

The following is the proposed bylaws for the new water company. It has not been scrubbed to ensure compliance with Arizona Statutes. A new version with tracked changes will be posted prior to the membership vote on the new company.

BYLAWS
INSCRIPTION CANYON WATER COMPANY

ARTICLE I – BOARD OF DIRECTORS

1. Corporation Management

The management of all affairs, property and business of the Corporation shall be vested in a Board of Directors, consisting of not fewer than three nor more than seven members, each of whom is to be elected in accordance with the provisions of these Bylaws for a term of two years, and shall hold office until his or her successor is elected. The Board of Directors will set policy, handle legal matters and do whatever is necessary to carry out the purposes of this organization.

2. Standing and Temporary Committees

Standing and temporary committees may be appointed by the Board and be vested with such powers and subject to such conditions as the Board sees fit. Committee members or Chairman need not be members of the Board.

There is to be an Executive Committee made up of the officers of the Corporation and the immediate past president. The Executive Committee is vested with all powers of the full Board and may act for the Board when the President feels there is an emergency or it is impractical to call a special meeting of the Board. The Executive Committee is to report at the next regular scheduled meeting of the full Board of all its activities. The Board of Directors reserves the right to limit or rescind these powers. A quorum of the Executive Committee is three members of the Executive Committee.

All committees shall make regular reports at meetings of the Board.

3. Terms and Vacancies

In order to provide for the continuity on the Board of Directors, approximately one-half of the total number of Directors is to be elected each year. Directors to be elected shall be those receiving the greatest number of votes cast for the Directors up for election for that year and each shall serve for a term of two years.

4. Members of the Board

Each member of the Board must be a member of the Corporation and must have resided within the service area of the Corporation for a minimum of six months prior to his or her nomination to become a Board member. At any time any Board member ceases to be a member of the Corporation or no longer resides within the service area of the Corporation, the membership of that Board member on the Board of Directors will terminate without further action.

5. Election of Members of the Board

The initial members of the Board of Directors are named in the Articles of Incorporation. Thereafter, annually in the month of November the Board will solicit nominations from the members of the Corporation to fill the Board positions to be elected the following year. A mailing soliciting such nominations will be made to all members in good standing of the Corporation. A member can nominate himself/herself or his or her spouse. During the month of December a ballot will be mailed to each member in good standing. Each member may vote for up to that number of persons as there are positions to be filled on the Board. The persons receiving the highest number of votes will be elected. The terms of the new members of the Board so elected will begin at the first meeting of the Board after the election and will extend for two years thereafter. For the first election only, the initial Board is to adopt a procedure to determine which members are elected for full two-year terms and which members are to serve for one year, so that thereafter approximately one-half of the Board members are to be elected each year in accordance with Section 3 of this Article I.

If the number of nominees is equal to or fewer than the vacant seats on the Board, the Board may declare all nominees elected by acclamation, and forego the holding of an election.

ARTICLE II – OFFICERS

1. Officers of the Corporation

The Officers of the Corporation shall be a President, one or more Vice Presidents, a Secretary, and a Treasurer, who are elected for one year terms by the Directors at the first meeting of the fiscal year, and who hold office until their successors are elected. The positions of Vice President, Secretary or Treasurer, may be united in one person.

The Board may elect or appoint one or more Assistant Secretaries and Assistant Treasurers.

President – Presides at all meetings and have general supervision of the affairs of the Corporation. The President is limited to four consecutive one-year terms followed by a one year waiting period before eligibility is resumed.

Vice-President – Exercises the functions of the President during his or her absence and discharges such duties as may be assigned him or her by the Board. The Vice President oversees the workings of all committees.

Secretary – Issues notices for all meetings and records and reports minutes of meetings to the Board. The Secretary also maintains a roster of all current landowners and supervises the custody of all documents of title, valuable papers, etc.

Treasurer – Has the custody of all monies and securities of the Corporation and keeps books of account, itemizing and identifying the books. The Treasurer renders to the Board at every meeting an account of all his or her transactions as Treasurer and of the financial condition of the Corporation, informing the Board of all just demands against the Corporation, and upon the placing of priorities and approval by the Board, and is in charge of the disbursing of funds.

2. General Responsibilities and Duties

Officers of the Corporation, unless otherwise provided by the Board of Directors, each has such powers and duties as generally pertain to his or her respective office as well as such powers and duties as may be set forth in these Bylaws, or may from time to time be specifically conferred or

imposed, by the Board of Directors. The President is the Chief Executive Officer of the Corporation.

3. Qualifications

All Officers must also be members of the Board of Directors.

ARTICLE III – RESIGNATION

1. Resignation

Any Director or Officer may resign at any time by giving written notice to the Board of Directors, the President or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation takes effect upon receipt thereof by the Board of Directors or such Officer and the acceptance of such resignation is not necessary to make it effective.

2. Removal

Any Officer may be removed with or without cause and any Director may be removed with cause at any time by the affirmative vote of the Board of Directors at either a special meeting called for that purpose or at a general meeting, so long as in either case notice has been given to the Officer or Director to be removed.

3. Replacement

Any Director or Officer who has resigned or been removed may be replaced by appointment of the current Board, or, at the option of the Board, either by appointment by the Board after nominations are received from the members, or at by the members at the next regularly scheduled election.

ARTICLE IV – INDEMNIFICATION, RENUMERATION, SURETIES & BONDS

1. Indemnification

Each person elected or appointed a Director of the Corporation shall be entitled, without prejudice, to any other rights that person may have, to be reimbursed by the Corporation for, and indemnified by the Corporation against, all costs and expenses reasonably incurred by him or her in connection with or arising out of any claim made, or any action, suit or proceeding of whatever nature threatened or brought against him or her or in which he or she may be involved as a party or otherwise by reason of having served as a Director or Officer of the Corporation or by reason of any action alleged to have been taken or omitted by him or her as such Director or Officer, whether or not that person continues to be such Director or Officer, at that time of incurring such costs and expenses, including amounts paid or incurred in connection with reasonable settlements (other than amounts paid to the Corporation itself) of any such claim, action, suit or proceeding. No such reimbursement or indemnity shall be paid or made for any cost or expense incurred or settlement made by such Director or Officer in connection with any matter as to which that person shall be finally adjudged in any such action, suit or proceeding to have been derelict in the performance of duty as such Director or Officer, nor shall anything herein contained be construed so as to protect or to authorize the Corporation to indemnify any such Director or Officer against any costs or expenses incurred or settlement made in connection with any matter arising out of or resulting from his or her own negligence or willful misconduct. No Director or Officer of the Corporation shall be liable to anyone for making any determination as to the existence or

absence of liability of the Corporation hereunder or for making or refusing to make any payment hereunder, in reliance upon the advice of counsel. Each person elected or appointed a Director or Officer of the Corporation, shall, upon and by reason of such election or appointment, have the right to be reimbursed and indemnified by the Corporation to induce them to accept such election or appointment specifically agreed in writing to reimburse and indemnify them in accordance with the foregoing provisions of this Section.

2. Salary

No stated salary shall be paid Directors; however, nothing shall preclude any Director from receiving compensation for services to the Corporation. This likewise extends to members of committees and Officers. Directors and Officers shall be entitled to reimbursement for reasonable expenses incurred in the discharge of their duties for the Corporation.

3. Contracts

No contract or other transaction between this Corporation and any other Corporation shall be impaired, affected or invalidated, nor shall any Director be liable in any way by reason of the fact that any one or more of the Directors of this Corporation is or are interested in, or is a Director or Officer, or are Directors or Officers of such other Corporation, provided that such facts are disclosed or made known to the Board of Directors.

Any Director, personally and individually, may be a party to or may be interested in any contract or transaction of this Corporation, and no Director shall be liable in any way by reason of such interest, provided that the fact of such interest be disclosed or made known the Board of Directors, and provided that the Board of Directors shall authorize, approve or ratify such contract or transaction by the vote (not counting the vote of any such Director) of a majority of a quorum, notwithstanding the presence of any such Director at the meeting at which such action is taken. Such Director or Directors may be counted in determining the presence of a quorum at such meeting. This Section shall not be construed to impair or invalidate or in any such way affect any contract or other transaction which would otherwise be valid under the law (common, statutory or otherwise) applicable thereto.

4. Sureties and Bonds

In case the Board of Directors shall so require, any Officer, employee or agent of the Corporation shall execute to the Corporation a bond in such sum and with such surety or sureties as the Board of Directors may direct, conditioned upon the faithful performance of his duties to the Corporation, including responsibility for negligence and for the accounting for all property, funds or securities of the Corporation which may come into his hands.

ARTICLE V – MEETINGS

1. Annual Meeting

The Annual Meeting of the Corporation members shall be held every year within the State of Arizona at a place and hour selected by the Directors. At the meeting, the members are to hear the report of the Treasurer and to transact such other business as may properly come before the meeting.

At the Annual Meeting, every member shall be entitled to vote in person or proxy. A complete list of eligible voters shall be prepared by the Secretary and sent to each member along with of time and place of meeting at least ten days prior to the meeting.

Meetings will be conducted according to Robert's Rules of Order. The order of business at the Annual Meeting shall be as follows:

- (a) Calling meeting to order;
- (b) Proof of notice of meeting;
- (c) Reading of Minutes of last Annual Meeting;
- (d) Reports of Officers;
- (e) Reports of Committees;
- (f) Miscellaneous Business.

2. Special Meetings of the Corporation

Special Meetings of the members of the Corporation may be called at any time by a majority of the Directors. Upon written application of the more than fifty percent of the members of the Corporation, the Board of Directors shall call a special meeting of the members. All Special Meetings of the members shall be held within the State of Arizona. Business transactions at all Special Meetings shall be confined to the objects stated in the Notice.

3. Notices of Corporate Members Meeting

A written or printed Notice of all Annual or Special Meetings of the Corporate members, stating the place, day, hour, and purpose thereof, shall be given by the Secretary, or in the case of his or her absence, incapacity, or refusal, by a person designated by the Board of Directors, at least ten days before the date of the meeting to each Corporate member, by leaving such Notice with the Corporate member at his or her place of residence or usual place of business, or by mailing the same postage prepaid, directed to him at his address as last recorded on the books of the Corporation.

4. Quorum for Corporate Members Meeting

The number of members or the Corporation present at any properly noticed meeting, in person or by proxy, shall constitute a quorum for the transaction of business. The vote of the majority of any quorum shall be sufficient to transact any business, except as may be otherwise required by the provisions of the Articles of Incorporation. No proxy which is dated more than sixty days before the meeting named therein shall be accepted, and no such proxy shall be valid after the final adjournment of such meeting. Proxies must be filed with the Secretary prior to or at the beginning of the meeting at which the proxy is to be voted.

5. Meetings of the Directors

A quorum for a Board Meeting shall be 51 percent of the Board's membership. A regular meeting of the Board of Directors shall be held in every year as soon as may be after the election of Directors each year, for the election of Officers and such other business as may properly come before each meeting. The Directors shall have regular meetings as designated by the President or by resolution of the Board.

6. Notice of Directors of Executive Committee Meeting

Notice of any Regular or Special Meeting of the Board of Directors or Executive Committee shall be given by the Secretary or other Officer calling the meeting by mail or verbal communication. Three days notice shall be given prior to such meeting, and when mailed, it shall be sent to a Director's last known place of business or residence and shall be sufficient notice in all cases; and any notice received by a Director in time to enable him or her to attend the meeting concerning which such notice is given shall be likewise sufficient. Any meeting shall be legal without notice if each Director waives such notice by a writing filed with the records of the meeting either before or after the holding thereof. Any business may be transacted at a meeting of the Board, although it may not have been specified in the Notice of the meeting.

ARTICLE VI – MEMBERSHIP

1. Membership

Except as otherwise provided in this Section, an owner of a platted parcel in the service area of this Corporation is automatically eligible to become a member of this Corporation.

To become a member of this Corporation, each eligible owner must pay the membership fees (as determined from time to time by the Board of Directors) to initiate the connection to the Corporation's water system.

Each property owner in the Corporation's service area with a fully funded membership will, upon connection, have one membership. Each member will have one vote for each parcel of land serviced by the Corporation regardless of the number of water service connections on a parcel. Regardless of the number of parcels owned, no member (whether an individual or an entity) will be allowed more than five percent of all eligible votes.

No membership is assignable except with the transfer of ownership of a platted parcel described herein.

The Board of Directors will be the sole entity to resolve any questions relating to membership.

2. Voting Rights

The owners, whether one or more than one, of a platted eligible parcel in the Corporation franchise area with a fully funded membership (current with all payments), upon connection to the Corporation's water system, will have one vote. If there is more than one owner of a parcel, the owners must determine among themselves how the vote for that parcel will be cast. No fractional voting is allowed.

Each eligible parcel will have only one vote.

Regardless of the number of eligible parcels owned, no member (whether an individual or entity) will be allowed more than five percent of the eligible votes.

ARTICLE VII – FEES

1. Initial Membership Fee

The Board of Directors, from time to time, is to establish initial membership fees which shall be paid by all eligible property owners as a condition of membership. The Board of Directors shall

consider, among other things, the costs of providing water service to the particular lot or parcel applying therefore in establishing the membership fee.

2. Assessments

The Board of Directors may, from time to time, establish assessments to be collected from the members for the purpose of paying the necessary and incidental costs and expenses of the Association. The assessments are to include rates and charges necessary to recover the costs of providing water service to the members. Such assessments, together with interest, costs of collection and attorneys' fees are a charge against the land and are a continuing lien upon the property against the land and are a continuing lien upon the property against which each assessment is made.

ARTICLE VIII – NON-PROFIT OPERATION

1. Nonprofit 501(c)(12) Operation

The Corporation is organized and is to be operated on a nonprofit cooperative basis for the mutual benefit of its members pursuant to Internal Revenue Code Section 501(c)(12). The Corporation has no stock, but has membership shares which have no pecuniary value but which attach to and run with tracts of land as designated in Article VI of these Bylaws. The Corporation does not possess the power of engaging in activities for the purpose of or resulting in the pecuniary remuneration to its members as such. This provision does not prohibit fair and reasonable compensation to members for services actually rendered; nor does it prohibit the Corporation from charging a fee for services rendered; nor does it prohibit the Corporation from charging a fee for admission to any presentation it may make or other undertakings so long as any funds so raised are used solely for paying the losses and expenses of the Corporation.

The Corporation must not retain more funds than it needs to meet current losses and expenses based on its cost of operation. Any excess income not retained in reasonable reserves for future losses and expenses belongs to members in proportion to their patronage or business done with the Corporation. If such patronage refunds are retained in reasonable amounts for purposes of expanding facilities, retiring capital indebtedness, acquiring other assets, or other similar purposes, the organization is to maintain records sufficient to reflect the equity of each member in the assets acquire with the funds.

In any given year, at least 85 percent of the Corporation's gross income must be collected from members, for the sole purpose of meeting losses and expenses, in accordance with Section 501(c)(12) of the Internal Revenue Code.

2. Patronage in Connection with Furnishing Water

In the furnishing of water, the Corporation's operations are to be so conducted that all members will through their patronage furnish capital for the Corporation. In order to include patronage and to assure that the Corporation will operate on a non-profit basis, the Corporation is obligated to account on a patronage basis to all its member for all amounts received and receivable from the furnishing of water in excess of the sum of (a) operating costs and expenses properly chargeable against the furnishing of water, and (b) amounts required to offset any losses incurred during the current or any prior fiscal year. The Corporation receives all such amounts in excess of operating costs and expenses with the understanding that the members furnish said amounts as capital.

The Corporation is obligated to pay by credits to a capital account for each member, all such amounts in excess of the sum of (a) and (b), above. In the event assessments are levied to make up operating deficiencies, such assessments will be in proportion to the amount of patronage each member does with the Corporation. The Corporation's books and records shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, furnished by each member is clearly reflected and credited in an appropriate record to the capital account of each member. The Corporation shall within a reasonable time after the close of the fiscal year notify each member of the amount of capital so credited to his or her account. All such amounts credited to the capital account of any member shall have the same status as though the amounts had been paid to the member in cash in pursuance of a legal obligation to do so, and the member had then furnished the Association corresponding amounts for capital.

All other amounts received by the Corporation from its operations in excess of costs and expenses shall, insofar as permitted by current or any prior fiscal year and then, to the extent not needed for that purpose retained by the Corporation in a reserved account, which shall be treated as an asset of the Corporation in the event of dissolution or liquidation of the Corporation.

In the event of dissolution or liquidation of the Corporation, after all outstanding indebtedness of the Corporation has been paid, outstanding capital credits are to be retired without priority on a pro rata basis before any payments are made on account of property rights of members. Any assets remaining after the payment of liabilities will be distributed among members and former members in proportion to the amount of patronage done with the Association insofar as practical. If, at any time prior to dissolution or liquidation, the Board of Directors determines that the financial condition of the Corporation will not be impaired thereby, the capital at that time credited to members' accounts may be retired in full or part. Any such retirements of capital are to be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the Corporation being first retired.

To insure the financial stability of the Corporation, the Board of Directors' policy is that, prior to any consideration of retiring patronage capital, the Association's cash reserves is to be maintained at appropriate amounts so as to sufficiently meet, inter alia, operating costs for approximately two months, quarterly debt service requirements, routine plant replacements, and interim financing of any current construction. The adequacy of the reserve funds shall be determined at the time of consideration of patronage capital retirement.

Prior to the final determination as to the retirement of any member's capital account, the Board of Directors is to determine whether the member is indebted to the Corporation. The Board of Directors must then apply those capital credits allocated to the account of a member indebted to the Association against the debt of the member as an offset. Any capital credits in excess of the amount required to satisfy a member's indebtedness are then be retired in full or in part as herein provided.

Capital credited to the account of each member is assignable on the books of the Corporation only pursuant to written instructions from the Assignor and only to successors in interest or successors in occupancy in all or part of such member's premises served by the Corporation unless the Board of Directors, acting under policies of general application, shall determine otherwise.

Notwithstanding any other provision of this Section, upon the death of any member, who was a natural person, and the written request of the legal representative of his or her estates, the Board of Directors, at its discretion, shall have the power to retire the capital credited to any such

member prior to the time such capital would otherwise be retired under the provisions of this Section. Any such retirement will be upon such terms and conditions as the Board of Directors, acting under policies of general application, and the legal representatives of such member's estate agree upon, provided the financial condition of the Association not be impaired thereby. The aggregate amounts so retired in any one year are not to exceed \$100.00, and provided further that, if acting under policies of general application the amount mentioned above is not sufficient to retire the capital credited to any such member, such member shall have the capital credited to him or her retired in the next succeeding year before any other retirements are made in such succeeding year.

If a check representing any such retirement or refund shall be mailed to any such person to his last known address as shown in the records of the Corporation and shall be returned unclaimed to the Corporation and remain unclaimed for five years, or if any such check shall remain uncashed and no claim therefore shall be made by such person for a period of five years after the issuance thereof, it is agreed that such person shall thereafter have no right, title or interest in and to any capital credits, membership fees, deposits or other amounts credited to him on the books of the Corporation and all right, title and interest therein shall be deemed to be assigned to and become the property of the Corporation.

By dealing with the Corporation, the members acknowledge that the terms and provisions of the Articles of Incorporation and Bylaws shall constitute and be a contract between the Corporation and each member. Both the Corporation and the members are bound by such contracts as though each member had individually signed a separate instrument containing such terms and provisions. The provisions of this Section shall be called to the attention of each member of the Corporation by posting in a conspicuous place at the Corporation's principal place of business.

ARTICLE IX – FISCAL YEAR

1. The beginning of each new fiscal year commences January 1st of each year and every year.

ARTICLE X – AMENDMENTS

1. Alterations, amendments or repeals of the Bylaws may be made by a majority of the Directors present at any Board Meeting, or by the members of the Corporation at any meeting of members, if the Notice of such meeting contains a statement of the proposed alteration, amendment or repeal, and has been sent out at least ten days prior to said meeting.

ADOPTED this ____ day of October, 2019.

Randy Joly, Secretary