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**DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS
AND RESERVATION OF EASEMENTS
FOR
MONARCH HILLS**

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TABLE OF CONTENTS
FOR
DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS
AND RESERVATION OF EASEMENTS
FOR
MONARCH HILLS

	<u>PAGE NO.</u>
1. Definitions.	2
1.1. Annexable Territory.	2
1.2. Architectural Committee or Committee.	2
1.3. Articles.	2
1.4. Assessment, Annual.	3
1.5. Assessment, Capital Improvement.	3
1.6. Assessment, Reconstruction.	3
1.7. Assessment, Special.	3
1.8. Association.	4
1.9. Association Maintenance Funds.	4
1.10. Association Property.	4
1.11. Beneficiary.	4
1.12. Board or Board of Directors.	4
1.13. Budget.	4
1.14. Bylaws.	4
1.15. City.	4
1.16. Close of Escrow.	5
1.17. Common Area.	5
1.18. Common Expenses.	5
1.19. Common Property.	5
1.20. Condominium.	5
1.21. Condominium Plan.	6
1.22. County.	6
1.23. Declarant.	6
1.24. Declaration.	6
1.25. Deed of Trust.	6
1.26. DRE.	6
1.27. Exclusive Use Area.	7
1.28. Family.	7
1.29. FHA.	7
1.30. FHLMC.	7
1.31. Fiscal Year.	7
1.32. FNMA.	7
1.33. GNMA.	7
1.34. Improvements.	7
1.35. Manager.	8

TABLE OF CONTENTS (Continued)

<u>DESCRIPTION</u>	<u>PAGE NO.</u>
1.36. Master Association.	8
1.37. Master Declaration.	8
1.38. Member, Membership.	8
1.39. Module.	8
1.40. Mortgage.	8
1.41. Mortgagee, Mortgagor.	8
1.42. Notice and Hearing.	9
1.43. Notice of Addition.	9
1.44. Owner.	9
1.45. Person.	9
1.46. Phase 1.	9
1.47. Phase 1 Plan.	9
1.48. Phase of Development.	9
1.49. Project.	9
1.50. Property.	9
1.51. Record, File, Recordation.	10
1.52. Residence.	10
1.53. Restrictions.	10
1.54. Rules and Regulations.	10
1.55. Separate Interest or Unit.	10
1.56. VA.	10
2. Monarch Hills Condominium Association.	11
2.1. Organization of Association.	11
2.2. Duties and Powers.	11
2.3. Membership.	11
2.4. Transfer.	12
2.5. Classes of Membership.	12
2.6. Voting Rights.	13
2.7. Repair and Maintenance by the Association.	14
2.8. Unsegregated Real Property Taxes.	16
2.9. Repair and Maintenance by Owners.	17
2.10. Use of Agent.	18
3. Rights in Common Property.	18
3.1. Association Easement.	18
3.2. Partition.	18
3.3. Members' Easements in Common Property.	18
3.4. Extent of Members' Easements.	19
3.5. Delegation of Use.	20
3.6. Waiver of Use.	20
3.7. Damage by Member.	20

TABLE OF CONTENTS (Continued)

<u>DESCRIPTION</u>	<u>PAGE NO.</u>
4. Architectural Review Committee.	21
4.1. Members of Committee.	21
4.2. Review of Plans and Specifications.	21
4.3. Meetings of the Committee.	23
4.4. No Waiver of Future Approvals.	23
4.5. Compensation of Members.	24
4.6. Inspection of Work.	24
4.7. Scope of Review.	25
4.8. Variances.	25
4.9. Appeals.	25
5. Association Maintenance Funds and Assessments.	26
5.1. Personal Obligation of Assessments.	26
5.2. Maintenance Funds of Association.	26
5.3. Purpose of Assessments.	27
5.4. Limitations on Annual Assessment Increases.	27
5.5. Annual Assessments/Commencement-Collection.	30
5.6. Capital Improvement Assessments.	31
5.7. Delinquency.	31
5.8. Creation and Release of Lien.	32
5.9. Enforcement of Liens.	33
5.10. Priority of Assessment Lien.	33
6. Property Easements and Rights of Entry.	34
6.1. Easements.	34
6.2. Rights of Entry.	36
7. Declarant's Rights and Reservations.	37
8. Residence and Use Restrictions.	38
8.1. Single Family Residences.	39
8.2. Parking and Vehicular Restrictions.	39
8.3. Nuisances.	40
8.4. Signs.	41
8.5. Antennae.	41
8.6. Inside and Outside Installations.	41
8.7. Animal Regulations.	42
8.8. Business or Commercial Activity.	43
8.9. Rubbish Removal.	43
8.10. Further Subdivision.	44
8.11. Drainage.	44
8.12. Water Supply System.	44
8.13. View Obstructions.	45
8.14. Rights of Handicapped.	45
8.15. Exterior Stairways and Landings.	45

TABLE OF CONTENTS (Continued)

<u>DESCRIPTION</u>	<u>PAGE NO.</u>
9. Insurance.	46
9.1. Duty to Obtain Insurance; Types.	46
9.2. Waiver of Claim Against Association.	47
9.3. Right and Duty of Owners to Insure.	47
9.4. Notice of Expiration Requirements.	48
9.5. Insurance Premiums.	48
9.6. Trustee for Policies.	48
9.7. Actions as Trustee.	49
9.8. Annual Insurance Review.	49
9.9. Required Waiver.	49
10. Destruction of Improvements.	50
10.1. Restoration of the Property.	50
10.2. Sale of Property and Right to Partition.	51
10.3. Interior Damage.	52
10.4. Notice to Owners and Listed Mortgagees.	52
11. Eminent Domain.	53
11.1. Project Condemnation.	53
11.2. Condemnation of Common Property.	53
11.3. Condemnation of Exclusive Use Area.	53
11.4. Condemnation of Condominiums.	54
11.5. Condemnation of Portions of Units.	54
11.6. Portions of Awards in Condemnation Not Compensatory for Value of Real Property.	56
11.7. Notice to Owners and Mortgagees.	56
12. Rights of Mortgagees.	56
13. Duration and Amendment.	61
13.1. Duration.	61
13.2. Termination and Amendment.	61
13.3. Protection of Declarant.	64
14. Enforcement of Certain Bonded Obligation.	65
14.1. Consideration by Board of Directors.	65
14.2. Consideration by the Members.	65
15. General Provisions.	66
15.1. Enforcement of Restrictions.	66
15.2. Severability.	68
15.3. Interpretation.	68
15.4. Mergers or Consolidations.	69

TABLE OF CONTENTS (Continued)

<u>DESCRIPTION</u>	<u>PAGE NO.</u>
15.5. Use of Recreational Facilities.	69
15.6. No Public Right or Dedication.	69
15.7. Nonliability and Indemnification.	69
15.8. Notices.	72
15.9. Priorities and Inconsistencies.	72
15.10. Constructive Notice and Acceptance.	72
15.11. Declarant's Right to Cure Alleged Defects. ...	73
15.12. No Representations or Warranties.	74
16. Annexation of Additional Property.	75
16.1. Additions by Declarant.	75
16.2. Other Additions.	75
16.3. Rights and Obligations-Added Territory.	75
16.4. Notice of Addition of Territory.	76
16.5. Deannexation and Amendment.	77
16.6. Power of Attorney.	77
16.7. Reciprocal Cross-Easements Between Phases.	78
17. Annual Inspection.	79
17.1. Duty to Inspect.	79
17.2. Purpose of Inspection.	79
17.3. Scope of Inspection.	79
17.4. Experts and Consultants.	79
17.5. Report to Owners.	79
18. Arbitration of Disputes.	80
18.1. Arbitration Generally Required.	80
18.2. Arbitrator.	80
18.3. Rules for Arbitration.	80
18.4. Decision of Arbitrator.	81
18.5. Award.	81
18.6. Miscellaneous.	81
SUBORDINATION.	83
EXHIBIT "A" - ARTICLES OF INCORPORATION OF THE ASSOCIATION	
EXHIBIT "B" - BYLAWS OF THE ASSOCIATION	
EXHIBIT "C" - ITEMS OF COMMON EXPENSES WHICH SHALL NOT BE ASSESSED EQUALLY AMONG THE CONDOMINIUMS	
EXHIBIT "D" - LEGAL DESCRIPTION OF ANNEXABLE TERRITORY	

**DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS
AND RESERVATION OF EASEMENTS
FOR
MONARCH HILLS**

THIS DECLARATION is made by MONARCH BEACH VENTURE, LTD., a California limited partnership ("Declarant").

P R E A M B L E:

A. Declarant is the owner of certain real property ("Phase 1") located in the City of Dana Point, County of Orange, State of California, described as follows:

Modules A and B as shown on the Condominium Plan recorded on August 30, 1993, as Instrument No. 93-585099A in Official Records of Orange County, California, located on Lot 1 of Tract No. 13434, as shown on a Subdivision Map Filed in Book 651, at Pages 33 to 36, inclusive, of Miscellaneous Maps, in the Office of the Orange County Recorder.

B. It is the desire and intention of Declarant to create a "condominium project," as defined in Section 1351(f) of the California Civil Code, to subdivide the Property (as hereinafter defined) as authorized by Section 66427 of the California Government Code into "condominiums" as defined in Section 783 of the California Civil Code, and to impose mutually beneficial restrictions under a general plan of improvement for the benefit of all the condominiums created pursuant to the Davis-Stirling Common Interest Development Act.

C. Declarant hereby declares that all of the Property is to be held, conveyed, hypothecated, encumbered, leased, rented, used, occupied and improved subject to the limitations, restrictions, reservations, rights, easements, conditions and covenants contained in this Declaration and in the Master Declaration, all of which are declared and agreed to be in furtherance of a plan for the protection, subdivision, maintenance, improvement and sale of the Property for the purpose of enhancing the value, desirability and attractiveness of the Property. All provisions of this Declaration, including without limitation the easements, uses, obligations, covenants, conditions and restrictions hereof, are hereby imposed as equitable servitudes upon the Property. All of the limitations, restrictions, reservations, rights, easements, conditions and covenants

herein and in the Master Declaration shall run with and burden the Property and shall be binding on and for the benefit of all of the Property and all Persons having or acquiring any right, title or interest in the Property, or any part thereof, and their successive owners and assigns. The development plan of the Property shall be consistent with the overall development plan, if any, submitted to the VA and FHA.

D. Declarant, its successors, assigns and grantees, covenant and agree that the undivided interest in the Common Area, the membership in the Association, any easements conveyed therewith and the fee title to each respective Unit conveyed therewith shall not be separated or separately conveyed, and each such undivided interest, membership and easement shall be deemed to be conveyed or encumbered with its respective Unit even though the description in the instrument of conveyance or encumbrance may refer only to the Unit; provided, however, that this restriction upon the severability of the component interests of the Condominiums shall not extend beyond the period for which the right to partition the Property is suspended in accordance with Section 1359 of the California Civil Code and the provisions of Article X hereof. Any conveyance by an Owner of a Condominium, or any portion thereof, shall be presumed to convey the entire Condominium, together with a membership in the Association.

ARTICLE I

1. Definitions.

Unless otherwise expressly provided, the following words and phrases when used herein shall have the following specified meanings.

1.1. Annexable Territory.

Annexable Territory shall mean the real property described in Exhibit "D" attached hereto and incorporated herein by this reference, all or any portion of which may from time to time be made subject to this Declaration pursuant to Article XVI hereof; provided that the maximum number of Units that may be added to the Project pursuant to said Article XVI shall be three hundred twenty-five (325).

1.2. Architectural Committee or Committee.

Architectural Committee or Committee shall mean the Architectural Review Committee created pursuant to Article IV hereof.

1.3. Articles.

Articles shall mean the Articles of Incorporation of the Association filed or to be filed in the Office of the Secretary

of State of the State of California, a copy of which is attached hereto, marked Exhibit "A" and incorporated herein by this reference, as such Articles may be amended from time to time.

1.4. Assessment, Annual.

Annual Assessment shall mean a charge against a particular Owner and his Condominium, representing a portion of the Common Expenses which are to be levied among all Owners and their Condominiums in the Project in the manner and proportions provided herein.

1.5. Assessment, Capital Improvement.

Capital Improvement Assessment shall mean a charge which the Board may from time to time levy against each Owner and his Condominium, representing a portion of the cost to the Association for installation or construction of any capital improvements on any of the Common Property. Such charge shall be levied among all of the Owners and their Condominiums in the Project in the same proportions as are Annual Assessments.

1.6. Assessment, Reconstruction.

Reconstruction Assessment shall mean a charge which the Board may from time to time levy against a particular Owner and his Condominium, representing a portion of the cost to the Association for reconstruction of any Improvements on any of the Common Property. Such charge shall be levied among all of the Owners and their Condominiums in the Project in the same proportions as the relative interior square foot floor areas of the residential elements of the Units (as such areas are depicted in the Condominium Plan or Plans for the Project), expressed as percentages, and computed by dividing the interior square foot floor area of the residential element of each Unit by the total interior square foot areas of the residential elements of all Units in the Project.

1.7. Assessment, Special.

Special Assessment shall mean a charge against a particular Owner directly attributable to, or reimbursable by, that Owner, equal to the cost incurred by the Association for corrective action performed pursuant to the provisions of this Declaration, or a reasonable fine or penalty assessed by the Board, plus interest and other charges on such Special Assessments as provided for herein. Special Assessments shall not include any late payment penalties, interest charges or costs (including attorneys' fees) incurred by the Association in the collection of Annual, Capital Improvement and Reconstruction Assessments.

1.8. Association.

Association shall mean MONARCH HILLS CONDOMINIUM ASSOCIATION, a California nonprofit corporation (formed pursuant to the Nonprofit Mutual Benefit Corporation Law of the State of California), its successors and assigns. The Association is an "association" as defined in Section 1351(a) of the California Civil Code.

1.9. Association Maintenance Funds.

Association Maintenance Funds shall mean the accounts created for receipts and disbursements of the Association, pursuant to Article V hereof.

1.10. Association Property.

Association Property shall mean all of the real and personal property and Improvements to which the Association shall hold fee title for the common use and enjoyment of the Members as provided herein. The Association Property located in Phase 1 shall include Module A as shown on the Phase 1 Plan excluding all Condominium Units. Additional Association Property may be annexed to the Property pursuant to the provisions of Article XVI hereof.

1.11. Beneficiary.

Beneficiary shall mean a Mortgagee under a Mortgage or a Beneficiary under a Deed of Trust, as the case may be, and the assignees of such Mortgage or Beneficiary.

1.12. Board or Board of Directors.

Board or Board of Directors shall mean the Board of Directors of the Association.

1.13. Budget.

Budget shall mean a written, itemized estimate of the income and Common Expenses of the Association in performing its functions under this Declaration, prepared pursuant to the Bylaws.

1.14. Bylaws.

Bylaws shall mean the Bylaws of the Association as adopted by the Board initially in the form of Exhibit "B" attached hereto and incorporated herein by this reference, as such Bylaws may be amended from time to time.

1.15. City.

City shall mean the incorporated municipal City of Dana Point, in the County of Orange, State of California, and its various departments, divisions, employees and representatives.

1.16. Close of Escrow.

Close of Escrow shall mean the date on which a deed is Recorded conveying a Condominium pursuant to a transaction requiring the issuance of a Final Subdivision Public Report by the DRE.

1.17. Common Area.

Common Area shall mean the entire Property, except the Separate Interests therein and the Association Property.

1.18. Common Expenses.

Common Expenses shall mean those expenses for which the Association is responsible under this Declaration, including the actual and estimated costs of: maintenance, management, operation, repair and replacement of the Common Property; unpaid Special Assessments, Reconstruction Assessments and Capital Improvement Assessments; the cost of maintenance of the recreational facilities on the Common Property; the costs of any and all utilities metered to more than one Unit and other commonly metered charges for the Property; the costs of trash collection and removal (as applicable); the cost of maintenance of clustered mailboxes and address identification signs; the costs of management and administration of the Association including, but not limited to, compensation paid by the Association to managers, accountants, attorneys and other employees; the costs of all gardening, security and other services benefiting the Common Property; the costs of fire, casualty and liability insurance, workers' compensation insurance, errors and omissions and director, officer and agent liability insurance, and other insurance covering the Property and the directors, officers and agents of the Association; the costs of bonding of the members of the Board; taxes paid by the Association, including any blanket tax assessed against the Property; amounts paid by the Association for discharge of any lien or encumbrance levied against the Property, or portions thereof; and the costs of any other item or items incurred by the Association, for any reason whatsoever in connection with the Property, for the common benefit of the Owners.

1.19. Common Property.

Common Property shall mean the Common Area and the Association Property.

1.20. Condominium.

Condominium shall mean an estate in real property as defined in California Civil Code Section 1351(f), and shall consist of an undivided fee simple ownership interest in the Common Area in a Phase of Development, together with a separate ownership interest in fee in a Unit and all easements appurtenant thereto. Subject to the provisions of Section 11.5 hereof, the undivided fee simple interest in the Common Area

in a Phase of Development shall be appurtenant to each Unit in such Phase of Development; and shall be a fraction having one (1) as its numerator and the number of Units in that Phase of Development as its denominator; and shall be held by the Owners of Condominiums in that Phase of Development as tenants in common.

1.21. Condominium Plan.

Condominium Plan shall mean the Recorded plan, as amended from time to time, for all or a portion of a Phase of Development, consisting of (1) a description or survey map of the Phase of Development or portion thereof, which shall refer to or show monumentation on the ground, (2) a three-dimensional description of the Phase of Development or portion thereof, one or more dimensions of which may extend for an indefinite distance upwards or downwards in sufficient detail to identify the Common Area, each Separate Interest and the Association Property, (3) a description or survey of Annexable Territory, and (4) a certificate consenting to the Recordation thereof signed and acknowledged by the record owner of fee title to the Phase of Development or portion thereof, and by either the trustee or the Beneficiary of each Recorded Deed of Trust, and the Mortgagee of each recorded Mortgage encumbering the Phase of Development or portion thereof.

1.22. County.

County shall mean the County of Orange in the State of California, and its various departments, divisions, employees and representatives. If any portion of the Property becomes a portion of an incorporated city, then the term "County" shall be deemed to include the city in which the Properties are located.

1.23. Declarant.

Declarant shall mean MONARCH BEACH VENTURE, LTD., a California limited partnership, its successors, and any Person to which it shall have assigned any of its rights hereunder by an express written assignment.

1.24. Declaration.

Declaration shall mean this instrument as it may be amended from time to time.

1.25. Deed of Trust.

Deed of Trust shall mean a Mortgage as further defined herein.

1.26. DRE.

DRE shall mean the California Department of Real Estate and any successors thereto.

1.27. Exclusive Use Area.

Exclusive Use Area shall mean those portions of the Common Property over which exclusive easements are reserved for the benefit of certain Owners including without limitation for parking, patio, balcony, laundry and storage purposes and internal and external telephone wiring designed to serve a single Unit but located outside the boundaries of that Unit, in accordance with California Civil Code Section 1351(i).

1.28. Family.

Family shall mean one or more natural persons related to each other by blood, marriage or adoption, or one or more natural persons not all so related, but who maintain a common household in a Residence.

1.29. FHA.

FHA shall mean the Federal Housing Administration of the United States Department of Housing and Urban Development and any department or agency of the United States government which succeeds to the FHA's function of insuring notes secured by Mortgages on residential real estate.

1.30. FHLMC.

FHLMC shall mean the Federal Home Loan Mortgage Corporation (also known as The Mortgage Corporation) created by Title II of the Emergency Home Finance Act of 1970, and any successors to such corporation.

1.31. Fiscal Year.

Fiscal Year shall mean the fiscal accounting and reporting period of the Association selected by the Board from time to time.

1.32. FNMA.

FNMA shall mean the Federal National Mortgage Association, a government-sponsored private corporation established pursuant to Title VIII of the Housing and Urban Development Act of 1968, and any successors to such corporation.

1.33. GNMA.

GNMA shall mean the Government National Mortgage Association administered by the United States Department of Housing and Urban Development, and any successor to such association.

1.34. Improvements.

Improvements shall mean all structures and appurtenances thereto of every type and kind, including but not limited to, buildings, walkways, sprinkler pipes, carports, recreational facilities, roads, driveways, parking areas, fences, screening walls, block walls, retaining walls, awnings, stairs, decks, landscaping, antennae, hedges, windbreaks, the

exterior surfaces of any visible structure and the paint on such surfaces, planted trees and shrubs, poles, signs, and water softener fixtures or equipment.

1.35. Manager.

Manager shall mean the Person employed by the Association pursuant to and limited by the provisions of this Declaration, and delegated the duties, power or functions of the Association as limited by this Declaration, the Bylaws and the terms of the agreement between the Association and said Person.

1.36. Master Association.

Master Association shall mean Corniche Master Association, a California nonprofit mutual benefit corporation, its successors and assigns.

1.37. Master Declaration.

Master Declaration shall mean that certain Master Declaration of Covenants, Conditions and Restrictions for Corniche Planned Unit Development, which was Recorded on December 19, 1989, as Instrument No. 89-687098, in Official Records of Orange County, California, as it may be amended from time to time.

1.38. Member, Membership.

Member shall mean any Person holding a membership in the Association, as provided in this Declaration. Membership shall mean the property, voting and other rights and privileges of Members as provided herein, together with the correlative duties and obligations contained in the Restrictions.

1.39. Module.

Module shall mean a three-dimensional airspace envelope shown and designated on the Plan as a "Module." A Module may include Condominium Units but the Condominium Units shall not in and of themselves constitute a Module.

1.40. Mortgage.

Mortgage shall mean any Recorded mortgage or deed of trust or other conveyance of one or more Condominiums or other portion of the Property to secure the performance of an obligation, which conveyance will be reconveyed upon the completion of such performance.

1.41. Mortgagee, Mortgagor.

Mortgagee shall mean a Person to whom a Mortgage is made and shall include the Beneficiary of a Deed of Trust. Mortgagor shall mean a Person who mortgages his or its property to another (i.e., the maker of a Mortgage), and shall include the Trustor of a Deed of Trust. The term "Trustor" shall be

synonymous with the term "Mortgagor" and the term "Beneficiary" shall be synonymous with the term "Mortgagee."

1.42. Notice and Hearing.

Notice and Hearing shall mean written notice and a hearing before the Board, at which the Owner concerned shall have an opportunity to be heard in person, or by counsel at the Owner's expense, in the manner further provided in the Bylaws.

1.43. Notice of Addition.

Notice of Addition shall mean an instrument Recorded pursuant to Article XVI hereof to annex all or any portion of the Annexable Territory to the Property.

1.44. Owner.

Owner shall mean the Person or Persons, including Declarant, holding fee simple interest to a Condominium. The term "Owner" shall include a seller under an executory contract of sale but shall exclude Mortgagees.

1.45. Person.

Person shall mean a natural individual or any other entity with the legal right to hold title to real property.

1.46. Phase 1.

Phase 1 shall mean all of the real property described in Paragraph A of the Preamble of this Declaration.

1.47. Phase 1 Plan.

Phase 1 Plan shall mean the Condominium Plan referred to in Paragraph A of the Preamble to this Declaration.

1.48. Phase of Development.

Phase of Development or Phase shall mean each of the following: (a) Phase 1 and (b) all the real property covered by a Notice of Addition Recorded pursuant to Article XVI hereof for which a Final Subdivision Public Report has been issued by the DRE, unless otherwise defined in such Notice of Addition.

1.49. Project.

Project shall mean that portion of the Property which is, from time to time, divided into Condominiums, including the Common Area and the Units therein. The Project is a "condominium project" as defined in Section 1351(f) of the California Civil Code.

1.50. Property.

Property shall mean (a) Phase 1, and (b) each Phase of Development, described in a Notice of Addition. The Property

is a "common interest development" as defined in Section 1351(c) of the California Civil Code.

1.51. Record, File, Recordation.

Record, File, or Recordation shall mean, with respect to any document, the recordation or filing of such document in the Office of the Orange County Recorder.

1.52. Residence.

Residence shall mean a Unit, intended for use by a single Family, together with any Exclusive Use Area reserved for the benefit of such Unit.

1.53. Restrictions.

Restrictions shall mean this Declaration, the Articles, Bylaws and the Rules and Regulations of the Association from time to time in effect.

1.54. Rules and Regulations.

Rules and Regulations shall mean the rules and regulations adopted by the Board pursuant to this Declaration or the Bylaws, as such Rules and Regulations may be amended from time to time.

1.55. Separate Interest or Unit.

Separate Interest or Unit shall mean a separate interest in space as defined in Section 1351(f) of the California Civil Code. Each Separate Interest or Unit shall be a separate freehold estate, as separately shown, numbered and designated in the Condominium Plan. In interpreting deeds, declarations and plans, the existing physical boundaries of the Unit or a Unit constructed or reconstructed in substantial accordance with the Condominium Plan and the original plans thereof, if such plans are available, shall be conclusively presumed to be its boundaries, rather than the description expressed in the deed, Condominium Plan or Declaration, regardless of settling or lateral movement of the building and regardless of minor variances between boundaries, as shown on the Condominium Plan or defined in the deed and Declaration, and the boundaries of a building as constructed or reconstructed.

1.56. VA.

VA shall mean the Department of Veterans Affairs of the United States of America and any department or agency of the United States government which succeeds to VA's function of issuing guarantees of notes secured by Mortgages on residential real estate.

ARTICLE II

2. Monarch Hills Condominium Association.

2.1. Organization of Association.

The Association is or shall be incorporated under the name of MONARCH HILLS CONDOMINIUM ASSOCIATION, as a corporation not for profit under the Nonprofit Mutual Benefit Corporation Law of the State of California, as required by Section 1363 of the California Civil Code.

2.2. Duties and Powers.

The duties and powers of the Association are those set forth in the Declaration, the Articles and Bylaws, together with its general and implied powers of a nonprofit mutual benefit corporation, generally to do any and all things that a corporation organized under the laws of the State of California may lawfully do which are necessary or proper, in operating for the peace, health, comfort, safety and general welfare of its Members, subject only to the limitations upon the exercise of such powers as are expressly set forth in the Articles, the Bylaws and in this Declaration. The Association shall further have the right to install or construct capital Improvements on the Common Property. The Association may at any time, and from time to time reconstruct, replace or refinish any Improvement or portion thereof upon the Common Property in accordance with the original design, finish or standard of construction of such Improvement; replace destroyed trees or other vegetation and plant trees, shrubs and ground cover upon any portion of the Common Property. The Association may employ personnel necessary for the effective operation and maintenance of the Common Property, including the employment of legal, management and accounting services. The Association shall additionally have the power but not the duty to enter into contracts with Owners or other persons to provide services or to maintain and repair Improvements within the Property and elsewhere which the Association is not otherwise required to provide or maintain pursuant to this Declaration; provided, however, that any such contract shall provide for the payment to the Association for the costs of providing such services or maintenance. The Association and Owners shall comply with all provisions of the Master Declaration which apply to them.

2.3. Membership.

Every Owner, upon becoming the Owner of a Condominium, shall automatically become a Member of the Association, and shall remain a Member thereof until such time as his ownership ceases, at which time his Membership in the Association shall automatically cease. Ownership of a Condominium shall be the sole qualification for Membership in the Association. Membership in the Association and Master Association shall

not be assignable except to the Person to which title to the Unit has been transferred, and every Membership in the Association shall be appurtenant to and may not be separated from the fee ownership of such Unit. The rights, duties, privileges and obligations of all Members of the Association shall be as provided in the Restrictions.

2.4. Transfer.

The Membership held by any Owner shall not be transferred, pledged or alienated in any way, except upon the sale or encumbrance of such Owner's Condominium, and then only to the purchaser or Mortgagee of such Condominium. A prohibited transfer is void and will not be reflected upon the books and records of the Association. A Class A Member who has sold his Condominium to a contract purchaser under an agreement to purchase shall be entitled to delegate to the contract purchaser his Membership rights in the Association. The delegation shall be in writing and shall be delivered to the Board before the contract purchaser may vote. However, the contract seller shall remain liable for all charges and assessments attributable to his Condominium until fee title to the Condominium sold is transferred. If the Owner of any Condominium fails or refuses to transfer his Membership to the purchaser of the Condominium upon transfer of fee title thereto, the Board of Directors shall have the right to record the transfer upon the books of the Association. Until satisfactory evidence of such transfer has been presented to the Board, the purchaser shall not be entitled to vote at meetings of the Association. The Association may levy a reasonable transfer fee against a new Owner and his Condominium (which fee shall be added to the Annual Assessment chargeable to such new Owner) to reimburse the Association for the administrative cost of transferring the membership to the new Owner on the records of the Association provided such fee does not exceed the Association's actual cost involved in changing its records of ownership.

2.5. Classes of Membership.

The Association shall have two (2) classes of voting Membership.

Class A. Class A Members shall originally be all Owners except Declarant for so long as there exists a Class B Membership. Class A Members shall be entitled to one (1) vote for each Condominium owned by such Class A Members and subject to assessment. Declarant shall become a Class A Member with regard to Condominiums owned by Declarant upon conversion of Declarant's Class B Membership as provided below. When more than one (1) Person owns any Condominium, all such Persons shall be Members. The vote for such

Condominium shall be exercised in accordance with Section 2.6, but in no event shall more than one (1) Class A vote be cast for any Condominium.

Class B. The Class B Member shall be Declarant. The Class B Member shall be entitled to three (3) votes for each Condominium owned by Declarant and subject to assessment. The Class B Membership shall cease and be converted to Class A Membership immediately upon the first to occur of the following events:

- (1) The second anniversary of the first Close of Escrow in the most recent Phase of Development; or
- (2) The fourth anniversary of the first Close of Escrow in Phase 1; or
- (3) The seventh anniversary of the Recordation of this Declaration.

2.6. Voting Rights.

(a) All voting rights shall be subject to the Restrictions. Except as provided in Section 14.2 of this Declaration and Section 4.8 of the Bylaws, as long as there exists a Class B Membership, any provision of this Declaration, the Articles or Bylaws which expressly requires the vote or written consent of a specified percentage (i.e., other than actions requiring merely the vote or written consent of a majority of a quorum) of the voting power of the Association before action may be undertaken shall require the approval of such specified percentage of the voting power of each class of Membership. Except as provided in Section 14.2 of this Declaration and Section 4.8 of the Bylaws, upon termination of the Class B Membership, any provision of this Declaration, the Articles or Bylaws which expressly requires the vote or written consent of Owners representing a specified percentage (i.e., other than actions requiring merely the vote or written consent of a majority of a quorum) of the voting power of the Association before action may be undertaken shall then require the vote or written consent of Owners representing such specified percentage of both the total voting power of the Association and the voting power of the Association residing in Owners other than Declarant.

(b) Class A Members shall be entitled to one (1) vote for each Condominium in which they hold the interest required for Membership. When more than one (1) Person holds such interest or interests in any Condominium ("co-owners"), all such co-owners shall be Members and may attend any meeting of the Association, but only one (1) such co-owner shall be entitled to exercise the single vote to which the Condominium is entitled. Co-owners owning the majority interests in a Condominium shall from time to time designate in writing one (1) of their number to vote. Fractional votes shall not be allowed, and the vote for each Condominium shall be exercised, if at all, as a unit. Where no voting co-owner is designated or if the designation has been revoked, the vote for the Condominium shall be exercised as the co-owners owning the majority interests in the Condominium mutually agree. Unless the Board receives a written objection in advance from a co-owner, it shall be conclusively presumed that the corresponding voting co-owner is acting with the consent of his co-owners. No vote shall be cast for any Condominium if the co-owners present in person or by proxy owning the majority interests in such Condominium cannot agree to said vote or other action. The nonvoting co-owner or co-owners shall be jointly and severally responsible for all of the obligations imposed upon the jointly-owned Condominium and shall be entitled to all other benefits of ownership. All agreements and determinations lawfully made by the Association in accordance with the voting percentages established herein, or in the Bylaws of the Association, shall be deemed to be binding on all Owners, their successors and assigns.

2.7. Repair and Maintenance by the Association.

(a) Maintenance Standards. Subject to Article X pertaining to destruction of Improvements and Article XI pertaining to eminent domain, the Association shall paint, maintain, repair and replace the Common Property and Improvements thereon or shall contract for such maintenance, repair and replacement to assure maintenance of the Common Property and Improvements thereon in a clean, sanitary and attractive condition reasonably consistent with the level of maintenance reflected in the most current Budget on file with and approved by the DRE. However, the Association shall not be responsible for or obligated to perform

those items of maintenance, repair or improvement of the Units or Exclusive Use Area, the maintenance of which is the responsibility of the Owners as provided in Section 2.9. The Board shall determine, in its sole discretion, the level and frequency of maintenance of the Common Property.

(b) Maintenance Items. Association maintenance and repairs shall include, without limitation, the right, without obligation, to perform all corrective janitorial, landscaping and repair work within any Residence, if the Owner fails to repair it; the repair and payment for all centrally metered utilities, water charges, and mechanical and electrical equipment in the Common Property; painting of the exterior surfaces of entry doors to the Units and storage areas; payment of all charges for all utilities which serve individual Units but which are subject to a common meter; payment of all Common Expenses and charges for water and utilities serving recreational amenities; the repair and maintenance of all walks, private driveways and other means of ingress and egress within the Property; the periodic structural repair, resurfacing, sealing, caulking, replacement or painting of the Exclusive Use Area, so long as the need for any of these activities is not caused by the willful or negligent acts of the Owner to whom the Exclusive Use Area is assigned or any of such Owner's Family, tenants or guests; and if determined by the Board to be economically feasible, an inspection and preventive program for the prevention and eradication of infestation by wood-destroying pests and organisms in the Property.

(c) Termite Eradication. If the Board adopts an inspection and preventive program for the prevention and eradication of infestation by wood destroying pests and organisms, the Association, upon reasonable notice (which shall be given no less than fifteen (15) days nor more than thirty (30) days before the date of temporary relocation) to each Owner and the occupants of his Unit, may require such Owner and occupants to temporarily relocate from such Unit in order to accommodate efforts by the Association to eradicate such infestation. The notice shall state the reason for the temporary relocation, the date and time of the beginning of treatment, the anticipated date and time of termination of treatment, and that the occupants will be responsible for their own accommodations during the temporary relocation. Any

damage caused to a Unit by such entry by the Board or by any person authorized by the Board shall be repaired by the Board as a Common Expense of the Association. All costs involved in maintaining the inspection and preventive program as well as repairing and replacing the Common Property and Improvements thereon when the need for such maintenance, repair or replacement is the result of wood destroying pests or organisms shall be a Common Expense subject to the restrictions applicable to Capital Improvement Assessments.

(d) Charges to Owners. All such costs of maintenance, repairs and replacements for the Property shall be paid for as Common Expenses out of the Association Maintenance Funds as provided in this Declaration. It shall be the affirmative duty of the Board of Directors to require strict compliance with all provisions of this Declaration and to cause the Property to be inspected by the Architectural Committee for any violation thereof. The cost of any maintenance, repairs or replacements by the Association which is not the responsibility of the Association or which arises out of, or is caused by, the act of an Owner or such Owner's Family, tenants, guests, invitees, or agents shall, after Notice and Hearing, be levied by the Board as a Special Assessment against such Owner.

2.8. Unsegregated Real Property Taxes. To the extent not assessed to or paid by the Owners, the Association shall pay all real and personal property taxes and assessments levied upon any portion of the Property. In addition, if all of the Units in a Phase of Development are taxed under a blanket tax bill covering all of such Phase, each Owner shall pay his proportionate share of any installment due under the blanket tax bill to the Association at least ten (10) days prior to the delinquency date; and the Association shall transmit the taxes to the appropriate tax collection agency on or before the delinquency date. Blanket taxes shall be allocated equally among the Owners and their Condominiums in such Phase, based upon the total number of Units in such Phase. The Association shall, at least forty-five (45) days prior to the delinquency date of any blanket tax installment, deliver to each Owner in such Phase a copy of the tax bill, along with a written notice setting forth the Owner's obligation to pay his proportionate share of the tax installment and the potential additional charges to the Owner for failure to comply. The Association shall pay the taxes on behalf of any Owner who does not pay his proportionate share. The Association shall add to the Annual Assessment of a delinquent Owner the amount of any sum advanced,

plus interest at the rate of ten percent (10%) per annum and any amount necessary to reimburse the Association for any penalty or late charge actually assessed in connection with the blanket tax bill for a Phase of Development, which late charge results from the failure of the delinquent Owner to make timely payment of his proportionate share of the taxes. Until the Close of Escrow for the sale of ninety percent (90%) of the Condominiums in the Project, the foregoing provisions relating to the collection of taxes in connection with a blanket tax bill on all or any portion of the Project may not be amended without the express written consent of Declarant.

2.9. Repair and Maintenance by Owners.

Each Owner shall maintain, repair, replace, paint, paper, plaster, tile, finish and restore or cause to be so maintained, repaired, replaced and restored, at his sole expense, all portions of his Unit, as well as the windows, doors, light fixtures actuated from switches controlled from, or separately metered to, such Owner's Unit, and the interior surfaces of the walls, ceilings, floors, permanent fixtures and firebox in the fireplace, in a clean, sanitary and attractive condition, in accordance with the Condominium Plan and the original construction design of the Improvements in the Project. However, no bearing walls, ceilings, floors or other structural or utility bearing portions of the buildings housing the Units shall be pierced or otherwise altered or repaired, without the prior written approval of the plans for the alteration or repair by the Architectural Committee. It shall further be the duty of each Owner, at his sole expense, to keep the Exclusive Use Area over which an exclusive easement has been reserved for the benefit of such Owner free from debris and reasonably protected against damage, subject to the approval of the Architectural Committee. However, no Owner shall be responsible for the periodic structural repair, resurfacing, sealing, caulking, replacement or painting of his assigned Exclusive Use Area, so long as the need for such painting, repair or replacement is not caused by the willful or negligent acts of the Owner or his Family, tenants or guests. Notwithstanding any other provision herein, each Owner shall also be responsible for all maintenance and repair of any internal or external telephone wiring wherever located which is designed to serve only his Unit, and shall be entitled to reasonable access over the Common Property for such purposes, subject to reasonable limitations imposed by the Association. It shall further be the duty of each Owner to pay when due all charges for any utility service which is separately metered to his Unit. Subject to any required approval of the Architectural Committee, each Owner shall be responsible for maintaining those portions of any heating and cooling equipment and other utilities which are located

within or which exclusively serve his Unit. In addition, each Owner shall be responsible for maintaining and repairing the air conditioning pad which supports or will support the air conditioning compressor serving such Owner's Unit.

2.10. Use of Agent.

The Board of Directors, on behalf of the Association, may contract with a Manager for the performance of maintenance and repair and for conducting other activities on behalf of the Association, as may be determined by the Board. The maximum term of any such contract ("Management Contract") shall be one (1) year, unless a longer term is approved either by vote or written assent of a majority of the voting power of the Association or by VA or FHA, in which case the maximum term of the Management Contract shall be three (3) years. The maximum term of any contract providing for Declarant's services to the Association or the Project shall also be three (3) years. Each such contract for Declarant's services and each Management Contract shall provide for its termination by either party thereto with cause upon no more than thirty (30) days written notice to the other Party, and without cause and without payment of a termination fee upon no more than ninety (90) days' written notice to the other party.

ARTICLE III

3. Rights in Common Property.

3.1. Association Easement.

The Association shall have an easement over the Common Property for performing its duties and exercising its powers described in this Declaration. The Association's obligations to maintain the Common Property in any Phase of Development shall commence on the date Annual Assessments commence on Condominiums in such Phase. Until commencement of Annual Assessments on Condominiums in any Phase, the Common Property in such Phase shall be maintained by Declarant.

3.2. Partition.

Except as provided in this Declaration, there shall be no judicial partition of the Common Area, or any part thereof, for the term of the Project, nor shall Declarant, any Owner or any other Person acquiring any interest in any Condominium in the Project seek any such judicial partition.

3.3. Members' Easements in Common Property.

Subject to the provisions of this Declaration, every Member of the Association shall have, for himself, his Family, his tenants and guests, a nonexclusive easement of access, ingress, egress, use and enjoyment of, in and to the Common

Property, and such easements shall be appurtenant to and shall pass with title to every Condominium in the Project.

3.4. Extent of Members' Easements.

The rights and easements of use and enjoyment of the Common Property created by this Declaration shall be subject to the Restrictions, which include, without limitation, the following:

(a) The right of the Board to suspend the rights and easements of any Member, and the Persons deriving such rights and easements from any Member, for use and enjoyment of any recreation facilities located on the Common Property, for any period during which the payment of any Annual, Special, Capital Improvement or Reconstruction Assessment against the Member and his Condominium remains delinquent, and, after Notice and Hearing as provided in the Bylaws, to suspend such rights and easements for the period set forth in the Bylaws for any violation of the Restrictions, it being understood that any suspension for either nonpayment of any Assessment or breach of the Restrictions shall not constitute a waiver or discharge of the Member's obligation to pay assessments as provided in this Declaration;

(b) The right of the Association to consent to or otherwise cause the construction of additional Improvements on the Common Property and to consent to or otherwise cause the alteration or removal of any existing Improvements on the Common Property for the benefit of the Members of the Association;

(c) The right of the Association, acting through the Board, to grant, consent to or join in the grant or conveyance of easements, licenses or rights-of-way in, on or over the Common Property for purposes not inconsistent with the intended use of the Property as a residential Condominium project;

(d) Subject to the provisions of this Declaration, the right of each Owner to the exclusive use and occupancy for the purposes designated in this Declaration or in any Recorded Notice of Addition of the Exclusive Use Area assigned to his respective Unit;

(e) The rights and reservations of Declarant as set forth in this Declaration;

(f) The right of the Association, acting through the Board, to reasonably restrict access to roofs, maintenance and landscaped areas and similar areas of the Property;

(g) The right of the Association to reasonably limit the number of guests and tenants of the Owners using the Common Property; and

(h) The right of the Association, acting through the Board, to establish uniform Rules and Regulations for the use of the Common Property.

(i) The right of the Association to enter into agreements with Declarant (1) providing for Declarant's use of a portion of the recreation building in the Project as a sales and leasing office and (2) entitling occupants of the Annexable Territory to use of the facilities on the Association Property.

3.5. Delegation of Use.

Any Owner entitled to the right and easement of use and enjoyment of the Common Property may delegate his right and easement to his tenants, contract purchasers or subtenants who reside in his Condominium, subject to reasonable regulation by the Board. An Owner who has so delegated his right and easement shall not be entitled to use or enjoy the recreational facilities or equipment of the Property for so long as such delegation remains in effect.

3.6. Waiver of Use.

No Owner may exempt himself from personal liability for assessments duly levied by the Association, or effect the release of his Condominium from the liens and charges thereof, by waiving use and enjoyment of the Common Property or by abandoning his Condominium.

3.7. Damage by Member.

To the extent permitted by California law, each Member shall be liable to the Association for any damage to the Common Property not fully reimbursed to the Association by insurance if the damage is sustained because of the negligence, willful misconduct or unauthorized or improper installation or maintenance of any Improvement by the Member, his guests, tenants or invitees, or any other Persons deriving their right and easement of use and enjoyment of the Common Property from the Member, or his or their respective Family and guests, both minor and adult. However, the Association, acting through the Board, reserves the right to determine whether any claim shall be made upon the insurance maintained by the Association, and the Association further reserves the

right, after Notice and Hearing as provided in the Bylaws, to levy a Special Assessment equal to the increase, if any, in insurance premiums directly attributable to the damage caused by the Member or the Person for whom the Member may be liable as described above. In the case of joint ownership of a Condominium, the liability of the owners shall be joint and several, except to the extent that the Association shall have previously contracted in writing with the joint owners to the contrary. After Notice and Hearing as provided in the Bylaws, the cost of correcting the damage to the extent not reimbursed to the Association by insurance shall be a Special Assessment against such Member's Condominium, and may be enforced as provided herein.

ARTICLE IV

4. Architectural Review Committee.

4.1. Members of Committee.

The Architectural Review Committee, sometimes referred to herein as the "Architectural Committee" or the "Committee," shall be comprised of three (3) members. The initial members of the Committee shall be representatives of Declarant until one (1) year after the original issuance of the Final Subdivision Public Report ("Public Report") for Phase 1 ("First Anniversary"). After the First Anniversary the Board may appoint and remove one (1) member of the Committee, and Declarant shall have the right and power at all times to appoint and remove a majority of the members of the Committee or to fill any vacancy of such majority, until the earlier to occur of (i) Close of Escrow for the sale of ninety percent (90%) of all the subdivision interests in the Property and the Annexable Territory, or (ii) expiration of five (5) years following the date of original issuance of the Public Report for Phase 1, after which the Board shall have the power to appoint and remove all of the members of the Committee. Committee members appointed by the Board shall be from the membership of the Association, but Committee members appointed by Declarant need not be Members of the Association. The Committee shall have the right and duty to promulgate reasonable standards against which to examine any request made pursuant to this Article, in order to ensure that the proposed plans conform harmoniously to the exterior design and existing materials of the buildings in the Property. Board members may also serve as Committee members.

4.2. Review of Plans and Specifications.

The Committee shall consider and act upon any and all plans and specifications submitted for its approval under this Declaration and perform such other duties as from time to time shall be assigned to it by the Board, including the

inspection of construction in progress to assure its conformance with plans approved by the Committee. No construction, alteration, removal, relocation, repainting, demolishing, addition, installation, modification, decoration, redecoration or reconstruction of an Improvement, including landscaping, in the Property shall be commenced or maintained, until the plans and specifications therefor showing the nature, kind, shape, height, width, color, materials and location of the same shall have been submitted to the Committee and approved in writing by the Committee; provided, however, that any Improvement may be repainted without Committee approval so long as the Improvement is repainted the identical color which it was last painted. Without limiting the generality of the foregoing, the provisions of this Article IV apply to the construction, installation, alteration and modification of solar energy systems, as defined in Section 801.5 of the California Civil Code, subject to the provisions of California Civil Code Section 714, the City Building Code, applicable zoning regulations, and associated City ordinances. The Owner submitting the plans and specifications ("Applicant") shall obtain a written, dated receipt therefor from an authorized agent of the Committee. Until changed by the Board, the address for the submission of such plans and specifications shall be the principal office of the Association. The Committee shall approve plans and specifications submitted for its approval only if it deems that the installation, construction, alterations or additions contemplated thereby in the locations indicated will not be detrimental to the appearance of the surrounding area of the Property as a whole, that the appearance of any structure affected thereby will be in harmony with the surrounding structures, that the construction thereof will not detract from the beauty, wholesomeness and attractiveness of the Common Property or the enjoyment thereof by the Members, and that the upkeep and maintenance thereof will not become a burden on the Association. Declarant, and any Person to which Declarant may assign all or a portion of its exemption hereunder, need not seek or obtain Architectural Committee approval of any Improvements constructed on the Property by Declarant or such Person, as the case may be.

The Committee may condition its approval of proposals or plans and specifications for any Improvement (1) upon the Applicant's furnishing the Association with security acceptable to the Association against any mechanic's lien or other encumbrance which may be Recorded against the Property as a result of such work, (2) on such changes therein as it deems appropriate, (3) upon the Applicant's agreement to grant appropriate easements to the Association for the maintenance of the Improvements, (4) upon the Applicant's agreement to install (at its sole cost) water, gas, electrical or other utility meters to measure any increased consumption, (5) upon

the Applicant's agreement to reimburse the Association for the cost of maintenance, (6) upon the Applicant's agreement to complete the proposed work within a stated period of time, or (7) all of the above, and may require submission of additional plans and specifications or other information prior to approving or disapproving material submitted. The Committee may also issue rules or guidelines setting forth procedures for the submission of plans for approval, requiring a fee to accompany each application for approval, or stating additional factors which it will take into consideration in reviewing submissions. The Committee may provide that the amount of the fee shall be uniform, or that it be determined in any other reasonable manner, such as by the reasonable cost of the construction, alterations or additions contemplated. The Committee may require such detail in plans and specifications submitted for its review as it deems proper, including without limitation, floor plans, site plans, drainage plans, elevation drawings and description or samples of exterior material and colors. Until receipt by the Committee of any required plans and specifications, the Committee may postpone review of any plans submitted for approval. Decisions of the Committee and the reasons therefor shall be transmitted by the Committee to the Applicant at the address set forth in the application for approval within forty-five (45) days after receipt by the Committee of all materials required by the Committee. Any application submitted pursuant to this Section 4.2 shall be deemed approved unless written disapproval or a request for additional information or materials by the Committee shall have been transmitted to the Applicant within forty-five (45) days after the date of receipt by the Committee of all required materials. The Applicant shall meet any review or permit requirements of the City prior to making any alterations or improvements permitted hereunder.

4.3. Meetings of the Committee.

The Committee shall meet from time to time as necessary to perform its duties hereunder. The Committee may from time to time, by resolution unanimously adopted in writing, designate a Committee Representative (who may, but need not, be one of its members) to take any action or perform any duties for and on behalf of the Committee, except the granting of variances pursuant to Section 4.8. In the absence of such designation, the vote or written consent of a majority of the Committee shall constitute an act of the Committee.

4.4. No Waiver of Future Approvals.

The approval of the Committee of any proposals or plans and specifications or drawings for any work done or proposed or in connection with any other matter requiring the approval and consent of the Committee, shall not be deemed to

constitute a waiver of any right to withhold approval or consent to any similar proposals, plans and specifications, drawings or matters subsequently or additionally submitted for approval or consent.

4.5. Compensation of Members.

The members of the Committee shall receive no compensation for services rendered, other than reimbursement for expenses incurred by them in the performance of their duties hereunder.

4.6. Inspection of Work.

The Committee or its duly authorized representative may at any time inspect any work for which approval of plans is required under this Article IV ("Work"), which right to inspect shall include the right to require any Owner to take such action as may be necessary to remedy any noncompliance with the Committee-approved plans for the Work or with the requirements of this Declaration ("Noncompliance").

(a) Time Limit. The Committee's right to inspect the Work and notify the responsible Owner of any Noncompliance shall terminate sixty (60) days after the latest to occur of the following events: (i) submittal of the plans for the Work to the Committee for its approval as provided in this Article IV; (ii) completion of the Work as provided in the Committee-approved plans; and (iii) written notice from the Owner to the Committee that the Work has been completed. This time limit for inspection and notification by the Committee shall be extended indefinitely if any of these conditions has not occurred. If the Committee fails to send a notice of Noncompliance to an Owner before this time limit expires, the Work shall be deemed to comply with the approved plans.

(b) Remedy. If an Owner fails to remedy any Noncompliance within sixty (60) days from the date of notification from the Committee, the Committee shall notify the Board in writing of such failure. Upon Notice and Hearing, as provided in the Bylaws, the Board shall determine whether there is a Noncompliance and, if so, the nature thereof and the estimated cost of correcting or removing the same. If a Noncompliance exists, the Owner shall remedy or remove the same within a period of not more than forty-five (45) days from the date that notice of the Board ruling is given to the Owner. If the Owner does not comply with the Board ruling within that period, the Board, at its option, may

Record a Notice of Noncompliance and commence a lawsuit for damages or injunctive relief, as appropriate, to remedy the Noncompliance.

4.7. Scope of Review.

The Architectural Committee shall review and approve, conditionally approve or disapprove all plans submitted to it for any proposed Improvement, alteration or addition, solely on the basis of aesthetic considerations, consistency with this Declaration, and the overall benefit or detriment which would result to the immediate vicinity and the Property generally. The Committee shall take into consideration the aesthetic aspects of the architectural designs, placement of buildings, landscaping, color schemes, exterior finishes and materials and similar features. The Committee's approval or disapproval shall be based solely on the considerations set forth in this Article IV, and the Committee shall not be responsible for reviewing, nor shall its approval of any plan or design be deemed approval of, any plan or design from the standpoint of structural safety or conformance with building or other codes.

4.8. Variances.

The Committee may authorize variances from compliance with any of the architectural provisions of this Declaration, including without limitation restrictions upon height, size, floor area or placement of structures, or similar restrictions, when circumstances such as topography, natural obstructions, hardship, aesthetic or environmental consideration may require. Such variances must be evidenced in writing, must be signed by a majority of the Committee, and shall become effective upon Recordation. After Declarant has lost the right to appoint a majority of the members of the Committee, the Board must approve any variance recommended by the Committee before any such variance shall become effective. If such variances are granted, no violation of the covenants, conditions and restrictions contained in this Declaration shall be deemed to have occurred with respect to the matter for which the variance was granted. The granting of such a variance shall not operate to waive any of the terms and provisions of this Declaration for any purpose except as to the particular property and particular provision hereof covered by the variance, nor shall it affect in any way the Owner's obligation to comply with all governmental laws and regulations affecting the use of his Residence.

4.9. Appeals.

For so long as Declarant has the right to appoint and remove a majority of the members of the Committee, decisions of the Committee shall be final, and there shall be no appeal to the Board of Directors. When Declarant is no longer entitled to appoint and remove a majority of the members of the Committee

the Board may, at its discretion, adopt policies and procedures for the appeal of Committee decisions for reconsideration by the Board. The Board shall have no obligation to adopt or implement any such appeal procedures, and in the absence of Board adoption of appeal procedures, all decisions of the Committee shall be final.

ARTICLE V

5. Association Maintenance Funds and Assessments.

5.1. Personal Obligation of Assessments.

Declarant, for each Condominium owned by it, hereby covenants and agrees to pay, and each Owner, by acceptance of a deed to a Condominium whether or not it shall be so expressed in such deed, is deemed to covenant and agree to pay to the Association (1) Annual Assessments for Common Expenses, (2) Special Assessments, (3) Reconstruction Assessments and (4) Capital Improvement Assessments; such assessments to be established and collected as provided herein. The Association shall not levy or collect any Annual Assessment, Capital Improvement Assessment, Special Assessment or Reconstruction Assessment that exceeds the amount necessary for the purpose for which it is levied. Except as provided in this Section 5.1, all such assessments (other than Special Assessments), together with interest, costs, and reasonable attorneys' fees for the collection thereof, shall be a charge on the Condominium against which such assessment is made. Each such assessment (including Special Assessments), together with interest, costs and reasonable attorneys' fees, shall also be the personal obligation of the Person who was the Owner of the Condominium at the time when the assessment fell due. This personal obligation cannot be avoided by abandonment of the Condominium or by an offer to waive use of the Common Property or the Exclusive Use Area. The personal obligation for delinquent assessments shall not pass to any new Owner ("Purchaser") unless expressly assumed by the Purchaser.

5.2. Maintenance Funds of Association.

The Board of Directors shall establish no fewer than two (2) separate Association Maintenance Fund accounts, into which shall be deposited all monies paid to the Association, and from which disbursements shall be made, as provided herein, in the performance of functions by the Association under this Declaration. The Association Maintenance Funds may be established as trust accounts at a banking or savings institution and shall include: (1) an Operating Fund for current Common Expenses of the Association, (2) an adequate Reserve Fund for capital Improvements, replacements, painting and repairs of the Common Property (which cannot normally be expected to occur on an annual or more frequent basis), and

for payment of deductible amounts for policies of insurance which the Association obtains as provided in Section 9.1 hereof, and (3) any other funds which the Board of Directors may establish to the extent necessary under the provisions of this Declaration. Nothing contained herein shall limit, preclude or impair the establishment of additional Maintenance Funds by the Association, so long as the amounts assessed to, deposited into, and disbursed from any such Fund are earmarked for specified purposes authorized by this Declaration.

5.3. Purpose of Assessments.

The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety and welfare of the Owners, for the operation, replacement, improvement and maintenance of the Common Property, and to discharge any other obligations of the Association under this Declaration. All amounts deposited into the Maintenance Funds must be used solely for the common benefit of all of the Owners for purposes authorized by this Declaration. Disbursements from the Operating Fund shall be made by the Board of Directors for such purposes as are necessary for the discharge of its responsibilities herein for the common benefit of all of the Owners, other than those purposes for which disbursements from the Reserve Fund are to be used. Disbursements from the Reserve Fund shall be made by the Board of Directors only for the purposes specified in this Article V and in Section 1365.5(c) of the California Civil Code, as it may be amended from time to time. Nothing in this Declaration shall be construed in such a way as to permit the use of Association assessments or funds to abate any annoyance or nuisance emanating from outside the boundaries of the Property. Annual Assessments shall be used to satisfy Common Expenses of the Association, as provided herein and in the Bylaws.

5.4. Limitations on Annual Assessment Increases.

The Board shall levy Annual Assessments in accordance with the following provisions:

(a) Maximum Authorized Annual Assessment for Initial Year of Operations. Until the first day of the Fiscal Year immediately following the Fiscal Year in which Annual Assessments commence, the Board may only levy an Annual Assessment per Lot in an amount which exceeds Two Thousand Two Hundred Fifteen Dollars and Seventy-Three cents (\$2,215.73) if the Board first obtains the approval of Members casting a majority of votes at a meeting or election of the Association in which more than fifty percent (50%) of the Members are represented ("Increase Election"). Notwithstanding the

foregoing, this Section does not limit Annual Assessment increases necessary for addressing an "Emergency Situation" as defined in Section 5.4(e).

(b) Maximum Authorized Annual Assessment for Subsequent Fiscal Years. Starting with the first Fiscal Year immediately following the Fiscal Year in which Annual Assessments commence, the Board may only levy Annual Assessments which exceed the Annual Assessments for the immediately preceding Fiscal Year as follows:

(i) If the increase in Annual Assessments is less than or equal to twenty percent (20%) of the Annual Assessments for the immediately preceding Fiscal Year, then the Board must either (a) have distributed the Budget for current Fiscal Year in accordance with Section 1365(a) of the California Civil Code, or (b) obtain the approval of Members casting a majority of votes in an Increase Election;

(ii) If the increase in Annual Assessments is greater than twenty percent (20%) of the Annual Assessments for the immediately preceding Fiscal Year, then the Board must obtain the approval of Members casting a majority of votes in an Increase Election.

Notwithstanding the foregoing, this Section does not limit Annual Assessment increases necessary for addressing an "Emergency Situation" as defined in Section 5.4(e).

(c) Supplemental Annual Assessments. If the Board, by majority vote, determines that the important and essential functions of the Association may be properly funded by an Annual Assessment in an amount less than the maximum authorized Annual Assessment described above, it may levy such lesser Annual Assessment. If the Board determines that the estimate of total charges for the current year is or will become inadequate to meet all Common Expenses for the Property for any reason, it shall immediately determine the approximate amount of the inadequacy. Subject to the limitations described in Sections 5.4(a) and (b) above and (e) below, the Board shall have the

authority to levy, at any time by a majority vote, a supplemental Annual Assessment reflecting a revision of the total charges to be assessed against each Condominium.

(d) Automatic Assessment Increases. Notwithstanding any other provisions of this Section 5.4, upon Declarant's annexation of any portion of the Annexable Territory pursuant to Article XVI, the Annual Assessment shall be automatically increased by the additional amount, if any, necessary to maintain the Common Property in or abutting such Annexable Territory in accordance with the standards prescribed by the then current DRE Operating Cost Manual, or if the Operating Cost Manual is no longer maintained by the DRE, pursuant to standards prescribed by comparable maintenance cost guidelines prepared in accordance with prudent property management practices. However, such increase shall occur only if (i) the annexation of such Annexable Territory is permitted by the DRE, and (ii) the amount of such increase does not result in the levy of an Annual Assessment which is greater than the maximum potential Annual Assessment disclosed in all Final Subdivision Public Reports for the Property previously issued by the DRE.

(e) Emergency Situations. For purposes of Sections 5.4(a), 5.4(b) and 5.6, an "Emergency Situation" is any one of the following:

(1) An extraordinary expense required by an order of a court;

(2) An extraordinary expense necessary to repair or maintain the Property or any portion thereof for which the Association is responsible where a threat to personal safety on the Property is discovered; and

(3) An extraordinary expense necessary to repair or maintain the Property or any portion thereof for which the Association is responsible that could not have been reasonably foreseen by the Board when preparing the Budget. Prior to the imposition or collection of an assessment pursuant to this subparagraph (3), the Board shall pass a resolution containing written findings as to the

necessity of the extraordinary expense involved and why the expense was not or could not have been reasonably foreseen in the budgeting process. The resolution shall be distributed to the Members with the Notice of Assessment.

5.5. Annual Assessments/Commencement-Collection.

The Board of Directors shall authorize and levy the amount of the Annual Assessment upon each Condominium, as provided herein, by majority vote of the Board. Annual Assessment shall commence on all Condominiums in a Phase of Development on the first day of the first calendar month following the first Close of Escrow for the sale of a Condominium in such Phase or on the first day of the first calendar month following conveyance of the Association Property in that Phase, if any, to the Association, whichever shall first occur. All Annual Assessments shall be assessed equally against the Members and their Condominiums based upon the number of Condominiums owned by each Member, except for that portion of the Annual Assessments attributable to those items of Common Expenses listed on the attached Exhibit "C," which shall be assessed against the Members and their Condominiums in the same proportions as the relative interior square foot floor areas of the Units (as shown on the Condominium Plan or Plans for the Project). Annual Assessments for fractions of any month involved shall be prorated. Declarant shall pay its full pro rata share of the Annual Assessments on all unsold Condominiums for which Annual Assessments have commenced. The Board shall fix the amount of the Annual Assessment against each Condominium at least thirty (30) days in advance of each Annual Assessment period. However, unless otherwise established by the Board, the initial Annual Assessments shall be assessed in accordance with the most recent Budget on file with and approved by the DRE. Written notice of any change in the amount of any Annual Assessment, Capital Improvement Assessment or Reconstruction Assessment shall be sent via first-class mail to every Owner subject thereto, not less than thirty (30) nor more than sixty (60) days prior to the increased assessment becoming due. From time to time the Board may determine that all excess funds in the Operating Fund be retained by the Association and used to reduce the following year's Annual Assessments. Upon dissolution of the Association incident to the abandonment or termination of the Property, any amounts remaining in any of the Maintenance Funds shall be distributed to or for the benefit of the Members in the same proportions as such monies were collected from the Members.

Each Member shall pay to the Association his Annual Assessment in installments at such frequency and in such amounts as established by the Board. Each installment of Annual Assessments may be paid by the Member to the Association in one check or in separate checks as payments attributable to deposits into specified Association Maintenance Funds. If any installment of an Annual Assessment payment is less than the amount assessed and the payment does not specify the Association Maintenance Fund or Funds into which it should be deposited, the receipt by the Association from that Member shall be credited in order of priority first to the Operating Fund, until that portion of the Annual Assessment has been satisfied, and second to the Reserve Fund.

5.6. Capital Improvement Assessments.

The Board of Directors of the Association may levy, in any Fiscal Year, a Capital Improvement Assessment or Reconstruction Assessment applicable to that Fiscal Year only for the purpose of defraying, in whole or in part, the cost of any construction, reconstruction, repair or replacement of a capital Improvement or other such addition upon the Common Property including fixtures and personal property related thereto; provided that any proposed Capital Improvement Assessments in any Fiscal Year which, if added to the Capital Improvement Assessments already levied during such Fiscal Year, exceeds five percent (5%) of the Budgeted gross expenses of the Association for such Fiscal Year, shall require the vote or written consent of Members casting a majority of votes at an Increase Election. Notwithstanding the foregoing, the Board may levy in any Fiscal Year, a Capital Improvement Assessment applicable to that Fiscal Year which exceeds five percent (5%) of the Budgeted gross expenses of the Association for such Fiscal Year if such increase is necessary for addressing an Emergency Situation as defined in Section 5.4(e).

5.7. Delinquency.

Any installment of an assessment provided for in this Declaration shall be delinquent if not paid within fifteen (15) days of the due date as established by the Board of Directors of the Association. The Board shall be authorized to adopt a system pursuant to which any installment of Annual Assessments, Capital Improvement Assessments, Special Assessments, or Reconstruction Assessments not paid within thirty (30) days after the due date, plus all reasonable costs of collection (including attorneys' fees) and late charges as provided herein, shall bear interest commencing thirty (30) days from the due date until paid at the rate of up to twelve percent (12%) per annum, but in no event more than the maximum rate permitted by law. The Board may also require the delinquent Owner to pay a late charge in accordance with California Civil Code Section 1366(c)(2). The Association

need not accept any tender of a partial payment of an installment of an assessment and all costs and attorneys' fees attributable thereto, and any acceptance of any such tender shall not be deemed to be a waiver of the Association's right to demand and receive full payments thereafter.

5.8. Creation and Release of Lien.

All sums other than Special Assessments assessed in accordance with the provisions of this Declaration shall constitute a lien on the respective Condominium prior and superior to (a) any declaration of homestead Recorded after the Recordation of this Declaration, and (b) all other liens, except (1) all taxes, bonds, assessments and other levies which, by law, would be superior thereto, and (2) the lien or charge of any first Mortgage of record (meaning any Recorded Mortgage or Deed of Trust with first priority or seniority over other Mortgages or Deeds of Trust) made in good faith and for value and Recorded prior to the date on which the "Notice of Lien" (described in this Section) against the respective Condominium was Recorded. The lien shall become effective upon Recordation by the Board or its authorized agent of a Notice of Assessment ("Notice of Lien") securing the payment of any Annual, Capital Improvement or Reconstruction Assessment or installment thereof, levied by the Association against any Condominium Owner as provided in Section 1367 of the California Civil Code. The Notice of Lien shall state (i) the amount of the assessment or installment, as the case may be, and other authorized charges and interest, including the cost of preparing and Recording the Notice of Lien, (ii) the expenses of collection in connection with any delinquent installments, including without limitation reasonable attorneys' fees, (iii) a sufficient description of the Condominium against which the same has been assessed, (iv) the name and address of the Association, (v) the name of the Owner thereof, and (vi) in order for the lien to be enforced by nonjudicial foreclosure, the name and address of the trustee authorized by the Association to enforce the lien by sale. The Notice of Lien shall be signed by any authorized officer or agent of the Association. The lien shall relate only to the individual Condominium against which the assessment was levied and not to the Property as a whole. Upon payment to the Association of the full amount claimed in the Notice of Lien, or other satisfaction thereof, the Board of Directors shall cause to be Recorded a Notice of Satisfaction and Release of Lien ("Notice of Release") stating the satisfaction and release of the amount claimed. The Board of Directors may demand and receive from the applicable Owner a reasonable charge, to be determined by the Board, for the preparation and Recordation of the Notice of Release before Recording it. Any purchaser or encumbrancer who has acted in

good faith and extended value may rely upon the Notice of Release as conclusive evidence of the full satisfaction of the sums stated in the Notice of Lien.

5.9. Enforcement of Liens.

It shall be the duty of the Board of Directors to enforce the collection of any amounts due under this Declaration by one (1) or more of the alternative means of relief afforded by this Declaration. The lien on a Condominium may be enforced by sale of the Condominium by the Association, the Association's attorneys, any title insurance company authorized to do business in California, or other persons authorized to conduct the sale as a trustee, after failure of the Owner to pay any Annual, Capital Improvement or Reconstruction Assessment, or installment thereof, as provided herein. The sale shall be conducted in accordance with the provisions of the California Civil Code, applicable to the exercise of powers of sale in mortgages and deeds of trust, or in any manner permitted by law. An action may be brought to foreclose the lien of the Association by the Board, or by any Owner if the Board fails or refuses to act, after the expiration of at least thirty (30) days from the date on which the Notice of Lien was Recorded; provided that at least ten (10) days have expired since a copy of the Notice of Lien was mailed to the Owner affected thereby. The Association, through its agents, shall have the power to bid on the Condominium at foreclosure sale, and to acquire and hold, lease, mortgage and convey the same. Upon completion of the foreclosure sale, an action may be brought by the Association or the purchaser at the sale in order to secure occupancy of the defaulting Owner's Unit, and the defaulting Owner shall be required to pay the reasonable rental value for such Unit during any period of continued occupancy by the defaulting Owner or any persons claiming under the defaulting Owner. Suit to recover a money judgment for unpaid assessments shall be maintainable without foreclosing or waiving any lien securing the same, but this provision or any institution of suit to recover a money judgment shall not constitute an affirmation of the adequacy of money damages. Any recovery resulting from a suit at law or in equity initiated pursuant to this Section may include reasonable attorneys' fees as fixed by the court.

5.10. Priority of Assessment Lien.

The lien of the assessments provided for herein, including interest and costs (including attorneys' fees), shall be subordinate to the lien of any previously Recorded first Mortgage upon one or more Condominiums. Sale or transfer of any Condominium shall not affect the assessment lien. However, the sale or transfer of any Condominium pursuant to judicial or nonjudicial foreclosure of a first Mortgage shall extinguish the lien of such assessments as to payments which

became due prior to such sale or transfer. No sale or transfer shall relieve such Condominium from liens for any assessments thereafter becoming due. When the Beneficiary of a first Mortgage of record or other purchaser of a Condominium obtains title pursuant to a judicial or nonjudicial foreclosure of the first Mortgage, such Person, his successors and assigns, shall not be liable for the share of the Common Expenses or assessments by the Association chargeable to such Condominium which became due prior to the acquisition of title to such Condominium by such Person. Such unpaid share of Common Expenses or assessments shall be deemed to be Common Expenses collectible from all of the Owners of the Condominiums including such Person, his successors and assigns.

ARTICLE VI

6. Property Easements and Rights of Entry.

6.1. Easements.

(a) Access. Declarant expressly reserves for the benefit of the Owners reciprocal, nonexclusive easements for access, ingress and egress over all of the Common Property, including any private streets or driveways currently existing in the Property or subsequently added to it, which easements may be conveyed by Declarant to Owners and to the Association for so long as Declarant owns any interest in the Property. Subject to the provisions of this Declaration governing use and enjoyment thereof, the easements may be used by all Owners and their guests, tenants and invitees residing on or temporarily visiting the Property, for walkways, vehicular access and such other purposes reasonably necessary for use and enjoyment of a Condominium in the Project.

(b) Maintenance and Repair. Declarant expressly reserves for the benefit of the Board of Directors and all agents, officers and employees of the Association, nonexclusive easements over the Common Property (including the Exclusive Use Area) as necessary to maintain and repair the Common Property, and to perform all other tasks in accordance with the provisions of this Declaration. Such easements over the Common Property shall be appurtenant to, binding upon, and shall pass with the title to, every Condominium conveyed.

(c) Exclusive Use Area. Declarant expressly reserves for the benefit of certain Owners exclusive easements over the Property for use of the Exclusive Use Area, including without limitation for balcony, patio and laundry purposes as shown and assigned on the Condominium Plan or Plans for the Project, and for parking and storage purposes as shown on the Condominium Plan and assigned in the individual grant deeds of the respective Units. Owners shall be entitled to exchange Exclusive Use Area parking spaces assigned to their respective Units in their individual grant deeds, provided that (1) a reciprocal deed of conveyance identifying the exchanged Exclusive Use Area parking spaces, the exchanging Owners and their respective Condominiums, is executed by the exchanging Owners and the first Mortgagees of such exchanging Owners, and Recorded; and (2) no exchange of Exclusive Use Area parking spaces shall be effective if such exchange would result in a reduction of the number of parking spaces to which such Owners were originally entitled. A copy of the Recorded reciprocal deed of conveyance shall be delivered to the Board as soon as possible after Recordation.

(d) Utility Easements. Declarant expressly reserves for the benefit of the Association the right of Declarant to grant additional easements and rights-of-way over the Property to utility companies and public agencies, as necessary, for the proper development and disposal of the Property. Such right of Declarant shall expire (i) with respect to any Phase of Development, upon Close of Escrow for the sale of all Condominiums in such Phase by Declarant, or (ii) with respect to all Phases, upon expiration of seven (7) years from the date of original issuance by the DRE of the Final Subdivision Public Report for Phase 1.

(e) Encroachments. Declarant, the Association and Owners of contiguous Residences shall have a reciprocal easement appurtenant to each of the Residences over the Residences and the Common Property for the purpose of (1) accommodating any existing encroachment of any wall of any Improvement, and (2) maintaining the same and accommodating authorized construction, reconstruction, repair, shifting, movement or natural settling of the Improvements or any other portion of the Project housing their respective Units. Easements and reciprocal negative easements for utility

services and repairs, replacement and maintenance of the same over all of the Common Property are specifically reserved for the benefit of the Owners. Declarant expressly reserves for the benefit of the Common Property, and for the benefit of the Owners and the Association, reciprocal nonexclusive easements for drainage of water over, across and upon the Common Property. The foregoing easements shall not unreasonably interfere with each Owner's use and enjoyment of adjoining Residences. No portion of the Common Property, including without limitation parking spaces and other amenities contemplated as a part of the Property, are proposed to be leased by Declarant to the Owners or to the Association.

(f) Completion of Improvements. Declarant expressly reserves for its benefit the right and easement to enter the Property to complete any Improvement which Declarant deems desirable to implement Declarant's development plan.

6.2. Rights of Entry.

The Board of Directors shall have a limited right of entry in and upon the Common Property and the interior of all Units for the purpose of inspecting the Project, and taking whatever corrective action may be deemed necessary or proper by the Board of Directors, consistent with the provisions of this Declaration. However, such entry upon the interior of a Unit shall be made, except to effect emergency repairs or other emergency measures, only after three (3) days prior written notice to the Owner of such Unit and after authorization of two-thirds (2/3rds) of the Board of Directors. Nothing herein shall be construed to impose any obligation upon the Association to maintain or repair any property or Improvements required to be maintained or repaired by the Owners. Nothing in this Article VI shall in any manner limit the right of the Owner to exclusive occupancy and control over the interior of his Unit. However, an Owner shall permit a right of entry to the Board of Directors or any other person authorized by the Board of Directors, as reasonably necessary, such as in case of any emergency originating in or threatening his Unit, whether the Owner is present or not. Any damage caused to a Unit by such entry by the Board of Directors or by any person authorized by the Board of Directors shall be repaired by the Association as a Common Expense of the Association. Furthermore, an Owner shall permit other Owners, or their representatives, to enter his Residence for the purpose of performing required installations, alterations or repairs to the mechanical or electrical services to a Residence, provided that such requests for entry are made in advance and

entry is made at a time reasonably convenient to the Owner whose Unit is to be entered; and provided further, that the entered Unit is left in substantially the same condition as existed immediately preceding such entry. In case of an emergency, such right of entry shall be immediate. Any damage caused to a Unit by such entry by an Owner or its representative shall be repaired by such Owner. Upon receipt of reasonable notice from the Association (which shall in no event be less than fifteen (15) days nor more than thirty (30) days) each Owner shall vacate his Unit in order to accommodate efforts by the Association to perform any other maintenance or repairs pursuant to the Declaration. The Board shall have the right of entry to the Units and the right to remove Owners from their Units, as necessary, to accomplish its duties as provided herein. The cost of performing any such maintenance or repairs shall be a Common Expense of the Association; however, each Owner shall bear his own costs of temporary relocation. If the Association acts to eradicate any wood destroying pests or organisms, then the procedure established in Section 2.7 shall control.

ARTICLE VII

7. Declarant's Rights and Reservations.

Nothing in the Restrictions shall limit, and no Owner or the Association shall do anything to interfere with, the right of Declarant to subdivide or resubdivide any portion of the Property, or to complete Improvements to and on the Common Property or any portion of the Property owned solely or partially by Declarant, or to alter the foregoing or its construction plans and designs, or to construct such additional Improvements as Declarant deems advisable in the course of development of the Property so long as any Condominium in the Project remains unsold. Any alteration of Declarant's construction plans shall require the prior approval of FHA and VA if such alteration is inconsistent with the general plan of development of the Property submitted to and approved by FHA and VA. The rights of Declarant hereunder shall include, but shall not be limited to, the right to install and maintain such structures, displays, signs, billboards, flags and sales offices as may be reasonably necessary for the conduct of its business of completing the work and disposing of the Condominiums by sale, resale, lease or otherwise. Each Owner by accepting a deed to a Condominium hereby acknowledges that the activities of Declarant may temporarily or permanently impair the view of such Owner and may constitute an inconvenience or nuisance to the Owners, and hereby consents to such impairment, inconvenience or nuisance. This Declaration shall not limit the right of Declarant at any time prior to acquisition of title to a Condominium in the Project by a purchaser from Declarant to establish on that Condominium additional

licenses, easements, reservations and rights-of-way to itself, to utility companies, or to others as may from time to time be reasonably necessary to the proper development and disposal of the Property. Declarant may use any Condominiums owned by Declarant in the Project as model home complexes or real estate sales or leasing offices. Declarant need not seek or obtain Architectural Committee approval of any Improvement constructed or placed on any portion of the Property by Declarant. The rights of Declarant hereunder and elsewhere in these Restrictions may be assigned by Declarant to any successor in interest to any portion of Declarant's interest in any portion of the Property by a written assignment. Notwithstanding any other provision of this Declaration, the prior written approval of Declarant, as developer of the Property, will be required before any amendment to this Article shall be effective. Each Owner, with the exception of the Secretary, Department of Veterans Affairs, an officer of the United States of America, hereby grants, upon acceptance of his deed to his Unit, an irrevocable, special power of attorney to Declarant to execute and Record all documents and maps necessary to allow Declarant to exercise its rights under this Article. Declarant and its prospective purchasers of Condominiums shall be entitled to the nonexclusive use of the Common Property and any recreational facilities thereon, without further cost for access, ingress, egress, use or enjoyment, in order to show the Property to its prospective purchasers, to dispose of the Property as provided herein, and to develop and sell the Annexable Territory. Declarant, its successors and tenants, shall also be entitled to the nonexclusive use of any portions of the Property which comprise private streets, drives and walkways for the purpose of ingress, egress and accommodating vehicular and pedestrian traffic to and from the Property and the Annexable Territory. The use of the Common Property by Declarant shall not unreasonably interfere with the use thereof by the other Members. The Association shall provide Declarant with all notices and other documents to which a Beneficiary is entitled pursuant to this Declaration, provided that Declarant shall be provided such notices and other documents without making written request therefor. The rights and reservations of Declarant set forth in this Article VII shall terminate on the seventh (7th) anniversary of the first Close of Escrow for the sale of a Condominium in the Project.

ARTICLE VIII

8. Residence and Use Restrictions.

All of the Property shall be held, used and enjoyed subject to the following limitations and restrictions and the exemptions of Declarant set forth in this Declaration.

8.1. Single Family Residences.

That portion of the Unit comprising the "residential elements" shall be used as a residence for a single Family and for no other purpose. An Owner may rent his Unit to a single Family provided that the Unit is rented pursuant to a lease or rental agreement which is (a) in writing, (b) for a term of at least seven (7) days, and (c) subject to all of the provisions of this Declaration.

8.2. Parking and Vehicular Restrictions.

(a) Authorized Vehicles. The following vehicles are Authorized Vehicles: motorized land vehicles designed and used primarily for non-commercial passenger transport, such as automobiles, passenger vans designed to accommodate ten (10) or fewer people, two-wheel motorcycles, and pick-up trucks having a manufacturer's rating or payload capacity of one (1) ton or less. Authorized Vehicles may be parked in any portion of the Property intended for parking of motorized vehicles.

(b) Prohibited Vehicles. The following vehicles are Prohibited Vehicles: recreational vehicles (e.g., motorhomes, travel trailers, camper vans, boats, etc.), commercial-type vehicles (e.g., stakebed trucks, tank trucks, dump trucks, step vans, concrete trucks, etc.), buses or vans designed to accommodate more than ten (10) people, vehicles having more than two (2) axles, trailers, inoperable vehicles or parts of vehicles, aircraft, other similar vehicles or any vehicle or vehicular equipment deemed a nuisance by the Board. Prohibited Vehicles shall not be parked, stored or kept on any public or private street within, adjacent to or visible from the Property or any other Common Property parking area unless specifically authorized by the Board.

(c) General Restrictions. Subject to the restriction on Prohibited Vehicles, all vehicles owned or operated by or within the control of an Owner or a resident of an Owner's Unit and kept within the Property shall be parked in the assigned carport or parking space of that Owner to the extent of the space available; provided that each Owner shall ensure that any such carport or parking space accommodates at least the number of Authorized Vehicles for which it was originally constructed by Declarant. No repair, maintenance or restoration of any vehicle shall be conducted on the Property.

(d) Parking Regulations. The Board may establish additional regulations as it deems appropriate in its sole discretion with regard to any of the parking areas not assigned to individual Units, including without limitation designating "parking," "guest parking," and "no parking" areas thereon; and shall have the power to enforce all parking and vehicle use regulations applicable to the Property, including the power to remove violating vehicles from any of the Property pursuant to California Vehicle Code Section 22658.2 or other applicable statute. If the Board fails to enforce any of the parking or vehicle use regulations, the City may, but need not, enforce such regulations in accordance with state and local laws and ordinances.

8.3. Nuisances.

No noxious or offensive activities shall be carried on upon the Property or on any public street abutting or visible from the Property. No horns, whistles, bells or other sound devices, except security devices used exclusively to protect the security of a Residence and its contents, shall be placed or used in any such Residence. Noisy or smoky vehicles, large power equipment and large power tools, off-road motor vehicles or items which may unreasonably interfere with television or radio reception of any Owner in the Project, and objects which create or emit loud noises or noxious odors shall not be located, used or placed on any portion of the Property or on any public street abutting or visible from the Property, or exposed to the view of other Owners without the prior written approval of the Architectural Committee. The Board shall have the right to determine if any noise, odor, or activity producing such noise or odor constitutes a nuisance. No Owner shall permit or cause anything to be done or kept upon the Property or on any public street abutting or visible from the Property which may increase the rate of insurance on Units or on the Property, or result in the cancellation of such insurance, or which will obstruct or interfere with the rights of other Owners, nor commit or permit any nuisance thereon or violate any law. Each Owner shall comply with all of the requirements of the local or state health authorities and with all other governmental authorities with respect to the occupancy and use of a Residence. Each Owner shall be accountable to the Association and other Owners for the conduct and behavior of children and other family members or persons residing in or visiting his Unit. Any damage to the Common Property, personal property of the Association, or property of another Owner, caused by such children or other family members shall

be repaired at the sole expense of the Owner of the Unit where such children or other family members or persons are residing or visiting.

8.4. Signs.

No sign, poster, display, billboard or other advertising device of any kind shall be displayed to the public view on any portion of the Property or on any public street abutting or visible from the Property, or shown or displayed from any Residence, without the prior written consent of the Architectural Committee; provided, however, that the restrictions of this Section shall not apply to any sign or notice of customary and reasonable dimension which states that the Residence is for rent or sale, so long as it is consistent with the standards promulgated by the Architectural Committee in accordance with Section 4.2 hereof. Such sign or notice may be placed within a Unit, and may also be placed upon the Common Property with the prior written approval of the Architectural Committee; provided that the location of such sign or notice on the Common Property shall be within an area specifically established by the Committee for such purpose. This Section shall not apply to any signs used by Declarant or its agents in connection with the sale of Condominiums or the construction or alteration of the Units or Common Property, traffic and visitor parking signs installed by Declarant, and traffic and parking control signs installed with the consent of the Board. Notwithstanding the foregoing, nothing contained in this Section shall be construed in such manner as to permit the maintenance of any sign which is not in conformance with any ordinance of the City.

8.5. Antennae.

No radio station or shortwave operators of any kind shall operate from any Unit or any other portion of the Property unless approved by the Architectural Committee. With the exception of any master antenna maintained by the Association, no exterior radio antenna, "C.B." antenna, television antenna, earth receiving station, satellite dish or other antenna of any type shall be erected or maintained anywhere in the Property unless approved by the Architectural Committee.

8.6. Inside and Outside Installations.

No outside installation of any type, including but not limited to clotheslines, shall be constructed, erected or maintained on any Residence, excepting antennae installed by Declarant as a part of the initial construction of the Property and except as may be installed by, or with the prior consent of the Architectural Committee. No balcony, patio or deck covers, wiring, or installation of air conditioning, water softeners, or other machines shall be installed on the exterior of the buildings of the Project or be allowed to

protrude through the walls or roofs of the buildings (with the exception of those items installed during the original construction of the Project) unless the prior written approval of the Architectural Committee is secured. No tile, wood, linoleum or other hard surface flooring shall be installed in any Unit except (a) Units located on the first floor of a building and (b) linoleum flooring shall be allowed in kitchen and bathroom areas in all Units. Outdoor patio or lounge furniture, plants and barbecue equipment may be maintained pursuant to rules and procedures of the Architectural Committee. The type and color of all exposed window coverings shall be subject to the prior written approval of the Architectural Committee. Notwithstanding the specificity of the foregoing, no exterior addition, change or alteration to any Residence shall be commenced without the prior written approval of the Architectural Committee. Nothing shall be done in any Unit or in, on or to the Common Property which will or may tend to impair the structural integrity of any building in the Project or which would structurally alter any such building except as otherwise expressly provided herein. There shall be no alteration, repair or replacement of wall coverings within Units which may diminish the effectiveness of the sound control engineering within the buildings in the Project. No Owner shall cause or permit any mechanic's lien to be filed against any portion of the Project for labor or materials alleged to have been furnished or delivered to the Project or any Condominium Unit for such Owner, and any Owner who does so shall immediately cause the lien to be discharged within five (5) days after notice to the Owner from the Board. If any Owner fails to remove such mechanic's lien, the Board may discharge the lien and charge the Owner a Special Assessment for such cost of discharge.

8.7. Animal Regulations.

No livestock, reptiles, insects, poultry or other animals of any kind shall be raised, bred or kept in any Residence except that usual and ordinary domestic dogs, cats, fish, and birds inside bird cages may be kept as household pets within any Residence provided that they are not kept, bred or raised therein for commercial purposes or in unreasonable quantities or sizes. As used in the Declaration, "unreasonable quantities" shall ordinarily mean more than two (2) pets per Residence; provided, however, that the Board may determine that a reasonable number in any instance may be more or less. The Board shall have the right to limit the size of pets and may prohibit maintenance of any animal which constitutes, in the opinion of the Board, a nuisance to any other Owner. Animals belonging to Owners, occupants or their licensees, tenants or invitees within the Property must be either kept within an enclosure, an enclosed balcony or on a leash held by a person capable of controlling the animal. Furthermore,

any Owner shall be liable to each and all remaining Owners, their families, guests and invitees, for any unreasonable noise or damage to person or property caused by any animals brought or kept upon the Project by such Owner or by members of his family, his tenants or his guests. It shall be the duty and responsibility of each such Owner to clean up after such animals which have used any portion of the Property or on any public street abutting or visible from the Property.

8.8. Business or Commercial Activity.

No part of the Property shall ever be used for any business, commercial (including auctions or similar events), manufacturing, mercantile, storage, vending or other nonresidential purposes, including without limitation any activity for which the provider is compensated in any way or receives any form of consideration, regardless of whether the activity is engaged in full or part-time, generates or does not generate a profit, or requires or does not require a license; except Declarant, its successors and assigns may use any portion of the Property for a model home site and display and sales offices in accordance with Article VII hereof. The provisions of this Section 8.8 shall not preclude any of the above-described activities without external evidence thereof, provided that all of the following conditions are fulfilled: (a) such activities are conducted in conformance with all applicable governmental ordinances; (b) the patrons or clientele of such activities do not visit the Unit or park automobiles or other vehicles within the Property; (c) the existence or operation of such activities is not apparent or detectable by sight, sound or smell from outside of the boundaries of the Unit; (d) no such activity increases the liability or casualty insurance obligation or premium of the Association; and (e) such activities are consistent with the residential character of the Property and conform with the provisions of this Declaration.

8.9. Rubbish Removal.

Trash, garbage, or other waste shall be disposed of by residents of the Project only by depositing the same into trash containers designated for such use by the Board of Directors. No portion of the Property shall be used for the storage of building materials, refuse or any other materials, except that building materials may be kept on any balcony, deck, patio or parking space temporarily during construction which has been previously approved by the Architectural Committee. No clothing, household fabrics or other unsightly articles shall be hung, dried or aired on any portion of the Property, including the interior of any Residence, so as to be visible from other Residences or the street. There shall be no exterior fires whatsoever except barbecue fires contained within receptacles therefor. The cost of trash

collection and removal and trash bin rentals shall be borne by the Association and shall constitute a portion of the Common Expenses.

8.10. Further Subdivision.

Except as otherwise provided herein, no Owner shall physically or legally subdivide his Unit in any manner, including without limitation any division of his Unit or his Condominium into time-share estates or time-share uses; provided, however, that this provision shall not be construed to limit the right of an Owner (1) to rent or lease all of his Unit by means of a written lease or rental agreement subject to the restrictions of this Declaration; (2) to sell his Condominium; or (3) to transfer or sell any Condominium to more than one Person to be held by them as tenants-in-common, joint tenants, tenants by the entirety or as community property. Any failure by the lessee of the Unit to comply with the terms of this Declaration, the Bylaws of the Association or the Rules and Regulations shall constitute a default under the lease or rental agreement. Notwithstanding the foregoing, no Unit in the Project may be partitioned or subdivided without the prior written approval of the Beneficiary of any first Mortgage on that Unit. This Section may not be amended without the prior written approval of the Beneficiaries of at least seventy-five percent (75%) of the first Mortgages of Condominiums in the Project.

8.11. Drainage.

There shall be no interference with or alteration of the established drainage pattern over the Property, unless an adequate alternative provision is made for proper drainage with the prior written approval of the Architectural Committee. For the purpose hereof, "established" drainage in any Phase is defined as the drainage which exists at the time of the first Close of Escrow for the sale of a Condominium in such Phase, or that which is shown on any plans approved by the Architectural Committee.

8.12. Water Supply System.

No individual water supply or water softener system shall be permitted in any Unit unless such system is designed, located, constructed and equipped in accordance with the requirements, standards, and recommendations of any applicable water district, the City, and all other applicable governmental authorities. Any sewage disposal system shall be installed only after approval by the Architectural Committee and any governmental health authority having jurisdiction.

8.13. View Obstructions.

No vegetation or other obstruction shall be planted or maintained upon any patio or balcony in such location or of such height as to unreasonably obstruct the view from any other Residence in the vicinity thereof. If there is a dispute between Owners concerning the obstruction of a view from a Residence, the dispute shall be submitted to the Architectural Committee, whose decision in such matters shall be binding. Any such obstruction shall, upon request of the Architectural Committee, be removed or otherwise altered to the satisfaction of the Architectural Committee, by the Owner of the Residence upon which the obstruction is located. Any item or vegetation maintained upon any patio or balcony, which item or vegetation is exposed to the view of any Owner, shall be removed or otherwise altered to the satisfaction of the Architectural Committee, if it determines that the maintenance of such item or vegetation in its then existing state is contrary to the purposes or provisions of this Declaration. If an Owner fails to perform necessary pruning, trimming, or thinning, the Association shall have the right, after Notice and Hearing, to enter upon such Residence for the purpose of performing such work. The Architectural Committee shall ensure that the vegetation on the Common Property maintained by the Association is cut frequently, so that the view of any Owner is not unreasonably obstructed.

8.14. Rights of Handicapped.

Subject to the provisions of Article IV of this Declaration, each Owner shall have the right to modify his Residence and the route over the Common Property leading to the front door of his Residence, at his sole cost and expense, in order to facilitate access to his Residence by persons who are blind, visually handicapped, deaf or physically disabled, or to alter conditions which could be hazardous to such persons.

8.15. Exterior Stairways and Landings.

Exterior stairways and landings serving particular Units are reserved for the use of the Owners of such Units, their guests, tenants and invitees and of the Association and its agents. Such exterior stairways and landings shall only be used for purposes of gaining access to and from the Units serviced by such stairways and landings. Use of stairways and landings for sun decks and similar purposes is prohibited.

ARTICLE IX

9. Insurance.

9.1. Duty to Obtain Insurance; Types.

(a) Public Liability. The Board shall cause to be obtained and maintained adequate blanket public liability insurance (including medical payments), with such limits as may be considered acceptable to FNMA (not less than \$1 million covering all claims for personal injury and property damage arising out of a single occurrence), insuring against liability for bodily injury, death and property damage arising from the activities of the Association and its Members, with respect to the Common Property.

(b) Fire and Casualty Insurance. The Board shall also cause to be obtained and maintained fire and casualty insurance with extended coverage, without deduction for depreciation, in an amount as near as possible to the full replacement value of the Common Property and those portions of the Units consisting of all fixtures, installations or additions comprising a part of the buildings housing the Units and all built-in or set-in appliances, cabinets and initial basic floor coverings, as initially installed or replacements thereof in accordance with the original plans and specifications for the Project, or as installed by or at the expense of the Owners.

(c) Fidelity Bonds. Fidelity bond coverage which names the Association as an obligee must be obtained by or on behalf of the Association for any person or entity handling funds of the Association, including, but not limited to, officers, directors, trustees, employees and agents of the Association and employees of the Manager of the Association, whether or not such Persons are compensated for their services, in an amount not less than the estimated maximum of funds, including reserve funds, in the custody of the Association or the Manager, as the case may be, at any given time during the term of each bond. However, in no event may the aggregate amount of such bonds be less than the sum equal to one fourth (1/4) of the Annual Assessments on all Condominiums in the Project, plus reserve funds.

(d) Insurance Required by FNMA, GNMA and FHLMC. The Association shall continuously maintain in effect such casualty, flood and liability insurance and fidelity bond coverage meeting the insurance and fidelity bond requirements for condominium projects established by FNMA, GNMA and FHLMC, so long as any of which is a Mortgagee or Owner of a Condominium within the Project, except to the extent such coverage is not available or has been waived in writing by FNMA, GNMA and FHLMC, as applicable.

(e) Other Insurance. The Board of Directors shall purchase such other insurance, as necessary, including but not limited to, errors and omissions, directors, officers and agents liability insurance, plate glass insurance, medical payments, malicious mischief, liquor liability and vandalism insurance, fidelity bonds and worker's compensation, and such other risks as shall customarily be covered with respect to condominium projects similar in construction, location and use.

(f) Beneficiaries. Such insurance shall be maintained for the benefit of the Association, the Owners, and the Mortgagees, as their interests may appear as named insured, subject, however, to loss payment requirements as set forth herein.

9.2. Waiver of Claim Against Association.
As to all policies of insurance maintained by or for the benefit of the Association and the Owners, the Association and the Owners hereby waive and release all claims against one another, the Board of Directors and Declarant, to the extent of the insurance proceeds available, whether or not the insurable damage or injury is caused by the negligence of or breach of any agreement by any of said Persons.

9.3. Right and Duty of Owners to Insure.
It is the responsibility of each Owner to provide insurance on his personal property and upon all other property and Improvements within his Unit for which the Association has not purchased insurance in accordance with Section 9.1 hereof. Nothing herein shall preclude any Owner from carrying any public liability insurance as he deems desirable to cover his individual liability for damage to person or property occurring inside his individual Unit or elsewhere upon the Property. Such policies shall not adversely affect or diminish any liability under any insurance obtained by or on behalf of the Association, and duplicate copies of such other policies shall be deposited with the Board upon request. If any loss intended to be covered by insurance

carried by or on behalf of the Association shall occur and the proceeds payable thereunder shall be reduced by reason of insurance carried by any Owner, such Owner shall assign the proceeds of such insurance carried by him to the Association, to the extent of such reduction, for application by the Board to the same purposes as the reduced proceeds are to be applied.

9.4. Notice of Expiration Requirements.

If available, each of the policies of insurance maintained by the Association shall contain a provision that said policy shall not be cancelled, terminated, materially modified or allowed to expire by its terms, without ten (10) days' prior written notice to the Board and Declarant, and to each Owner and Beneficiary, insurer and guarantor of a first Mortgage who has filed a written request with the carrier for such notice and every other Person in interest who requests such notice of the insurer. In addition, fidelity bonds shall provide that they may not be cancelled or substantially modified without ten (10) days prior written notice to any insurance trustee named pursuant to Section 9.6 and to each FNMA servicer who has filed a written request with the carrier for such notice.

9.5. Insurance Premiums.

Insurance premiums for any blanket insurance coverage obtained by the Association and any other insurance deemed necessary by the Board of Directors shall be a Common Expense to be included in the Annual Assessments levied by the Association and collected from the Owners. That portion of the Annual Assessments necessary for the required insurance premiums shall be separately accounted for by the Association in the Reserve Fund, to be used solely for the payment of premiums of required insurance as such premiums become due.

9.6. Trustee for Policies.

The Association, acting through its Board of Directors, is hereby appointed and shall be deemed trustee of the interests of all named insureds under policies of insurance purchased and maintained by the Association. All insurance proceeds under any such policies as provided for in Section 9.1 of this Article shall be paid to the Board of Directors as trustees. The Board shall have full power to receive and to receipt for the proceeds and to deal therewith as provided herein. Insurance proceeds shall be used by the Association for the repair or replacement of the property for which the insurance was carried or otherwise disposed of as provided in Article X of this Declaration. The Board is hereby granted the authority to negotiate loss settlements with the appropriate insurance carriers, with participation, to the extent they desire, of first Mortgagees who have filed written requests within ten (10) days of receipt of notice of any

damage or destruction as provided in Section 10.4 of this Declaration. Any two (2) officers of the Association may sign a loss claim form and release form in connection with the settlement of a loss claim, and such signatures shall be binding on all the named insureds. A representative chosen by the Board may be named as an insured, including a trustee with whom the Association may enter into an insurance trust agreement or any successor to such trustee, who shall have exclusive authority to negotiate losses under any policy providing property or liability insurance and to perform such other functions necessary to accomplish this purpose.

9.7. Actions as Trustee.

Except as otherwise specifically provided in this Declaration, the Board, acting on behalf of the Association and all Owners, shall have the exclusive right to bind such parties in respect to all matters affecting insurance carried by the Association, the settlement of a loss claim, and the surrender, cancellation, and modification of all such insurance, in a manner satisfactory to Beneficiaries of seventy-five percent (75%) of the first Mortgages held by first Mortgagees who have filed requests under Section 9.4. Duplicate originals or certificates of all policies of fire and casualty insurance maintained by the Association and of all renewals thereof, together with proof of payment of premiums, shall be delivered by the Association to all Owners and Mortgagees who have requested the same in writing.

9.8. Annual Insurance Review.

The Board shall review the insurance carried by or on behalf of the Association at least annually, for the purpose of determining the amount of the casualty and fire insurance referred to in Section 9.1 above. If economically feasible, the Board shall obtain a current appraisal of the full replacement value of the Improvements on the Property except for foundations and footings, without deduction for depreciation, from a qualified independent insurance appraiser, prior to each such annual review.

9.9. Required Waiver.

All policies of physical damage insurance shall provide, if reasonably possible, for waiver of the following rights, to the extent that the respective insurers would have the rights without such waivers:

(a) subrogation of claims against the Owners and tenants of the Owners;

(b) any defense based upon coinsurance;

(c) any right of setoff, counterclaim, apportionment, proration or contribution by reason of other insurance not carried by the Association;

(d) any invalidity, other adverse effect or defense on account of any breach of warranty or condition caused by the Association, any Owner or any tenant of any Owner, or arising from any act, neglect, or omission of any named insured or the respective agents, contractors and employees of any insured;

(e) any right of the insurer to repair, rebuild or replace, and, if the Improvement is not repaired, rebuilt or replaced following loss, any right to pay under the insurance an amount less than the replacement value of the Improvements insured;

(f) notice of the assignment of any Owner of his interest in the insurance by virtue of a conveyance of any Condominium; and

(g) any right to require any assignment of any Mortgage to the insurer.

ARTICLE X

10. Destruction of Improvements.

10.1. Restoration of the Property.

Except as otherwise provided in this Declaration, in the event of any destruction of any portion of the Property, the repair or replacement of which is the responsibility of the Association, it shall be the duty of the Association to restore and repair the same to its former condition, as promptly as practical. The proceeds of any insurance maintained pursuant to Article IX hereof for reconstruction or repair of the Property shall be used for such purpose, unless otherwise provided herein. The Board shall be authorized to have prepared the necessary documents to effect such reconstruction as promptly as practical. The Property shall be reconstructed or rebuilt substantially in accordance with the Condominium Plan and the original construction plans if they are available, unless changes recommended by the Architectural Committee have been approved in writing by sixty-seven percent (67%) of the Owners and by the Beneficiaries of fifty-one percent (51%) of first Mortgages upon the Condominiums. If the amount available from the proceeds of such insurance policies for such restoration and repair is at least eighty-five percent (85%) of the estimated cost of restoration and repair, a Reconstruction Assessment

shall be levied by the Board of Directors to provide the necessary funds for such reconstruction, over and above the amount of any insurance proceeds available for such purpose. If the amount available from the proceeds of such insurance policies for such restoration and repair is less than eighty-five percent (85%) of the estimated cost of restoration and repair, the Board may levy a Reconstruction Assessment and proceed with the restoration and repair only if both of the following conditions ("Conditions to Reconstruction") have first been satisfied: (a) the levy of a Reconstruction Assessment to pay the costs of restoration and repair of the Property is approved by the affirmative vote or written consent of sixty-seven percent (67%) of the Owners and by the written consent of the Beneficiaries of fifty-one percent (51%) of the first Mortgages on the Condominiums in the Project; and (b) within six (6) months after the date on which the destruction occurred, the Board Records a certificate of the resolution authorizing the restoration and repair ("Reconstruction Certificate"). If either of the Conditions to Reconstruction does not occur following a restoration and repair are less than eighty-five percent (85%) of the estimated cost of restoration and repair, it shall be conclusively presumed that the Owners have determined not to proceed with restoration and repair and not to allow the Board to levy a Reconstruction Assessment, in which case the Owners may proceed as provided in Section 10.2 below.

10.2. Sale of Property and Right to Partition.

No Owner shall have the right to partition of his interest in the Condominium and there shall be no judicial partition of the Project, or any part thereof, except as provided in Section 1359(b) of the California Civil Code as amended or in any successor statute. For purposes of Subsection 4 of said Section 1359(b), partition may occur only if all of the following conditions are satisfied: (a) either or both of the Conditions to Reconstruction described in Section 10.1 above have failed to occur; and (b) within six (6) months after the date on which destruction occurred, restoration or repair has not actually commenced; and (c) the Owners of sixty-seven percent (67%) of the Condominiums in the Project approve the partition by vote or written consent. In such event, the Association, acting through a majority of the Board, shall prepare, execute and Record, as promptly as practical, the certificate stating that a majority of the Board may properly exercise an irrevocable power of attorney to sell the Project for the benefit of the Owners with the exception of the Secretary, Department of Veterans Affairs, an officer of the United States of America, and such other documents and instruments as may be necessary for the Association to consummate the sale of the Property at the highest and best

price obtainable, either in its damaged condition, or after damaged structures have been razed. Such certificate shall be conclusive evidence of such authority for any Person relying thereon in good faith. The net proceeds of such sale and the proceeds of any insurance carried by the Association shall be divided proportionately among the Owners, such proportions to be determined in accordance with the relative appraised fair market valuation of the Condominiums as of a date immediately prior to such destruction (or condemnation), expressed as percentages, and computed by dividing such appraised valuation of each Condominium by the total of such appraised valuations of all Condominiums in the Project. The Board is hereby authorized to hire one (1) or more appraisers for such purpose and the cost of such appraisals shall be a Common Expense of the Association. Notwithstanding the foregoing, the balance then due on any valid encumbrance of record shall be first paid in order of priority, before the distribution of any proceeds to an Owner whose Condominium is so encumbered. Nothing herein shall be deemed to prevent partition of a cotenancy in any Condominium. Except as provided above, each Owner and the successors of each Owner, whether by deed, gift, devise, or by operation of law, for their own benefit and for the Units and for the benefit of all other Owners, specifically waive and abandon all rights, interests and causes of action for a judicial partition of the tenancy in common ownership of the Project and do further covenant that no action for such judicial partition shall be instituted, prosecuted or reduced to judgment.

10.3. Interior Damage.

With the exception of any casualty or damage insured against by the Association pursuant to Section 9.1 of this Declaration, restoration and repair of any damage to the interior of any individual Residence, including without limitation all fixtures, cabinets and improvements therein, together with restoration and repair of all interior paint, wall coverings and floor coverings, shall be made by and at the individual expense of the Owner of the Residence so damaged. In the event of a determination to rebuild the Property after partial or total destruction, as provided in this Article X, such interior repair and restoration shall be completed as promptly as practical and in a lawful and workmanlike manner, in accordance with plans approved by the Architectural Committee as provided herein.

10.4. Notice to Owners and Listed Mortgagees.

The Board, immediately upon having knowledge of any damage or destruction affecting a material portion of the Common Property, shall promptly notify all Owners and Beneficiaries, insurers and guarantors of first Mortgages on Condominiums in the Project, who have filed a written request for such notice with the Board. The Board, immediately upon having knowledge

of any damage or destruction affecting a Unit, shall promptly notify any Beneficiary, insurer or guarantor of any Mortgage encumbering such Unit who has filed a written request for such notice with the Board.

ARTICLE XI

11. Eminent Domain.

The term "taking" as used in this Article shall mean condemnation by exercise of the power of eminent domain or by sale under threat of the exercise of the power of eminent domain. The Board shall represent the Owners, with the exception of the Secretary, Department of Veterans Affairs, an officer of the United States of America, in any proceedings, negotiations, settlements, or agreements regarding takings. All takings proceeds shall be payable to the Association for the benefit of the Unit Owners and their Mortgagees, and shall be distributed to such Owners and Mortgagees as provided in this Article XI.

11.1. Project Condemnation.

If there is a taking of an interest in all or part of the Project such that the ownership, operation and use of the Project in accordance with the provisions of this Declaration is substantially and adversely affected, and within one hundred twenty (120) days after the effective date of the taking the Owners of Units (a) not taken, or (b) only partially taken but capable of being restored to at least ninety-five percent (95%) of their floor area and to substantially their condition prior to the taking (collectively, the "Remaining Units") do not by affirmative vote of at least one-third of their voting power approve the continuation of the Project and the repair, restoration and replacement to the extent feasible of the Common Property and the Remaining Units, then the Board shall proceed with the sale of that portion of the Project which was not taken and distribute the net proceeds of such sale after deducting any incidental fees and expenses, in the same proportion and manner as provided in Section 10.2.

11.2. Condemnation of Common Property.

If there is a taking of (a) all or any portion of the Common Area, or any interest therein, other than the taking of an undivided interest therein taken as a result of the taking of a Condominium, or (b) all or any portion of the Association Property (other than Exclusive Use Area), or any interest therein, then the award in condemnation shall be paid to the Association and shall be deposited in the Operating Fund.

11.3. Condemnation of Exclusive Use Area.

If there is a taking of all or any portion of an Exclusive Use Area which is not taken in connection with the taking of

all or any portion of the Unit to which it is appurtenant, the award in condemnation shall be paid to the Owner of the Unit to which the taken Exclusive Use Area was appurtenant; provided, however, that such award shall first be applied to the balance then due on any Mortgages encumbering such Owner's Condominium, in order of priority.

11.4. Condemnation of Condominiums.

If there is a taking of a Condominium, the award in condemnation shall be paid to the Owner of the Condominium; provided, however, that such award shall first be applied to the balance then due on any Mortgages encumbering such Owner's Condominium, in order of priority.

11.5. Condemnation of Portions of Units.

(a) Minor Takings Within Limits. If (i) there is a taking of a portion of one or more Units such that the intended use of the Units as residential dwellings is not substantially and adversely affected, and (ii) restoration of such Units can be accomplished at a cost less than or equal to the sum of (A) the amount of the condemnation awards for such takings plus (B) any amounts the Owners of the taken Units wish to contribute to restoration plus (C) an amount less than or equal to five percent (5%) of the Budgeted gross expenses of the Association for that Fiscal Year (collectively, the "Allowable Cost"), then the Board shall contract for such restoration and levy a Reconstruction Assessment in an amount equal to the Allowable Cost minus the amount of the condemnation awards and Owners' contributions, and the condemnation awards, Owners' contributions and Reconstruction Assessment shall be applied to such restoration. If the restoration is accomplished at a cost less than the amount of the condemnation awards, then that portion of the condemnation awards in excess of the restoration costs shall be paid to the Owners of the partially taken Units in proportion to the decreases in the fair market values of their Condominiums; provided, however, that such awards shall first be applied to the balance then due on any Mortgages encumbering such Owners' Condominiums, in order of priority.

(b) Minor Takings Exceeding Limits. If (i) there is a taking of a portion of one or more Units such that the intended use of the Units as residential dwellings is not substantially and adversely affected, and (ii) restoration cannot be accomplished at a cost less than or equal to the

Allowable Cost, then the Board shall call a Special Meeting of the Members. If more than fifty percent (50%) of the Members are represented at such Special Meeting, either in person or by proxy, and a majority of the votes cast at such Special Meeting are in favor of levying a Reconstruction Assessment in an amount equal to the restoration costs minus the sum of the amount of the condemnation awards and the amounts the Owners of the taken Units wish to contribute to such restoration, then the Board shall contract for such restoration and levy a Reconstruction Assessment, and the condemnation awards, Owners' contributions and Reconstruction Assessment shall be applied to such restoration.

(c) Major Takings. If the requisite approval is not obtained at the Special Meeting referred to in Section 11.5(b), or if there is a taking of a portion of one or more Units such that the Units are not capable of being restored such that the intended use of the Units as residential dwellings is not substantially and adversely affected, then the award in condemnation shall be paid to the Owners of the taken Units; provided, however, that such award shall first be applied to the balance then due on any Mortgages encumbering such Owner's Condominium, in order of priority. The Board shall have the remaining portions of the taken Units razed. The remaining portions of the taken Units and appurtenant Exclusive Use Areas shall become part of the Association Property, and the Owners of such taken Units in any Phase of Development, by acceptance of the award allotted to them in taking proceedings, hereby relinquish (i) to the Association such remaining portion of the taken Units and appurtenant Exclusive Use Area, (ii) to the other Owners in such Phase of Development, on the basis of their relative ownership of the Common Area therein, such Owners' undivided interest in the Common Area. Each Owner relinquishing his interests pursuant to this Section shall, at the request of the Board and at the expense of the Association, execute and acknowledge such deeds and other instruments which the Board deems necessary or convenient to evidence such relinquishment. Each Owner of a taken Unit or Residence shall not be liable for assessments under this Declaration which accrue on or after the date such Owner accepts his condemnation award.

11.6. Portions of Awards in Condemnation Not Compensatory for Value of Real Property.

Those portions of awards in condemnation which do not directly compensate Owners for takings of real property (e.g., awards for takings of personal property, relocation expenses, moving expenses, or other allowances of a similar nature intended to facilitate relocation) shall be paid to the Owners whose personal property is taken, or whose relocation is intended to be facilitated.

11.7. Notice to Owners and Mortgagees.

The Board, upon learning of any taking affecting a material portion of the Property, or any threat thereof, shall promptly notify all Owners and those Beneficiaries, insurers and guarantors of Mortgages on Condominiums in the Project who have filed a written request for such notice with the Association. The Board, upon learning of any taking affecting a Unit, or any threat thereof, shall promptly notify any Beneficiary, insurer or guarantor of a Mortgage encumbering such Unit who has filed a written request for such notice with the Association.

ARTICLE XII

12. Rights of Mortgagees.

Notwithstanding any other provision of this Declaration, no amendment or violation of this Declaration shall operate to defeat or render invalid the rights of the Beneficiary under any Deed of Trust upon one (1) or more Condominiums made in good faith and for value, provided that after the foreclosure of any such Deed of Trust such Condominium(s) shall remain subject to this Declaration, as amended. For purposes of this Declaration, "first Mortgage" shall mean a Mortgage with first priority over other Mortgages or Deeds of Trust on a Condominium, and "first Mortgagee" shall mean the Beneficiary of a first Mortgage. For purposes of any provision of this Declaration or the other Restrictions which require the vote or approval of a specified percentage of first Mortgagees, such vote or approval shall be determined based upon one (1) vote for each Condominium encumbered by each such first Mortgage. In order to induce VA, FHA, FHLMC, GNMA and FNMA to participate in the financing of the sale of Condominiums within the Project, the following provisions are added hereto (and to the extent these added provisions conflict with any other provisions of this Declaration or any other of the Restrictions, these added provisions shall control):

(a) Each Beneficiary, insurer and guarantor of a first Mortgage encumbering one (1) or more Condominiums, upon filing a written request for notification with the Board, is entitled to written notification from the Association of: (1) any

condemnation or casualty loss which affects either a material portion of the Project or the Unit(s) securing the respective first Mortgage; and (2) any delinquency of sixty (60) days or more in the performance of any obligation under the Restrictions, including without limitation the payment of assessments or charges owed by the Owner(s) of the Unit(s) securing the respective first Mortgage, which notice each Owner hereby consents to and authorizes; and (3) a lapse, cancellation, or material modification of any policy of insurance or fidelity bond maintained by the Association; and (4) any proposed action of the Association which requires consent by a specified percentage of first Mortgagees.

(b) Each Owner, including each first Mortgagee of a Mortgage encumbering any Condominium who obtains title to such Condominium pursuant to the remedies provided in such Mortgage, or by foreclosure of the Mortgage, or by deed or assignment in lieu of foreclosure, shall be exempt from any "right of first refusal" created or purported to be created by the Restrictions.

(c) Each first Mortgagee of a Mortgage encumbering any Condominium which obtains title to such Condominium, pursuant to the remedies provided in such Mortgage or by foreclosure of such Mortgage, shall take title to such Condominium free and clear of any claims for unpaid assessments or charges against such Condominium which accrued prior to the time such Mortgagee acquires title to such Condominium in accordance with Section 5.10.

(d) Unless at least sixty-seven percent (67%) of the first Mortgagees or sixty-seven percent (67%) of the Owners (other than Declarant) have given their prior written approval, neither the Association nor the Owners shall:

(1) by act or omission seek to abandon or terminate the Property; or

(2) change the method of determining the obligations, assessments, dues or other charges which may be levied against any Owner; or

(3) partition or subdivide any Condominium Unit; or

(4) by act or omission, seek to abandon, partition, subdivide, encumber, sell or transfer the Common Property. (The granting of easements for public utilities or for other purposes consistent with the intended use of the Common Property under this Declaration, and the granting of exclusive easements to Owners over portions of the Common Property to conform the boundaries of the Common Property to the as-built location of Improvements installed or constructed by Declarant shall not be deemed a transfer within the meaning of this clause); or

(5) by act or omission change, waive or abandon any scheme of regulations, or enforcement thereof, pertaining to the architectural design, the exterior appearance or the maintenance of the Units or the Common Property; or

(6) fail to maintain or cause to be maintained Fire and Extended Coverage insurance on insurable Common Property as provided in Article IX of this Declaration; or

(7) use hazard insurance proceeds for losses to any Condominium property (i.e., Improvements to the Units or Common Property) for other than the repair, replacement or reconstruction of such condominium property, subject to the provisions of Article X of this Declaration; or

(8) change the pro rata interest or obligations of any Condominium in order to levy assessments or charges, allocate distributions of hazard insurance proceeds or condemnation awards or determine the pro rata share of ownership of each Condominium in the Common Area.

(e) All Beneficiaries, insurers and guarantors of first Mortgages, upon written request to the Association, shall have the right to:

(1) examine current copies of the Association's books, records and financial statements and the Restrictions during normal business hours; and

(2) require the Association to submit an annual audited financial statement if one is available, or have one prepared at the expense of the requesting entity if such statement is not otherwise prepared by the Association; provided that, upon annexation of additional Units to the Project such that fifty (50) or more Units are subject to this Declaration, the Association may be required to submit such a statement without expense to the requesting entity; and

(3) receive written notice of all meetings of Owners; and

(4) designate in writing a representative who shall be authorized to attend all meetings of Owners.

(f) All Beneficiaries, insurers and guarantors of first Mortgages, upon written request, shall be given thirty (30) days' written notice prior to the effective date of (1) any proposed material amendment to the Restrictions or Condominium Plans; (2) any termination of an agreement for professional management of the Property following any decision of the Owners to assume self-management of the Project; and (3) any proposed termination of the Property as a condominium project.

(g) The Reserve Fund described in Article V of this Declaration must be funded by regular scheduled monthly, quarterly, semiannual or annual payments rather than by large special assessments.

(h) The Board shall secure and cause to be maintained in force at all times a fidelity bond for any Person handling funds of the Association, including, but not limited to, employees of the professional Manager.

(i) The Board may enter into such contracts or agreements on behalf of the Association as are required in order to satisfy the guidelines of VA, FHA, FHLMC, FNMA or GNMA or any similar entity, so as to allow for the purchase, guaranty or insurance, as the case may be, by such entities of first Mortgages encumbering Condominiums. Each Owner hereby agrees that it will benefit the Association and the membership of the Association, as a class of potential Mortgage borrowers and potential sellers of their residential Condominiums, if such agencies approve the Property as a qualifying subdivision under their respective policies, rules and regulations, as adopted from time to time. Each Owner hereby authorizes his Mortgagees to furnish information to the Board concerning the status of any Mortgage encumbering a Condominium.

(j) When professional management has been previously required by a Beneficiary, insurer, or guarantor of a first Mortgage, any decision to establish self-management by the Association shall require the approval of sixty-seven percent (67%) of the voting power of the Association and the Beneficiaries of fifty-one percent (51%) of the first Mortgages of Condominiums in the Project.

(k) All intended Improvements in any Phase of Development other than Phase 1 shall be substantially completed or the completion of such Improvements shall be secured by a bond or other arrangement acceptable to the DRE prior to the first Close of Escrow for the sale of a Condominium in such Phase. All such Improvements shall be consistent with the Improvements in Phase 1 in terms of quality of construction. The requirements of the immediate preceding sentence are for the benefit only of and may be enforced only by FNMA.

(l) First Mortgagees may, jointly or singly, pay taxes or other charges which are in default and which may or have become a charge against any Common Property and may pay any overdue premiums on hazard insurance policies, or secure new hazard insurance coverage on the lapse of a policy, for Common Property, and first Mortgagees making such payments shall be owed immediate reimbursement therefor from the Association.

ARTICLE XIII

13. Duration and Amendment.

13.1. Duration.

This Declaration shall continue in full force for a term of fifty (50) years from the date of Recordation hereof, after which the term shall be automatically extended for successive periods of ten (10) years, unless a Declaration of Termination satisfying the requirements of an amendment to this Declaration as set forth in Section 13.2 is Recorded. There shall be no severance by sale, conveyance, encumbrance or hypothecation of an interest in any Unit from the concomitant Membership in the Association, as long as this Declaration shall continue in full force and effect. The provisions of this Article are subject to the provisions of Sections 10.2 and 11.5 of this Declaration.

13.2. Termination and Amendment.

(a) Notice of the subject matter of a proposed amendment to this Declaration in reasonably detailed form shall be included in the notice of any meeting or election of the Association at which a proposed amendment is to be considered. The resolution shall be adopted by the vote, in person or by proxy, or written consent of Members representing not less than (i) sixty-seven percent (67%) of the voting power of each Class of Members of the Association, and (ii) sixty-seven percent (67%) of the voting power of the Association residing in Members other than Declarant, provided that the specified percentage of the voting power of the Association necessary to amend a specified Section or provision of this Declaration shall not be less than the percentage of affirmative votes prescribed for action to be taken under that Section or provision. So long as there exists a Class B Membership, the prior approval of VA and FHA shall be required for any amendment of this Declaration. A draft of the proposed amendment shall be submitted to VA and FHA for approval prior to its approval by the Membership of the Association.

(b) In addition to the required notice and consent of VA and FHA, Members and Declarant provided above, the Beneficiaries of fifty-one percent (51%) of the first Mortgages on all the Condominiums in the Project who have requested the Association to notify them of proposed action requiring the consent of a specified percentage of

first Mortgagees must approve any amendment to this Declaration which is of a material nature, as follows:

(1) Any amendment which affects or purports to affect the validity or priority of Mortgages or the rights or protection granted to Beneficiaries, insurers or guarantors of first Mortgages as provided in Articles V, IX, X, XI, XII and XIII hereof.

(2) Any amendment which would necessitate a Mortgagee after it has acquired a Condominium through foreclosure, to pay more than its proportionate share of any unpaid assessment or assessments accruing after such foreclosure.

(3) Any amendment which would or could result in a Mortgage being cancelled by forfeiture, or in a Condominium not being separately assessed for tax purposes.

(4) Any amendment relating to the insurance provisions as set out in Article IX hereof, or to the application of insurance proceeds as set out in Article X hereof, or to the disposition of any money received in any taking under condemnation proceedings.

(5) Any amendment which would or could result in partition or subdivision of a Condominium Unit in any manner inconsistent with the provisions of this Declaration.

(6) Any amendment which would subject any Owner to a right of first refusal or other such restriction, if such Condominium is proposed to be sold, transferred, or otherwise conveyed.

(7) Any amendment concerning:

(A) Voting rights;

(B) Rights to use the Common Property;

(C) Reserves and responsibility for maintenance, repair and replacement of the Common Property;

(D) Boundaries of any Unit;

(E) Owners' interests in the Common Area;

(F) Convertibility of Common Property into Units or Units into Common Property;

(G) Leasing of Units;

(H) Establishment of self-management by the Association where professional management has been required by any Beneficiary, insurer or guarantor of a first Mortgage;

(I) Annexation or deannexation of real property to or from the Property; or

(J) Assessments, assessment liens, or the subordination of such liens.

(c) Termination of this Declaration shall require approval by the Members as provided in subsection (a) of this Section 13.2. No such termination shall be effective unless it is also approved in advance either by fifty-one percent (51%) of the Beneficiaries of the first Mortgages on all of the Condominiums in the Project (if said termination is proposed by reason of the substantial destruction or condemnation of the Project) or by sixty-seven percent (67%) of such Beneficiaries (if said termination is for reasons other than such substantial destruction or condemnation).

(d) Each Beneficiary of a first Mortgage on a Condominium in the Project which receives proper written notice of a proposed amendment or termination of this Declaration by certified or registered mail with a return receipt requested shall be

deemed to have approved the amendment or termination if the Beneficiary fails to submit a response to the notice within thirty (30) days after the Beneficiary receives the notice.

(e) A copy of each amendment shall be certified by at least two (2) officers of the Association, and the amendment shall be effective when a Certificate of Amendment is Recorded. The Certificate, signed and sworn to by two (2) officers of the Association that the requisite number of Owners and mortgagees have either voted for or consented in writing to any amendment adopted as provided above, when Recorded, shall be conclusive evidence of that fact. The Association shall maintain in its files the record of all such votes or written consents for a period of at least four (4) years. The certificate reflecting any termination or amendment which requires the written consent of any of the Beneficiaries of first Mortgages shall include a certification that the requisite approval of such first Mortgagees has been obtained.

(f) Notwithstanding any other provisions of this Section 13.2, at any time prior to the first Close of Escrow for the sale of a Condominium within Phase 1, Declarant may unilaterally amend or terminate this Declaration by Recording a written instrument which effects the amendment or termination and is signed and acknowledged by Declarant.

(g) Notwithstanding any other provisions of this Section 13.2, for so long as Declarant owns any portion of the Property, Declarant may unilaterally amend this Declaration by Recording a written instrument signed by Declarant in order to conform this Declaration to the requirements of VA, FHA, DRE, FNMA, GNMA or FHLMC then in effect.

13.3. Protection of Declarant.

Until the seventh (7th) anniversary of the first Close of Escrow for the sale of a Condominium in the Project, the prior written approval of Declarant, as developer of the Property, will be required before any amendment which would impair or diminish the rights of Declarant to complete the Property or sell or lease Condominiums therein in accordance with this Declaration shall become effective. Notwithstanding any other provisions of the Restrictions, until such time as (i) Declarant is no longer entitled to add Annexable Territory to the Property without the consent of the Association

pursuant to Section 16.1, or (ii) Declarant no longer owns any Condominiums in the Property, whichever occurs last, the following actions, before being undertaken by the Association, shall first be approved in writing by Declarant:

(a) Any amendment or action requiring the approval of first Mortgagees pursuant to this Declaration, including without limitation all amendments and actions specified in Sections 13.2;

(b) The annexation to the Property of real property other than the Annexable Territory pursuant to Section 16.2;

(c) The levy of a Capital Improvement Assessment for the construction of new facilities not constructed on the Common Property by Declarant; or

(d) Subject to Section 5.4 regarding limitations on Annual Assessment increases, any significant reduction of Association maintenance or other services.

ARTICLE XIV

14. Enforcement of Certain Bonded Obligation.

14.1. Consideration by Board of Directors.

If (1) the Common Property Improvements in any Phase of Development are not completed prior to the issuance of a Final Subdivision Public Report for such Phase by the DRE for the sale of Condominiums in the Project, and (2) the Association is obligee under a bond or other arrangement ("Bond") required by the DRE to secure performance of the commitment of Declarant to complete such Improvements, the Board shall consider and vote on the question of action by the Association to enforce the obligations under the Bond, with respect to any such Improvement for which a Notice of Completion has not been filed within sixty (60) days after the completion date specified for that Improvement in the Planned Construction Statement appended to the Bond. If the Association has given an extension in writing for the completion of any Common Property Improvement, the Board shall be directed to consider and vote on the aforesaid question if a Notice of Completion has not been filed, within thirty (30) days after the expiration of the extension.

14.2. Consideration by the Members.

A special meeting of Members, for the purpose of voting to override a decision by the Board not to initiate action to enforce the obligations under the Bond or on the failure of the Board to consider and vote on the question, shall be held

no fewer than thirty-five (35) days nor more than forty-five (45) days after receipt by the Board of a petition for such a meeting signed by Members representing five percent (5%) of the total voting power of the Association. A vote of a majority of the voting power of the Association residing in Members other than Declarant to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Association, and the Board shall thereafter implement this decision by initiating and pursuing appropriate action in the name of the Association.

ARTICLE XV

15. General Provisions.

15.1. Enforcement of Restrictions.

(a) Violations Identified by the Association.

If the Board determines that there is a violation of any provision of the Restrictions, or the Architectural Committee determines that an Improvement which is the maintenance responsibility of an Owner is in need of installation, maintenance, repair, restoration or painting, then the Board shall give written notice to the responsible Owner identifying (i) the condition or violation complained of, and (ii) the length of time the Owner has to remedy the violation including, if applicable, the length of time the Owner has to submit plans to the Architectural Committee and the length of time the Owner has to complete the work proposed in the plans submitted to the Architectural Committee.

If an Owner does not perform such corrective action as is required by the Board and the Architectural Committee within the allotted time, the Board, after Notice and Hearing, may undertake to remedy such condition or violation complained of, and the cost thereof shall be charged to the Owner as a Special Assessment. Such Special Assessment shall be subject to enforcement and collection by the Board in accordance with the procedures provided for in this Declaration.

If the violation involves nonpayment of any type of Assessment, then the Board shall be entitled to collect such delinquent Assessment pursuant to the procedures set forth in Article V.

(b) Violations Identified by an Owner. In the event that an Owner alleges that another Owner, his family, guests or tenants, is violating the Restrictions (other than nonpayment of any type of Assessment), the Owner must first submit the matter to the Board pursuant to the Notice and Hearing procedure established in Article XII of the Bylaws before the complaining Owner may resort to arbitration for relief with respect to the alleged violation.

(c) Binding Arbitration. In the event of a dispute between or among (a) Declarant, its builders, general contractors or brokers, or their agents or employees, and any Owner(s) or the Association, or (b) any Owner, and another Owner, or (c) the Association, and any Owner regarding any controversy or claim between the parties, including any claim based on contract, tort, or statute, arising out of or relating to the rights or duties of the parties under the Restrictions or the design or construction of the Project (excluding disputes relating to the payment of any type of Assessments), the matter will be submitted to binding arbitration in accordance with Article XVIII of this Declaration so long as the requirements of Sections 15.1(a) and (b) above have been met, if they are applicable.

(d) Legal Proceedings. Failure to comply with any of the terms of the Restrictions by an Owner, his family, guests, employees, invitees or tenants, shall be grounds for relief which may include, without limitation, an action to recover sums due for damages, injunctive relief, foreclosure of any lien, or any combination thereof. Provided, however, that the procedures established in Sections 15.1(a), (b) and (c) above must first be followed, if they are applicable.

(e) Limitation on Expenditures. The Association shall not incur litigation expenses, including without limitation attorneys' fees, where the Association initiates legal proceedings or is joined as a plaintiff in legal proceedings without the approval of a majority of the voting power of the Association, excluding the voting power of any Owner who would be a defendant in such proceedings. Such approval shall not be necessary if the legal proceedings are initiated to (i) enforce the use restrictions contained in Article VIII hereof, (ii)

enforce the architectural control provisions contained in Article IV hereof, or (iii) collect any unpaid assessments levied pursuant to this Declaration.

(f) Schedule of Fines. The Board may adopt a schedule of reasonable fines or penalties which, in its reasonable discretion, it may assess against an Owner for the failure of such Owner, or of a resident of or visitor to such Owner's Unit, to comply with any provisions of the Restrictions. Such fines or penalties may only be assessed by the Board after Notice and Hearing.

(g) No Waiver. Failure to enforce any provision hereof shall not constitute a waiver of the right to enforce that provision, or any other provision hereof.

(h) Right to Enforce. The Board, any Owner (not at the time in default hereunder), or Declarant (so long as Declarant is an Owner) shall be entitled to enforce the Restrictions as described in this Article. Each Owner shall have a right of action against the Association for the Association's failure to comply with the Restrictions. Each remedy provided for in this Declaration shall be cumulative and not exclusive or exhaustive.

(i) Attorneys Fees. Any judgment rendered in any action or proceeding pursuant to this Declaration shall include a sum for attorneys' fees in such amount as the court or arbitrator, as applicable, may deem reasonable, in favor of the prevailing party, as well as the amount of any delinquent payment, interest thereon, costs of collection and costs of court or arbitration, as applicable.

15.2. Severability.

The provisions hereof shall be deemed independent and severable, and a determination of invalidity or partial invalidity or unenforceability of any one provision or portion hereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provisions hereof.

15.3. Interpretation.

The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for the creation and operation of a residential condominium development and for the maintenance of Common

Property, and any violation of this Declaration shall be deemed to be a nuisance. The Article and Section headings have been inserted for convenience only, and shall not be considered or referred to in resolving questions of interpretation or construction. As used herein, the singular shall include the plural and the plural the singular; and the masculine, feminine and neuter shall each include the other, unless the context dictates otherwise.

15.4. Mergers or Consolidations.

Upon a merger or consolidation of the Association with another association, its properties, rights and obligations may, by operation of law, be transferred to another surviving or consolidated association or, alternatively, the properties, rights and obligations of another association may, by operation of law, be added to the properties, rights and obligations of the Association as a surviving corporation pursuant to a merger. The surviving or consolidated association may administer and enforce the covenants, conditions and restrictions established by this Declaration governing the Property, together with the covenants and restrictions established upon any other property, as one (1) plan. Any such merger or consolidation shall require the prior approval of VA.

15.5. Use of Recreational Facilities.

The Board of Directors shall have the right to limit the number of guests that an Owner or such Owner's tenant may permit to use the open parking and recreational facilities on the Common Property, and the Board shall have the right to set further reasonable restrictions on the time and manner of use of said parking areas and recreational facilities, in accordance with the Rules and Regulations, including, without limitation, Rules and Regulations restricting or prohibiting the use of all or designated portions of the Property recreational facilities by minors, guests of an Owner or his tenants.

15.6. No Public Right or Dedication.

Nothing contained in this Declaration shall be deemed to be a gift or dedication of all or any part of the Property to the public, or for any public use.

15.7. Nonliability and Indemnification.

(a) General Limitation. Except as specifically provided in the Restrictions or as required by law, no right, power, or responsibility conferred on the Board or the Architectural Committee by this Declaration, the Articles or the Bylaws shall be construed as a duty, obligation or disability charged upon the Board, the Architectural

Committee, any member of the Board or of the Architectural Committee, or any other officer, employee or agent of the Association. No such Person shall be liable to any party (other than the Association or a party claiming in the name of the Association) for injuries or damage resulting from such Person's acts or omissions within what such Person reasonably believed to be the scope of his Association duties ("Official Acts"), except to the extent that such injuries or damage result from such Person's willful or malicious misconduct. No such Person shall be liable to the Association (or to any party claiming in the name of the Association) for injuries or damage resulting from such Person's Official Acts, except to the extent that such injuries or damage result from such Person's negligence or willful or malicious misconduct.

(b) Damages Limitation. A volunteer Board member or volunteer Association officer shall not be personally liable in excess of the coverage of insurance specified below to any person who suffers injury, including without limitation bodily injury, emotional distress, wrongful death or property damage or loss as a result of the tortious act or omission of the volunteer officer or Board member if all of the following conditions are satisfied:

- (1) The Board member or officer is a tenant of a Unit or an Owner of no more than two (2) Units;
- (2) The act or omission was performed within the scope of the Board member's or officer's Association duties;
- (3) The act or omission was performed in good faith;
- (4) The act or omission was not willful, wanton or grossly negligent; and
- (5) The Association maintained and had in effect at the time the act or omission occurred and at the time a claim was made one (1) or more policies of insurance which shall include coverage for (A) general liability of the Association and (B) individual liability of officers and Board members for negligent acts or omissions in that

capacity; provided that both types of coverage are in the amount of at least five hundred thousand dollars (\$500,000.00) if the Project then consisted of one hundred (100) or fewer Condominiums, and at least one million dollars (\$1,000,000.00) if the Project then consisted of more than one hundred (100) Condominiums.

A Board member or Association officer who at the time of the act or omission was the Declarant or received direct or indirect compensation as an employee from Declarant or from a financial institution that purchased a Condominium at a judicial or nonjudicial foreclosure of a Mortgage is not a volunteer for purposes of this Section 15.7(b). The payment of actual expenses incurred by a Board member or Association officer does not affect the member's or officer's status as a volunteer for purposes of this Section 15.7(b).

(c) Indemnification. The Association shall pay all expenses incurred by, and satisfy any judgment or fine levied against, any person as a result of any action or threatened action against such person to impose liability on such person for his Official Acts, provided that:

(1) The Board determines that such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Association;

(2) In the case of a criminal proceeding, the Board determines that such person had no reasonable cause to believe his conduct was unlawful; and

(3) In the case of an action or threatened action by or in the right of the Association, the Board determines that such person acted with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Any determination of the Board required under this Section 15.7(c) must be approved by a majority vote of a quorum consisting of Directors who are

not parties to the action or threatened action giving rise to the indemnification. If the Board fails or refuses to make any such determination, such determination may be made by the vote or written consent of a majority of a quorum of the Members of the Association voting at a meeting of the Association called for such purpose, provided that the person to be indemnified shall not be entitled to vote. Payments made hereunder shall include amounts paid and expenses incurred in settling any such action or threatened action. This Section 15.7(c) shall be construed to authorize payments and indemnification to the fullest extent now or hereafter permitted by applicable law. The entitlement to indemnification hereunder shall inure to the benefit of the estate, executor, administrator, heirs, legatees, or devisees of any person entitled to such indemnification.

15.8. Notices.

Except as otherwise provided in this Declaration, notice to be given to an Owner shall be in writing and may be delivered personally to the Owner. Personal delivery of such notice to one (1) or more co-owners of a Condominium or to any general partner of a partnership owning a Condominium shall be deemed delivery to all co-owners or to the partnership, as the case may be. Personal delivery of such notice to any officer or agent for the service of process on a corporation shall be deemed delivery to the corporation. In lieu of the foregoing, such notice may be delivered by regular United States mail, postage prepaid, addressed to the Owner at the most recent address furnished by such Owner to the Association or, if no such address shall have been furnished, to the street address of such Owner's Unit. Such notice shall be deemed delivered three (3) business days after the time of such mailing, except for notice of a meeting of Members or of the Board of Directors in which case the notice provisions of the Bylaws shall control. Any notice to be given to the Association may be delivered personally to any member of the Board, or sent by United States mail, postage prepaid, addressed to the Association at such address as shall be fixed from time to time and circulated to all Owners.

15.9. Priorities and Inconsistencies.

If there are conflicts or inconsistencies between this Declaration and either the Articles of Incorporation or the Bylaws of the Association, the terms and provisions of this Declaration shall prevail.

15.10. Constructive Notice and Acceptance.

Every person who owns, occupies or acquires any right, title, estate or interest in or to any Condominium or other portion

of the Property does hereby consent and agree, and shall be conclusively deemed to have consented and agreed, to every limitation, restriction, easement, reservation, condition and covenant contained herein, whether or not any reference to these restrictions is contained in the instrument by which such person acquired an interest in the Property, or any portion thereof.

15.11. Declarant's Right to Cure Alleged Defects. It is Declarant's intent that the Common Property, the Units, and the Improvements be built in compliance with all applicable building codes and ordinances and that they be of a quality that is consistent with good construction practices for production housing of this type. Nevertheless, due to the complex nature of construction and the subjectivity involved in evaluating such quality, disputes may arise as to whether a defect in construction exists and Declarant's responsibility therefor. It is Declarant's intent to resolve all disputes and claims regarding "Alleged Defects" (as defined below) in any portion of the Common Property, any Unit, and any Improvements, amicably, and without the necessity of time consuming and costly litigation. Accordingly, the Association, and all Owners shall be bound by the following claim resolution procedure:

(a) Declarant's Right to Cure. If the Association or any Owner or Owners (collectively "Claimant") claim, contend or allege that any portion of the Common Property, any Unit, and/or any Improvements are defective or that Declarant or its agents, consultants, contractors or subcontractors were negligent in the planning, design, engineering, grading or construction thereof (collectively, an "Alleged Defect"), Declarant is hereby granted the irrevocable right to inspect, repair and/or replace such Alleged Defect as set forth herein.

(b) Notice to Declarant. In the event that a Claimant discovers any Alleged Defect, Claimant shall, within a reasonable time after discovery, notify Declarant, in writing, at such address at which Declarant maintains its principal place of business, of the specific nature of such Alleged Defects ("Notice of Alleged Defect").

(c) Right to Enter, Inspect, Repair, and/or Replace. Within a reasonable time after the receipt by Declarant of a Notice of Alleged Defect or the independent discovery of any Alleged Defect by Declarant, Declarant shall have the irrevocable right, upon reasonable notice to Claimant and during normal business hours, to enter onto or into,

as applicable, the Common Property, any Unit, and/or any Improvements for the purposes of inspecting and, if deemed necessary by Declarant, repairing and/or replacing such Alleged Defect. In conducting such inspection, repairs and/or replacement Declarant shall be entitled to take any actions as it shall deem reasonable and necessary under the circumstances.

(d) Legal Actions. No Claimant shall initiate any legal action, cause of action, proceeding or arbitration against Declarant alleging damages (i) for the costs of repairing or the replacement of any Alleged Defect or (ii) for the diminution in value resulting from such Alleged Defect, unless and until Claimant has (aa) delivered to Declarant a Notice of Alleged Defect and (bb) Declarant has, within one hundred twenty (120) days after its receipt of such Notice of Alleged Defect, either (1) failed to repair or replace such Alleged Defect or (2) if such Alleged Defect cannot reasonably be repaired or replaced within such one hundred twenty (120) day period, failed to commence such repair or replacement of the Alleged Defect and, thereafter, diligently pursue such repair or replacement to completion.

(e) No Additional Obligations. Nothing set forth in this Section 15.11 shall be construed to impose any obligation on Declarant to inspect, repair or replace any items or Alleged Defect for which Declarant is not otherwise obligated under applicable state and federal law or any limited warranty provided by Declarant in connection with the sale of the Units constructed thereon. Notwithstanding any other provision of this Declaration, this Section 15.11 shall not be amended without the prior written approval of Declarant.

15.12. No Representations or Warranties. No representations or warranties of any kind, express or implied, other than the standard warranty required by VA and FHA, have been given or made by Declarant, or its agents or employees in connection with the Property, or any portion thereof, its physical condition, zoning, compliance with applicable laws, fitness for intended use, or in connection with the subdivision, sale, operation, maintenance, cost of maintenance, taxes or regulation thereof as a condominium project, except as specifically and expressly set forth in this Declaration and except as may be filed by Declarant from time to time with the DRE.

ARTICLE XVI

16. Annexation of Additional Property.

Additional real property may be annexed to Phase 1 and such additional real property may become subject to this Declaration by any of the methods set forth hereinafter:

16.1. Additions by Declarant.

Declarant or its successors or assigns shall have the right from time to time to add the Annexable Territory, or any portion or portions thereof (including any recreation facilities located thereon), to the Property and to bring such added territory within the general plan and scheme of this Declaration without the approval of the Association, its Board of Directors, or Members; provided that such a right of Declarant and its successors and assigns shall terminate on the earlier to occur of the third (3rd) anniversary of the original issuance of the most recently issued Final Subdivision Public Report for the most recent Phase of Development, or the seventh (7th) anniversary of the date of Recordation of this Declaration. As each Phase of Development is developed, Declarant may, with respect thereto, record a supplemental declaration ("Supplemental Declaration") which may supplement this Declaration with such additional covenants, conditions, restrictions, reservations and easements as Declarant may deem appropriate for that Phase of Development.

16.2. Other Additions.

In addition to the provision for annexation specified in Section 16.1 above, additional real property may be annexed to the Property and brought within the general plan and scheme of this Declaration upon the approval by vote or written consent of Members entitled to exercise no less than two-thirds (2/3rds) of the voting power of the Association. Notwithstanding the foregoing, any additional real property annexed to the Property after the seventh (7th) anniversary of the Recordation of this Declaration shall not effect a change in the percentage interests of Owners in the Common Area which existed prior to the date of annexation.

16.3. Rights and Obligations-Added Territory.

Subject to the provisions of Section 16.4, upon the Recording of a Notice of Addition of Territory containing the provisions as set forth in this Section, all provisions contained in this Declaration shall apply to the real property described in such Notice of Addition of Territory (the "added territory") in the same manner as if it were originally covered by this Declaration. Thereafter, the rights, powers and responsibilities of the parties to this Declaration with respect to the added territory shall be the same as with respect to the property originally covered hereby, and the

rights, powers and responsibilities of the Owners, lessees and occupants of Units within the added territory, as well as within the property originally subject to this Declaration, shall be the same as if the added territory were originally covered by this Declaration. From and after the first day of the month following the first Close of Escrow for the sale of a Condominium in the added territory, the Owner of Condominiums located in the added territory shall share in the payment of assessments to the Association to meet Common Expenses of the entire Property as provided in Section 5.5 hereof. Voting rights attributable to the Condominiums in the added territory shall not vest until Annual Assessments have commenced as to such Condominiums.

16.4. Notice of Addition of Territory.

The additions authorized under Sections 16.1 and 16.2 shall be made by Recording a Notice of Addition of Territory, or other similar instrument (which notice or instrument may contain the Supplemental Declaration, if any, affecting each such Phase of Development), with respect to the added territory ("Notice of Addition") which shall extend the general plan and scheme of this Declaration to such added territory. The Notice of Addition for any addition under Section 16.1 shall be signed by Declarant. The Notice of Addition for any addition under Section 16.2 shall be signed by at least two (2) officers of the Association to certify that the requisite approval of the Members under Section 16.2 was obtained. The Recordation of said Notice of Addition shall constitute and effectuate the annexation of the added territory described therein, and thereupon said added territory shall become and constitute a part of the Property, become subject to this Declaration and encompassed within the general plan and scheme of covenants, conditions, restrictions, reservation of easements and equitable servitudes contained herein, and become subject to the functions, powers and jurisdiction of the Association; and the Owners of Condominiums in said added territory shall automatically become Members of the Association. Such Notice of Addition may contain a Supplemental Declaration with such additions and modifications of the covenants, conditions, restrictions, reservation of easements and equitable servitudes contained in this Declaration as may be necessary to reflect the different character, if any, of the added territory, or as Declarant may deem appropriate in the development of the added territory, and as are not inconsistent with the general plan and scheme of this Declaration. In no event, however, shall such Notice of Addition or Supplemental Declaration revoke, modify or add to the covenants, conditions, restrictions, reservation of easements, or equitable servitudes established by this Declaration as the same shall pertain to the real property originally covered by this Declaration. Concurrently with the first Close of Escrow for the sale of a

Condominium in any Phase of Development annexed to the Property in accordance herewith, Declarant shall pay to the Association an appropriate amount (as determined by DRE) for reserves for replacement or deferred maintenance of the Common Property in such Phase necessitated by or arising out of the use and occupancy of the Condominiums in such Phase under a rental program conducted by Declarant if such rental program was in effect for at least one (1) year prior to such first Close of Escrow.

16.5. Deannexation and Amendment.

Declarant may amend a Notice of Addition or delete all or a portion of a Phase of Development from coverage of this Declaration and the jurisdiction of the Association, so long as Declarant is the owner of all of such Phase of Development, and provided that (1) an amending instrument or a Notice of Deletion of Territory, as applicable, is Recorded in the same manner as the applicable Notice of Addition was Recorded, (2) Declarant has not exercised any Association vote with respect to any portion of such Phase of Development, (3) assessments have not yet commenced with respect to any portion of such Phase of Development, (4) Close of Escrow has not occurred for the sale of any Condominium in such Phase of Development, (5) the Association has not made any expenditures or incurred any obligations with respect to any portion of such Phase of Development, and (6) a draft of the Notice of Deletion of Territory has been submitted to VA and VA has determined that the deannexation is acceptable and in accordance with the revised general plan and has so advised Declarant.

16.6. Power of Attorney.

Each Owner of a Condominium in the Project, by accepting a deed to a Condominium, shall be deemed to have (a) agreed and acknowledged that the Owners own no interest in the Annexable Territory which may be developed, if at all, by Declarant in its sole and absolute discretion and (b) constituted and irrevocably appointed Declarant, for so long as Declarant owns all or any portion of the Annexable Territory, as his Attorney-in-Fact, for himself and each of his Mortgagees, optionees, grantees, licensees, trustees, receivers, lessees, tenants, judgment creditors, heirs, legatees, devisees, administrators, executors, legal representatives, successors and assigns, whether voluntary or involuntary, and thereby to have conveyed a Power of Attorney coupled with an interest to Declarant as his Attorney in Fact to prepare, execute, acknowledge and Record any Condominium Plan or amendment to the Condominium Plans for all or any portion of the Annexable Territory. However, nothing set forth herein shall be deemed or construed as an agreement by Declarant that any Owner shall be entitled to any participation in or discretion over

the preparation and Recordation of a Condominium Plan or Plans for all or any portion of the Annexable Territory. The acceptance or creation of any Mortgage or other encumbrance whether or not voluntary, created in good faith, or given for value, shall be deemed to be accepted or created subject to each of the terms and conditions of the Power of Attorney described in this Section.

16.7. Reciprocal Cross-Easements Between Phases.
Subject to annexation of additional property as set forth in Section 16.1:

(a) Declarant hereby reserves for the benefit of and appurtenant to the Condominiums hereafter located in each Phase of Development annexed to Phase 1 and their respective Owners, nonexclusive easements to use the Common Property (other than any buildings containing dwelling units or Exclusive Use Common Area) in Phase 1, including, without limitation, the driveways, pursuant to and in the manner set forth in this Declaration, to the same extent and with the same effect as if each of the Owners of a Condominium in each Phase of Development annexed to Phase 1 owned an undivided interest in the Common Area in Phase 1.

(b) Declarant hereby grants, for the benefit of and appurtenant to each Condominium in Phase 1 and their Owners, a nonexclusive easement to use the Common Property (other than any buildings containing dwelling units or Exclusive Use Common Area) in each Phase of Development annexed to Phase 1, including, without limitation, the driveways, pursuant to and in the manner set forth in this Declaration, to the same extent and with the same effect as if each of the Owners of a Condominium in Phase 1 owned an undivided interest in the Common Area in each such Phase of Development.

These reciprocal cross-easements shall be effective as to each Phase of Development annexed to Phase 1 and as to Phase 1, only upon the first Close of Escrow for the sale of a Condominium in such Phase of Development annexed to Phase 1. Prior to such first Close of Escrow, neither Phase 1 nor the Phases of Development annexed to Phase 1 shall be affected by these reciprocal cross-easements.

ARTICLE XVII

17. Annual Inspection.

17.1. Duty to Inspect.

It shall be the duty of the Board to have the Common Property inspected at least once each year.

17.2. Purpose of Inspection.

The purpose of the inspection shall be to (i) determine whether the Common Property is being maintained adequately in accordance with the standards of maintenance established in Section 2.7 hereof, (ii) identify the condition of the Common Property and any Improvements thereon including the existence of any hazards or defects, and the need for performing additional maintenance, refurbishment, replacement, or repair, and (iii) recommend preventive actions which may be taken to reduce potential maintenance costs to be incurred in the future.

17.3. Scope of Inspection.

All of the Common Property and Improvements thereon including, but not limited to, the exterior and structural integrity of all structures, gates, walls, walkways, irrigation systems, landscaping, and drainage devices shall be inspected.

17.4. Experts and Consultants.

The Board may employ such experts and consultants as are necessary to perform the inspection and make the report required by this Article.

17.5. Report to Owners.

The Board shall have a report of the results of the inspection of the Common Property required by this Article prepared. The report shall be furnished to Owners within the time set forth for furnishing Owners with the Budget. The report shall include at least the following:

(a) a description of the condition of the Common Property, including a list of items inspected, and the status of maintenance, repair and need for replacement of all such items;

(b) a description of all maintenance, repair and replacement planned for the ensuing fiscal year and included in the Budget;

(c) if any maintenance, repair or replacement is to be deferred, the reason for such deferral;

(d) a summary of all reports of inspections performed by any expert or consultant employed by the Board to perform inspections;

(e) a report of the status of compliance with the maintenance, replacement and repair needs set forth in the inspection report for preceding years; and

(f) such other matters as the Board deems appropriate.

ARTICLE XVIII

18. Arbitration of Disputes.

18.1. Arbitration Generally Required.

Notwithstanding any other provision of this Declaration, in the event of an arbitrable dispute between or among (a) Declarant or its agents or employees, and any Owner(s) or the Association, or (b) any Owner, and another Owner, or (c) the Association, and any Owner (exclusive of disputes relating to the payment of Annual Assessments, Capital Improvement Assessments, Reconstruction Assessments, Special Assessments or any other assessments imposed by this Declaration), the matter will be submitted to binding arbitration following Notice and Hearing as provided in the Bylaws, if applicable. Arbitrable disputes include any controversy or claim, including any claim based on contract, tort, or statute, relating to the use, repair, maintenance or improvement of the Project. Any controversy regarding whether a dispute is an arbitrable dispute shall be determined by the arbitrator.

18.2. Arbitrator.

The arbitration shall be conducted by the Judicial Arbitration and Mediation Services, Inc. at 500 North State College Boulevard, Suite 600, Orange, California, County of Orange, or its successor ("JAMS"). If JAMS is unavailable, arbitration will be conducted by and in accordance with the rules of the American Arbitration Association ("AAA") as herein modified. In either case, there shall be only one arbitrator who shall be selected by mutual agreement of the parties, failing which the selection shall be made by JAMS or its substitute.

18.3. Rules for Arbitration.

The rules to be followed in the arbitration are as follows: Claims comprising the petition for arbitration shall be submitted in the form of a complaint, prepared in conformance with California Code of Civil Procedure, Section 420 et seq., filed with the service or association which will be conducting the arbitration, with copies personally served on all responding parties. The respondent will have thirty (30)

days to file a response which will take the form of an answer, prepared in compliance with California Code of Civil Procedure, Section 431.30. No demurrers, motions to strike, or pretrial motions will be permitted. The matters at issue will be set for hearing by the arbitrator. Within twenty (20) days of the filing of the response to the claim, the arbitrator will schedule, upon mutual agreement of the parties, a prehearing conference, discovery and hearing dates. If parties are unable to agree, the arbitrator will set the appropriate dates. Parties shall be allowed to conduct discovery under the provisions of the California Code of Civil Procedure, Sections 1282.6, 1283 and 1283.05. Any disputes concerning discovery shall be submitted to the arbitrator and attorneys fees will be awarded to the party prevailing at hearing of any discovery dispute, regardless of which party ultimately prevails in the matter. At the arbitration hearing, order of proof shall be governed by the California Code of Civil Procedure unless the parties mutually agree otherwise. Admissibility will be governed by the California Evidence Code.

18.4. Decision of Arbitrator.

The arbitrator shall comply with, and the decision of the arbitrator shall be rendered in accordance with, the law of the State of California. The arbitrator shall have the power to grant all legal and equitable remedies and award compensatory damages provided by California law, but shall not have the power to award punitive damages. The parties agree to be bound by the decision of the arbitrator, which shall be final, shall not be appealable, and which shall allow for no trial de novo on the same issues. The arbitrator's decision shall be rendered within thirty (30) days following submission of the matter at issue, but the failure to comply with this provision shall in no way invalidate any decision or award as may be rendered more than thirty (30) days after submission.

18.5. Award.

Upon the rendering of the decision or award, the prevailing parties shall be entitled to reasonable costs and attorneys' fees. Judgment upon any award may be entered in any court having jurisdiction or applications may be made to such court for judicial acceptance of the award and an order of enforcement.

18.6. Miscellaneous.

Nothing in this Article shall constitute a waiver of any of the benefits of statute of limitations or equitable defense by any party. Notwithstanding any other provision of this

Declaration, this Article may not be amended without the prior written consent of Declarant.

This Declaration is dated for identification purposes August 2, 1993.

MONARCH BEACH VENTURE, LTD., a California limited partnership

By: MONARCH HILL DEVELOPERS LTD., a California limited partnership

Its: General Partner

By: REGIS HOMES ADVISORS CORP., a California corporation

Its: General Partner

By: David Jacobson

Its: Vice President

"Declarant"

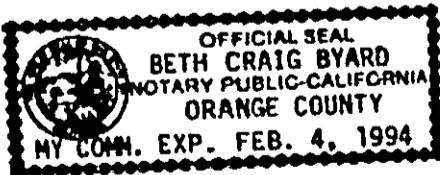
CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California
County of Orange

On 8/2/93 before me, Beth Craig Byard, Notary Public
DATE NAME, TITLE OF OFFICER - E.G., "JANE DOE, NOTARY PUBLIC"

personally appeared David Jacobson
NAME(S) OF SIGNER(S)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument



WITNESS my hand and official seal.

Beth Craig Byard
SIGNATURE OF NOTARY

OPTIONAL SECTION

CAPACITY CLAIMED BY SIGNER

Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the document.

- INDIVIDUAL
- CORPORATE OFFICER(S)
- TITLE(S)
- PARTNER(S) LIMITED GENERAL
- ATTORNEY-IN-FACT
- TRUSTEE(S)
- GUARDIAN/CONSERVATOR
- OTHER: _____

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

THIS CERTIFICATE MUST BE ATTACHED TO THE DOCUMENT DESCRIBED AT RIGHT:

Though the data requested here is not required by law, it could prevent fraudulent reattachment of this form

OPTIONAL SECTION
TITLE OR TYPE OF DOCUMENT Deeds - M. 11/15
NUMBER OF PAGES _____ DATE OF DOCUMENT _____
SIGNER(S) OTHER THAN NAMED ABOVE _____

SUBORDINATION

The undersigned, as Beneficiary of the beneficial interest in and under that certain Deed of Trust dated September 30, 1991 and recorded on March 26, 1992, as Instrument No. 92-184602, in Official Records of Orange County, California (the "Deed of Trust"), which Deed of Trust is by and between Monarch Beach Venture, Ltd., as Trustor, Ticor Title Insurance Company of California, as Trustee, and Continental Bank, N.A., as Beneficiary, hereby expressly subordinates said Deed of Trust and its beneficial interest thereunder to the foregoing Declaration of Covenants, Conditions and Restrictions and Reservation of Easements for Monarch Hills ("Declaration"), to all maintenance and other easements to be conveyed to the Association in accordance with the Agreement and any Notice of Addition recorded in connection therewith. By executing this Subordination, the undersigned agrees that should the undersigned acquire title to all or any portion of the Property by foreclosure or any other remedy in or relating to the Deed of Trust, the undersigned will acquire title subject to the provisions of the Declaration, which shall remain in full force and effect.

Dated: August 4, 1993.

CONTINENTAL BANK, N.A., a
national banking association

By: *Arthur J. Grapp*

Its: VICE-PRESIDENT

By: *Henry J. [Signature]*

Its: VICE-PRESIDENT

STATE OF ILL.)
COUNTY OF COOK) SS.

On August 4, 1993, before me, the undersigned, a Notary Public in and for said State, personally appeared KATHERINE E. GNAPP and GARY J. KATUNAS, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) (is) (are) subscribed to the within instrument and acknowledged to me that (he) (she) (they) executed the same in (his) (her) (their) authorized capacity(ies), and that by (his) (her) (their) signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Barbara A. Braun
Notary Public in and for said State

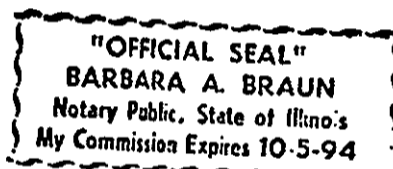
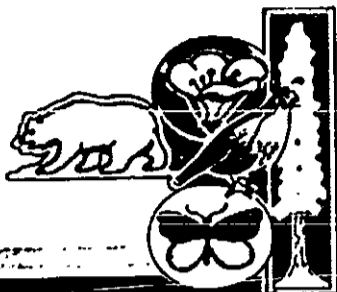


EXHIBIT "A"

ARTICLES OF INCORPORATION OF THE ASSOCIATION

jrs095/20556/000/0090/monarch
02-04-93

1729908



**State
of
California**
OFFICE OF THE SECRETARY OF STATE

CORPORATION DIVISION

I, *MARCH FONG EU*, Secretary of State of the State of California, hereby certify:

That the annexed transcript has been compared with the corporate record on file in this office, of which it purports to be a copy, and that same is full, true and correct.

IN WITNESS WHEREOF, I execute
this certificate and affix the Great
Seal of the State of California this

AUG 17 1993



March Fong Eu

Secretary of State

1729908

ENDORSED
FILED

In the office of the Secretary of State
of the State of California

ARTICLES OF INCORPORATION
OF
MONARCH HILLS CONDOMINIUM ASSOCIATION

AUG 16 1993

ONE: The name of this corporation ("Association" herein) is MONARCH HILLS CONDOMINIUM ASSOCIATION.

MARCH FONG EU, Secretary of State

TWO: This corporation is a nonprofit mutual benefit corporation organized under the Nonprofit Mutual Benefit Corporation Law. The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under such law.

THREE: The Association's initial agent for service of process is David Jacobson, whose business address is 5120 Campus Drive, Newport Beach, California 92660.

FOUR: The Association shall have and exercise any and all powers, rights and privileges which a corporation organized under the Nonprofit Mutual Benefit Corporation Law may now or hereafter have or exercise, provided that the Association shall not, except to an insubstantial degree, engage in any activities or exercise any powers that are not in furtherance of the purposes described in the Declaration of Covenants, Conditions and Restrictions and Reservation of Easements for Monarch Hills, recorded or to be recorded with the Orange County Recorder, in the Bylaws of the Association, in Section 23701t of the California Revenue and Taxation Code, and in Section 528 of the Internal Revenue Code, all as amended from time to time.

FIVE: The classes of Membership and the voting and other rights and privileges of Members shall be as set forth in the Bylaws. So long as there are two classes of Membership, amendment of these Articles of Incorporation shall require the assent (by vote or written consent) of (i) a bare majority of the Board of Directors of the Association, and (ii) Members representing seventy-five percent (75%) or more of the voting power of each class of Members. After conversion of the Class B Membership to Class A Membership, amendment of these Articles of Incorporation shall require the assent (by vote or written consent) of (i) a bare majority of the Board of Directors of the Association, (ii) seventy-five percent (75%) or more of the total voting power of the Members, and (iii) Members representing seventy-five percent (75%) or more of the voting power of the Members other than the Subdivider of the Project ("Declarant").

The undersigned, who is the incorporator of the Association, has executed these Articles of Incorporation on
AUG 16 1993, 1993.

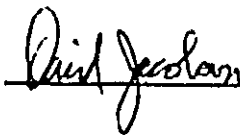


EXHIBIT "B"

BYLAWS OF THE ASSOCIATION

BYLAWS
OF
MONARCH HILLS CONDOMINIUM ASSOCIATION

jrs095/20556/000/0080/monarch
07-23-93

TABLE OF CONTENTS
FOR BYLAWS
OF
MONARCH HILLS CONDOMINIUM ASSOCIATION

	<u>PAGE NO.</u>
1. Plan of Condominium Ownership.	1
1.1. Name.	1
1.2. Application.	1
1.3. Meaning of Terms.	1
2. Voting by Association Membership.	1
2.1. Voting Rights.	1
2.2. Majority of Quorum.	2
2.3. Quorum.	2
2.4. Proxies.	3
3. Administration.	3
3.1. Association Responsibilities.	3
3.2. Place of Meetings of Members.	3
3.3. Annual Meetings of Members.	3
3.4. Special Meetings of Members.	4
3.5. Notice; Record Dates.	4
3.6. Adjourned Meetings.	5
3.7. Order of Business.	6
3.8. Action Without Meeting.	6
3.9. Consent of Absentees.	6
3.10. Minutes, Presumption of Notice.	6
4. Board of Directors.	7
4.1. Number and Qualification.	7
4.2. Powers and Duties.	7
4.3. Special Powers and Duties.	8
4.4. Management Agent.	11
4.5. Election and Term of Office.	12
4.6. Books, Audit.	13
4.7. Vacancies.	17
4.8. Removal of Directors.	17
4.9. Organization Meeting of Board.	18
4.10. Regular Meetings of Board.	18
4.11. Special Meetings of Board.	18
4.12. Waiver of Notice.	19

TABLE OF CONTENTS (Continued)

<u>DESCRIPTION</u>	<u>PAGE NO.</u>
4.13. Action Without Meeting.	19
4.14. Quorum and Adjournment.	19
4.15. Committees.	20
5. Officers.	20
5.1. Designation.	20
5.2. Election of Officers.	20
5.3. Removal of Officers.	20
5.4. Compensation.	21
5.5. President.	21
5.6. Vice President.	21
5.7. Secretary.	22
5.8. Treasurer.	22
6. Obligations of the Members.	23
6.1. Assessments.	23
6.2. Maintenance and Repair.	23
7. Amendments to Bylaws.	23
8. Mortgagees.	24
8.1. Notice to Association.	24
8.2. Notice of Unpaid Assessments.	24
9. Conflicting Provisions.	24
10. Indemnification of Directors and Officers.	25
11. Miscellaneous.	25
11.1. Checks, Drafts and Documents.	25
11.2. Execution of Documents.	25
11.3. Availability of Association Documents.	25
11.4. Fiscal Year.	26
12. Notice and Hearing Procedure.	27
12.1. Suspension of Privileges.	27
12.2. Written Complaint.	27
12.3. Notice of Hearing.	28
12.4. Hearing.	29
CERTIFICATE OF SECRETARY.	30

BYLAWS
OF
MONARCH HILLS CONDOMINIUM ASSOCIATION

ARTICLE I

1. Plan of Condominium Ownership.

1.1. Name.

The name of the corporation is MONARCH HILLS CONDOMINIUM ASSOCIATION, hereinafter referred to as the "Association." The principal office of the Association shall be located in Orange County, California.

1.2. Application.

The provisions of these Bylaws are applicable to the residential condominium project known as Monarch Hills, located in the County of Orange, California (the "Property"). All present and future Owners and their tenants, future tenants, employees, and any other person who might use the facilities of the Property in any manner, are subject to the regulations set forth in these Bylaws and in the Declaration of Covenants, Conditions and Restrictions and Reservation of Easements for Monarch Hills (the "Declaration" herein) Recorded or to be Recorded in the Official Records of Orange County and applicable to the Property. The mere acquisition or rental of any Condominium in the Property or the mere act of occupancy of any Condominium will signify that these Bylaws are accepted, ratified, and will be complied with.

1.3. Meaning of Terms.

Unless otherwise specifically provided herein, the capitalized terms in these Bylaws shall have the same meanings as are given to such terms in the Declaration.

ARTICLE II

2. Voting by Association Membership.

2.1. Voting Rights.

The Association shall have two (2) classes of voting Membership, as follows:

Class A. Class A Members shall be those Owners with the exception of Declarant for so long as there exists a Class B Membership. Class A Members shall be entitled to one (1) vote for each Condominium owned which is subject to assessment, as further provided in the Declaration.

Class B. The Class B Member shall be Declarant. The Class B Member shall be entitled to three (3) votes for each Condominium owned by Declarant and subject to assessment, provided that the Class B Membership shall cease and be converted to Class A Membership immediately upon the first to occur of the following events:

(1) The second anniversary of the first Close of Escrow in the most recent Phase of Development; or

(2) The fourth anniversary of the first Close of Escrow in Phase 1; or

(3) The seventh anniversary of the Recordation of the Declaration.

All voting rights shall be subject to the restrictions and limitations provided in the Declaration and in the Articles and these Bylaws of the Association. Except as provided in Section 14.2 of the Declaration and Section 4.8 of these Bylaws, as long as there exists a Class B Membership, any provision of these Bylaws which expressly requires a vote or written consent of a specified percentage of the voting power of the Association before action may be undertaken (i.e., other than actions requiring merely the vote or written consent of a majority of a quorum) shall require the approval of such specified percentage of the voting power of each class of Membership. Except as provided in Section 14.2 of the Declaration and Section 4.8 of these Bylaws, upon termination of the Class B Membership, any provision of these Bylaws which expressly requires a vote or written consent of Owners representing a specified percentage of the voting power of the Association before action may be undertaken shall require the vote or written consent of Owners representing such specified percentage of both the total voting power of the Association and the voting power of the Association residing in Owners other than Declarant.

2.2. Majority of Quorum.

Unless otherwise expressly provided in the Articles, these Bylaws or the Declaration, any action which may be taken by the Association may be taken by a majority of a quorum of the Members of the Association.

2.3. Quorum.

Except as otherwise provided in these Bylaws, the presence in person or by proxy of at least a majority of the voting power of the Membership of the Association shall constitute a quorum of the Membership. The Members present at a duly called or held meeting at which a quorum is present may

continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the Members required to constitute a quorum.

2.4. Proxies.

Votes may be cast in person or by proxy. Proxies must be in writing and filed with the Secretary in advance of each meeting. Every proxy shall be revocable and shall automatically cease after completion of the meeting for which the proxy was filed. Any form of proxy or written ballot distributed by any Person to the Members of the Association shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon, except it shall not be mandatory that a candidate for election to the Board be named in the proxy or written ballot. The proxy or written ballot shall provide that, when the Member specifies a choice, the vote shall be cast in accordance with that choice. The proxy shall also identify the person or persons authorized to exercise the proxy and the length of time it will be valid. No proxy shall be valid with respect to a vote on any matter described in Section 7613(g) of the California Corporations Code unless the general nature of the proposal was set forth in the proxy.

ARTICLE III

3. Administration.

3.1. Association Responsibilities.

In accordance with the provisions of the Declaration, the Association shall have the responsibility of administering the Property, maintaining and repairing the Common Property, approving the Budget, establishing and collecting all assessments authorized under the Declaration, and arranging for overall architectural control of the Property.

3.2. Place of Meetings of Members.

Meetings of the Members shall be held on the Property, or such other suitable place as proximate thereto as practicable and convenient to the Members, as may be designated by the Board of Directors.

3.3. Annual Meetings of Members.

The first annual meeting of Members shall be held within forty-five (45) days after Close of Escrow for the sale of fifty-one percent (51%) of the Condominiums in Phase 1 or within six (6) months after the Close of Escrow for the sale of the first Condominium in Phase 1, whichever occurs first. Thereafter, the annual meetings of the Members shall be held

on or about the anniversary date of the first annual meeting. At each annual meeting there shall be elected by ballot of the Members a Board of Directors of the Association, in accordance with the requirements of Article IV, Section 4.5 of these Bylaws. The Members may also transact such other business of the Association as may properly come before them. Each first Mortgagee of a Condominium in the Project may designate a representative to attend all annual meetings of the Members.

3.4. Special Meetings of Members.

It shall be the duty of the Board to call a special meeting of the Members, as directed by resolution of a majority of a quorum of the Board of Directors, by request of the President of the Association or upon receipt by the Secretary of a petition signed by Members representing at least five percent (5%) of the total voting power of the Association. The notice of any special meeting shall be given within twenty (20) days after adoption of such resolution or receipt of such request or petition and shall state the date, time and place of such meeting and the general nature of the business to be transacted. The special meeting shall be held not less than thirty-five (35) days nor more than ninety (90) days after adoption of such resolution or receipt of such request or petition. No business shall be transacted at a special meeting except as stated in the notice. Each first Mortgagee of a Condominium in the Project may designate a representative to attend all special meetings of the Members.

3.5. Notice; Record Dates.

It shall be the duty of the Secretary to send a notice of each annual or special meeting by first-class mail, at least ten (10) but not more than thirty (30) days prior to such meeting, stating the purpose thereof as well as the day, hour and place where it is to be held, to each Member of record, and to each first Mortgagee of a Condominium, which Mortgagee has filed a written request for notice with the Secretary. The notice may set forth time limits for speakers and nominating procedures for the meeting. The notice shall specify those matters the Board intends to present for action by the Members, but, except as otherwise provided by law, any proper matter may be presented at the meeting for action. The notice of any meeting at which Directors are to be elected shall include the names of all those who are nominees at the time the notice is given to the Members. The mailing of a notice, postage prepaid, in the manner provided in this Section, shall be considered notice served, forty-eight (48) hours after said notice has been deposited in a regular depository of the United States mail. Such notice shall be posted in a conspicuous place on the Common Property, and such notice shall be deemed served upon a Member upon posting

if no address for such Member has been then furnished the Secretary. The Board of Directors may fix a date in the future as a record date for the determination of the Members entitled to notice of any meeting of Members. The record date so fixed shall be not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting. If the Board does not fix a record date for notice to Members, the record date for notice shall be the close of business on the business day preceding the day on which notice is given. In addition, the Board of Directors may fix a date in the future as a record date for the determination of the Members entitled to vote at any meeting of Members. The record date so fixed shall be not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting. If the Board does not fix a record date for determining Members entitled to vote, Members on the day of the meeting who are otherwise eligible to vote are entitled to vote at the meeting. Notwithstanding any other provision of these Bylaws, approval by the Members of any of the following proposals, other than by unanimous approval of those Members entitled to vote, shall not be valid unless the general nature of the proposal was stated in the notice or in any written waiver of the notice: (a) removing a Director without cause; (b) filling vacancies on the Board; (c) approving a contract or transaction between the Association and one or more Directors, or between the Association and any entity in which a Director has a material financial interest; (d) amendment of the Association's Articles of Incorporation; or (e) electing to wind up and dissolve the Association.

3.6. Adjourned Meetings.

If any meeting of Members cannot be organized because a quorum is not present, a majority of the Members who are present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called, at which meeting the quorum requirement shall be the presence in person or by proxy of the Members holding at least twenty-five percent (25%) of the voting power of the Association. Such an adjourned meeting may be held without notice thereof as provided in this Article III, provided that notice is given by announcement at the meeting at which such adjournment is taken. If, however, such an adjourned meeting is actually attended, in person or by proxy, by Members having less than one-third (1/3rd) of the voting power of the Association, notwithstanding the presence of a quorum, no matter may be voted upon except such matters notice of the general nature of which was given pursuant to Section 3.5 hereof. No action by the Members on any such matters shall be effective if the votes cast in favor are fewer than the minimum number of votes required by the Restrictions to approve such an action.

3.7. Order of Business.

Meetings of Members shall be conducted in accordance with a recognized system of parliamentary procedure or such parliamentary procedures as the Association may adopt. The order of business at all meetings of the Members shall be as follows: (a) roll call to determine the voting power represented at the meeting; (b) proof of notice of meeting or waiver of notice; (c) reading of Minutes of preceding meeting; (d) reports of officers; (e) reports of committees; (f) election of inspector of elections (at annual meetings or special meetings held for such purpose); (g) election of Directors (at annual meetings or special meetings held for such purpose); (h) unfinished business; and (i) new business.

3.8. Action Without Meeting.

Any action, which may be taken at a meeting of the Members (except for the election of Directors) may be taken without a meeting by written ballot of the Members. Ballots shall be solicited in the same manner as provided in Section 3.5 for the giving of notice of meetings of Members. Such solicitations shall specify (a) the number of responses needed to meet the quorum requirements, (b) the percentage of approvals necessary to approve the action, and (c) the time by which ballots must be received in order to be counted. The form of written ballot shall afford an opportunity to specify a choice between approval and disapproval of each matter and shall provide that, where the Member specifies a choice, the vote shall be cast in accordance therewith. Receipt within the time period specified in the solicitation of a number of ballots which equals or exceeds the quorum which would be required if the action were taken at a meeting and a number of approvals which equals or exceeds the number of votes which would be required for approval if the action were taken at a meeting at which the total number of votes cast was the same as the total number of ballots cast shall constitute approval by written ballot.

3.9. Consent of Absentees.

The transactions of any meeting of Members, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the Members not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the Minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the Minutes of the Meeting.

3.10. Minutes, Presumption of Notice.

Minutes or a similar record of the proceedings of meetings of Members, when signed by the President or Secretary, shall be

presumed truthfully to evidence the matters set forth therein. A recitation in the Minutes executed by the Secretary that notice of the meeting was properly given shall be prima facie evidence that such notice was given.

ARTICLE IV

4. Board of Directors.

4.1. Number and Qualification.

The property, business and affairs of the Association shall be governed and managed by a Board of Directors composed of five (5) Persons, each of whom, except for those appointed and serving as first Directors, must either be an Owner or an agent of Declarant for so long as Declarant owns a Condominium in the Project or is entitled to add any of the Annexable Territory to the Property without the vote of the Members pursuant to the Declaration. The authorized number of Directors may be changed by a duly adopted amendment to the Bylaws. Directors shall not receive any salary or compensation for their services as Directors unless such compensation is first approved by the vote or written consent of Members representing at least a majority of both the Class A and Class B voting power; provided, however, that (1) nothing herein contained shall be construed to preclude any Director from serving the Association in some other capacity and receiving compensation therefor, and (2) any Director may be reimbursed for his actual expenses incurred in the performance of his duties.

4.2. Powers and Duties.

The Board of Directors has the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law or by these Bylaws directed to be exercised and done exclusively by the Members. The Board of Directors shall not enter into any contract with a third person wherein the third person will furnish goods or services for the Common Property or the Association for a term in excess of one (1) year, without the vote or written consent of the Members representing at least a majority of the voting power of the Association, except for (1) a contract with a public utility company if the rates charged for the materials or services are regulated by the California Public Utilities Commission; provided, however, that the term of the contract shall not exceed the shortest term for which the public utility company will contract at the regulated rate, (2) a management contract the terms of which conform to the requirements of Section 4.4 hereof, (3) prepaid casualty or liability insurance policies of not to exceed three (3) years' duration, provided that the policies permit short term cancellation by the Association, (4) lease agreements for laundry room fixtures and equipment of not to

exceed five (5) years duration provided that the lessor under any such agreement is not an entity in which Declarant has a direct or indirect ownership interest of ten percent (10%) or more, (5) agreements for cable television services and equipment or satellite dish television services and equipment with terms not in excess of five (5) years, provided that Declarant does not have a direct or indirect ownership interest in the supplier of such services or equipment equal to or greater than ten percent (10%), and (6) agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services with terms not in excess of five (5) years, provided that Declarant does not have a direct or indirect ownership interest in the supplier of such services or equipment equal to or greater than ten percent (10%).

4.3. Special Powers and Duties.

Without prejudice to such foregoing general powers and duties and such powers and duties as are set forth in the Declaration, the Board of Directors is vested with, and responsible for, the following powers and duties:

(a) The power and duty to select, appoint, and remove all officers, agents and employees of the Association, to prescribe such powers and duties for them as may be consistent with law, the Articles of Incorporation, the Declaration and these Bylaws; to fix their compensation and to require from them security for faithful service when deemed advisable by the Board.

(b) The power and duty to conduct, manage and control the affairs and business of the Association, and to make and enforce such rules and regulations therefor consistent with law, the Articles, the Declaration and these Bylaws, as the Board may deem necessary or advisable.

(c) The power but not the duty to change the principal office for the transaction of the business of the Association from one location to another within the County in which the Property is located, as provided in Article I hereof; to designate any place within said County for the holding of any annual or special meeting or meetings of Members consistent with the provisions of Section 3.2 hereof; and to adopt and use a corporate seal and to alter the form of such seal from time to time, as the Board, in its sole judgment, may deem best, provided that such seal shall at all times comply with the provisions of law.

1

(d) With the approval of Members representing at least two-thirds (2/3rds) of the voting power of the Association, the power but not the duty to borrow money and to incur indebtedness for the purposes of the Association, and to cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

(e) The power and duty to fix and levy from time to time Annual Assessments, Special Assessments, and Reconstruction Assessments upon Members, as provided in the Declaration; to fix and levy from time to time in any Fiscal Year Capital Improvement Assessments applicable to that year only for capital improvements; to determine and fix the due date for the payment of such assessments, and the date upon which the same shall become delinquent; provided, however, that such assessments shall be fixed and levied only to provide for the payment of the Common Expenses of the Association and of taxes and assessments upon real or personal property owned, leased, controlled or occupied by the Association, or for the payment of expenses for labor rendered or materials or supplies used and consumed, or equipment and appliances furnished for the maintenance, improvement or development of such property or for the payment of any and all obligations in relation thereto, or in performing or causing to be performed any of the purposes of the Association for the general benefit and welfare of its Members, in accordance with the provisions of the Declaration. Subject to any limitations imposed by the Declaration and these Bylaws, the Board of Directors shall have the power and duty to incur any and all such expenditures for any of the foregoing purposes and to provide, or cause to be provided, adequate reserves for replacements as it shall deem to be necessary or advisable in the interest of the Association or welfare of its Members. The funds collected by the Board of Directors from the Members, attributable to replacement reserves, for maintenance recurring less frequently than annually, and for capital improvements, shall at all times be held in trust for the Members. Disbursements from such trust reserve fund shall be made only in accordance with the provisions of the Declaration. Such Annual Assessments, Reconstruction Assessments, Special Assessments and Capital Improvement Assessments

shall be fixed in accordance with the provisions of the Declaration. Should any Member fail to pay such assessments before delinquency, the Board of Directors in its discretion is authorized to enforce the payment of such delinquent assessments as provided in the Declaration.

(f) The power and duty to enforce the provisions of the Declaration, these Bylaws or other agreements of the Association.

(g) The power and duty to contract for and pay for fire, casualty, blanket liability, malicious mischief, vandalism, errors and omissions, liquor liability and other insurance, insuring the Members, the Association, the Board of Directors and other interested parties, in accordance with the provisions of the Declaration, covering and protecting against such damages or injuries as the Board deems advisable (which may include without limitation, medical expenses of persons injured on the Common Property). The Board shall review, not less frequently than annually, all insurance policies and bonds obtained by the Board on behalf of the Association.

(h) The power and duty to contract for and pay for maintenance, gardening, and common utilities services, and for materials and supplies and other Common Expenses relating to the Common Property, and relating to the Units only to the extent not separately metered or charged, and to employ personnel necessary for the operation of the Property, including legal and accounting services, and to contract for and pay for Improvements on the Common Property.

(i) The power but not the duty to delegate its powers according to law, and subject to the approval of the Members, to adopt these Bylaws.

(j) The power but not the duty to grant or quitclaim easements, licenses or rights of way in, on, or over the Common Property for purposes not inconsistent with the intended use of the Property as a residential condominium project.

(k) The power and duty to adopt such Rules and Regulations as the Board may deem necessary for the management of the Property, which Rules and Regulations shall become effective and binding after (1) they are adopted by a majority of the

Board at a meeting called for that purpose, or by the written consent of the Board in accordance with Section 4.13, and (2) they are posted in a conspicuous place in the Common Property. Such Rules and Regulations may concern, without limitation, use of the Common Property; signs; parking restrictions; collection and disposal of refuse; minimum standards of property maintenance consistent with the Declaration and the procedures of the Architectural Committee; and any other matter within the jurisdiction of the Association as provided in the Declaration; provided, however, that such Rules and Regulations shall be enforceable only to the extent that they are consistent with the Declaration, the Articles of Incorporation and these Bylaws.

(l) The power and duty to keep, or cause to be kept, a complete record of all acts and corporate affairs of the Association and to present a statement thereof to the Members at the annual meeting of the Members and at any other time that such statement is requested by at least ten percent (10%) of the Members who are entitled to vote.

(m) The power but not the duty to appoint a Membership Committee composed of at least one (1) Director and at least one (1) Association Member at large. The Membership Committee shall be responsible for contacting all purchasers of Condominiums in the Project as soon as any transfer of title to a Condominium is discovered. The Membership Committee shall further attempt to establish initial contact with all Members who are delinquent in the payment of any assessments or other charges due the Association.

(n) The power but not the duty to sell property of the Association; provided, however, that the prior vote or written approval of the Members representing at least a majority of the voting power of the Association must be obtained to sell during any Fiscal Year any property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that Fiscal Year.

4.4. Management Agent.

The Board of Directors may engage a professional Manager for the Association at a compensation established by the Board to perform such duties and services as the Board shall

authorize, including, but not limited to, the duties listed in Section 4.3. The maximum term of any such contract ("Management Contract") shall be one (1) year, unless a longer term is approved either by vote or written assent of a majority of the voting power of the Association or by VA or FHA, in which case the maximum term of the Management Contract shall be three (3) years. The maximum term of any contract providing for Declarant's services to the Association or the Project shall also be three (3) years. Each such contract for Declarant's services and each Management Contract shall provide for its termination by either party thereto with cause upon no more than thirty (30) days written notice to the other Party, and without cause and without payment of a termination fee upon no more than ninety (90) days' written notice to the other party.

4.5. Election and Term of Office.

(a) At the first annual meeting of the Members, and thereafter at each annual meeting of the Members, new Directors shall be elected by secret written ballot by the Members as provided in these Bylaws. All positions on the Board of Directors shall be filled at the first annual meeting. If an annual meeting is not held, or the Board is not elected thereat, the Board may be elected at any special meeting of the Members held for that purpose. Each Director shall hold office until his successor has been elected or until his death, resignation, removal or judicial adjudication of mental incompetence. The term of office of the three (3) Directors receiving the highest number of votes at the first annual meeting shall be three (3) years and the term of office of the two (2) Directors receiving the next highest number of votes at the first annual meeting shall be two (2) years. At each annual meeting thereafter, new Directors shall be elected to fill vacancies created by the death, resignation, removal, judicial adjudication of mental incompetence or expiration of the terms of past Directors. The term of office of each Director elected to fill a vacancy created by the expiration of the term of office of the respective past Director shall be two (2) years. The term of office of each Director elected or appointed to fill a vacancy created by the resignation, death or removal of his predecessor shall be the balance of the unserved term of his predecessor. Any person serving as a Director may be reelected, and there shall be no limitation on the number of terms during which he may serve. Cumulative voting shall be used in the election of

Directors for any election in which more than two (2) Directors are to be selected, subject only to the procedural prerequisites to cumulative voting in the following sentence. A member may cumulate his votes for any candidate for the Board if the candidate's name has been placed in nomination prior to the voting and if such Member, or any other Member, has given notice at the meeting prior to the voting of such Member's intention to cumulate votes. If a Member cumulates his votes, such Member may cast a number of votes equal to the Member's share of the voting power as set forth in the Declaration, multiplied by the number of Directors to be elected.

(b) Notwithstanding the foregoing, whenever (1) notice is given for an election of Directors of the Board, (2) upon which date Declarant is either (i) entitled to exercise a Class B vote, or (ii) entitled to exercise a majority of the voting power of the Association, and (3) upon such date the Members other than Declarant do not have a sufficient percentage of the voting power of the Association to elect at least twenty percent (20%) (though not less than one (1)) of the entire Board through the foregoing cumulative voting procedure, such notice shall also provide for the following special election procedure. Election of Directors shall be first apportioned to the Members other than Declarant until the aggregate number of Directors or the Board elected by such Members other than Declarant represents at least twenty percent (20%) (though not less than one (1)) of the entire Board. Any person shall be an eligible candidate for the special election upon receipt by the Secretary of a Declaration of Candidacy, signed by the candidate, at any time prior to the election. Such election shall be by secret written ballot. The person or persons receiving the greatest number of votes cast by the Members other than Declarant shall be elected a Member of the Board in a coequal capacity with all other Directors. The remaining Directors of the Board shall be elected through the customary cumulative voting procedure outlined above.

4.6. Books, Audit.

The following financial information shall be prepared and distributed by the Board to all Members (and any Beneficiary, insurer and guarantor of a first Mortgage upon request), regardless of the number of Members or the amount of assets of the Association:

(a) A pro forma operating budget for each Fiscal Year consisting of at least the following information shall be distributed not less than forty-five (45) nor more than sixty (60) days prior to the beginning of the Fiscal Year.

(1) The estimated revenue and Common Expenses of the Association computed on an accrual basis.

(2) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to Section 1365.5 of the California Civil Code or any other applicable statute, as amended from time to time, which shall be printed in bold type and include all of the following:

(i) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component for which the Association is responsible.

(ii) As of the end of the Fiscal Year for which the study is prepared:

(A) The current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the major components for which the Association is responsible ("Estimated Reserves").

(B) The current amount of accumulated cash reserves actually set aside to repair, replace, restore or maintain the major components for which the Association is responsible ("Actual Reserves").

(iii) The percentage that the Actual Reserves is of the Estimated Reserves.

(3) A statement as to whether the Board has determined or anticipated that the levy of one or more Capital Improvement or Reconstruction Assessments will be required to repair, replace, or restore any major component for which the Association is responsible or to provide adequate reserves therefor.

(4) A general statement setting forth the procedures used by the Board in the calculation and establishment of reserves to defray the costs of repair and replacement of, or additions to, major components of the Common Property and facilities for which the Association is responsible.

(b) A balance sheet as of an accounting date which is the last day of the month closest in time to six (6) months from the date of the first Close of Escrow for the sale of a Condominium in the Project and an operating statement for the period from the date of the first Close of Escrow to the said accounting date, shall be distributed within sixty (60) days after the accounting date. Such operating statement shall include a schedule of assessments received and receivable identified by the number of the Unit and the name of the Owner assessed.

(c) A report consisting of the following shall be distributed within one hundred twenty (120) days after the close of the Fiscal Year.

(1) A balance sheet as of the end of the Fiscal Year.

(2) An operating (income) statement for the Fiscal Year.

(3) A statement of changes in financial position for the Fiscal Year.

(4) Any information required to be reported under Section 8322 of the California Corporations Code.

(5) For any Fiscal Year in which the gross income to the Association exceeds \$75,000, a copy of a review of

the annual report prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy.

(6) A statement of the place where the names and addresses of the current Members is located.

If the report referred to in Section 4.6(c) above is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Association stating that the statement was prepared from the books and records of the Association without independent audit or review. The Board also may distribute a summary of the Budget in lieu of the Budget itself, so long as the Board complies with the provisions of Section 1365(c) of the California Civil Code as it may be amended.

In addition to financial statements, the Board shall annually distribute within sixty (60) days prior to the beginning of the Fiscal Year a statement of the Association's policies and practices in enforcing its remedies against Members for defaults in the payment of Annual, Capital Improvement, Reconstruction and Special Assessments, including the recording and foreclosing of liens against Members' Condominiums.

The Board shall perform the following on at least a quarterly basis: (1) cause to be completed and review a current reconciliation of the Association's operating accounts and reserve accounts, (2) review the current Fiscal Year's actual reserve revenues and expenses compared to the Budget for the then current Fiscal Year, (3) review the income and expense statement for the Association's operating and reserve accounts, and (4) review the most current account statements prepared by the financial institutions where the Association maintains its operating and reserve accounts. The signatures of either (i) two (2) Directors of the Association, or (ii) one (1) Director and one (1) Officer of the Association (who is not also a Director) shall be required for the withdrawal of money from the Association's reserve accounts. As used in this paragraph, the term "reserve accounts" means monies that the Board has identified from its Budget for use to defray the future repair and replacement of, or additions to, those major components which the Association is obligated to maintain.

The Board shall cause a study of the reserve account requirements of the Property to be conducted in accordance with Section 1365.5(d) of the California Civil Code. As used in this paragraph, "reserve account requirements" means the

estimated funds which the Board has determined are required to be available at a specified point in time to repair, replace or restore those major components which the Association is obligated to maintain.

4.7. Vacancies.

Vacancies in the Board of Directors caused by any reason other than the removal of a Director by a vote of the Members of the Association shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum. Any vacancy caused by the removal of a Director shall be filled by the vote of the Members. A Director may resign at any time by giving notice to the President, the Secretary or the Board. Any Director who ceases to be an Owner or an agent of Declarant shall be deemed to have resigned from the Board. A vacancy or vacancies shall be deemed to exist in case of death, resignation, removal or judicial adjudication of mental incompetence of any Director, or in case the Members fail to elect the full number of authorized Directors at any meeting at which such election is to take place. Any vacancy not filled by the Directors may be filled by vote of the Members at the next annual meeting of the Members or at a special meeting of the Members called for such purpose.

4.8. Removal of Directors.

At any regular or special meeting of the Members duly called, any one individual Director or the entire Board may be removed prior to the expiration of their terms of office with or without cause as follows: (i) for so long as fewer than fifty (50) Condominiums are included within the Project, by the vote of Members representing a majority of the total voting power of the Association (including votes attributable to Declarant), and (ii) once fifty (50) or more Condominiums are included within the Project, by the vote of Members representing a majority of a quorum of Members.

Notwithstanding the foregoing, if the entire Board of Directors is not removed as a group pursuant to a single vote, no individual Director shall be removed if the number of votes cast against his removal would be sufficient to elect such Director if voted cumulatively at an election at which the same total number of votes were cast and the entire number of Directors authorized at the time of the Director's most recent election were then being elected. Any Director whose removal has been proposed by the Members shall be given an opportunity to be heard at the meeting. If any or all of the Directors are so removed at a meeting, new Directors may be elected at the same meeting. Notwithstanding the foregoing, any Director who has been elected to office solely by the votes of Members other than Declarant pursuant to Section

4.5(b) may be removed from office prior to the expiration of his term of office only by the vote of at least a simple majority of the voting power residing in Members other than Declarant.

4.9. Organization Meeting of Board.

The first regular ("organization") meeting of a newly elected Board of Directors shall be held within ten (10) days of election of the Board, at such place as shall be fixed and announced by the Directors at the meeting at which such Directors were elected, for the purpose of organization, election of officers and the transaction of other business. No notice shall be necessary to the newly elected Directors in order legally to constitute such meeting; provided that (1) a majority of the whole Board shall be present when the time and place are announced at the annual meeting and (2) the meeting is held on the same day and at the same place as the annual meeting of the Members at which the newly constituted Board was elected.

4.10. Regular Meetings of Board.

Regular meetings of the Board of Directors shall be open to all Members, provided that Members who are not Directors may not participate in any deliberation or discussion at such regular meetings unless expressly so authorized by a vote of a majority of a quorum of the Board of Directors. Regular meetings may be held at such time and place within the Project as shall be determined, from time to time, by a resolution adopted by a majority of a quorum of the Directors; provided, however, that such meetings shall be held no less frequently than quarterly. Notice of the time and place of regular meetings of the Board of Directors shall be given to each Director, personally or by mail, telephone or telegraph, and posted at a prominent place or places within the Common Property at least four (4) days prior to the date named for such meeting.

4.11. Special Meetings of Board.

Special meetings of the Board of Directors shall be open to all Members, provided that Members who are not Directors may not participate in any deliberation or discussion at such special meetings, unless expressly so authorized by a vote of a majority of a quorum of the Board of Directors. Special meetings may be called by the President or by any two (2) Directors upon four (4) days' notice by first-class mail or seventy-two (72) hours' notice delivered personally or by telephone or telegraph. The notice shall state the time, place (as hereinabove provided) and the purpose of the meeting, and shall be posted at least four (4) days prior to such meeting at a prominent place or places within the Common Property.

4.12. Waiver of Notice.

Before or at any meeting of the Board of Directors, any Director may, in writing, waive personal notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice to such Director. Attendance by a Director at any meeting of the Board shall be a waiver by him of personal notice of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice to Directors shall be required and any business may be transacted at such meeting. The transactions of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if (1) a quorum be present, (2) notice to the Members of such meeting was posted as provided in Sections 4.10 and 4.11, and (3) either before or after the meeting, each of the Directors not present signs a written waiver of notice, a consent to holding such meeting, or an approval of the Minutes thereof. All such waivers, consents and approvals shall be filed with the records of the Association or made a part of the Minutes of the meeting.

4.13. Action Without Meeting.

Any action required or permitted to be taken by the Board may be taken without a meeting, if all Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the Minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such Directors. An explanation of any action taken by unanimous written consent without a meeting shall be posted by the Board in a prominent place or places in the Common Property within three (3) days after the written consents of all Directors have been obtained.

4.14. Quorum and Adjournment.

Except as otherwise expressly provided herein, at all meetings of the Board of Directors, a majority of the Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors, there is less than a quorum present, the majority of those present may adjourn the meeting to another time. At any such reconvened meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice if a quorum is present.

The Board of Directors may, with the approval of a majority of the Directors present at a meeting at which a quorum has been established, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become

involved, matters that relate to the formation of contracts with third parties, and orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session, and shall be generally noted in the minutes of the Board. In any matter relating to the discipline of a Member, the Board shall meet in executive session if requested by that Member, and the Member shall be entitled to attend the executive session.

4.15. Committees.

The Board of Directors, by resolution, may from time to time designate such advisory and other committees as it shall desire, and may establish the purposes and powers of each such committee created. The resolution designating and establishing the committee shall provide for the appointment of its members, as well as a chairman, shall state the purposes of the committee, and shall provide for reports, termination, and other administrative matters as deemed appropriate by the Board.

ARTICLE V

5. Officers.

5.1. Designation.

The principal officers of the Association shall be a President, a Vice President, a Secretary, and a Treasurer, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint an Assistant Treasurer, and an Assistant Secretary, and such other officers as in their judgment may be necessary. Officers other than the President need not be Directors. Any Person may hold more than one office.

5.2. Election of Officers.

The officers of the Association shall be elected annually by the Board of Directors at the organization meeting of each new Board of Directors, and each officer shall hold his office at the pleasure of the Board of Directors, until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified to serve.

5.3. Removal of Officers.

Upon an affirmative vote of a majority of the entire Board of Directors, any officer may be removed, either with or without cause, and his successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors called for such purpose. Any officer may resign at any time by giving written notice to the Board or to the President or Secretary of the Association. Any such resignation shall take effect at the date of receipt of such

notice or at any later time specified therein; and unless otherwise specified in said notice, acceptance of such resignation by the Board shall not be necessary to make it effective.

5.4. Compensation.

Officers, agents, and employees shall receive such reasonable compensation for their services as may be authorized or ratified by the Board; provided, however, that no officer shall receive any compensation for services performed in the conduct of the Association's business unless such compensation is approved by the vote or written consent of Members representing at least a majority of the voting power of the Association; and provided further, that (1) nothing herein contained shall be construed to preclude any officer from serving the Association in some other capacity and receiving compensation therefor, and (2) any officer may be reimbursed for his actual expenses incurred in the performance of his duties. Appointment of any officer, agent, or employee shall not of itself create contractual rights of compensation for services performed by such officer, agent, or employee. Notwithstanding the foregoing, no officer, employee or director of Declarant or any affiliate of Declarant may receive any compensation.

5.5. President.

The President shall be the chief executive officer of the Association. He shall preside at all meetings of the Association and of the Board of Directors. He shall have all of the general powers and duties which are usually vested in the office of the President of a corporation, including but not limited to the power, subject to the provisions of Section 4.15, to appoint committees from among the Members from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the Association. The President shall sign all leases, mortgages, deeds and other instruments, and shall co-sign all checks and promissory notes; provided, however, that the President need not do so if persons other than the President are authorized by the Board to do so in accordance with Sections 11.1 or 11.2 hereof. The President shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business of the Association. The President shall be ex officio a member of all standing committees, and he shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws of the Association.

5.6. Vice President.

The Vice President shall take the place of the President and perform his duties whenever the President shall be absent or disabled or whenever the President refuses or is unable to act. If neither the President nor the Vice President is able

to act, the Board of Directors shall appoint some other member of the Board to do so on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed upon him by the Board of Directors or these Bylaws of the Association.

5.7. Secretary.

The Secretary shall keep the Minutes of all meetings of the Board of Directors and the Minutes of all meetings of the Association at the principal office of the Association or at such other place as the Board of Directors may order. The Secretary shall keep the seal of the Association in safe custody and shall have charge of such books and papers as the Board of Directors may direct; and the Secretary shall, in general, perform all of the duties incident to the office of Secretary. The Secretary shall give, or cause to be given, notices of meetings of the Members of the Association and of the Board of Directors required by these Bylaws or by law to be given. The Secretary shall maintain a record book of Members, listing the names, mailing addresses and telephone numbers of Members, as furnished to the Association, ("Membership Register"). Termination or transfer of ownership by any Member shall be recorded in the Membership Register by the Secretary, together with the date of the transfer, in accordance with the provisions of the Declaration. The Secretary shall perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

5.8. Treasurer.

The Treasurer shall be the chief financial officer of the Association and shall have responsibility for Association funds and securities and shall be responsible for keeping, or causing to be kept, full and accurate accounts, tax records and business transactions of the Association, including accounts of all assets, liabilities, receipts and disbursements in books belonging to the Association. The Treasurer shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit, of the Association in such depositories as may from time to time be designated by the Board of Directors. The Treasurer shall disburse the funds of the Association as may be ordered by the Board of Directors, in accordance with the Declaration, shall render to the President and Directors, upon request, an account of all of his transactions as Treasurer and of the financial conditions of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The Treasurer shall sign all checks and promissory notes; provided, however, that the Treasurer need not do so if persons other than the Treasurer are authorized by the Board to do so in accordance with Sections 11.1 or 11.2 hereof.

ARTICLE VI

6. Obligations of the Members.

6.1. Assessments.

(a) All Members are obligated to pay, in accordance with the provisions of the Declaration, all assessments imposed by the Association, to meet all expenses of the Association.

(b) All delinquent assessments shall be enforced, collected or foreclosed in the manner provided in the Declaration.

6.2. Maintenance and Repair.

(a) Every Member must perform promptly, at his sole cost and expense, such maintenance and repair work within his own Residence, as required under the provisions of the Declaration. As further provided in the Declaration, all plans for alterations and repair of structural or utility bearing portions of the buildings housing the Units must receive the prior written consent of the Architectural Committee. The Architectural Committee shall establish reasonable procedures for the granting of such approval, in accordance with the Declaration.

(b) As further provided in the Declaration, each Member shall reimburse the Association for any expenditures incurred in repairing or replacing any portion of the Common Property, which is damaged through the fault of such Member or his family, guests, tenants or invitees. Such expenditures shall include all court costs and reasonable attorneys' fees incurred in enforcing any provision of these Bylaws or the Declaration.

ARTICLE VII

7. Amendments to Bylaws.

These Bylaws may be amended by the Association by the vote or written consent of Members, representing at least (1) a majority of the voting power of each class of the Members, and (2) a majority of the voting power of the Association residing in members other than Declarant; provided that the specified percentage of each class of the Members necessary to amend a specific Section or provision of these Bylaws shall not be less than the percentage of affirmative votes prescribed for action to be taken under that Section or

provision; provided further, that these Bylaws may be amended by a majority of the entire Board, at any time prior to the Close of Escrow for the sale of the first Condominium. In addition to the foregoing, any amendment to these Bylaws which materially affects matters delineated in Article XII or Section 13.2 of the Declaration must be approved by the Beneficiaries of that percentage of first Mortgages on the Condominiums which is specified in the affected provision of Article XII or Section 13.2 of the Declaration, respectively; provided that, if an amendment to these Bylaws materially affects matters delineated in both Article XII and Section 13.2 of the Declaration or purports to amend this sentence, the amendment must be approved pursuant to the requirements of both said Article XII and Section 13.2. So long as there exists a Class B Membership, any amendment of these Bylaws shall require the approval of VA and FHA. A draft of the proposed amendment shall be submitted to VA and FHA for approval prior to its approval by the Membership of the Association.

ARTICLE VIII

8. Mortgagees.

8.1. Notice to Association.

Upon request by the Association, a Member who mortgages his Condominium shall notify the Association through the Manager, or through the Secretary in the event there is no Manager, of the name and address of his Mortgagee; and the Association shall maintain such information in a book entitled "Mortgagees of Condominiums." Upon request, any such Member shall likewise notify the Association as to the release or discharge of any such Mortgage.

8.2. Notice of Unpaid Assessments.

The Board of Directors of the Association shall at the request of a Mortgagee of a Condominium, report any unpaid assessments due from the Unit Owner of such Condominium, in accordance with the provisions of the Declaration.

ARTICLE IX

9. Conflicting Provisions.

In case any of these Bylaws conflict with any provisions of the laws of the State of California, such conflicting Bylaws shall be null and void upon final court determination to such effect, but all other Bylaws shall remain in full force and effect. In case of any conflict between the Articles of Incorporation and these Bylaws, the Articles of Incorporation shall control; and in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

ARTICLE X

10. Indemnification of Directors and Officers.

The Board may authorize the Association to pay expenses incurred by, or to satisfy a judgment or fine levied against, any present or former Director, officer, employee, or agent of the Association to the extent and under the circumstances provided in the Declaration.

ARTICLE XI

11. Miscellaneous.

11.1. Checks, Drafts and Documents.

All checks, drafts, orders for payment of money, notes and other evidences of indebtedness issued in the name of or payable to the Association shall be signed or endorsed in the manner and by the person or persons as the Board shall determine by resolution, subject to the requirements of Section 4.6 hereof for withdrawing money from the Association's reserve accounts.

11.2. Execution of Documents.

The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Association, and such authority may be general or confined to specific instances; and unless so authorized by the Board of Directors, no officer, agent, committee member or employee shall have any power or authority to bind the Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

11.3. Availability of Association Documents.

In addition to the rights afforded by the Declaration to Beneficiaries, insurers and guarantors of first Mortgages with regard to inspection of the Association's management documents, the Association shall maintain at its principal office (or at such other place within the Property as the Board may prescribe) the Articles, Bylaws, Declaration, Rules and Regulations and the Association's books of account; minutes of meetings of Members, the Board and Board committees; and the Membership Register (collectively, the "Association Documents"), each of which shall be made available for inspection and copying by any Member or the Member's duly appointed representative for a purpose reasonably related to the Member's interest as a Member. The Board shall establish reasonable rules regarding (1) notice to be given to the custodian of the Association Documents by the Member desiring to make the inspection, (2) hours and days of the week when such an inspection may be made, and (3) payment of the cost of copying any of the Association Documents requested by a

Member; provided that every Director shall have the absolute right at any reasonable time to inspect all Association Documents and the physical properties owned or controlled by the Association, which right shall include the right to make extracts and copies of documents. The minutes, minutes that are proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board (other than an executive session) shall be available to Members within thirty (30) days of the meeting. The minutes, proposed minutes or summary minutes shall be distributed to any Member upon request and upon reimbursement of the Association's cost in making that distribution. Members shall be notified in writing at the time that the budget required in Section 4.6(a) hereof is distributed or at the time of any general mailing to the entire membership of the Association of their right to have copies of the minutes of meetings of the Board and how and where those minutes may be obtained. Notwithstanding any contrary Board rules, no later than ten (10) days after the Association receives written request from any Member, the Association shall provide to that Member a copy of any one or more of the following documents requested by the Member for purposes of providing the documents to a prospective purchaser of the Member's subdivision interest: Articles; Bylaws; Declaration; Rules and Regulations; a copy of the most recent financial statement described in Section 4.6 hereof; a true written statement from an authorized Association representative showing the amount of the Association's current assessments and fees, as well as any assessment upon that Member's subdivision interest which is due and unpaid as of the statement date, as well as any late charges, interest or costs of collection which have been or may be enforced by a lien upon the Member's subdivision interest as of the statement date; and any change in the Association's current assessments and fees which have been approved by the Board but have not become due and payable as of the date disclosure is provided pursuant to this Section. The Association may charge a fee for this service not exceeding the Association's reasonable cost to prepare and reproduce the requested documents.

11.4. Fiscal Year.

The Fiscal Year of the Association shall be determined by the Board of Directors, and having been so determined, is subject to change from time to time as the Board of Directors shall determine.

ARTICLE XII

12. Notice and Hearing Procedure.

12.1. Suspension of Privileges.

In the event of an alleged violation of the Declaration, these Bylaws or the Rules and Regulations of the Association, and after written notice of such alleged failure is delivered personally or mailed to the Member or any agent of the Member ("respondent") alleged to be in default in the manner herein provided, by first-class mail or by certified mail return receipt requested, or both, the Board of Directors shall have the right, after affording the respondent an opportunity for an appropriate hearing as hereinafter provided, and upon an affirmative vote of a majority of all Directors on the Board, to take any one (1) or more of the following actions: (1) levy a Special Assessment as provided in the Declaration; (2) suspend or condition the right of said Member to use any recreational facilities owned, operated or maintained by the Association; (3) suspend said Member's voting privileges as a Member, as further provided in the Declaration; (4) enter upon a Residence to make necessary repairs, or to perform maintenance which, according to the Declaration, is the responsibility of the Owner of such Residence; or (5) record a notice of noncompliance encumbering the Condominium of the respondent. Any such suspension shall be for a period of not more than thirty (30) days for any noncontinuing infraction, but in the case of a continuing infraction (including nonpayment of any assessment after the same becomes delinquent) may be imposed for so long as the violation continues. The failure of the Board to enforce the Rules and Regulations of the Association, these Bylaws or the Declaration shall not constitute a waiver of the right to enforce the same thereafter. The remedies set forth above and otherwise provided by these Bylaws shall be cumulative and none shall be exclusive. However, any individual Member must exhaust all available internal remedies of the Association prescribed by these Bylaws, or by the Rules and Regulations of the Association, before that Member may resort to a court of law for relief with respect to any alleged violation of the Declaration, these Bylaws or the Rules and Regulations of the Association by another Member, provided that the foregoing limitation pertaining to exhausting administrative remedies shall not apply to the Board or to any Member where the complaint alleges nonpayment of Annual Assessments, Special Assessments, Capital Improvement Assessments or Reconstruction Assessments.

12.2. Written Complaint.

A hearing to determine whether a right or privilege of the respondent under the Declaration or these Bylaws should be suspended or conditioned, or whether a Special Assessment

should be levied, shall be initiated by the filing of a written Complaint by any Member or by any officer or member of the Board of Directors with the President of the Association or other presiding member of the Board. The Complaint shall constitute a written statement of charges which shall set forth in ordinary and concise language the acts or omissions with which the respondent is charged, and a reference to the specific provisions of the Declaration, these Bylaws or the Rules and Regulations of the Association which the respondent is alleged to have violated. A copy of the Complaint shall be delivered to the respondent in accordance with the notice procedures set forth in the Declaration, together with a statement which shall be substantially in the following form:

"Unless a written request for a hearing signed by or on behalf of the person named as respondent in the accompanying Complaint is delivered or mailed to the Board of Directors within fifteen (15) days after the Complaint, the Board of Directors may proceed upon the Complaint without a hearing, and you will have thus waived your right to a hearing. The request for a hearing may be made by delivering or mailing the enclosed form entitled 'Notice of Defense' to the Board of Directors at the following address: _____

You may, but need not, be represented by counsel at any or all stages of these proceedings. If you desire the names and addresses of witnesses or an opportunity to inspect any relevant writings or items on file in connection with this matter in the possession, custody or control of the Board of Directors, you may contact _____

The respondent shall be entitled to a hearing on the merits of the matter if the Notice of Defense is timely filed with the Board of Directors. The respondent may file a separate statement by way of mitigation, even if he does not file a Notice of Defense.

12.3. Notice of Hearing.

The Board shall serve a notice of hearing, as provided herein, on all parties at least ten (10) days prior to the hearing, if such hearing is requested by the respondent. The hearing shall be held no sooner than thirty (30) days after

the Complaint is mailed or delivered to the respondent as provided in Section 12.2 of this Article XII. The notice to the respondent shall be substantially in the following form but may include other information:

"You are hereby notified that a hearing will be held before the Board of Directors of the Monarch Hills Condominium Association at _____

_____ on the _____ day of _____, 199_, at the hour of _____, upon the charges made in the Complaint served upon you. You may be present at the hearing, may but need not be represented by counsel, may present any relevant evidence, and will be given full opportunity to cross-examine all witnesses testifying against you. You are entitled to request the attendance of witnesses and the production of books, documents or other items by applying to the Board of Directors of the Association."

12.4. Hearing.

The hearing shall be held before the Board in executive session pursuant to this notice affording the Member a reasonable opportunity to be heard. Prior to the effectiveness of any sanction hereunder, proof of notice, and the invitation to be heard shall be placed in the minutes of the meeting. Such proof shall be deemed adequate if a copy of the notice together with a statement of the date and manner of delivery is entered by the officer or Director who mailed or delivered such notice. The notice requirement shall be deemed satisfied if a violator appears at the meeting. The minutes of the meeting shall contain a written statement of the results of the hearing and the sanction, if any, imposed. No action against the Member arising from the alleged violation shall take effect prior to the expiration of (a) fifteen (15) days after the Member's receipt of the notice of hearing, and (b) five (5) days after the hearing required herein.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify that:

1. I am the duly elected and acting Secretary of MONARCH HILLS CONDOMINIUM ASSOCIATION, a California nonprofit corporation ("Association"); and

2. The foregoing Bylaws comprising 30 pages including this page constitute the Bylaws of the Association duly adopted by Consent of Directors in Lieu of First Meeting dated _____, 199_.

IN WITNESS WHEREOF, I have hereunto subscribed my hand and affixed the seal of the Association this _____ day of _____, 199_.

Secretary

(SEAL)

EXHIBIT "C"

**ITEMS OF COMMON EXPENSES WHICH SHALL NOT
BE ASSESSED EQUALLY AMONG THE CONDOMINIUMS**

Insurance

Water

Sewer

Painting

Termites

EXHIBIT "D"

LEGAL DESCRIPTION OF ANNEXABLE TERRITORY

Module C, as shown on the Condominium
Plan Recorded on August 30, 1993,
as Instrument No. 93-585099, of
Official Records of Orange County,
California.

jrs095/20556/000/0090/monarch
07-09-93