

BYLAWS
OF
STERLINGWOOD HOMEOWNERS ASSOCIATION

The following are the Bylaws of the Sterlingwood Homeowners Association, a Washington nonprofit corporation (the "Association").

ARTICLE I

Definitions

Section 1. "Association" shall mean the STERLINGWOOD HOMEOWNERS ASSOCIATION, a Washington nonprofit corporation, and its successors and assigns.

Section 2. "Subdivision" shall mean that certain real property described in the Plat of Sterlingwood, records of King County, Washington, and such additions thereto as may be hereafter brought within the jurisdiction of the Association.

Section 3. "Declaration" shall mean the Declaration of Covenants, Conditions and Restrictions, with amendments, modifications and extensions thereto, applicable to the Subdivision recorded or to be recorded in the office of the King County Auditor.

Section 4. "Declarant" shall mean Chaffey Corporation, a Washington corporation, and any successors or assigns engaged in land development and/or wholesale land sales activities which are the same as, or similar to, those of Chaffey Corporation, and who shall be assigned such position in writing by Chaffey Corporation, or as required in the Declaration.

Section 5. "Common Area" shall mean all areas, properties or improvements designated as such on the Plat of Sterlingwood, or in the Declaration, and/or maintained by the Declarant or the Association for the purposes of assessments, obligations and/or expenses of the Association.

Section 6. "Lot" shall mean any parcel of land shown upon the recorded final plat map of the Subdivision, with the exception of the Common Area, and any land conveyed or dedicated to King County, the City of Sammamish or local municipal corporations.

Section 7. "Member" shall mean every person or entity who holds a membership in the Association.

Section 8. "Owner" shall mean the record owner, whether one or more persons or entities and specifically including the Declarant, of the fee interest in any Lot or Lots which are a part of the Subdivision, but shall not include a contract seller or a mortgagee.

Section 9. “Development Period” shall mean that period of time beginning on the date of recording of the Declaration and ending at the earlier of: (i) ten (10) years from the date of recording of the Declaration, (ii) the 30th day after Declarant has transferred title to individual residential owners of ninety percent (90%) of the Lots, or (iii) written notice from the Declarant to the Association in which the Declarant elects to terminate the Development Period.

Section 10. “Development Plan” shall mean the Declarant’s intended use and development of the property included in the Subdivision, including and subject to any and all regulations imposed by state, federal and local law or as otherwise set forth in the final recorded Plat of Sterlingwood, the Declaration, or any conditions imposed as a part of the approval of the Subdivision.

Section 11. The term “real estate contract” shall not include an earnest money receipt and agreement and the terms “contract seller” and “contract purchaser” shall not include the parties to any such earnest money receipt and agreement.

ARTICLE II

Members

Section 1. Membership. Every person or entity who is the contract purchaser or Owner of any Lot or Lots in the Subdivision is and shall be a Member of the Association, provided, however, that if any Lot is held jointly by two (2) or more persons or entities, the several Owners of such interest shall designate one (1) of their number as the “Member.” The foregoing is not intended to include persons or entities who hold an interest merely as security for the performance of an obligation. No Lot shall have more than one (1) membership. Membership shall be appurtenant to and may not be separated from ownership of or the contract purchaser’s interest in any Lot which is subject to assessment by the Declarant or the Association. Upon transfer of the fee interest to, or upon the execution and delivery of a real estate contract for the sale of (or of an assignment of a contract purchaser’s interest in) any Lot, the membership in the Association shall ipso facto be deemed to be transferred to the transferee, grantee, contract purchaser or new contract purchaser.

Section 2. Suspension of Membership. During any period in which a Member shall be in default in the payment of any assessments, the voting rights and right to use of the Common Area and facilities by such Member may be suspended by the Board of Directors until such assessments have been paid in full. During the Development Period, the Board of Directors shall be required to exercise such right upon the request of the Declarant. Such rights of a Member may also be suspended after notice and hearing, for periods of time not to exceed one hundred eighty (180) days, for any and each violation of any rules and regulations established by the Board of Directors. In the event of suspension, such Member shall continue to incur and remain liable for any and all obligations, including monthly, annual and special assessments.

Section 3. Classes and Voting Rights. The Association shall have the following two (2) classes of voting membership:

Class A. Class A Members shall be all those Owners who qualify to become Members under Article II, Section 1 of these Bylaws, with the exception of the Declarant. For matters requiring the approval, consent, or affirmative vote of the Members or the Association, Class A Members shall be entitled to one (1) vote for each Lot in which they hold the interest required for membership under Article II, Section 1. When more than one person or entity holds such an interest in any Lot, the vote for such Lot shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Lot.

Class B. The sole Class B Member shall be the Declarant (as defined in Article I, Section 4 above). The Class B member shall be entitled to three (3) votes for each Lot Declarant owns and/or in which Declarant holds an interest. The Class B membership shall cease and be converted to Class A membership on the first to occur of the following events: (a) the expiration of the Development Period, (b) the Declarant terminates its involvement in the Subdivision without having assigned its right to another person or entity, or (c) upon written notice from the Declarant to the Association in which the Declarant elects to terminate the Development Period and convert its membership from Class B to Class A.

Notwithstanding anything to the contrary herein, during the Development Period Class A Members shall not be entitled to vote on any matters and the Subdivision shall be managed by the Declarant, as provided in Article II of the Declaration, and the Declarant may, in its sole discretion, take any action on behalf of the Association without a vote of the Members of the Association.

ARTICLE III

Meetings of Members

Section 1. Annual Meeting. A meeting of the Association are to be held at least once a year. The first annual meeting of the Members shall be held at such time as designated by the Declarant, the Board of Directors, or upon a majority vote of the Members. In the event of an affirmative vote of the Members, the Board of Directors shall be responsible for giving proper notice of the time and place of the meeting. Each subsequent regular annual meeting of the Members shall be held on the same day of the same month of each year thereafter, at such time as designated by the Board. If the day for the annual meeting of the Members is a legal holiday, the meeting will be held at the same hour on the first day following which is not a legal holiday. Failure to conduct such meeting shall not invalidate actions taken by the Directors in good faith.

Section 2. Special Meetings. Special meetings of the Members may be called at any time by the President, or by a majority of the Board of Directors, or upon written request of the Members who are entitled to vote ten percent (10%) of the votes of the Association.

Section 3. Notice of Meetings. Written notice of each meeting of the Members shall be given by, or at the direction of, the Secretary or person authorized to call the meeting, by causing the notice to be hand delivered, or by mailing by first class mail a copy of such notice, postage prepaid, not less than fourteen (14) and not more than sixty (60) days before such

meeting to each Member entitled to vote there at, addressed to the Member's address last appearing on the books of the Association, or supplied by such Member to the Association in writing for the purpose of notice. Such notice shall specify the place, day and hour of the meeting and in the case of a special meeting, business to be placed on the agenda by the Board of Directors for vote by the Members, including proposed amendments to the Articles of Incorporation, Bylaws, budget or budget modifications resulting in changes of assessments, and proposals to remove a Director.

Section 4. Quorum. The presence at the meeting of Members entitled to cast, or of proxies entitled to cast, thirty-four percent (34%) of the votes of the entire membership shall constitute a quorum for any action except as otherwise provided in the Articles of Incorporation, the Declaration, or these Bylaws. If, however, such quorum shall not be represented at any meeting, the Members entitled to vote thereat shall have the power to adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum, as aforesaid, shall be present or represented.

Section 5. Majority Vote. Except as otherwise provided in the Declaration or these Bylaws, passage of any matter submitted to vote at a meeting or adjourned meeting duly called, where a quorum is in attendance in person or by proxy, shall require the affirmative vote of more than fifty percent (50%) or more of the total votes present in person or by proxy.

Section 6. Proxies. At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the Secretary. Every proxy shall be revocable and shall automatically cease upon the conveyance by the Member of his or her Lot.

Section 7. Waiver of Notice. Any notice required under these Bylaws, the Articles of Incorporation, the Declaration, for otherwise required by law may be waived in writing or by attendance and casting votes at the meeting for which notice was not properly received.

ARTICLE IV

Board of Directors

Section 1. Number. The affairs of this Association shall be managed by a Board of three (3) Directors, who need not be Members of the Association.

Section 2. Nomination. Nomination for election to the Board of Directors may be made by a Nominating Committee. Nominations may also be made from the floor at the annual meeting of Members. The Nominating Committee shall consist of a Chairman, and two or more Members of the Association. The Nominating Committee may be appointed by the Board of Directors prior to each annual meeting until the close of the next annual meeting and such appointment shall be announced at each annual meeting. The Nomination Committee may make as many nominations for election to the Board of Directors as it shall in its discretion determine, but not less than the number of positions that are to be filled. Such nominations may be made from among Members or nonmembers.

Section 3. Election. At the first annual meeting, which, unless otherwise required, may be held after the Development Period when the management and operations of the Association is completely relinquished by the Declarant, the Members shall elect one (1) Director for a term of one (1) year; one (1) Director for a term of two (2) years; and one (1) Director for a term of three (3) years. At each annual meeting thereafter, the members shall elect one (1) Director for a term of three (3) years. Election to the Board of Directors may be by secret ballot. At such election, the Members or their proxies may each cast their vote in accordance with the voting rights provisions herein. The names receiving the largest number of votes shall be elected. There shall be no cumulative voting.

Section 4. Removal. Except for the initial Directors and any Director affiliated with the Declarant during the Development Period, any Director may be removed from the Board, with or without cause, by a majority vote of the voting power in the Association present, in person or by proxy, and entitled to vote at any meeting of the Members at which a quorum is present. In the event of death, resignation or removal of a Director, his or her successor shall be selected by the remaining members of the Board and shall serve for the unexpired term of his or her predecessor.

Section 5. Vacancies. Any vacancy occurring in the Board of Directors and any directorship to be filled by reason of an increase in the number of Directors may be filled by the affirmative vote of a majority of the remaining Board of Directors even though less than a quorum is present. Any Director so appointed to fill a vacancy shall be appointed for the unexpired term of his or her predecessor in office.

Section 6. Compensation. No Director shall receive compensation for any service he or she may render to the Association. However, any Director may be reimbursed for his or her actual expenses incurred in the performance of his or her duties.

ARTICLE V

Meetings of Directors

Section 1. Regular Meetings. Regular meetings of the Board of Directors may be held at such place and hour as may be fixed by resolution of the Board. Regular meetings of the Board are to be held at least on an annual basis.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held when called by the President of the Association, by any two Directors, or by Members having at least ten percent (10%) of the votes of the Association. Not less than fourteen (14) or more than sixty (60) days in advance of any meeting, the Secretary of the Association, or such other officer as may be directed by the President, shall cause notice to be hand-delivered or sent prepaid by first-class United States mail to the mailing address of each Owner, or to any other mailing address designated in writing by the Owner. The notice shall state the time and place and the business to be placed on the agenda by the Board of Directors for a vote by the Owners, including the general nature of any proposed changes to the Articles of Incorporation, Bylaws,

any budget or changes in the previously approved budget that result in a change in assessments, and any proposal to remove a Director.

Section 3. Quorum. A majority of the number of Directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

Section 4. Waiver of Notice. Before or after any meeting of the Board of Directors, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of notice. Attendance by a Director at any meeting of the Board of Directors shall be a waiver of notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board of Directors, no notice shall be required and any business may be transacted at such meeting.

Section 5. Open Meetings. Except as provided in this subsection, all meetings of the Board of Directors shall be open for observation by all Owners of record and their authorized agents. The Board of Directors shall keep minutes of all actions taken by the Board, which shall be available to all Owners. Upon the affirmative vote in open meeting to assemble in closed session, the Board of Directors may convene in closed executive session to consider personnel matters; consult with legal counsel or consider communications with legal counsel; and discuss likely or pending litigation, matters involving possible violations of the governing documents of the Association, and matters involving the possible liability of an Owner to the Association. The motion shall state specifically the purpose for the closed session. Reference to the motion and the stated purpose for the closed session shall be included in the minutes. The Board of Directors shall restrict the consideration of matters during the closed portion of meetings only to those purposes specifically exempted and stated in the motion. No motion, or other action adopted, passed, or agreed to in closed session may become effective unless the Board of Directors, following the closed session, reconvenes in open meeting and votes in the open meeting on such motion, or other action which is reasonably identified. The requirements of this subsection shall not require the disclosure of information in violation of law or which is otherwise exempt from disclosure.

ARTICLE VI

Powers and Duties of the Board of Directors

Section 1. Powers. The Board of Directors shall have the power:

(a) To exercise for the Association all powers, duties and authority vested in or delegated to this Association not reserved to the membership by other provisions of these Bylaws, the Articles of Incorporation, or the Declaration;

(b) To adopt regular or special budgets for the Association, provided however, before such budget may be implemented, within thirty days after the adoption by the Board of Directors of any proposed regular or special budget of the Association, the Board shall set a date

for a meeting of the Owners to consider ratification of the budget not less than fourteen (14) nor more than sixty (60) days after mailing of the summary. Unless at that meeting the majority of the votes in the Association reject the budget, in person or by proxy, the budget is ratified, whether or not a quorum is present. In the event the proposed budget is rejected or the required notice is not given, the periodic budget last ratified by the Owners shall be continued until such time as the Owners ratify a subsequent budget proposed by the Board of Directors;

(c) To adopt and publish rules and regulations governing the use of the Common Area and facilities, and the personal conduct of the Members and their guests thereon, and to establish penalties for the infraction thereof;

(d) To declare the office of a member of the Board of Directors to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Board of Directors; and

(e) To employ managers, independent contractors, professional advisors or such other employees as they deem necessary, and to proscribe their duties, including the specific delegation of any duties otherwise vested with the Board of Directors.

Section 2. Duties. It shall be the duty of the Board of Directors:

(a) To cause to be kept a complete record of all acts and corporate affairs and to present a statement thereof to the Members at the annual meeting of the Members or at any special meeting, when such statement is requested in writing by one-fourth (1/4) of the Members who are entitled to vote;

(b) To elect and supervise all officers, agents and employees of this Association, and to see that their duties are properly performed;

(c) To adopt budgets and assessments for the Association;

(d) To keep financial and other records sufficiently detailed to enable the Association to fully declare to each Owner the true statement of its financial status. All financial and other records of the Association, including but not limited to checks, bank records, and invoices, in whatever form they are kept, are the property of the Association. The officer and/or managing agent of the Association charged with the forgoing duties shall turn over all original books and records to the Association immediately upon termination of the management relationship with the Association, or upon such other demand as is made by the Board of Directors. All records turned over to the Association shall be made reasonably available for examination and copying by the officer or managing agent. An Association officer or managing agent is entitled to keep copies of Association records;

(e) To keep and maintain all records of the Association, including the names and addresses of Owners and other occupants of the Lots;

- (f) As more fully provided herein and in the Declaration:
 - (1) to establish, levy, assess, and collect the assessments or charges referred to in the Declaration, as applicable to the Association; and
 - (2) to send written notice of each assessment to every Owner or contract purchaser subject thereto at least thirty (30) days in advance of each annual assessment period;
- (g) To issue, or to cause an appropriate officer to issue, upon demand by any person, a statement or certificate setting forth whether any assessment has been paid. A reasonable charge may be made by the Board of Directors for the issuance of these certificates. Such certificate shall be conclusive evidence of any assessment therein stated to have been paid;
- (h) To procure and maintain adequate liability insurance, if desired, and to procure adequate hazard insurance on property owned by the Association;
- (i) To cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate;
- (j) To cause any Common Area and facilities owned or maintained by the Association to be maintained and/or repaired as appropriate; and
- (k) To take such action as is necessary for the Association to perform its obligations.

ARTICLE VII

Committees

Section 1. Appointment of Committees. The Board of Directors may designate one or more committees, each of which shall consist of two or more Directors. Such committees, to the extent provided in these Bylaws or in the resolution establishing the committee, shall exercise the authority of the Board of Directors in the management of the Association, but the designation of such committees shall not operate to relieve the Board of Directors of any responsibility imposed upon it by law.

Section 2. Nominating Committee. The Board of Directors may appoint a Nominating Committee, as provided by Article IV, Section 2 of these Bylaws.

Section 3. Other Committees. The Board of Directors may appoint other committees as deemed appropriate in carrying out its purposes, such as:

- (a) A Recreation Committee which shall advise the Board of Directors on all matters pertaining to the recreational program and activities of the Association and shall perform such other functions as the Board, in its discretion, determines.

(b) A Maintenance Committee which shall advise the Board of Directors on all matters pertaining to the maintenance, repair or improvement of the Common Area, including the entry landscaping, irrigation and lighting, and the planter islands, and shall perform such other functions as the Board, in its discretion, determines.

(c) An Audit Committee may be established to supervise the annual audit of the Association's books, and provide review and comment on any annual or special budget and the statement of income and expenditures to be presented to the membership for approval or rejection as required herein. The Treasurer shall be an ex officio member of the Committee.

(d) Other Committees as deemed necessary or appropriate may also be established by the Board of Directors or by a sixty percent (60%) vote of the Association, provided that the objectives of the committee are set forth in writing.

Section 4. Duties of Committees. It shall be the duty of each committee to receive complaints from Members on any matter involving the Association's functions, duties, and activities within its field of responsibility. It shall dispose of such complaints as it deems appropriate, or refer them to such other committee, Director, or office of the Association as is further concerned with the matter presented.

Section 5. Architectural Control Committee. Upon termination of the Development Period, the Board of Directors shall appoint an Architectural Control Committee in accordance with the provisions of the Declaration, to perform the duties and functions described in the Declaration.

ARTICLE VIII

Officers

Section 1. Designation of Officers. The officers of this Association shall be a President, Vice-President, Secretary and a Treasurer, and such other officers as the Board may from time to time by resolution create. Any two or more offices may be held by the same person, or by persons on the Board, except the offices of the Secretary and President.

Section 2. Election of Officers. The election of officers shall be done by the Directors, and take place at the annual meeting of the Board of Directors, or at a special meeting of the Board of Directors in order to fill a vacancy of any office.

Section 3: Term. The officers of the Association shall be elected annually by the Board of Directors and each shall hold office for one (1) year, unless he or she shall sooner resign or shall be removed or otherwise disqualified to serve.

Section 4. Resignation and Removal. Any officer may be removed from office at any time, with or without cause, by the Board. Any officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Such resignation shall take effect on

the date of receipt of such notice or any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies. A vacancy in any office may be filled in the manner prescribed for regular elections. The officer elected to such vacancy shall serve for the remainder of the term of the officer he or she replaces.

Section 6. Duties. The duties of the officers are as follows:

(a) President. The President shall generally preside at all meetings of the Board of Directors, shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds and other written instruments and shall sign all checks or promissory notes authorized by the Board. The President and Secretary shall prepare, execute, certify and record (if appropriate) amendments to Articles of Incorporation, Bylaws, or Declaration adopted by the Association.

(b) Vice-President. The Vice-President shall act in the place and stead of the President in the event of his or her absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

(c) Secretary. The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members; keep the corporate seal of the Association and affix it on all papers requiring said seal; serve notice of meetings of the Board and of the Members, keep appropriate current records showing the Members of the Association, together with their addresses, and shall perform such other duties as required by the Board.

(d) Treasurer. The Treasurer shall keep financial and other records sufficiently detailed to enable the Association to fully declare to each Owner the true statement of its financial status. The Treasurer shall also receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds as directed by resolution of the Board of Directors; shall sign all checks and promissory notes of the Association; shall keep proper books of account; shall cause an annual audit of the Association's books to be made by a public accountant at the completion of each fiscal year if required; and shall prepare a statement of income and expenditures to be presented to the membership at its regular annual meeting, and deliver a copy of each to the Members.

Section 7. Compensation. No officer shall receive compensation for any service he or she may render to the Association. However, any officer may be reimbursed for his or her actual expenses incurred in the performance of his or her duties.

ARTICLE IX

Assessments

Section 1. Personal Obligations and Creation of Lien Assessments. Subject to the provisions of Section 2 below, each Owner of any Lot, by acceptance of a deed therefor, whether

or not it shall be so expressed in such deed, is deemed to covenant and agree to pay to the Association:

- (a) annual or monthly assessments or charges; and
- (b) special assessments as authorized herein or in the Declaration.

The assessments, together with such interest thereon and cost of collection thereof, as hereinafter provided, shall be a continuing lien upon the Lot against which each such assessment is made and shall run with the land. Each such assessment, together with interest thereon and costs incurred in collecting the assessment (including reasonable attorneys' fees), shall also be the personal obligation of the person who was the Owner or contract purchaser of such property at the time when the assessment fell due. No Owner or contract purchaser shall be relieved of liability for the assessments by non-use of the Common Area or abandonment of any Lot. The personal obligation for delinquent assessments shall not pass to successors in title unless expressly assumed by them. The Association may take any action deemed appropriate to effectuate collection of unpaid assessments.

Section 2. Common Area and Declarant Lots Exempt. The Common Area and all portions of the Property dedicated to and accepted by a government or public authority, and all Lots owned by Declarant, shall be exempt from assessments by the Association.

Section 3. Purpose of Assessments. The assessments shall be used for the purpose of promoting the recreation, health, safety and welfare of the Owners and/or their guests, including without limitation: the construction, establishment, improvement, repair, maintenance and other expenses of the Common Area and the services and facilities related to the use and enjoyment of the Common Area; the payment of utility charges, taxes and insurance; maintenance of sensitive areas, open space, and native growth protection easements and other obligations related thereto, if any, as set forth in the Plat of Sterlingwood or otherwise required of the Declarant and/or the Association by governmental agencies; installation and maintenance of any properties, landscaping or improvements desired or required in the Plat of Sterlingwood or the Declaration; and other items deemed necessary and proper by the Declarant or the Association to keep the Subdivision in a good, clean, attractive and safe condition in compliance with all applicable codes, laws, rules and regulations. Assessments may also be levied to pay for any professional services, advice or consultation incurred by the Declarant or by the Association in carrying out its duties.

Section 4. Establishing Assessments. The regular budget and any revised or special budget of the Association, including any reserves as provided herein, shall be adopted by the Board of Directors and shall be ratified by the Members of the Association as set forth herein or otherwise permitted under Washington law. Within thirty (30) days after adoption by the Board of Directors of any proposed regular or special budget, the Board shall set a date for a meeting of the Members to consider ratification of the budget. Written notice of the meeting shall be sent to all Owners not less than fourteen (14) days, nor more than sixty (60) days in advance of the meeting, setting forth the purpose of the meeting. Unless at that meeting a majority vote of the voting power of the Members who are present, in person or by proxy, and entitled to vote at such

meeting rejects the budget, the budget shall be deemed ratified, whether or not a quorum is present. During the Development Period, the approval of the Declarant shall be required for ratification of any proposed budget. The Board shall cause the ratified budget and the assessments to be levied against each Lot for the following year to be delivered to each Member at least thirty (30) days prior to the end of the current fiscal year. In the event the proposed budget is not ratified or the Board fails for any reason to determine the budget for the succeeding year, then and until such time as a budget shall have been determined, as provided herein, the budget in effect for the then current year shall continue for the succeeding year.

Section 5. Annual Assessment. Until January 1, 2001, the annual assessment is estimated to be \$300.00 per Lot; fifteen percent (15 %) of which, or such higher percentage as may be charged, shall be allocated and paid to the Declarant for management services provided to the Association by the Declarant or by a professional management firm. Such allocation of funds to the Declarant shall cease when the Development Period expires and the Association assumes collection costs, bookkeeping, and other management responsibilities.

Section 6. Special Assessments. In addition to the annual assessments authorized above, the Association may levy special assessments through the use of a special budget adopted by the Board of Directors and ratified by the Members as set forth in Section 4 above. The special assessments may be used to cover (1) unanticipated financial shortfalls, maintenance or liability expenses, including without limitation the cost of legal fees and costs incurred in legal actions in which the Association is a party, or in which a member of either the Board or the Architectural Control Committee is named as a party as a result of a decision made or action performed while acting on behalf of the Association, (2) extraordinary expenses such as the cost of any construction, reconstruction, repair or replacement of a capital improvement of the Common Area, property, street lighting, fixtures or improvements of the Association, including repairs or renovation, or (3) any other reasonable expenses incurred by the Association.

Section 7. Reserves for Repair or Replacement. As a common expense and as a part of any regular or special budget of the Association, the Declarant or the Association may establish and maintain a reserve fund for repair or replacement of improvements and community facilities thereon. The reserve fund shall be expended only for the purpose of repair, replacement or improvement to the Common Area and any improvements and community facilities for which the Association is responsible, and for start up expenses and operating contingencies of a nonrecurring nature. The proportional interest of any Owner in any such reserve shall be considered an appurtenance of such Owner's Lot and shall be deemed to be transferred with such Lot in the event of a transfer or sale.

Section 8. Uniform Rate. All assessments shall be fixed at a uniform rate for all Lots subject to assessment; provided however, that Lots owned by the Declarant are not subject to any assessment or charge hereunder.

Section 9. Date of Commencement of Assessments; Due Dates. The assessments provided for herein shall not commence prior to the first day of the month following the conveyance of the first Lot from the Declarant. As to each particular Lot involved, the liability for the assessments shall begin on the first day of the calendar month following the date that any

deed or real estate contract for the Lot is transferred or recorded, or on the first day of the calendar month following occupancy of the premises, whichever is earlier. Said assessment shall be due and payable on such date and on the first day of each calendar month thereafter, or on a monthly, quarterly or annual date designated by the Declarant or the Board of Directors.

Section 10. Effect of Non-Payment of Assessments; Remedies. If any assessment is not paid within thirty (30) days after it was first due and payable, the assessment shall bear interest from the date on which it was due at the rate of twelve percent (12%) per annum. Unpaid assessments, plus interest, costs and attorney fees incurred by the Association in collecting assessments, filing and recording liens, enforcing the provisions of the Declaration or these Bylaws, or defending itself in any litigation shall constitute a lien on the property as provided in the Declaration and these Bylaws. The Association may bring an action against the one personally obligated to pay the same and/or foreclose the lien against the property, and interest, costs and reasonable attorney's fees of any such action shall be included in any judgment or decree entered in such suit. Each Owner hereby expressly vests in the Association or its agents the right and power to bring all actions against such Owner personally for the collection of such assessments as debts and to enforce lien rights of the Association by all methods available for the enforcement of such liens, including foreclosure by an action brought in the name of the Association in like manner as a mortgage of real property. Each Owner hereby expressly grants to the Association the power of sale in connection with such liens. The liens provided for in this Section shall be in favor of the Association and shall be for the benefit of the Association. The Association shall have the power to bid in an interest at foreclosure sale and to acquire, hold, lease, mortgage and convey the same.

Section 11. Subordination of the Lien to First Mortgages. The lien of the assessment provided for herein shall be subordinate to the lien of any first mortgage (and to the lien of any second mortgage given to secure payment of the purchase price) now or hereafter placed on the Lot, only in the event that the lien for delinquent assessments has not been recorded with the King County Auditor at the time of the recording of the mortgage lien. Sale or transfer of any Lot shall not affect the assessment lien. No sale or transfer shall relieve such Lot from liability for any assessments thereafter becoming due or from the lien thereof.

Section 12. Budget Deficits During Development Period. During the Development Period, Declarant may: (a) advance funds to the Association sufficient to satisfy the deficit, if any, between the actual operating expenses of the Association (but specifically not including an allocation for capital reserves), and the sum of the annual and special assessments (including reserves) collected by the Association in any fiscal year, and such advances shall be evidenced by promissory notes from the Association in favor of the Declarant which shall bear interest at reasonable interest rates not less than 10% per annum; or (b) cause the Association to borrow such amount from a commercial lending institution at the then prevailing rates for such a loan. The Declarant in its sole discretion may guarantee repayment of such loan, if required by the lending institution, but no mortgage secured by the Common Area or any of the improvements maintained by the Association shall be given in connection with such loan.

ARTICLE X

Books and Records

The books, records and papers of the Association shall at all times, during reasonable business hours, be subject to inspection by any Member, holders of mortgages on the Lots, and their respective authorized agents on reasonable notice at the offices of the Association or its managing agent. The Declaration, Articles of Incorporation, and the Bylaws of the Association shall be available for inspection by any Member at the principal office of the Association. The Association may impose and collect a reasonable charge for copies and any reasonable costs incurred by the Association in providing access to records.

At least annually, the Association shall prepare, or cause to be prepared, a financial statement of the Association. In the event the annual assessments are equal to or exceed fifty thousand dollars (\$50,000), the financial statement shall be audited at least annually by an independent certified public accountant, provided however, that the audit may be waived if sixty-seven percent (67%) of the votes cast by Owners, in person or by proxy, at a meeting of the Association at which a quorum is present. Any vote to waive the audit requirement shall be valid for only one year, after which time the Association must affirmatively waive the audit requirement again.

The funds of the Association shall be kept in accounts in the name of the Association and shall not be commingled with the funds of any other association, nor with the funds of any manager of the Association or any other person responsible for the custody of such funds.

ARTICLE XI

Indemnification of Directors and Officers

Section 1. Indemnification. To the full extent not prohibited by the Washington Nonprofit Corporation Act and the Washington Business Corporation Act, each member of the Board of Directors, each member of an Association committee, each officer of the Association, and the Declarant shall be indemnified by the Association against all expenses and liabilities, including attorneys' fees, reasonably incurred by or imposed in connection with any proceeding to which he or she may be a party or in which he or she may become involved by reason of holding or having held the position of Director, Association committee member, Association officer, or Declarant, or any settlement thereof, whether or not he or she holds such position at the time such expenses or liabilities are incurred, except to the extent such expenses and liabilities are covered by insurance and except in such cases wherein such person is adjudged guilty of willful misfeasance in the performance of his or her duties; provided that, in the event of a settlement, the indemnification shall apply only when the Board of Directors approves such settlement and reimbursement as being for the best interests of the Association. Nothing herein shall, however, be deemed to obligate the Association to indemnify any Owner of a Lot who is or has been a Board member or officer of the Association with respect to any duties or obligations assumed or liabilities incurred by such Owner under and by virtue of the Declaration as an Owner of a Lot covered thereby.

The foregoing right of indemnification shall not be exclusive of other rights to which such Director, officer or committee member may be entitled to through the Articles of Incorporation, the Declaration, or as a matter of law. The Board of Directors, may obtain insurance on behalf of any person who is or was a Director, officer, employee, or agent against any liability arising out of his or her status as such, whether or not the Association would have power to indemnify such Director, officer, employee, or agent against such liability.

Section 2. Limitation of Liability. No Director, officer or committee member shall have liability to the Association or its Members for monetary damages for conduct as a Director, officer or committee member, except for acts or omissions that involve intentional misconduct or a knowing violation of law by the Director, officer or committee member, or for any transaction from which the Director, officer or committee member will personally receive a benefit in money, property or services to which the Director, officer or committee member is not legally entitled, or for failure to exercise the degree of care and loyalty required under RCW 24.03. The Association and all Members and Owners waive any claims arising from or related to, directly or indirectly, any conflicts (actual or apparent) arising from agents of the Declarant also holding positions within the Association (e.g., Director or officer) during the Development Period.

ARTICLE XII

Amendment

During the Development Period, the approval of the Declarant shall be required for any amendments of these Bylaws and the Declarant shall have the power to adopt amendments of these Bylaws without the vote, consent or approval of the Members and/or the Association. Except as provided in the preceding sentence, these Bylaws may be amended at a regular or special meeting of the Members, by a majority vote of the voting power in the Association present, in person or by proxy, and entitled to vote at any meeting of the Members at which a quorum is present.

ARTICLE XIII

Construction

Unless contrary to or inconsistent with the Development Plan or the Declarant's intent, any conflict between the Articles of Incorporation and these Bylaws, the Articles shall control; and any conflict between any provision in the Declaration and these Bylaws, the Declaration shall control. Any conflicts arising by mandatory statute or operation of law shall be governed by the applicable statute or ordinance.

The provisions of these Bylaws shall be liberally construed to effectuate the Declarant's purpose of creating a plan for the operation, maintenance, construction, appearance and harmony of the project, and to provide the Declarant (during the Development Period) and thereafter the Association control and flexibility in managing and controlling activities within the Subdivision. Any rules of construction or interpretation which would otherwise construe these Bylaws or any

other documents utilized to implement the Development Plan (e.g., the Articles of Incorporation, the Declaration, or any amendments thereto) against the drafter are not applicable.

ARTICLE XIV

Fiscal Year

The fiscal year of the Association shall begin on the first day of January and end on the 31st day of December of every year, except that the first fiscal year shall begin on the date of incorporation.

ARTICLE XV

Date of Adoption

These Bylaws were duly adopted on the ___ day of _____, 1999.

By _____
Rick Chaffey, Director

By _____
Robert Chaffey, Director

By _____
Kevin Murray, Director