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REGISTRATION NUMBER 1177021

2006 MAR 23 AM 9:42

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After Recording Return to:
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2006 1177021 Clallam County

DECLARATION
OF
COVENANTS, CONDITIONS, RESTRICTIONS, EASEMENTS AND
RESERVATIONS
FOR
SOLANA CLUSTER LOTS

Grantor/Declarant: SEQUIM HIGHLANDS LLC, a Washington limited liability company
Additional names on pg. N/A

Grantee: SOLANA CLUSTER LOTS OWNERS ASSOCIATION, a Washington
corporation
Additional names on pg. N/A

Legal Description: Ptn. of W 1/2 of Sec. 28, Twp. 30 N., Rge. 3 W., W.M.
Official legal description on Exhibit A

Assessor's Tax Parcel ID# _____

Reference # (if applicable): N/A
Additional numbers on pg. N/A

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DECLARATION
OF
COVENANTS, CONDITIONS, RESTRICTIONS, EASEMENTS AND RESERVATIONS
FOR
SOLANA CLUSTER LOTS

This Declaration of Covenants, Conditions, Restrictions, Easements and Reservations for Solana Cluster Lots is made as of this 1ST day of February, 2006, by Sequim Highlands LLC, a Washington limited liability company, hereinafter referred to as "Declarant."

RECITALS

A. Declarant is the owner of that certain real property located within the City of Sequim, Clallam County, Washington, known as Solana Cluster Lots Phase 1 and legally described on Exhibit A attached hereto ("Solana Cluster Lots" or the "Property") and certain other property known as Solana Cluster Lots Phases 2 and 3 and legally described on Exhibit B attached hereto (the "Additional Property").

B. Declarant desires to create an owners association at Solana Cluster Lots to provide for the maintenance, preservation, and architectural control of the Lots, Homes and Common Area (as defined below) within the Property and to promote the health, safety, happiness, and welfare of the residents of the community.

C. For the benefit and protection of the Property, to enhance its value and attractiveness, Declarant provides herein for a comprehensive system of land-use and building controls within the Property.

SUBMISSION OF THE PROPERTY TO THIS DECLARATION

Declarant, being the sole owner of the Property, hereby makes this Declaration for the purpose of submitting the Property to this Declaration, and declares that the Property described above shall be held, sold, conveyed, encumbered, leased, rented, occupied and improved subject to the following covenants, conditions, restriction, reservations, grants of easement rights, rights of way, liens, charges and equitable servitudes, which are for the purpose of protecting the value and desirability of the Property and shall be binding on all parties having any right, title or interest in the Property or any part thereof, and shall inure to the benefit of each owner thereof. This Declaration shall run with the land and bind Declarant, its successors and assigns, all subsequent owners of the Property or any part thereof, together with their grantees, successors, heirs, executors, administrators, devisees or assigns. Any conveyance, transfer, sale, assignment, lease or sublease of a Lot shall and hereby is deemed to incorporate by reference all provisions of this Declaration. The provisions of this Declaration shall be enforceable by Declarant, any Owner, the Association, and any first Mortgagee of any Lot.

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ARTICLE 1
DEFINITIONS

Section 1.1 Definitions. For the purposes of this Declaration and any amendments hereto, the following definitions shall apply.

“Articles” shall mean the articles of incorporation of the Association, as defined below.

“Assessments” shall mean all sums chargeable by the Association against a Lot, including, without limitation: (a) general and special Assessments for Common Expenses and Home Expenses; (b) cost of propane; (c) charges and fines imposed by the Association; (d) interest and late charges on any delinquent Owner’s account; and (e) costs of collection, including reasonable attorneys’ fees, incurred by the Association in connection with the collection of a delinquent Owner’s account.

“Association” shall mean the Solana Cluster Lots Homeowners Association, a Washington non-profit corporation, as described more fully in Article 3, and its successors and assigns.

“Board” shall mean and refer to the Board of Directors of the Association, as provided for in Article 4.

“Bylaws” shall mean the bylaws of the Association as they may from time to time be amended.

“City” shall mean the City of Sequim, State of Washington.

“County” shall mean the County of Clallam, State of Washington.

“Common Areas” shall mean the real property and improvements described in Article 2.

“Common Expenses” shall mean the expenses and liabilities of the Association, including, but not limited to, the expenses of the Association relating to the operation, maintenance and improvement of the Common Area, the storm drainage, landscaping and irrigation on the Lots and Home Expenses.

“Declarant” shall mean Sequim Highlands LLC, a Washington limited liability company, and its successors and assigns if such successors or assigns should be specifically assigned the rights and duties of Declarant by written instrument in recordable form.

“Declaration” shall mean this Declaration of Covenants, Conditions, Restrictions, Easements and Reservations for Solana Cluster Lots and any amendments thereto.

“Home” shall mean a structure located on a Lot which is designed and intended for use and occupancy as a residence or which is intended for use in connection with such residence.

“Home Expenses” shall mean the expenses of the Association relating to the maintenance, painting, repair, replacement and insurance of the Homes pursuant to Section 6.1 and Section 8.2.

“LPG” shall mean liquid propane gas.

“LPG Agreement” shall mean the Agreement for the Installation and Implementation of Propane Gas Equipment Solana Cluster Lots recorded under Recording No. 2006-1177022, records of Clallam County, Washington.

“Lot” shall mean and refer to any of the numbered lots shown upon the Plat. Ownership of a Lot shall include ownership of the Home and improvements now or hereafter constructed on the Lot.

“Member” shall mean a person entitled to membership in the Association pursuant to Section 3.5.

“Mortgage” shall mean a recorded mortgage or deed of trust that creates a lien against a Lot and shall also mean a real estate contract for the sale of a Lot.

“Mortgagee” shall mean the beneficial owner, or the designee of the beneficial owner, of an encumbrance on a Lot created by a Mortgage and shall also mean the vendor, or the designee of vendor, of a real estate contract for the sale of a Lot. For the purpose of determining the percentage of first Mortgagees approving a proposed decision or course of action, a Mortgagee shall be deemed a separate Mortgagee for each Lot on which it holds a Mortgage which constitutes a first lien on said Lot. Mortgagees shall have the same voting rights as the owners of any Lot subject to such Mortgage.

“Notice and Opportunity to be Heard” shall mean the procedure wherein the Board shall give written notice of the proposed action to all Owners, tenants or occupants of the Lots whose interest would be significantly affected by the proposed action. The notice shall include a general statement of the proposed action and the date, time and place of the hearing, which shall be not less than five days from the date notice is delivered by the Board. At the hearing, the affected person shall have the right, personally or by a representative, to give testimony orally, in writing or both (as specified in the notice), subject to reasonable rules of procedure established by the Board to assure a prompt and orderly resolution of the issues. Such evidence shall be considered in making the decision but shall not bind the Board. The affected person shall be notified of the decision in the same manner in which notice of the meeting was given.

“Owner” shall mean the owner of record, whether one or more persons or entities, of a fee simple title to any Lot and, except as may be otherwise expressly provided herein, shall, in

the case of a Lot which has been sold pursuant to a real estate contract, include any person of record holding a vendee's interest under such real estate contract, to the exclusion of the vendor thereunder. Any person or entity having such an interest merely as security for the performance of an obligation shall not be considered an owner.

"Person" shall include natural persons, partnerships, corporations, limited liability companies, associations, trusts, personal representatives or other legal entities.

"Plat" shall mean the plat of Solana Cluster Lots recorded at Volume 14 of Plats, pages 19 through -, under Recording No. 2006-1177019 records of Clallam County, Washington, and the plat or plats for later phases of Solana Cluster Lots, when they are filed; and any subsequently filed amendments, corrections, or addenda.

"Property" shall mean that portion of the Plat described in Exhibit A attached hereto, as it may be amended to add portions of the Additional Property as it is platted as later phases of Solana Cluster Lots, and all improvements and Structures now or hereafter placed on the Property.

"Solana" shall mean the Property included in the Plat and the Solana Estate Plat, including all Lots and Common Areas shown thereon.

"Solana Community Association" shall mean the owners association for Solana pursuant to the Declaration of Covenants, Conditions, Restrictions, Easements and Reservations recorded under Clallam County Recording No. 2006-1177023.

"Solana Estate Plat" shall mean the plat for Solana Estate Lots Phase I recorded at Volume 14 of Plats, at pages 89 through -, Auditor's File No. 2006-1177015, and any subsequent plats for later phases of Solana Estate Lots.

"Structure" shall mean any building, wall, pole, driveway, utilities, walkway, patio, antenna or the like.

**ARTICLE 2
COMMON AREA**

Section 2.1 Description of Common Area. The Common Areas are the areas labeled "Common Area" on the Plat. In general, they consist of the streets, driveways, walkways and landscaped areas within the Plat.

Section 2.2 Dedication of Common Area. Declarant, by recording the Plat, dedicates, transfers and conveys the Common Areas and any easements appurtenant thereto to the Association.

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Section 2.3 Use of Common Area. Each Owner shall have the right to use the Common Area in common with all other Owners, subject to this Declaration, the Bylaws, any rules and regulations adopted by the Association, and the following:

2.3.1 The Association may totally bar or restrict use of portions of the Common Area where ordinary use could be dangerous, unreasonably increase Association costs, or be detrimental to the environment, or is inconsistent with its designated use on the Plat.

2.3.2 The Association shall have the right to suspend the voting rights by any Owner for any period during which any assessment against such Owner's Lot remains unpaid, and for a period not to exceed 60 days for any, and for each separate, infraction of the Association's published rules and regulations.

2.3.3 The Association shall have the right to dedicate or transfer all or any portion of the Common Area, including easements thereon, to any public agency, authority, or utility for such purposes and subject to such conditions as may be agreed to by the Members. No such dedication or transfer shall be effective unless two-thirds of each class of Members vote or consent in writing to such dedication or transfer. The instrument dedicating or transferring all or any portion of the Common Area shall be executed by the president and secretary of the Association who shall certify that the requisite vote or consent has been obtained.

Section 2.4 Delegation of Use. Any Member may delegate, in accordance with such rules and regulations as the Association shall promulgate, his or her right of use and enjoyment of the Common Area to family members, guests, and tenants of such Member. Each Owner shall be responsible for informing such Owner's family members, guests, tenants, and service personnel of the contents of this Declaration as well as any rules and regulations that may be adopted by the Association as they may relate to the use and enjoyment of the Common Area. Each Owner shall be personally liable for any damage to any Common Area or any other area maintained by the Association or to any other property of the Association, whether real or personal, caused by the Owner or the Owner's family member, guest, tenant, agent, workman, contractor or other licensee or invitee. The Association may have a lien upon the Owner's Lot for the amount of such damages as determined by the Board after Notice and Opportunity to be Heard.

Section 2.5 Maintenance. The Association shall have full responsibility for the maintenance, repair, replacement and improvement of the Common Area, including any common utilities located therein, to the extent they are not maintained by a public utility. All such areas and facilities shall be reasonably maintained for their intended use, subject to applicable governmental restrictions.

Section 2.6 Association Functions. There is hereby reserved to Declarant and the Association or their duly authorized agents and representatives such easements as are necessary to perform the duties and obligations of the Association as are set forth in the Declaration, or in the Bylaws, and rules and regulations adopted by the Association.

ARTICLE 3
OWNERS ASSOCIATION

Section 3.1 Establishment. There is hereby created an association called the Solar Cluster Lots Homeowners Association (the "Association").

Section 3.2 Form of Association. The Association shall be a nonprofit corporation formed and operated under the laws of the State of Washington.

Section 3.3 Articles and Bylaws. Declarant will adopt Articles of Incorporation and will propose to the initial Board of Directors the adoption of Bylaws to supplement this Declaration and to provide for the administration of the Association and the Property and for other purposes not inconsistent with this Declaration. In the event of any conflict between this Declaration and the Articles for such nonprofit corporation, the provisions of this Declaration shall prevail. Bylaws for the administration of the Association and the Property, and to further the intent of this Declaration, shall be adopted or amended by the Owners at regular or special meetings; provided that the initial Bylaws shall be adopted by the Board of Directors. In the event of any conflict between this Declaration and any Bylaws, the provisions of this Declaration shall prevail.

Section 3.4 Board of Directors. The Association shall be managed by a Board of Directors who are members of the Association. They shall be elected as set forth in the Articles of Incorporation and Bylaws of the Association.

Section 3.5 Membership and Voting Rights. The Association shall have two classes of voting membership:

3.5.1 Class A Members shall be all Owners except the Declarant, and each Class A Member shall be entitled to one vote for each Lot owned, whether improved or not. When more than one Person holds an interest in any Lot, all such Persons shall be Members. The vote for such Lot shall be exercised as the joint owners may decide among themselves, but in no event shall more than one vote be cast with respect to any Lot.

3.5.2 The Class B Member shall be the Declarant who shall be entitled to ten votes for each Lot owned by it. The Class B class of membership shall cease and be converted to Class A membership upon the occurrence of the earlier of the following events: (i) the votes of the Class A Members equal the votes of the Class B Member after the Declarant has added all of the Additional Property to this Declaration; or (ii) the tenth anniversary of the date on which this Declaration is recorded.

Section 3.6 Transfer of Membership. The membership in the Association of each Owner (including Declarant) shall be appurtenant to the Lot giving rise to such membership, and

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shall not be transferred in any way except upon the transfer of title to the Lot, and then only to the transferee of title to the Lot. Any attempt to make a prohibited transfer shall be void. Any transfer of title to a Lot shall operate automatically to transfer the membership in the Association to the new Owner.

Section 3.7 Books and Records. The Board shall cause to be kept complete, detailed and accurate books and records of the receipts and expenditures of the Association, in a form that complies with standard accounting principles. The Board or a majority of the Owners may at any time require an annual audit prepared by an independent certified public accountant which shall be paid for by the Association.

Section 3.8 Inspection of Association Documents, Books, and Records. The Association shall make available to Owners, Mortgagees, prospective purchasers and their prospective mortgagees, and the agents or attorneys of any of them, current copies of this Declaration, the Articles, the Bylaws, and other rules, books, records, and financial statements of the Association, and the most recent annual audited financial statement, if one is prepared. "Available" shall mean available for inspection upon request, during normal business hours or under other reasonable circumstances. The Association may require the requesting party to pay a reasonable charge to pay the cost of making the copies.

ARTICLE 4 MANAGEMENT OF THE ASSOCIATION

Section 4.1 Administration of the Property. The Owners covenant and agree that the administration of the Property shall be in accordance with the provisions of this Declaration and the Bylaws of the Association which are made a part hereof. Administrative power and authority shall be vested in the Board.

Section 4.2 Authority and Duties of the Board. On behalf of and acting for the Association, the Board, for the benefit of the Property and the Owners, shall have all powers and authority permitted to the Board under this Declaration including, but not limited to, the following:

4.2.1 Levy, collect, and enforce the collection of, Assessments, as more particularly set forth in Article 7 hereof, to defray expenses attributable to carrying out the duties and functions of the Association hereunder.

4.2.2 Require any officer or employee of the Association handling or responsible for Association funds to furnish adequate fidelity insurance, the premiums for which shall be paid by the Association.

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4.2.3 Enter into agreements with one or more qualified persons to assist it in carrying out its obligations under this Declaration, collecting Assessments, sending notices to Members, operating Association meetings, and other regular activities of the Association.

4.2.4 Contract and pay for any materials, supplies, labor or services which the Board should determine are necessary or proper for carrying out its powers and duties under this Declaration, including legal, accounting, management, security patrol or other services.

4.2.5 Impose and collect charges for late payment of Assessments as further provided in Article 7, and, after Notice and Opportunity to be Heard by the Board or by such representative designated by the Board and in accordance with such procedures as provided in this Declaration, the Bylaws, or rules and regulations adopted by the Board, levy reasonable fines in accordance with a previously established schedule thereof adopted by the Board and furnished to the Owners for violations of this Declaration, the Bylaws, and rules and regulations of the Association.

4.2.6 Institute, defend, or intervene in litigation or administrative proceedings in its own name on behalf of itself on matters affecting the Association; provided, however, that the approval of Owners holding at least 67% of the votes in the Association shall be required before the Association may institute, commence or intervene in any litigation or administrative proceeding, including arbitration, other than litigation or other proceedings against Owners for collection of delinquent Assessments or for enforcement of the Declaration or rules and regulations of the Association; but Owner approval shall not be required for settlement of such litigation or administrative proceedings.

4.2.7 Grant easements, leases, licenses, and concessions through or over the Common Areas.

4.2.8 Impose and collect any payments, fees, or charges for the use, rental, or operation of the Common Areas and for services provided to Owners.

4.2.9 Acquire, hold, encumber, convey, and dispose of, in the Association's name, right, title, or interest to real or tangible and intangible personal property; provided that the encumbrance, conveyance or other disposition of any portion of the Association's real property shall require the approval of the Owners holding a majority of the votes in the Association.

4.2.10 Arrange for and supervise any addition or improvement to the Common Areas, provided that if the estimated cost of any separate property acquisition, addition, or improvement to the Common Areas exceeds \$25,000, the approval of the Owners holding a majority of the votes in the Association shall be required.

4.2.11 Provide propane gas service to Homes and allocate the cost thereof to Owners based on usage.

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4.2.12 All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness in the name of the Association shall be signed by such officer or officers, agent or agents of the Association and in such manner as is from time to time determined by the Board.

Section 4.3 Adoption of Rules and Regulations. When and to the extent it deems advisable, the Board may adopt reasonable rules and regulations governing the operation, maintenance or use of the Common Area, Lots and Homes and other matters of mutual concern to the Members, which rules and regulations are not inconsistent with this Declaration and the Bylaws and which treat all Members fairly and in a non-discriminatory manner.

Section 4.4 Additional Powers of the Association. In addition to the duties and powers of the Association, as specified herein and elsewhere in this Declaration, but subject to the provisions of this Declaration, the Association, acting through its Board, shall have the power to do all other things which may be deemed reasonably necessary to carry out its duties and the purpose of this Declaration.

ARTICLE 5 ARCHITECTURAL CONTROL

Section 5.1 Construction and Exterior Alterations.

5.1.1 All Structures (including, without limitation, concrete or masonry walls, rockeries, driveways, exterior lighting, hedges, swimming pools, if any, or other Structures) to be constructed, erected, placed or altered within the Property, all exterior alterations of any Structures on the Property and visible from any street or other Lot, and any construction or alteration of landscaping on the Property must be approved by the Board or an Architectural Control Committee ("ACC") composed of three or more representatives appointed by the Board; provided, that until completed Homes have been constructed on all of the Lots, the Declarant shall act as the ACC. Complete plans and specifications of all such proposed buildings, structures, exterior alterations, or landscaping together with detailed plans showing the proposed location of the same on the particular building site and other data requested by the ACC shall be submitted to the ACC before construction or alteration is begun. Construction or alteration shall not be started until written approval thereof is given by the ACC. Fences shall not be permitted on any Lot.

5.1.2 The ACC will review submittals as to the quality of workmanship and materials planned and for conformity and harmony of the exterior design with proposed or existing structures on the Lots and, as to location of the building, with respect to topography, finish grade elevation and building setback restrictions and compliance with the Plat, in accordance with architectural guidelines to be adopted by the ACC.

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5.1.3 All plans and specifications submitted for approval by the ACC must be submitted in duplicate at least 60 days prior to the proposed construction or exterior alteration starting date.

5.1.4 The maximum height of any building shall be established by the ACC as part of plan approval and shall be given in writing together with the approval. The maximum height of any building shall be no greater than the height of the building as originally constructed.

5.1.5 The ACC may require that all plans or specifications be prepared by an architect or a competent house designer (landscape architect for landscaping plans and specifications) approved by the ACC. One complete set of the plans and specifications shall in each case be delivered to and permanently left with the ACC. All buildings or structures shall be erected or constructed, and all exterior alterations made, by a contractor, house builder or other person or entity approved by the ACC. The ACC shall have the right to refuse to approve any design, plan or color for such improvements, construction or exterior alteration visible from a street or other Lot which is not suitable or desirable, in the ACC's opinion, and such refusal may be based entirely on aesthetic or other factors.

5.1.6 In evaluating any design, the ACC may consider the suitability of the proposed building or other structure, the material of which it is to be built, the exterior color scheme, the site upon which such buildings or structures are proposed to be built, the harmony thereof with the surroundings, and the effect or impairment that such building or structure will have on the view or outlook of surrounding Lots, compliance with the Plat, and any and all other factors which, in the ACC's opinion, shall affect the desirability or suitability of such proposed structure, building, improvements, or exterior alteration.

5.1.7 The ACC shall have the right to disapprove the design or installation of any recreational structure or equipment deemed undesirable, in the ACC's reasonable opinion, based on aesthetic factors or otherwise. The ACC may consider the visual impact of the proposed structure or equipment and the noise impact of the related activities upon all nearby Lots or Common Area. Any enclosure or cover used in connection with such a recreational structure or equipment whether temporary, collapsible, or seasonal, shall be treated as a permanent structure for purposes of these covenants, and shall to be subject to all the conditions, restrictions, and requirements as set forth herein for all buildings and structures.

5.1.8 Declarant (including any successor in interest to Declarant's status as Declarant) shall not be subject to the restrictions of this Section 5.1 as to any Lot owned by Declarant.

5.1.9 By majority vote, the ACC may adopt and amend architectural guidelines consistent with this Declaration for making its determinations hereunder.

5.1.10 No Structure shall be erected, altered, placed or permitted to remain on any Lot unless the Structure complies with the Plat and with applicable building codes. The ACC may require that the Owner furnish the ACC with evidence that all necessary permits have been obtained from the City for any work on a Lot for which ACC approval is required under this Section prior to commencement of the work.

Section 5.2 Declarant Facilities. Notwithstanding any provision in this Declaration to the contrary, Declarant and its agents, employees and contractors shall be permitted to maintain during the period of sale of Lots or Homes upon such portion of the Property (other than Lots sold by Declarant) as Declarant may choose, such facilities as in the sole opinion of the Declarant may be reasonably required, convenient or incidental to the construction, sale or rental of Lots and Homes, including but not limited to a business office, storage area, signs, model units, sales office, construction office and parking areas for all prospective tenants or purchasers of Declarant.

Section 5.3 Declarant Inspections and Repairs. Declarant shall have the right, but not the obligation, to conduct inspections and tests from time to time of all or any parts of the Property in order to ascertain the physical condition of the improvements on the Lots and to determine whether maintenance, repairs or replacements of any such improvements are indicated. Declarant shall pay all costs of such inspections and tests made pursuant to this Section and shall have the right to make such repairs at it deems appropriate. Declarant shall have such rights of entry on, over, under, across and through the Lots as may be reasonably necessary to exercise the rights described in this Section. Declarant shall provide reasonable advance notice to the Association of the inspections and repairs.

ARTICLE 6
USE RESTRICTIONS AND MAINTENANCE OBLIGATIONS

Section 6.1 Maintenance of Homes and Lots. The Association shall be responsible for maintenance, painting, repair and replacement of the exterior of the Homes and for maintenance, repair and replacement of the driveway, sidewalk, lawn, landscaping, storm drainage and irrigation on the Lots. The exterior of the Homes shall include the following: roof (including all vents and flashing), gutters and downspouts, exterior siding, window frames (but not the windows, which shall be the responsibility of the Home Owner), doors, door frames, chimneys, exterior lighting, deck, patio and porch. The costs relating to the exterior of the Homes, the storm drainage system, the lawns, landscaping and irrigation shall be allocated equally among the Owners in accordance with their Common Expense Liability. Each Owner, at the Owner's cost and expense, shall promptly and continuously maintain, repair, replace and restore all portions of the Owner's Home and any equipment serving only the Owner's Home other than those portions of the Home maintained by the Association, as provided above, in a sound, good, clean, attractive, safe and sanitary condition and in full compliance with all applicable laws, the provisions of this Declaration, and any rules and regulations of the Association. Except as provided above, all structural components of the Home shall be the responsibility of the Owner.

If any Owner has failed to maintain, repair, replace or restore the portions of the Owner's Home for which the Owner is responsible, after written request from the Board and a reasonable opportunity to do so, the Association may, after Notice and Opportunity to be Heard, maintain, repair, replace or restore such items or areas at the Owner's expense. The Association shall levy a special Assessment against the Owner for all such expenses.

Section 6.2 Restrictions on Parking and Storage. Parking is permitted only in garages or in designated parking spaces on the Common Areas. Each Home has a two or three car garage. It is expected that Owners will use their garages for parking their own motor vehicles and will keep their garages available for such purposes. Garages may not be converted to living space without approval of the ACC. Parking in Common Area parking spaces is reserved for temporary parking by guests or business invitees subject to such rules and regulations as the Association may adopt. No Owner shall store or allow any occupant or tenant to store any trailers, boats, motor homes, recreational vehicles, or trucks over two tons (except those used by Declarant in connection with the development of the Property or construction of the Homes) or any disabled or inoperable motor vehicle on the Property unless any such vehicle is completely enclosed and hidden from view within a garage. Violations of this Section shall subject such vehicles to impound, at the expense and risk of the owner thereof.

Section 6.3 Roads, Sidewalks, and Paths. The roads, sidewalks and paths located within the Plat shall be maintained by the Association and used exclusively for normal access, ingress and egress, and no obstructions shall be placed thereon or therein except by express written consent of the Board.

Section 6.4 Residential Use; Senior Housing Age and Occupancy Restrictions; Timesharing Prohibited. All Lots and Structures located thereon shall be used, improved and devoted exclusively for residential purposes only, including: (i) sleeping, eating, food preparation for on-site consumption by occupants and guests, entertaining by occupants or personal guests, and similar activities commonly conducted within a residential dwelling, (without regard to whether the Owner or occupant uses a Home as a primary or secondary personal residence, on an ownership, rental, lease or invitee basis) or such other reasonable ancillary purposes commonly associated with residential dwellings and otherwise in compliance with this Declaration and all applicable laws for residential dwellings; (ii) for use as a home office or for a home occupation not involving use by nonresident employees or regular visits by customers or clients, unless the Board determines that such use would not adversely affect (a) the right of the other Owners to the quiet enjoyment of their Home and Lot or (b) the value of the other Homes and Lots; (iii) the common social, recreational or other reasonable uses normally incident to such purposes; and (iv) for purposes of operating the Association and managing the Property. The Property is intended to be a retirement community for senior persons. Accordingly, at least one resident of each Home shall be 55 years old or older; no person under the age of 18 shall be permitted to reside in any Home. Each resident, including but not limited to Owners and tenants of Homes, shall participate in any surveys conducted, and execute any affidavits reasonable required, by the Declaration or the Association to establish or maintain the status of the Property as housing for older persons within the meaning of the Federal Fair

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Housing Act. The Board shall have the right to waive the age restriction in connection with any Home occupant or class of Home occupants if it determines, in its sole discretion, that (i) the application of the age restriction would work an unreasonable hardship on a Home Owner or class of Home Owners, (ii) the particular waiver is in the best overall interests of the Home Owners as a group, and (iii) it will not adversely affect the qualification of the Property as housing for older persons within the meaning of the Federal Fair Housing Act. This age restriction shall not apply to the resident manager, if any, for the Property. Timesharing of Homes, as defined in RCW 64.36, is prohibited.

Section 6.5 No Nuisances. No noxious or offensive condition shall be permitted upon any Lot or improvement thereon, nor shall anything be done thereon which is or may become an annoyance or nuisance to other occupants of the Property.

Section 6.6 Restriction on Further Subdivision. No Lot, or any portion of a Lot in the Property, shall be divided and sold or resold, or ownership changed or transferred whereby the ownership of any portion of the Property shall be less than the area required for the use district in which the Property is located; provided, the foregoing shall not prohibit deeds of correction, deeds to resolve boundary disputes and similar corrective instruments.

Section 6.7 Garbage and Trash Removal. No Lot or Common Area shall be used as a dumping ground for rubbish, trash, garbage, litter, junk and other debris. All garbage or trash shall be placed in appropriate sanitary containers for regular disposal or recycling. Each Owner shall be responsible for the prompt and regular disposal of all of garbage or trash from the Owner's Home. All containers for garbage or trash shall be kept in the Home and set out for collection in a designated location only on collection day.

Section 6.8 Animal Restrictions. No insects, reptiles, poultry or animals of any kind shall be raised, bred or kept in any Home or any Lot, except that domesticated dogs, cats or other usual household pets (hereinafter referred to as "pets") may be kept in a Home subject to rules and regulations adopted by the Board. No more than two dogs, two cats or one dogs and one cat may be kept in any Home. The Board may prohibit dangerous breeds of dogs. No dog houses, kennels, dog runs or the like may be kept or maintained on any Lot. All pets when outside a Home but on a Lot shall at all times be kept on an adequate leash or other means of physically controlling the pet by a person capable of controlling the pet. Owners shall clean up immediately after their pets. Any Owner whose pet violates these provisions or who causes any unreasonable noise or damage to persons or property shall be liable to all such harmed Owners and their families, guests, and invitees. The Board may at any time require the removal of any pet at the Owner's sole expense which the Board finds is disturbing other Owners unreasonably, and may exercise this authority for specific pets even though other pets are permitted to remain.

Section 6.9 Signs. No signs shall be displayed to public view on any Lot except (i) signs used by Declarant or other home builders advertising Homes for sale, (ii) a directory or directories listing Homes for sale or lease approved by the Board; or (iii) permanent entry sign or signs for the Property.

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Section 6.10 Leasing. With respect to the leasing, renting, or creation of any kind of tenancy of a Home, the Owner (except for a lender in possession of a Lot and improvements located thereon following a default in a first Mortgage, a foreclosure proceeding, or any deed of trust sale or other arrangement in lieu of a foreclosure) shall be prohibited from leasing or renting less than the entire Home, and for any term less than six months. Any lease or rental agreement must provide that its terms shall be subject in all respects to the provisions of the Declaration, the Bylaws, and rules and regulations of the Association and that any failure by the tenant to comply with the terms of such documents, rules, and regulations shall be a default under the lease or rental agreement. If any lease under this Section does not contain the foregoing provisions, such provisions shall nevertheless be deemed to be part of the lease and binding upon the Owner and the tenant by reason of their being stated in this Declaration. The Board may adopt a rule that requires any Owner desiring to rent a Home to have any prospective tenant (other than a relative of the Owner) screened, at the Owner's cost, by a tenant screening service designated or approved by the Board and to furnish the report of the tenant screening service to the Board or its designee prior to Owner's entering into a lease with the prospective tenant. All leases and rental agreements shall be in writing. Copies of all leases and rental agreements shall be delivered to the Association before the tenancy commences. If any lessee or occupant of a Home violates or permits the violation by his guests and invitees of any provisions hereof or of the Bylaws or of the rules and regulations of the Association, and the Board determines that such violations have been repeated and that a prior notice to cease has been given, the Board may give notice to the lessee or occupant of the Home and the Owner thereof to forthwith cease such violations. If the violation is thereafter repeated, the Board shall have the authority, on behalf and at the expense of the Owner, to evict the tenant or occupant if the Owner fails to do so after Notice from the Board and an Opportunity to be Heard. The Board shall have no liability to an Owner or tenant for any eviction made in good faith. The Association shall have a lien against the Owner's Lot for any costs incurred by it in connection with such eviction, including reasonable attorney fees, which may be collected and foreclosed by the Association in the same manner as Assessments are collected and foreclosed under this Declaration. Other than as stated in this Section, there is no restriction on the right of any Owner to lease or otherwise rent his Home.

Section 6.11 Zoning Regulations. Zoning regulations, building regulations, environmental regulations and other similar governmental regulations applicable to the Property subject to this Declaration shall be observed. In the event of any conflict between any provision of such governmental regulations and restrictions of this Declaration, the more restrictive provision shall apply.

Section 6.12 Temporary Residence. No outbuilding, basement, tent, shack, garage, trailer, shed or temporary building of any kind shall be used as a residence either temporarily or permanently.

Section 6.13 Protected Antennas. Owners may not install antennas, dishes or other receiving devices in or on any portion of the Lots, except as provided in this Section. Each Owner shall have the right to install a Protected Antenna (as defined by the provisions of

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47 C.F.R. § 1.4000 ("FCC Rule") as it now exists or is hereafter amended or replaced, or any other federal, state or local law, code, rule or regulation that preempts, prohibits or limits restrictions on, or conditions to, the installation, maintenance or repair of telecommunications equipment desired by an Owner) (but no other kind of antenna, dish or receiving device) on the Owner's Lot, subject to such reasonable rules and regulations as the Board may adopt; provided, however, the Association may prohibit the installation of a Protected Antenna by Owners if the Association provides a central antenna system that complies with the FCC Rule or any other law, ordinance, rule or regulation that permits such prohibition. If the provisions of this Section conflict with any applicable federal, state or local law, ordinance, rule or regulation, the terms of such law, ordinance, rule or regulation shall prevail, but the conditions and limitations set forth in this Section shall be enforced to the maximum extent permitted by law.

Section 6.14 Building Setback Requirements. All Structures and other Lot improvements shall comply with all applicable governmental requirements including, without limitation, minimum setback requirements.

Section 6.15 LPG. Pursuant to the LPG Agreement, the following covenants are imposed on all Units/Homes:

6.15.1 Each Home shall be adequately plumbed for use of LPG when constructed and yard line connections must be installed between the Equipment and the Home to provide delivery of LPG service;

6.15.2 LPG plumbing in each Home will include, but not be limited to, plumbing for water heaters, clothes dryers, central heating and/or furnaces, stoves, ranges, and fireplaces (if any in the Unit) (collectively, the "Gas Appliances"), and any heated pools to be constructed within an individual Home must be constructed with and use gas plumbing for the heating of the pool;

6.15.3 LPG plumbing shall be installed to the specifications required by Clallam County, Washington, or its successor and all other applicable laws and regulations;

6.15.4 All water heaters, central heating and/or furnaces, installed in each Home (collectively, the "Required Gas Appliances") and to the extent commercially reasonable, all clothes dryers, stoves, ovens and ranges, shall be propane gas appliances, and approval by the ACC or Board of the plans and specifications for and construction of any Home require gas plumbing for all Gas Appliances and installation of the Required Gas Appliances shall be required as a condition precedent to approval of plans and specifications and construction of Homes;

6.15.5 No above-ground bulk storage LPG tanks may be stored, maintained used within the Plat; and

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6.15.6 Ferrellgas shall have the authority to prosecute proceedings at law or in equity against any person or entity violating or attempting to violate any of the provisions described in this Section, including seeking damages (including lost profits) and/or injunctive relief.

Section 6.16 Oil and Mining Operations. No oil drilling, oil development operations, oil refining, quarrying or mining operations of any kind shall be permitted upon or in any Lot, nor shall oil wells, tanks, tunnels, mineral excavations or shafts be permitted upon or in any Lot. No derrick or other structure designed for use in boring for oil or natural gas shall be erected, maintained or permitted upon any Lot.

Section 6.17 Use and Disposal of Hazardous Substances. The Owner of each Lot shall comply with all state, federal and local laws and regulations governing or in any way relating to the handling, storage, use, dumping, discharge or disposal of any hazardous substance or material. The Owner of each Lot shall not dispose of or discharge any hazardous substance or materials on any Lot, Common Area, or other area located within the Property.

Section 6.18 Exterior Add-ons. No awnings, air conditioning units, basketball hoops or other projections shall be placed on or hang from the exterior surfaces of any Home unless they have been approved by the Board.

Section 6.19 Outdoor Fires. Outdoor barbecues may be used for cooking on the Lots when permitted by law. Reasonable and adequate precautions against fires must be taken. Excessive smoke or soot accumulation from fires shall not be allowed. No other outdoor fires shall be permitted on the Property. Notwithstanding the foregoing, construction fires by the Declarant or its contractors are permitted to the extent not prohibited by law.

Section 6.20 Screened Service Areas. Unsightly items must be hidden from view within a Home or screened area where they will not be seen from another Home or street. Unsightly items shall include, but shall not be limited to, garbage and trash, clothes lines, bicycles, recreational gear, outdoor maintenance equipment, firewood and ladders. The design and materials used for any screened area shall be consistent with the general appearance of the Home and must receive prior approval from the ACC.

ARTICLE 7 ASSESSMENTS

Section 7.1 Creation of the Lien and Personal Obligation of Assessments. Each Owner of a Lot by acceptance of a deed therefor whether or not it shall be so expressed in such deed, is deemed to covenant and agree to pay to the Association any Assessment duly levied by the Association as provided herein. The Association has a lien on each Lot for any unpaid Assessment levied against the Lot from the time the Assessment is due. A lien under this Article shall be prior to all other liens and encumbrances on a Lot except: (a) liens and encumbrances

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recorded before the recording of this Declaration; (b) a mortgage on the Unit recorded before the date on which the Assessment sought to be enforced became delinquent. The Assessment shall also be the personal obligation of the person who was the Owner of such Lot at the time when the Assessment fell due. The personal obligation for delinquent Assessments shall not pass to his successor title unless expressly assumed by that party. When ownership of a Lot changes, Assessments which have been established for the current fiscal year shall be prorated between the buyer and seller based on a 365 day year.

Section 7.2 Liability for Assessments. Any Assessments which may be levied from time to time pursuant to the authority of the Board shall be established in accordance with this Article, except for Assessments levied against an Owner for the purpose of reimbursing the Association for costs incurred in bringing the Owner or his Home or Lot into compliance with the provisions of this Declaration. Common Expenses and Home Expenses shall be allocated equally among Lots; provided, however, Declarant shall not be obligated to pay any Assessment levied against any Lots owned by it unless a Home has been constructed on the Lot and the Home is occupied. No Owner may exempt himself or herself from liability for his Assessments by abandoning his or her Home.

Section 7.3 Association Budgets. The initial budget for the Association shall be adopted by Declarant, which shall be based on a total development consisting of 130 Homes and projected improvements on the Lots and Common Area in all divisions of Solana Cluster Lots according to Declarant's current plans, which are subject to change. Subsequent budgets shall be prepared by the Board, subject to ratification by the members of the Association as provided below. The budgets shall set forth sums required by the Association for the completed development, as estimated by the Board, to meet its annual costs for Common Expenses and Home Expenses, including a reasonable sum for reserves for future major repairs and replacements for which the Association is responsible. Assessments on each Lot shall commence upon the closing of the sale by Declarant of the Lot with a completed Home or upon the occupancy of the Home, whichever is earlier. Until Assessments have commenced on all Lots, Declarant shall pay to the Association an amount equal to the excess, if any, of actual expenses of the Association over the amount of Assessments levied by the Association for operating expenses (excluding amounts levied for reserves).

Section 7.4 Ratification of Budget. Within 30 days after adoption of any proposed budget for the Association after the initial budget adopted by Declarant, the Board shall provide a summary of the budget to all the Owners and shall set a date for a meeting of the Owners to consider ratification of the budget not less than 14 nor more than 60 days after mailing of the summary. Unless at that meeting the Owners to which a majority of the votes in the Association are allocated reject the budget, the budget is ratified, whether or not a quorum is present. In the event the proposed budget is rejected or the required notice is not given, the prior budget shall continue until such time as the Owners ratify a subsequent budget proposed by the Board.

Section 7.5 Supplemental Budget. If during the year the budget proves to be inadequate for any reason, including nonpayment of any Owner's Assessments, the Board may

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prepare a supplemental budget for the remainder of the year. A supplemental budget shall be subject to ratification by the Owners pursuant to Section 7.4.

Section 7.6 Propane Costs and Fees. LPG service to the Homes will be provided by Ferrellgas, L.P. a Delaware limited partnership, its successor and assigns ("Ferrellgas"), under the LPG Agreement, which shall be binding upon the Declarant, Ferrellgas, the Association and the Owners. Pursuant to the LPG Agreement, each cluster of Homes will have a propane tank or tanks with meters determining usage by each Home. The cost of propane to the Homes shall be specially assessed to the Owners based on usage, as determined by the submeters. If an Owner elects not to have LPG service for the Home at the time of initial purchase of the Lot or elects to discontinue service any time thereafter, the Owner shall pay an Opt-Out Fee of \$399 to Ferrellgas, payment of which has been guaranteed by the Association. Additionally, should any Unit's consumption during any 12-month period fall below one hundred (100) gallons, the Owner of the Unit shall be assessed a Low-Use Fee of \$250 billed once per annum. Although it is contemplated in the LPG Agreement that Owners (or residents) of the Homes will pay Ferrellgas directly for LPG usage as well as any Opt-Out or Low-Use Fees, the Association has a lien against each Unit for any amounts owed to Ferrellgas by the Owner or resident of the Unit and recourse to all remedies provided in this Article for collection of Assessments. These amounts are subject to change in the event the LPG Agreement is modified or LPG is provided to the Homes under a different contract or arrangement agreed to by the Association.

Section 7.7 Levy of Assessments. In order to meet the costs projected in its operating budget, the Board shall determine and levy on every Owner of a Lot with a completed Home (other than Declarant unless the Home is occupied) a general Assessment for Common Expenses and on a general Assessment for Home Expenses. The Association's operating budget for Common Expenses and Home Expenses shall be allocated equally among the total number of project Lots.

Section 7.8 Amount of General Assessments. The Board shall make reasonable efforts to determine the amount of the general Assessments payable by each Owner for an Assessment period at least 30 days in advance of beginning of such period. Notice of the general Assessments shall thereupon be sent to each Owner subject to Assessments; provided, however, that failure to notify an Owner of the amount of an Assessment shall not render such Assessment void or invalid. Any failure by the Board, before the expiration of any Assessment period, to fix the amount of the general Assessments hereunder for the next period, shall not be deemed a waiver or modification in any respect of the provisions of this Article or a release of any Owner from the obligation to pay the general Assessments, or any installment thereof, for that or any subsequent Assessment period.

Section 7.9 Assessment Period. The general Assessments fixed for the preceding period shall continue until new Assessments are fixed. Upon any revision by the Association of the operating budget during the Assessment period for which each budget was prepared, the Board shall, if necessary, revise the general Assessments levied against the Owners and give

notice of the same in the same manner as the initial levy of a general Assessments for the Assessment period.

Section 7.10 Manner and Time of Payment. Assessments shall be payable in monthly or quarterly installments, as determined by the Board. Any Assessment or installment thereof which remains unpaid for ten days after the due date to thereof shall bear interest at the rate of 12% per annum, and the Board may also assess a late charge in an amount not exceeding 25% of any unpaid Assessment which has been delinquent for more than ten days.

Section 7.11 Initial Contribution to Working Capital. In connection with the closing of the sale of each Lot with a completed Home, the first purchaser thereof shall pay to the Association, as a nonrefundable contribution to an initial working capital fund, an amount equal to two times the initial monthly Assessment (including reserves) against the Lot, which amount shall not be considered as an advance payment of regular Assessments. Declarant shall not use any of the working capital fund to defray any of its expenses, reserve contributions or construction costs.

Section 7.12 Accounts. Any Assessments collected by the Association shall be deposited in one or more Federally insured institutional depository accounts established by the Board. The Board shall have exclusive control of such accounts and shall maintain accurate records thereof. No withdrawal shall be made from said accounts except to pay for charges and expenses authorized by this Declaration.

Section 7.13 Lien. In the event any Assessment or installment thereof remains delinquent for more than 30 days, the Board may, upon 15 days' prior written notice to the Owner of the Lot of the existence of the default, accelerate and demand immediate payment of the entire Assessment. The amount of any Assessment assessed or charged to any Owner plus interest, costs, late charges and reasonable attorneys' fees, shall be a lien upon the Lot. A notice of Assessment may be recorded in the office where real estate conveyances are recorded for the county in which this property is located. Such notice of Assessment may be filed at any time at least 15 days following delivery of the notice of default referred to above in this Section. The lien for payment of such Assessment and charges shall have priority over all other liens and encumbrances, recorded or unrecorded, limited as otherwise provided herein. Suit to recover a money judgment for unpaid Assessments or charges shall be maintainable without foreclosure or waiver of the lien securing the same. Said liens may be foreclosed as a mortgage.

Section 7.14 Special Assessments. The Board may also levy special Assessments for unanticipated Common Expenses or Home Expenses against the Owners on the same basis as general Assessments for such expenses, as provided in Section 7.2. The special Assessment shall be levied pursuant to a budget which shall be subject to ratification by the Owners pursuant to Section 7.4. To the extent that any Common Expense or Home Expense is caused by the misconduct of an Owner or tenant of any Lot, the Association may, after Notice and Opportunity to be Heard, levy a special Assessment for the expense against the Owner of the Lot.

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Section 7.15 Waiver of Homestead. Each Owner hereby waives, to the extent of any liens created pursuant to this Article, the benefit of any homestead or exemption law in effect at the time any Assessment or installment thereof become delinquent or any lien is imposed pursuant to the terms hereof.

Section 7.16 Financial Statements and Records. The Board shall prepare or cause to be prepared for any fiscal year in which the Association levies or collects any Assessments, a balance sheet and an operating (income/expense) statement for the Association which shall include a schedule of delinquent Assessments identified by Lot; provided, however, such documents need not be prepared by a certified public accountant unless requested by the Board or a majority of the Owners. The Board shall cause detailed and accurate records of the receipts and expenditures of the Association to be kept specifying and itemizing the maintenance, operating, and any other expense incurred. Such records, copies of this Declaration, the Articles and the Bylaws, and any resolutions authorizing expenditures of Association funds shall be available for examination by any Owner at convenient weekday hours.

Section 7.17 Certificate of Assessment. A certificate executed and acknowledged by the treasurer or the president of the Board or the managing agent for the Association stating the indebtedness for Assessments and charges or lack thereof secured by the Assessments upon any Lot shall be conclusive upon the Association as to the amount of such indebtedness on the date of the certificate, in favor of all persons who rely thereon in good faith. Such a certificate shall be furnished to any Owner or any Mortgagee of a Lot within a reasonable time after request, in recordable form, at a reasonable fee. Unless otherwise prohibited by law, any Mortgagee holding a lien on a Lot may pay any unpaid Assessments or charges with respect to such Lot, and, upon such payment, shall have a lien on such Lot for the amounts paid of the same priority as its lien.

Section 7.18 Foreclosure of Assessment Lien; Attorneys' Fees and Costs. The Board (or authorized agent), on behalf the Association, may initiate an action to foreclose the lien of, or collect any Assessment. In any action to foreclose the lien of, or otherwise collect delinquent Assessments or charges, any judgment rendered in favor of the Association shall include a reasonable sum for attorneys' fees and all costs and expenses reasonably incurred in preparation for or in the prosecution of said action, in addition to all costs permitted by law. Said liens may be foreclosed as a mortgage.

Section 7.19 Curing of Default. The Board shall prepare and record a satisfaction and release of the lien for which a notice of Assessment has been filed and recorded in accordance with this Article upon timely payment or other satisfaction of all delinquent Assessments set forth in the notice and all other Assessments which have become due and payable following the date of such recordation with respect to the Lot to which such notice of Assessment was recorded, together with all costs, late charges and interest which have accrued thereon. A fee of \$25.00 or such other amount as may from time to time be set by the Board covering the cost of preparation and recordation shall be paid to the Association prior to such action. The satisfaction and release of the lien created by the notice of Assessment shall be executed by the president or

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treasurer of the Association or the managing agent of the Association. For the purpose of this paragraph, the term "costs" shall include costs and expenses actually incurred or expended by the Association in connection with the cost of preparation and recordation of the notice of Assessment and any efforts to collect the delinquent Assessments, including a reasonable sum for attorneys' fees and costs.

ARTICLE 8 INSURANCE

Section 8.1 General Requirements. Commencing not later than the time of the first conveyance of a Lot to a person other than the Declarant, the Association shall maintain, to the extent the Board determines it is reasonably available and applicable to the Association, a policy or policies and bonds necessary to provide (a) property insurance, (b) commercial general liability insurance, (c) fidelity insurance, (d) workers' compensation insurance to the extent required by applicable laws, (e) directors and officers liability insurance, and (f) such other insurance as the Board deems advisable. The Board shall review at least annually the adequacy of the Association's insurance coverage. All insurance shall be obtained from insurance carriers that are generally acceptable for similar projects, authorized to do business in the state of Washington, and meet the specific requirements of FNMA, HUD, VA, and FHLMC regarding the qualifications of insurance carriers. Notwithstanding any other provisions herein, the Association shall continuously maintain in effect property, liability, and fidelity insurance that meet the insurance requirements for similar projects established by FNMA, HUD, FHLMC, and VA so long as any of them is a holder of a mortgage or Owner of a Lot, except to the extent such coverage is not available or has been waived in writing by them. All such insurance policies shall provide that coverage may not be cancelled or substantially reduced without at least 45 days' prior written notice (10 days for cancellation for nonpayment of premium) to the Association as the first named insured therein.

Section 8.2 Property Insurance; Deductible. The property insurance shall, at the minimum and subject to such reasonable deductible as the Board may determine, provide All Risks of Direct Physical Loss coverage in an amount equal to the full replacement cost of the Homes and the equipment, fixtures, improvements in the Homes, and personal property of the Association with an "Agreed Amount Endorsement" and, if required by FNMA or FHLMC, construction code endorsements, such as a "Demolition Cost Endorsement," a "Contingent Liability from Operation of Building Laws Endorsement," an "Increased Cost of Construction Endorsement," and such other endorsements as FNMA or FHLMC deems necessary and are available. The cost of such insurance shall be a Home Expenses paid by the Association; provided that prior to commencement of Assessments with respect to each Home, Declarant shall be responsible for obtaining or paying for insurance for that Home. The policy shall provide a separate loss payable endorsement in favor of the Mortgagee of each Home. The Association or insurance trustee, if any, shall hold insurance proceeds in trust for the Owners and their Mortgagees, as their interests may appear. Each Owner and the Owner's Mortgagee, if any, shall be beneficiaries of the policy in accordance with the Owner's interest in the Owner's Lot and

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Home. Certificates of insurance shall be issued to each Owner and Mortgagee upon request. Each Owner of a Home shall be responsible for damage or loss to or within the Owner's Home up to the amount of the deductible under the Association's policy or for any amounts not covered by the Association's insurance policy. Each Owner shall promptly advise the Association in writing of any betterment or improvement intended as a permanent part of the Home costing \$5,000 or more.

Section 8.3 Commercial General Liability Insurance. The liability insurance coverage shall insure the Association and the Board and cover the Association's responsibilities with respect to the Common Area, Lots and Homes with a "Severability of Interest Endorsement" or equivalent coverage which would preclude the insurer from denying the claim of an Owner because of the negligent acts of the Association or of another Owner, and shall cover liability of the insureds for property damage, bodily injury, and death of persons arising out of the operation, maintenance, and use of the Common Area, host liquor liability, employers' liability insurance, automobile liability insurance, and such other risks as are customarily covered with respect to residential projects of similar construction, location, and use. The limits of liability shall be in amounts generally required by Mortgagees for projects of similar construction, location and use but shall be at least \$2,000,000 combined single limit for bodily injury and property damage per occurrence and \$4,000,000 general aggregate.

Section 8.4 Insurance Trustee; Power of Attorney. The named insured under the policies referred to in Section 8.2 and Section 8.3 shall be the Association, as trustee for each of the Owners in accordance with their respective interests in their Homes. The insurance proceeds may be made payable to any trustee with which the Association enters into an insurance trust agreement, or any successor trustee, who shall have exclusive authority to negotiate losses under the policies. Subject to the provisions of Section 8.8, the proceeds must be disbursed first for the repair or restoration of the damaged property, and Owners and lienholders are not entitled to receive payment of any portion of the proceeds unless there is a surplus of proceeds after the property has been completely repaired or restored. Each Owner appoints the Association, any insurance, trustee or successor trustee designated by the Association, as attorney-in-fact for the purpose of purchasing and maintaining such insurance, including the collection and appropriate disposition of the proceeds thereof, the negotiation of losses and execution of releases of liability, the execution of all documents, and the performance of all other acts necessary to accomplish such purposes.

Section 8.5 Additional Policy Provisions. The insurance obtained pursuant to Section 8.2 and Section 8.3 shall contain the following provisions and limitations:

8.5.1 Each Owner is an insured person under the policy with respect to liability arising out of the Owner's interest in the Owner's Home or membership in the Association.

8.5.2 Such policies shall not provide for contribution by or assessment against Mortgagees or become a lien on the property superior to the lien of a first Mortgage.

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8.5.3 If, at the time of the loss under the policy, there is other insurance in the name of the Owner covering the same risk covered by the policy, the Association's policy provides primary insurance.

8.5.4 Coverage shall not be prejudiced by (a) any act, omission, or neglect of the Owners when such act or neglect is not within the scope of the Owner's authority on behalf of the Association, or (b) failure of the Association to comply with any warranty or condition with regard to any portion of the premises over which the Association has no control.

8.5.5 A waiver of subrogation by the insurer as to any and all claims against the Association, the Owner of any Home, and/or their respective agents, members of the Owner's household, employees, or lessees, and of any defenses based upon co-insurance or upon invalidity arising from the acts of the insured.

8.5.6 A standard mortgagee clause which shall:

8.5.6.1 Provide that any reference to a mortgagee in the policy shall mean and include all Mortgagees of any Lot in their respective order of preference, whether or not named therein;

8.5.6.2 Provide that such insurance as to the interest of any Mortgagee shall not be invalidated by any act or neglect of the Board or Owners or any persons under any of them;

8.5.6.3 Waive any provision invalidating such mortgage clause by reason of the failure of any Mortgagee to notify the insurer of any hazardous use or vacancy, any requirement that the Mortgagee pay any premium thereon, and any contribution clause; and

8.5.6.4 Provide that, without affecting any protection afforded by such mortgagee clause, any proceeds payable under such policy shall be payable to the Association or the insurance trustee.

Section 8.6 Fidelity Insurance. The required fidelity insurance shall afford coverage to protect against dishonest acts on the part of officers, directors, trustees, and employees of the Association and all other persons who handle or are responsible for handling funds of or administered by, the Association. Unless covered by the Association's policy, the Managing Agent shall maintain fidelity insurance for its officers, employees, and agents who handle or who are responsible for handling funds of, or funds administered by the Association. All such fidelity insurance shall name the Association as an obligee and shall be not less than the estimated maximum of funds, including reserve funds, in custody of the Association at any time during the term of each policy, but, in no event, shall the aggregate amount of insurance be less than three months' aggregate Assessments. The policy shall contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression.

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Section 8.7 Owners' Individual Insurance. Each Owner is required to obtain and maintain owner's insurance ("Owner's Insurance") designating the Association as an "Additional Insured" under the Owner's policy. The Board may establish, in the rules and regulations, minimum coverage for Owner's Insurance. The Association shall have right, but not the obligation, to monitor the maintenance of Owner's Insurance by the Owners and shall have to right, but not the obligation, to obtain Owner's Insurance for an Owner if the Owner fails to obtain or maintain Owner's Insurance and specially assess the cost to the Owner.

Section 8.8 Use of Insurance Proceeds. Any portion of the Property for which insurance is required under this Article which is damaged or destroyed shall be repaired or replaced promptly by the Association unless (a) the Declaration is terminated, (b) repair or replacement would be illegal under any state or local health or safety statute or ordinance, or (c) 90% of the Owners, including every Owner of a Home which will not be rebuilt and the Declarant if it is the Owner of a Lot or has the right to add Additional Property to the Declaration, vote not to rebuild. The cost of repair or replacement of each damaged Home in excess of the deductible and insurance proceeds shall be the obligation of the Owner of the Home. If all of the damaged or destroyed portions of the Homes are not repaired or replaced, (i) the insurance proceeds attributable to the damaged Homes shall be used to restore the damaged area to a condition compatible with the remainder of the Property; (ii) the insurance proceeds attributable to Homes which are not rebuilt shall be distributed to the Owners of those Homes or to lienholders, as their interests may appear, in proportion to their liability for Home Expenses; and (iii) the remainder of the proceeds shall be distributed to all the Owners or lienholders, as their interests may appear, in proportion to their liability for Home Expenses. If insurance proceeds are inadequate to restore the Home or Lot, the Owner of the Home or Lot shall be responsible for restoring the Home or Lot to a condition compatible with the remainder of the Property.

ARTICLE 9

COMPLIANCE AND ENFORCEMENT

Section 9.1 Enforcement.

9.1.1 Each Member, Board member and the Association shall comply strictly with the provisions of this Declaration and with the Bylaws and administrative rules and regulations adopted by the Association (as the same may be lawfully amended from time to time). Failure to comply shall result in a claim for damages or injunctive relief, or both, by the Board (acting through its officers on behalf of the Association and the Owners) or by the aggrieved Owner on his own, against the party (including an Owner or the Association) failing to comply.

9.1.2 In any action or arbitration to enforce the provisions of this Section or any other provision of this Declaration, the Articles or the Bylaws, the prevailing party in such action or arbitration shall be entitled to an award for reasonable attorneys' fees and all costs and

expenses reasonably incurred in preparation for prosecution of said action or arbitration, in addition to all costs permitted by law.

Section 9.2 No Waiver of Strict Performance. The failure of the Board or Declarant, as applicable, in any one or more instances to insist upon or enforce the strict performance of any of the terms, covenants, conditions or restrictions of this Declaration, or of any Bylaws or administrative rules or regulations, shall not be construed as a waiver or a relinquishment for the future of such term, covenant, condition or restriction, but such term, covenant, condition or restriction shall remain in full force and effect. No waiver by the Board of any provision hereof shall be deemed to have been made unless expressed in writing and signed by the Board.

Section 9.3 Remedies Cumulative. The remedies provided herein are cumulative, and the Board may pursue them concurrently, as well as any other remedies which may be available under law although not expressed herein.

ARTICLE 10 **LIMITATION OF LIABILITY**

Section 10.1 No Personal Liability. So long as a Board member, Association committee member, Association officer, or authorized agent(s) has acted in good faith, without willful or intentional misconduct, upon the basis of such information as may be possessed by such person, no person shall be personally liable to any Member, or other party including the Association, for any damage, loss or prejudice suffered or claimed on account of any act, omission, error, negligence (except gross negligence), any discretionary decision or failure to make a discretionary decision, by such person in such person's official capacity; provided, however, that this Section shall not apply where the consequences of such act, omission, error or negligence are covered by insurance or bond obtained by the Board pursuant to Article 4 or Article 8.

Section 10.2 Indemnification. Each Board member or Association committee member, or Association Officer, and their respective heirs and successors, shall be indemnified by the Association against all expenses and liabilities, including attorneys' fees, reasonably incurred by or imposed in connection with any proceeding to which he or she may be party, or in which he or she may become involved, by reason of being or having held such position at the time such expenses or liabilities are incurred, except in such cases wherein such person is adjudged guilty of intentional misconduct, or gross negligence or a knowing violation of law in the performance of his or her duties, and except in such cases where such person has participated in a transaction from which said person will personally receive a benefit in money, property, or services to which said person is not legally entitled; provided, however, that in the event of a settlement, indemnification shall apply only when the Board approves such settlement and reimbursement as being in the best interests of the Association. Nothing contained in this Section shall, however, be deemed to obligate the Association to indemnify any Member who is or has been a Board member or officer of the Association with respect to any duties or obligations assumed or

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liabilities incurred by him or her under and by virtue of the Declaration as a Member or Owner of a Lot.

ARTICLE 11 MORTGAGEE PROTECTION

Section 11.1 Priority of Mortgages. Notwithstanding all other provisions hereof, the liens created under this Declaration upon any Lot for Assessments shall be subject to tax liens on the Lot in favor of any assessing and/or special district and be subject to the rights of the secured party in the case of any indebtedness secured by first lien mortgages or deeds of trust which were made in good faith and for value upon the Lot. A mortgagee of a Lot, or other purchaser of a Lot, who obtains possession of a Lot as a result of foreclosure or deed in lieu thereof will be liable for any Assessment accruing after such possession. Such unpaid share of Common Expenses or Assessments shall be deemed to be Common Expenses collectible from all of the Owners including such possessor, his successor and assigns. For the purpose of this Article, the terms "mortgage" and "mortgagee" shall not mean a real estate contract (or the vendor thereunder), or a mortgage or deed of trust (or mortgagee or beneficiary thereunder) securing a deferred purchase price balance owed with respect to a sale by an individual Owner other than Declarant.

Section 11.2 Effect of Declaration Amendments. No amendment of this Declaration shall be effective to modify, change or limit or alter the rights expressly conferred upon mortgagees in this instrument with respect to any unsatisfied mortgage duly recorded unless the amendment shall be consented to in writing by the holder of such mortgage. Any provision of this Article conferring rights upon mortgagees which is inconsistent with any other provision of this Declaration shall control over such other inconsistent provisions.

Section 11.3 Rights of Lien Holders. A breach of any of the provisions, conditions, restrictions, covenants, easements or reservations herein contained shall not affect or impair the lien or charge of any bona fide mortgage made in good faith for value on any Lots; provided, however, that any subsequent owner of the Lot shall be bound by these provisions whether such owner's title was acquired by foreclosure or trustee's sale or otherwise.

Section 11.4 Copies of Notices. If the first mortgagee of any Lot has so requested of the Association in writing, the Association shall give written notice to such first mortgagee that an Owner/mortgagor of a Lot has for more than 60 days failed to meet any obligation under this Declaration. Any first mortgagee shall, upon written request, also be entitled to receive written notice of all meetings of the Association and be permitted to designate a representative to attend such meetings.

Section 11.5 Furnishing of Documents. The Association shall make available to prospective purchasers, mortgagees, insurers, and guarantors, at their request, current copies of

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the Declaration, Bylaws, and other rules governing the Property, and the most recent balance sheet and income/expense statement for the Association, if any has been prepared.

ARTICLE 12
EASEMENTS AND SPECIAL TRACTS

Section 12.1 Association Functions. There is hereby reserved to Declarant and the Association or their duly authorized agents and representatives such easements as are necessary to perform the duties and obligations of the Association as are set forth in the Declaration, or in the Bylaws, and rules and regulations adopted by the Association. Such easements include, but are not limited to, an easement for the Association and its agents for access over, across and through each Lot to perform its maintenance obligations with respect to Lots and Homes provided in Section 6.1.

Section 12.2 Utility Easements. Various easements are reserved on the Lots, as provided by the Plat and applicable laws, ordinances and other governmental rule and regulations for utility installation and maintenance, including but not limited to, underground electric power, telephone, cable television, water, sewer, gas and drainage and accessory equipment, together with the right to enter upon the Lots at all times for said purposes. Within these easements, no structure, planting, or other material shall be placed or permitted to remain that may damage, interfere with the installation and maintenance of utilities, that may change the direction of flow of drainage channels in the easements, or that may obstruct or retard the flow of water through drainage channels in the easements. The easement area of each Lot, and all improvements thereon, shall be maintained continuously by the Association, except for those improvements for which a public authority or utility company or Solana Community Association is responsible. The Owner shall maintain all utilities within the Owner's Home and the Association shall the portion outside the Owner's Home to the point it is maintained by a public authority or utility company or Solana Community Association. The Association shall have an easement over each Lot for the maintenance, repair and replacement of the portion of the storm drainage system located on the Lot.

ARTICLE 13
ABANDONMENT OF SUBDIVISION STATUS

Section 13.1 Duration of Covenants. The covenants contained herein shall run with and bind the land and be perpetual, unless modified by an instrument executed in accordance with Article 15.

Section 13.2 Abandonment of Subdivision Status. The Association shall not, without the prior written approval of the governmental entity having jurisdiction over the Property and without prior written approval of 100% of all first Mortgagees and Owners (other than the sponsor, developer or builder) of record, seek by act or omission to abandon or terminate the

subdivision status of the Property as approved by the governmental entity having appropriate jurisdiction over the Property.

ARTICLE 14
LATER PHASES; ANNEXATION

Declarant may from time to time subject to the provisions of this Declaration all or any portion of the Additional Property by recording a supplemental declaration amending the description of the Property in Exhibit A to add the portion of the Additional Property to be subjected to this Declaration and filing a plat for a later phase of Solana Cluster Lots. The later plat and supplemental declaration filed or recorded pursuant to this Article shall not require the consent of any person other than Declarant or successor to Declarant. In connection with a later phase, Declarant shall amend Exhibit B to delete the portion of the Additional Property being subjected to this Declaration and may amend any of the provisions of this Declaration dealing with the Lots or Tracts in that phase. Declarant's right to subject the Additional Property to this Declaration shall expire when all property described in Exhibit B has been subjected to this Declaration, ten years after this Declaration is recorded or when Declarant records an amendment to the Declaration relinquishing its right to subject any Additional Property to the Declaration, whichever is earlier. Until then, Declarant may transfer or assign this right to any person who is the developer of a portion of the real property described in Exhibit B. Any such transfer shall be memorialized in a written, recorded instrument executed by Declarant.

ARTICLE 15
AMENDMENT OF DECLARATION OR PLAT

Section 15.1 Declaration Amendment. Amendments to this Declaration shall be made by an instrument in writing entitled "Amendment to Declaration" which sets forth the entire amendment. Except as provided in Section 11.2, this Declaration may be amended by an instrument approved and executed by members holding 67% of the votes in the Association; provided that no amendment shall be effective unless approved by the Declarant as long as the Declarant owns a Lot or has the right to add Additional Property to the Declaration. The members' approval may be obtained by a special vote of the members at a meeting of the Association, or the written consent of the requisite percentage of members. The amendment shall be executed by the president and secretary of the Association who shall certify that the requisite vote or consent has been obtained. Notwithstanding any of the foregoing, the prior written approval of 51% of all Mortgagees who have requested from the Association notification of amendments shall be required for any material amendment to the Declaration or the Bylaws of any of the following: voting rights; Assessments, Assessment liens, and subordination of such liens; reserves for maintenance, repair, and replacement of Common Area; insurance or fidelity insurance; responsibility for maintenance and repair; the boundaries of any Lot; convertibility of Lots into Common Area or of common easements into Lots; leasing of Lots other than set forth herein; imposition of any restrictions on the right of an Owner to sell or transfer his Lot; a

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decision by the Association to establish self-management when professional management has been required previously by the Mortgagees; or any provisions which are for the express benefit of Mortgagees or eligible insurers or guarantors of first Mortgages. It is specifically covenanted and understood that any amendment to this Declaration properly adopted will be completely effective to amend any or all of the covenants, conditions and restrictions contained herein which may be affected and any or all clauses of this Declaration unless otherwise specifically provided in the section being amended or the amendment itself.

Section 15.2 Plat. Except as otherwise provided herein, the Plat may be amended by revised versions or revised portions thereof referred to and described as to affect an amendment to the Declaration adopted as provided for in Section 15.1. Copies of any such proposed amendment to the Plat shall be made available for the examination of every Owner. Such an amendment to the Plat shall be effective, once properly adopted, upon having received any governmental approval required by law and recordation in the appropriate city or county offices in conjunction with the Declaration amendment.

Section 15.3 Amendments to Conform to Construction. Declarant, upon Declarant's sole signature, and as an attorney-in-fact for all Lot Owners with irrevocable power coupled with an interest, may at any time, until all Lots have been sold by Declarant, file amendments to the Declaration and to the Plat to conform data depicted therein to improvements as actually constructed and to establish, vacate and relocate easements.

ARTICLE 16 MISCELLANEOUS

Section 16.1 Notices.

16.1.1 Any written notice or other documents as required by this Declaration, may be delivered personally or by certified mail. If by mail, such notice, unless expressly provided for herein to the contrary with regard to the type of notice being given, shall be deemed to have been delivered and received 48 hours after a copy thereof has been deposited in the United States mail, postage prepaid, addressed as follows:

16.1.1.1 If to a Member, other than Declarant: to the mailing address of such Member maintained by the Association, pursuant to the Bylaws.

16.1.1.2 If to Declarant, whether in its capacity as a Member, or in any other capacity, the following address (unless Declarant shall have advised the Board in writing of some other address):

Sequim Highlands LLC
325 Washington Avenue South, Unit 83
Kent, Washington 98032

16.1.1.3 Prior to the organization of the Association, notices to the Association shall be addressed as set forth above. Thereafter, notices to the Association shall be addressed to the official mailing address furnished by written notice from the Association. In addition, from and after the organizational meeting, notice of the address of the Association shall be given by the Board to each Owner, within a reasonable time after the Board has received actual notice of such Owner's purchase of a Lot.

Section 16.2 Conveyance: Notice Required. The right of an Owner to sell, transfer, or otherwise convey his or her Lot shall not be subject to any right of approval, disapproval, first refusal, or similar restriction by the Association or the Board, or anyone acting on their behalf. If a Lot is being sold, the Board shall have the right to notify the purchaser, the title insurance company, and the closing agent of the amount of unpaid Assessments and charges outstanding against the Lot, whether or not such information is requested.

Section 16.3 Successors and Assigns. This Declaration shall be binding upon and shall inure to the benefit of the heirs, personal representatives, successors and assigns of Declarant, and the heirs, personal representatives, grantees, lessees, sublessees and assignees of the Member.

Section 16.4 Joint and Several Liability. In the case of joint ownership of a Lot, the liability of each of the Owners thereof in connection with the liabilities and obligations of Owners, set forth in or imposed by this Declaration, shall be joint and several.

Section 16.5 Mortgagee's Acceptance.

16.5.1 This Declaration shall not initially be binding upon any Mortgagee of record at the time of recording of said Declaration but rather shall be subject and subordinate to said Mortgagee's Mortgage.

16.5.2 Declarant shall not consummate the conveyance of title of any Lot until the Mortgagee of the Lot shall have accepted the provisions of this Declaration and made appropriate arrangements for partial release of the Lot from the lien of the Mortgage. The issuance and recording of the first such partial release by said Mortgagee shall constitute its acceptance of the provisions of this Declaration and the status of the Lots remaining subject to its Mortgage as well as its acknowledgment that such appropriate arrangements for partial release of Lots has been made; provided, that, except as to Lots so released, said Mortgage shall remain in full force and effect as to the entire property.

Section 16.6 Severability. The provisions hereof shall be deemed independent and severable, and the invalidity or partial invalidity or unenforceability of any one provision or portion thereof shall not affect the validity or enforceability of any other provision hereof.

Section 16.7 Construction. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for the operation and maintenance of the Property.

EXHIBIT A

SOLANA CLUSTER LOTS

PROPERTY SUBJECT TO DECLARATION

Solana Cluster Lots Phase I per the plat of Solana Estate Lots Phase I, recorded in Volume 14 of Plats, pages 90, under Recording No. 2006-1177019, records of Clallam County, Washington.

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EXHIBIT B

SOLANA CLUSTER LOTS

ADDITIONAL PROPERTY

Solana Cluster Lots Phase 2 per the plat of Solana Estate Lots Phase 1, recorded in Volume 14 of Plats, pages 89, under Recording No. 2006-1177015, records of Clallam County, Washington.

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