any other action provided for in the Bond Resolution; provided, however, that in determining whether the Trustee shall be protected in relying upon any such approval or consent of a registered owner of Bonds or Parity Bonds, only Bonds or Parity Bonds which an officer of the Trustee actually knows to be owned or held by the District, or by any person directly or indirectly controlled by, or under direct or indirect common control with the District (except any Bonds or Parity Bonds held in any pension or retirement fund) shall be deemed not to be Outstanding unless all Bonds or Parity Bonds (or interests therein) are so owned, in which case such Bonds or Parity Bonds shall be considered Outstanding for the purpose of such determination.

Effect of Amendment. From and after the time any supplementary or amendatory resolution becomes effective in the Bond Resolution shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the District, the Trustee and all registered owners of Bonds and Parity Bonds Outstanding, as the case may be, shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any supplementary or amendatory resolution shall be deemed to be part of the terms and conditions of the Bond Resolution for any and all purposes. The Trustee may require each registered owner of Bonds or Parity Bonds, before his consent shall be deemed effective, to reveal whether the Bonds or the Parity Bonds as to which such consent is given are disqualified.

Obligations of Town and District. No registered owner of the Bonds or the Parity Bonds may compel any exercise of the taxing power of the District, the Company or the Town to pay the Bonds or the Parity Bonds or the interest on the Bonds or the Parity Bonds. The Bonds and the Parity Bonds are not debts of the District, the Company or the Town, nor is the payment of the Bonds or the Parity Bonds enforceable out of any moneys other than the revenue pledged to the payment of the Bonds and the Parity Bonds. Nothing contained in the Bond Resolution or any other

instrument shall be construed as obligating or as incurring a charge upon the general credit of the District, the Company or the Town nor shall the breach of any agreement contained in the Bond Resolution or any other instrument or documents executed in connection therewith impose any charge upon the general credit of the District, the Company or the Town.

## PAYMENT AGREEMENT

### TERM.

The term of the Payment Agreement shall be for so long as debt service with respect to the Bonds or the Parity Bonds remains unpaid or unprovided for pursuant to the Bond Resolution. Upon full payment or provision for payment of debt service with respect to the Bonds and the Parity Bonds and in consideration of the timely payment of all of the Agreement Payments and provided that the Company has performed all the covenants and agreements required by the Company to be performed under the Payment Agreement, the Payment Agreement shall cease.

### PAYMENTS.

General. The Company shall pay the Agreement Payments to the District. The Agreement Payments shall be an absolute net return to the District, free and clear of any expenses or charges whatsoever. The obligations of the Company to make the Agreement Payments from the sources described in this Section and to comply with the other provisions of this Section shall be absolute and unconditional and shall not be subject to any defense or any right of set-off, abatement, counterclaim, or recoupment arising out of any breach by the District of any obligation to the District or otherwise, or out of indebtedness or liability at any time owing to the Company by the District. The Company (a) shall not suspend or discontinue the same, (b) shall comply with the other provisions of this Section and (c) shall not terminate this Section for any cause, including, without limiting the generality of the foregoing, the failure of the District to provide for matters with regard to the Water System, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System or the taking by eminent domain of title to or temporary use of any or all of the Water System, commercial frustration of purpose, abandonment of the Water System by the District, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the District to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Payment Agreement. Nothing contained in this Section shall be construed to release the District from the performance of any of the agreements on its part contained in this Section and in the event the District shall fail to perform any such agreements on its part, the Company may institute such action against the District as the Company may deem necessary to compel performance so long as such action does not abrogate the obligations of the Company contained in the first sentence of this paragraph.

Defeasance. The Company may provide for the payment of any of the Agreement Payments in same fashion as prescribed in the Bond Resolution for the Bonds and the Parity Bonds corresponding of the Agreement Payments.

Security for and Sources of Payment of the Agreement Payments. The Agreement Payments are payable solely from a pledge of, and are secured solely by a first lien on, and a security interest in, the Net Revenues to the extent necessary for the prompt and punctual payment of the principal of and interest on the Bonds and the Parity Bonds. The District shall prescribe fees and charges, and shall revise them when necessary, to generate the Net Revenues sufficient, together with any moneys from the sources described in the Enabling Act, to pay when due the Agreement Payments. The establishment or revision of any fees and charges with respect to the Water System shall be identified and noticed concurrently with the annual budget process of the District pursuant to the Enabling Act. The pledge of, and lien on and security interest in, the Net Revenues is irrevocably made and created for the prompt and punctual payment of the Agreement Payments, according to their terms, and to create and maintain the funds and accounts and to make the payments hereafter specified. None of the Agreement Payments shall be entitled to priority or distinction one over the other in the application of the Net Revenues pledged to the payment thereof. All of the Agreement Payments are co-equal as to the pledge of, and lien on, the Net Revenues and share ratably, without preference, priority or distinction, as to the source or method of payment or security therefor.

The Net Revenues in excess of amounts, if any, required for payments due under this Section shall constitute surplus revenues and may be used by the Company for any lawful purpose for the benefit of the Company, including the payment of obligations to which the Net Revenues may, from time to time, be pledged on a basis subordinate thereto. If at any time the moneys for payment of amounts due under this Section are not sufficient to make the deposits and transfers required, any such deficiency shall be made up from the first moneys thereafter received and available for such transfers under the terms of this Section and, with respect to payment from the Net Revenues, *prorata*, as applicable, with amounts due with respect to the Bonds and the Parity Bonds, and the transfer of any such sum or sums as may be necessary to make up any such deficiency shall be in addition to the then-current transfers required to be made pursuant thereto.

The District shall establish and maintain schedules of rates, fees and charges for all water and services supplied by the Water System, and shall revise them when necessary, to comply with the requirements of the Bond Resolution. The District shall only issue the Parity Bonds under the circumstances described in the Bond Resolution.

Revenue Fund. The Company shall establish and thereafter maintain so long as any of the Bonds or the Parity Bonds are Outstanding, a separate and special fund designated the "Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds - Revenue Fund," which shall be established with and maintained by the Company in a bank or banks doing business in the State whose deposits are insured by the Federal Deposit Insurance Corporation. All Gross Revenues shall be deposited to the Revenue Fund. Moneys in the Revenue Fund, after providing sufficient moneys for the Operation and Maintenance Expenses, shall be transferred to the following accounts in the following manner and in the following order to be held, invested, used and withdrawn only for the purposes hereinafter authorized:

On or before the third Monday in each month, commencing \_\_\_\_\_, 20\_\_, there shall be paid by the Company from the Revenue Fund to the District for deposit to the Interest Account of the Debt Service Fund moneys in any amount equal to one-sixth of the next ensuing semiannual interest payment on the Bonds and the Parity Bonds until the amount paid into the Interest Account of the Debt Service Fund, together with any amount then on deposit in the Interest Account of the Debt Service Fund (including the principal amount of any investments therein), is equal to the next ensuing semiannual interest payment on the Bonds and the Parity Bonds as well as any amounts then due to the Trustee including in its capacity as bond registrar and paying agent for the Bonds and the Parity Bonds.

On or before the third Monday of each month, commencing \_\_\_\_\_, 20\_\_, there shall be paid by the Company from the Revenue Fund to the District for deposit to the Principal Account of the Debt Service Fund moneys in an amount equal to one-sixth, and commencing in \_\_\_\_\_, 20\_\_, equal to one-twelfth, of the principal payment which will become due on the Bonds and the Parity Bonds in the next ensuing Fiscal Year until the amount paid into the Principal Account of the Debt Service Fund, together with any amount then on deposit in the Principal Account of the Debt Service Fund, is equal to the principal payment on the Bonds and the Parity Bonds in the next ensuing Fiscal Year.

Following such payments, the Company shall apply the moneys in the Revenue Fund to the payment, as necessary or deemed appropriate by the Company, of the costs of renewals or replacements of the Water System, amounts due under water purchase contracts and payments of principal of and interest on subordinate obligations of the District issued or incurred for water utility purposes.

Defaults; Remedies. Upon (a) the nonpayment of the whole or any part of any of the Agreement Payments at the time when the same are to be paid as provided in this Section, (b) the violation by the Company of any other covenant or provision of this Section, or (c) the insolvency or bankruptcy of the Company as the same may be defined under any law of the United States of America or the State, or any voluntary or involuntary action of the Company or others to take advantage of, or to impose, as the case may be, any law for the relief of debtors or creditors, including a petition for reorganization, and

if such default has not been cured (a) in the case of nonpayment of any of the Agreement Payments as required under the Payment Agreement on the due date or the nonpayment of principal and interest due with respect to the Bonds or the Parity Bonds on their due dates; (b) in the case of the breach of any other covenant or provision of this Section not cured within sixty (60) days after notice in writing from the District specifying such default and (c) in the case of any

other default under any of the Bonds or the Parity Bonds after any notice and passage of time provided for under the proceedings under which such obligations were issued then, the District has the same remedies as provided to the Trustee as described under the subheading "BOND RESOLUTION-REMEDIES" as may appear necessary or desirable to collect the Agreement Payments and any other amounts payable by the Company under this Section then due (but not the Agreement Payments and such other amounts accruing), or to enforce, performance and observance of any pledge, obligation, agreement or covenant of the Company under this Section, and with respect to the Net Revenues, without notice and without giving any bond or surety to the Company or anyone claiming under the Company, have a receiver appointed of the Net Revenues which are pledged to the payment of amounts due under this Section, with such powers as the court making such appointment shall confer (and the Company has irrevocably consent to such appointment); provided, however, that under no circumstances may the Agreement Payments be accelerated.

Each right, power and remedy of the District provided for in this subsection shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in the Payment Agreement, or, unless prohibited by the terms of the Payment Agreement, now or hereafter existing at law or in equity or by statute or otherwise, in any jurisdiction where such rights, powers and remedies are sought to be enforced, and the exercise or beginning of the exercise by the District of any one or more of the rights, powers or remedies provided for in the Payment Agreement or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by either party of any or all of such other rights, powers or remedies. The failure to insist upon strict performance of any of the covenants or agreements in this Section set forth shall not be considered or taken as a waiver or relinquishment for the future of the rights of the District to insist upon a strict compliance by the Company with all the covenants and conditions of this Section. The Company shall, upon not less than 10 days' prior request by the District, execute, acknowledge and deliver to the District a statement in writing certifying that this Section is unmodified and in full force and effect (or, if this Section has been modified, that it is in full force and effect except as modified, and stating the modification), and the dates to which the amounts payable under the Payment Agreement have been paid in advance, if any.

The District shall in no event be in default in the performance of any of its obligations under the Payment Agreement and until the District shall have failed to perform such obligation within thirty (30) days or such additional time as is reasonably required to correct any such default after notice by the Company properly specifying wherein the District has failed to perform any such obligation. No default by the District shall relieve the Company of its obligations to make the various payments required in the Payment Agreement, so long as the Bonds or the Parity Bonds remain Outstanding; however, the Company may exercise any other remedy available at law or in equity to require the District to remedy such default so long as such remedy does not interfere with or endanger the payments required to be made for the Bonds or the Parity Bonds.

Assignment. Except as described under the subheading "PAYMENT AGREEMENT- ASSIGNMENT", the Company shall not assign, transfer, pledge or hypothecate or otherwise dispose of any interest in this Section, and any assignment in contravention thereof shall be void.

By District. Except the District may, by 30 days' written notice to the Company, terminate the right of the Company to proceed as to the whole or any part of the Payment Agreement if the Company:

fails to perform under the Payment Agreement within the time specified therein or any extensions thereof;

fails to make progress so as to endanger performance of the Payment Agreement in accordance with its terms; or

fails to perform any other provision of the Payment Agreement.

#### ASSIGNMENT.

In order to secure, to the extent provided by the Payment Agreement, the payment of principal of and interest on the Bonds and the Parity Bonds, the rights of the registered owners of the Bonds and the Parity Bonds and the performance and the observance of the Assigned Rights, the District absolutely and irrevocably pledges and assigns



to the Trustee the Assigned Rights, for the equal and proportionate benefit and security of the registered owners, from time to time, of the Bonds and the Parity Bonds, none of the Bonds and the Parity Bonds being entitled to priority or distinction one over the other in the application of the Agreement Payments, regardless of the delivery of any of the Bonds or the Parity Bonds prior to the delivery of any other of the Bonds or the Parity Bonds, or regardless of the time or times principal represented by the Bonds or the Parity Bonds is paid or is subject to redemption with respect to principal represented thereby, all of the Bonds or the Parity Bonds being co-equal as to the pledge of and lien on the Agreement Payments and sharing ratably, without preference, priority or distinction, as to the source or method of payment or security therefor. Conditioned, however, that if District shall well and truly pay or cause to be paid fully and promptly when due all indebtedness, liabilities, obligations and sums at any time secured by the Payment Agreement, including interest and attorneys' fees, and shall promptly, faithfully and strictly keep, perform and observe or cause to be kept, performed and observed all of its covenants, warranties and agreements contained in the Payment Agreement, the assignment provided by this Section shall be and become void and of no further force and effect; otherwise, the same shall remain in full force and effect, and upon the trust and subject to the covenants and conditions set forth in the Payment Agreement. This assignment shall not release or affect in any way the other obligations of the District to the Company or the Company to the District, pursuant to the Payment Agreement, and notwithstanding any provision of this assignment, nothing contained in the Payment Agreement shall increase the obligations of the Company under the Assigned Rights.

#### COVENANTS.

The Water System will be maintained in good repair and working order and to be operated efficiently by the Company, and the Gross Revenues will be segregated and applied in the manner provided in the Payment Agreement.

The Company will not permit free water or service to be supplied to any person, firm or corporation, public or private, to any public agency or instrumentality. The reasonable cost and value of all water and service rendered to the Company and its various departments by the Water System will be charged against the Company and its various departments by the Water System and will be applied in the manner hereinabove provided for the application of the Gross Revenues.

The Company will keep proper books, records and accounts covering the operation of the Water System will be kept in accordance with standard accounting practices and procedures customarily used for systems of similar nature.

The Company will purchase and maintain casualty insurance on all above-ground components of the Water System on a replacement cost basis, with a deductible which may be no more than one-half percent (.5%) of the replacement value of the Water System will be purchased. In addition, public liability insurance, which may include self-insurance, in such amounts and with such coverages as would be reasonable and prudent as determined by an Independent Consultant will be purchased or maintained.

The Company will not dispose or allow the disposition of the entire Water System. (The Company shall remain the sole shareholder of the Company and not dispose or allow the disposition of the ownership or, except as provided in this subsection, the assets of the Company.) Surplus land and obsolete or depreciated machinery may be sold, and the proceeds deposited in the Revenue Fund. If any other portion of the Water System is sold, the proceeds of the sale will be deposited in the Principal Account of the Debt Service Fund unless the Net Revenues of the remaining portion of the Water System, as estimated by an Independent Consultant, will be sufficient to meet the coverage requirements of the Bond Resolution and in such event the proceeds may be deposited in the Revenue Fund or the Principal Account of the Debt Service Fund at the discretion of the District. The Independent Consultant, in estimating the Gross Revenues of the remaining portion of the Water System, will make his estimate in the same manner and using the same rates and projections as used in the Bond Resolution for calculation of the requirements for Parity Bonds; except that the Net Revenues received from that portion of the Water System no longer owned by the Company will not be used in such computation.

The Company will, from time to time, duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges, if any, lawfully imposed upon all or any part of the Water System or the Gross Revenues therefrom, as well as any lawful claims for labor, materials or supplies which if unpaid might by law

become a lien or charge upon all or any part of the Water System or the Gross Revenues or which might impair the security of the Bonds and the Parity Bonds. The foregoing sentence will not require the Company to pay or cause to be paid any such tax, assessment, charge or claim so long as the Company is in good faith contesting its legal obligation to pay or cause to be paid such tax, assessment, charge or claim.

The Company will not permit the operation of any competing water system in the District.

The Water System will be operated by the Company on sound business principles, and the Company will employ competent and experienced management for the Water System, will use its best efforts to see that the Water System is at all times operated and maintained in good repair and condition and will use its best efforts to see that the cost of such maintenance and operation is at no time in excess of the money reasonably available for the payment thereof.

If all or any part of the Water System shall be taken by eminent domain proceedings or other proceedings authorized by law, the net proceeds realized therefrom will be deposited in the Principal Account of the Debt Service Fund, subject to the rights of the registered owners of the Bonds and the Parity Bonds to share in such net proceeds equally and ratably in the proportion which the principal amount bears to the total principal amount of all of the Bonds and the Parity Bonds then Outstanding, and without preference or priority of any one Bond or of any one Parity Bond over the other.

MODIFICATION; AMENDMENT

The Payment Agreement may only be modified or amended for the same purposes and by the same procednres set as described under the subheading "BOND RESOLUTION- MODIFICATION AND AMENDMENT" as if the same applied to the Payment Agreement.

TOWN OF CAREFREE, ARIZONA

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

**THE BONDS WILL BE PAYABLE ONLY FROM AND SECURED BY A PLEDGE OF NET REVENUES OF THE WATER SYSTEM AND AMOUNTS DESCRIBED UNDER THE HEADING "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS." THE BONDS WILL NOT BE A GENERAL OBLIGATION OF THE DISTRICT.**

**General**

The Town of Carefree, Arizona (the "Town") is located in the northeastern quadrant of the Phoenix metropolitan area, approximately ten miles north of Loop 101 and 10 miles east of Interstate-17 within Maricopa County, Arizona (the "County"). Situated around picturesque Black Mountain and the foothills of Continental Mountain, the Town encompasses approximately nine square miles and is one of four separate municipalities (the Town, Cave Creek and northern fringes of Scottsdale and Phoenix) that combine to form a geographic region known as the Desert Foothills community. Generally land locked, the Town is positioned between the communities of Cave Creek to the west, Scottsdale to the south and east, and a small pocket of unincorporated mountainous terrain to the north. The Town also serves as the gateway to Bartlett and Horseshoe Lakes, which are located along the Verde River approximately ten miles east of the Town limits. The following table illustrates population statistics for the Town, the County and the State.

**TABLE D-1  
POPULATION STATISTICS**

Year	Town of Carefree	Maricopa County	State of Arizona
2020 Estimate (a)	3,794	4,439,220	7,294,587
2019 Estimate (b)	3,771	4,367,835	7,187,990
2018 Estimate (b)	3,722	4,294,460	7,076,199
2017 Estimate (b)	3,669	4,221,684	6,965,897
2016 Estimate (b)	3,595	4,137,076	6,835,518
2010 Census	3,363	3,817,117	6,392,017
2000 Census	2,927	3,072,149	5,130,632
1990 Census	1,657	2,122,101	3,665,339
1980 Census	964	1,509,175	2,716,546

(a) Provisional estimate released in December 2020.

(b) Estimate as of July of each respective year.

Source: Arizona Office of Economic Opportunity and the U.S. Census Bureau.

**Municipal Government and Organization**

The Town is managed by a five-member Town Council, a Mayor, a Vice Mayor and a Town Administrator. Arizona Public Service provides electric service, Qwest provides telephone services and Southwest Gas provides gas service.

Water service is provided by the Carefree Water Company, which is wholly owned by the Utilities Communities Facilities District headed by the Town's water board members who are the seven elected councilmembers of the Town. Black Mountain Sewer provides service to all commercial and multi-family properties in Town and a few subdivisions. Police protection is provided by the Maricopa County Sheriff's Office under an intergovernmental agreement with the Town. Fire protection service within the Town is provided under contract by the Rural Metro Fire Department, Inc.

### Employment

Employment in the Town area is provided by hospitality, retail, government, healthcare, manufacturing and finance.

**TABLE D-2  
MAJOR EMPLOYERS  
Town of Carefree, Arizona**

Employer	Description	Approximate Number of Employees
Civana Carefree Resort	Hospitality, Tourism, & Recreation	130
Lowes	Retail	120
Rural Metro Corporation	Government, Social, & Advocacy Services	110
Bashas	Retail	60
Corporate Sign Inc	Non-Metallic Manufacturing	50
E F Charles Inc	Construction	30
Graham Engineering Survey Inc	Business Services	30
Roman Catholic Church of the Diocese of Phoenix	Government, Social, & Advocacy Services	30
Back To Basics Corp	Construction	20
Bank of America	Finance	20

Source: Maricopa Association of Governments, Employer Database.

The following table illustrates unemployment rate averages for the Town, the County, the State and the United States of America.

**TABLE D-3  
UNEMPLOYMENT RATE AVERAGES (a)**

Calendar Year	Town of Carefree	Maricopa County	State of Arizona	United States of America
2021 (b)	0.3%	6.4%	6.8%	6.1%
2020	0.3	7.4	7.9	8.1
2019	0.2	4.0	4.7	3.7
2018	0.2	4.1	4.7	3.9
2017	0.2	4.2	4.9	4.4
2016	0.2	4.6	5.4	4.9

(a) Each year, historical estimates from the Local Area Unemployment Statistics (LAUS) program are revised to reflect new population controls from the Census Bureau, updated input data, and re-estimation. The data for model-based areas also incorporate new seasonal adjustment, and the unadjusted estimates are controlled to new census division and U.S. totals. Sub-state area data subsequently are revised to incorporate updated inputs, re-estimation, and controlling to new statewide totals.

(b) Data through June 2021.

Source: Arizona Office of Economic Opportunity, in collaboration with the U.S. Census Bureau.

**Commerce**

The following table illustrates municipal privilege (sales) tax collections for the Town.

**TABLE D-4**  
**PRIVILEGE (SALES) TAX REVENUE**  
**Town of Carefree, Arizona**

<u>Fiscal Year</u>	<u>Amount</u>
2019/20	\$3,596,451
2018/19	3,834,622
2017/18	3,564,947
2016/17	3,074,036
2015/16	3,382,988

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Source: Arizona Department of Revenue.

TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT

FINANCIAL INFORMATION

**THE BONDS WILL BE PAYABLE ONLY FROM AND SECURED BY A PLEDGE OF NET REVENUES OF THE WATER SYSTEM AND AMOUNTS DESCRIBED UNDER THE HEADING "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS." THE BONDS WILL NOT BE A GENERAL OBLIGATION OF THE DISTRICT.**

**Current Year Statistics (For Fiscal Year 2020/21)**

Water System Revenue Bonds Outstanding and to be Outstanding \$ 18,425,000\*

\* Subject to change.

**Other Indebtedness**

*Lease Agreements.* The District currently has following installment purchase agreement in place for equipment:

Item	Maximum Payment	Period
1 Million Gallon Water Tank	\$244,765	Annually through 2027
Capital Advance from Town	414,340	Annually through 2026

**COMPANY EMPLOYEE RETIREMENT SYSTEM**

**Retirement Plan**

The District and its employees participate in a SIMPLE Individual Retirement Account. Employee contributions up to three percent of the employees pay are matched by the District. The District withholds the employee contributions and remits it along with the matching contribution to a third party custodian for the retirement accounts. The SIMPLE IRA belongs to the employee and is fully vested at the time the third party custodian credits to the receipt of the contribution to each employee's account. Matching contributions made by the District for the fiscal years ended June 30, 2020, 2019, and 2018 were \$48,252, \$48,329, and \$45,890, respectively.

**APPENDIX F**

**TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT**

**AUDITED FINANCIAL STATEMENTS FOR THE  
FISCAL YEAR ENDED JUNE 30, 2020**

The basic financial statements of the District as of June 30, 2020, and for the fiscal year then ended, a copy of which is included in this APPENDIX F – “TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2020” have been audited by Heinfeld Meech & Co., P.C., independent certified public accountants, to the extent and for the period indicated in its report thereon. The District neither requested nor obtained the consent of Heinfeld Meech & Co., P.C. to include its report or such financial statements herein, and Heinfeld Meech & Co., P.C. has performed no procedures subsequent to rendering its opinion on the financial statements. The District is not aware of any facts that would make the audited basic financial statements misleading.

FORM OF APPROVING LEGAL OPINION

[LETTERHEAD OF GREENBERG TRAURIG, LLP]

[Closing Date]

Board of Directors  
Town of Carefree, Arizona  
Utilities Community Facilities District

Re: Town of Carefree, Arizona Utilities Community Facilities District Water System Revenue Bonds, Series 2021

We have examined copies of the proceedings of the Board of Directors of the Town of Carefree, Arizona Utilities Community Facilities District (the "District"), and other proofs submitted to us relative to the sale and issuance of the captioned Bonds (the "Bonds"). In addition, we have examined such other proceedings, proofs, instruments, certificates and other documents as well as such other materials and such matters of law as we have deemed necessary or appropriate for the purposes of the opinion rendered herein below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid proceedings and proofs.

We are of the opinion that such proceedings and proofs show lawful authority for the sale and issuance of the Bonds pursuant to the Constitution and laws of the State of Arizona now in force, and particularly the provisions of Title 48, Chapter 4, Article 6, Arizona Revised Statutes and that the Bonds are valid and legally binding, limited obligations of the District, payable solely from a pledge of, and secured solely by a lien on, the Agreement Payments as such term is defined in the resolution authorizing issuance of the Bonds, adopted by Board of Directors of the District on \_\_\_\_\_, 2021 (the "Resolution").

Based on the representations and covenants of the District and subject to the assumption stated in the last sentence of this paragraph, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is exempt from income taxation under the laws of the State of Arizona. Furthermore, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. We express no opinion regarding other tax consequences resulting from the ownership, receipt or accrual of interest on, or disposition of, the Bonds. The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements with which the District must continue to meet after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. The failure of the District to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Board of Directors of the District has resolved in the Resolution to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. (Subject to the limitations in the penultimate paragraph hereof, the District has full legal power and authority to comply with such covenants.) In rendering the opinion expressed above, we have assumed continuing compliance with the tax covenants referred to above that must be met after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal tax purposes.



The rights of the holders of the Bonds and the enforceability of those rights may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights. The enforcement of such rights may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

This opinion represents our legal judgment based upon our review of the law and the facts we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING

\$18,425,000\*  
TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
WATER SYSTEM REVENUE BONDS, SERIES 2021

(BASE CUSIP IDENTIFICATION NO. \_\_\_\_\_)

This Continuing Disclosure Undertaking (this "Disclosure Undertaking") is executed and delivered by the Town of Carefree, Arizona Utilities Community Facilities District (the "District"), in connection with the \$18,425,000 aggregate principal amount of Water System Revenue Bonds, Series 2021 (the "Series 2021 Bonds"). The Series 2021 Bonds are being issued pursuant to a resolution adopted by the Board of Directors of the District on \_\_\_\_\_, 2021 (the "Bond Resolution"). The District covenants and agrees as follows:

SECTION 1. Definitions. In addition to the definitions set forth hereinabove, which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2021 Bonds (including persons holding Series 2021 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2021 Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB. As of the date of this Disclosure Undertaking, information regarding submissions to EMMA is available at <http://emma.msrb.org>.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Undertaking.

"MSRB" shall mean Municipal Securities Rulemaking Board.

"Official Statement" shall mean the final Official Statement, dated \_\_\_\_\_, 2021, for the Series 2021 Bonds.

"Participating Underwriters" shall mean the original underwriters of the Series 2021 Bonds required to comply with the Rule in connection with the offering of the Series 2021 Bonds.

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\* Subject to change.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of Arizona.

SECTION 2. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the District for the benefit of the Beneficial Owners and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 3. Provision of Annual Reports.

(a) Subject to annual appropriation to cover the costs of preparation and mailing thereof, the District shall, or shall cause the Dissemination Agent to, not later than February 1 following the end of the District’s fiscal year (presently June 30), commencing with the Annual Report for the 2021-2022 Fiscal Year, provide through EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Undertaking; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) Not later than fifteen (15) business days prior to the date on which the Annual Report shall be provided through EMMA pursuant to subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide through EMMA an Annual Report by the date required in subsection (a), the District shall send a notice on the form provided through EMMA for such purpose not more than ten (10) business days after the date on which the Annual Report is due.

(c) The Dissemination Agent shall, if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Undertaking, stating the date it was provided.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

(a) If available at the time of such filing, the audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted auditing standards. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report within 30 days of the date they become available.

(b) Additional financial information and operating data of the type included with respect to the District in the following tables in APPENDIX A – “TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT – THE WATER SYSTEM” to the Official Statement:

- TABLE A-2 – NUMBER OF METERS CONNECTED DURING EACH FISCAL YEAR;
- TABLE A-3 – CURRENT WATER RATES; and
- TABLE A-9 – SCHEDULE OF WATER SYSTEM REVENUE, OPERATING EXPENSES AND NET REVENUE.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, but subject to annual appropriation to cover the costs of preparation and mailing thereof, the District shall give, or cause to be given in a timely manner, but

not more than ten (10) business days thereafter, through EMMA notice of the occurrence of any of the following events with respect to the Series 2021 Bonds:

1. Principal and interest payment delinquencies,
2. Nonpayment related defaults, if material,
3. Unscheduled draws on debt service reserves reflecting financial difficulties,
4. Unscheduled draws on credit enhancements reflecting financial difficulties,
5. Substitution of the credit or liquidity providers or their failure to perform,
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security or other material events affecting the tax status of the security,
7. Modifications to rights of security holders, if material,
8. Bond calls, if material, or tender offers,
9. Defeasances,
10. Release, substitution or sale of property securing repayment of the securities, if material,
11. Rating changes,
12. Bankruptcy, insolvency, receivership or similar events of the obligated person, being if any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person,
13. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material,
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material,
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material,

16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties, and

17. Notice of a failure of the obligated person to provide required annual financial information on or before the date specified in Section 3 above, including any non-appropriation to cover applicable costs.

(b) Whether events subject to the standard "material" would be material shall be determined under applicable federal securities laws.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Undertaking shall terminate (A) upon the legal defeasance, prior redemption or payment in full of all of the Series 2021 Bonds, or (B) upon the termination of the continuing disclosure requirements of the Rule by legislative, judicial or administrative action. If termination pursuant to (A) occurs prior to the final maturity of the Series 2021 Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Undertaking.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the District may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2021 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized securities law counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2021 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized securities law counsel, materially impair the interests of the Beneficial Owners.

In the event of any amendment or waiver of a provision of this Disclosure Undertaking, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in

addition to that which is specifically required by this Disclosure Undertaking, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Undertaking, any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an event of default under the Bond Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the District to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and the Beneficial Owners from time to time of the Series 2021 Bonds, and shall create no rights in any other person or entity.

[Signature page follows.]

Dated: [Closing Date]

TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY  
FACILITIES DISTRICT

By .....  
Chairman

**BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Obligation certificate will be issued for each payment of each series of the Bonds, each in the aggregate principal amount of such payment, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and together with the Direct Participants, the "Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the



Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to a remarketing agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to a remarketing agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to a remarketing agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Obligation certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Obligation certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Underwriter or their agents and counsel take responsibility for the accuracy thereof.

**INITIATIVE PETITION**

## RESOLUTION 2021-12

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE CAREFREE WATER COMPANY, INC., AUTHORIZING AND APPROVING A PLEDGE OF, LIEN ON, AND SECURITY INTEREST IN, THE NET REVENUES OF THE SYSTEM IN CONNECTION WITH THE ISSUANCE AND SALE OF THE TOWN OF CAREFREE, ARIZONA UTILITIES COMMUNITY FACILITIES DISTRICT WATER SYSTEM REVENUE BONDS, SERIES 2021; AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF A PAYMENT AGREEMENT AND COLLATERAL ASSIGNMENT OF RIGHTS AND REMEDIES THEREUNDER AND A BOND PURCHASE AGREEMENT IN CONNECTION WITH THE BONDS; AND AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF ALL OTHER AGREEMENTS AND INSTRUMENTS REQUIRED FOR THE ISSUANCE AND SALE OF THE BONDS BY THE DISTRICT, INCLUDING ARTICLES OF AMENDMENT TO THE ARTICLES OF INCORPORATION OF THE WATER COMPANY.**

**WHEREAS**, the Town of Carefree, Arizona Utilities Community Facilities District (the "District") is the owner of all capital stock of Carefree Water Company, Inc. (the "Water Company"), and the Board of Directors of the District (the "District Board") also serves as the Board of Directors of the Water Company (the "Company Board"); and

**WHEREAS**, the District and the Water Company have the mutual objective and purpose to provide water service to the residents of the Town of Carefree, Arizona (the "Town") through the Water Company's operation of the water system serving the Town (the "Water System"); and

**WHEREAS**, the Town previously completed certain actions to acquire certain Town of Cave Creek, Arizona, water system assets, including water rights related thereto; and

**WHEREAS**, in connection with the acquisition and integration of such water system assets into the Water System and the acquisition of the water rights, the District now desires to issue, sell and deliver its Water System Revenue Bonds, Series 2021 (the "Bonds"); and

**WHEREAS**, in order to facilitate the issuance and repayment of the Bonds, the Water Company now desires to authorize and approve (i) a pledge of, lien on, and security interest in, the Net Revenues of the Water System to secure certain Agreement Payments from the Water Company to the District, and (ii) the execution and delivery of certain agreements and instruments related to the Bonds; and

**WHEREAS**, the District, pursuant to a resolution adopted and approved by the District Board on July 27, 2021 (the "District Bond Resolution"), the District's payment of principal of, premium if any, and interest on the Bonds will be secured by a pledge of and lien on the Agreement Payments; and

**WHEREAS**, by this Resolution the Water Company will delegate authority to the General Manager and the officers of the Water Company to take necessary actions relating to the District's issuance and sale of the Bonds; and

**WHEREAS**, the Secretary of the Company Board has on file the proposed forms of (i) a Payment Agreement and Collateral Assignment of Rights and Remedies Thereunder (the "Payment Agreement"), to be entered into by and among the Water Company, the District and U.S. Bank National Association, as trustee, and (ii) a Bond Purchase Agreement (the "Bond Purchase Agreement"), to be entered into by and among the Water Company, the District and Stifel, Nicolaus & Company, Incorporated, as underwriter of the Bonds (the "Underwriter"); and

**WHEREAS**, the terms used and not otherwise defined in this Resolution shall have the respective meanings assigned to them in the District Bond Resolution;

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE CAREFREE WATER COMPANY, INC., AS FOLLOWS:**

1. **Approval of Payment Agreement and Pledge of Net Revenues.**

a. The proposed form of the Payment Agreement, providing for the Water Company to pay the Agreement Payments to the District, in substantially the form thereof on file with the Secretary of the Company Board and reviewed by the Company Board, is, in all respects, hereby approved, and each of the Chairperson or the Vice Chairperson of the Company Board or the General Manager of the Water Company is hereby authorized, empowered and directed for and on behalf of the Water Company to execute, and the Secretary or any member of the Company Board is hereby authorized to attest, and deliver the Payment Agreement to the other parties thereto. The Company Board authorizes the General Manager of the Water Company on behalf of the Water Company to make such changes, amendments and alterations to the Payment Agreement and other documents necessary to consummate the transactions contemplated by this Resolution and the District Bond Resolution.

b. The Payment Agreement shall be in substantially the proposed form now on file with the Secretary of the Company Board, with such additions, deletions and modifications as shall be consistent with this Resolution and approved by those officers executing the same on behalf of the Water Company, such execution and delivery to constitute conclusive evidence of their approval and of this Company Board's approval of any departures therein from the respective form now before this meeting.

c. The Agreement Payments authorized under the Payment Agreement will be payable solely from a pledge of, and are secured by a first lien on, and a security interest in, the Net Revenues to the extent necessary for the prompt and punctual payment of the principal of and interest on the Bonds, and the Company Board hereby authorizes and approves such pledge of, lien on, and security interest in, the Net Revenues.

d. In connection with the Payment Agreement, the Company Board hereby approves the Articles of Amendment to the Articles of Incorporation of the Water Company (the "Articles Amendment"), substantially in the form of Exhibit A attached hereto, with such necessary additions or deletions to reflect the final dates and information related to the Bonds and to otherwise consummate the transactions contemplated by this Resolution, the Payment Agreement and the District Bond Resolution. The Chairperson or the Vice Chairperson of the Company Board is each hereby authorized to execute and deliver the Articles Amendment, and

the appropriate offices of the Water Company are hereby authorized to file the Articles Amendment with the Arizona Corporation Commission.

2. **Approval of Bond Purchase Agreement.**

a. The proposed form of the Bond Purchase Agreement, providing for the sale of the Bonds to the Underwriter, in substantially the form thereof on file with the Secretary of the Company Board and reviewed by the Company Board, is, in all respects, hereby approved, and each of the Chairperson or the Vice Chairperson of the Company Board or the General Manager of the Water Company is hereby authorized, empowered and directed for and on behalf of the Water Company to execute, and the Secretary or any member of the Company Board is hereby authorized to attest, and deliver the Bond Purchase Agreement to the other parties thereto.

b. When the final terms of the Bonds are known, the Bond Purchase Agreement shall be finalized. The Chairperson, the Vice President and the General Manager are each hereby authorized to cause the Bond Purchase Agreement to be completed and executed; provided, however, that none of the Chairperson, Vice Chairperson or General Manager is authorized to insert in the Bond Purchase Agreement any terms or conditions which would be contrary to this Resolution.

3. **Further Actions.** Without the necessity of any further action by the Company Board, any officer or officers of the Water Company are hereby authorized, empowered and directed to sign and execute on behalf of the Water Company any contract, instrument, agreement or other document, and to take any action or actions, as may be necessary or desirable to carry out and consummate the transactions contemplated in this Resolution, the Payment Agreement, the Bond Purchase Agreement, or the Official Statement of the District relating to the Bonds.

4. **Resolution Irrepealable.** After any of the Bonds are delivered by the District to the Underwriter upon receipt of payment therefor, this Resolution shall be and remain irrepealable until the Bonds and the interest and premium, if any, thereon shall have been fully paid, cancelled and discharged.

5. **Ratification of Actions.** All actions of the officers and agents of the Water Company which conform to the purposes and intent of this Resolution and which further the issuance and sale of the Bonds as contemplated by this Resolution whether heretofore or hereafter taken are hereby ratified, confirmed and approved. The proper officers and agents of the Water Company are hereby authorized and directed to do all such acts and things and to execute and deliver all such documents on behalf of the Water Company as may be necessary to carry out the terms and intent of this Resolution.

6. **Severability.** If any section, paragraph, clause or phrase of this Resolution shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or phrase shall not affect any of the remaining provisions of this Resolution.

[Signature Page to Follow.]

**PASSED AND ADOPTED** by the Board of Directors of the Carefree Water Company, Inc., on July 27, 2021.

\_\_\_\_\_  
Les Peterson, Chairperson - Board of Directors

ATTEST:

\_\_\_\_\_  
Kandace French Contreras, Secretary

APPROVED AS TO FORM

\_\_\_\_\_  
Michael W. Wright, Counsel to Carefree  
Water Company, Inc.

**CERTIFICATE**

I hereby certify that the above and foregoing resolution was duly passed by the Board of Directors of the Carefree Water Company, Inc., at a meeting held on July 27, 2021, and that a quorum was present thereat and that the vote thereon was \_\_\_\_ ayes and \_\_\_\_ nays; \_\_\_\_ did not vote or were absent.

\_\_\_\_\_  
Kandace French Contreras, Secretary

**EXHIBIT A**

**ARTICLES OF AMENDMENT  
TO THE ARTICLES OF INCORPORATION  
OF  
CAREFREE WATER COMPANY, INC.**

Carefree Water Company, Inc., an Arizona corporation (the "Corporation"), hereby adopts the following Articles of Amendment in accordance with the Arizona Business Corporation Act.

**FIRST:** The name of the Corporation is Carefree Water Company, Inc.

**SECOND:** Article XIII of the Articles of Incorporation of the Corporation is hereby replaced in its entirety to read as follows:

"(a) All of the earnings of the Corporation necessary for the purposes of the payment of the Corporation's obligations to the Town of Carefree, Arizona Utilities Community Facilities District (the "District") will be distributable only to the District, as the sole shareholder of the Corporation.

(b) No earnings or assets of the Corporation shall inure to the benefit of, or be distributed to, any private person.

(c) In the event of the dissolution of the Corporation, all of its assets, after payment of its debts and obligations, will be distributed to the District.

(d) The Corporation shall be an instrumentality of the District for all purposes of the Internal Revenue Code of 1986, as amended (the "Code"), and shall be a governmental unit for all purposes of Section 141(b) of the Code."

**THIRD:** This amendment does not provide for any exchange, reclassification or cancellation of ~~issues~~ shares.

**FOURTH:** This amendment was adopted by the Board of Directors of the Corporation as of the \_\_\_ day of \_\_\_\_, 2021.

**FIFTH:** This amendment was approved by the sole shareholder of all common stock of the Corporation. There was one voting group consisting of all outstanding shares of common stock and all votes were undisputed and cast in favor of the amendment, which is sufficient for approval of the amendment.

IN WITNESS WHEREOF, the undersigned officer of the Corporation has executed this Articles of Amendment this \_\_\_ day of \_\_\_\_, 2021.

**CAREFREE WATER COMPANY, INC.**

By: \_\_\_\_\_  
Name: Les Peterson  
Title: President