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Skagit County Auditor

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Bellevue, Washington 98009

**DECLARATION OF COVENANTS, CONDITIONS, AND
RESTRICTIONS FOR
SKAGIT HIGHLANDS RESIDENTIAL PROPERTY**

Grantor: Skagit Highlands, LLC

Additional on page _____

Grantee: Plat of Skagit Highlands

Additional on page _____

Legal Description (abbreviated): Lots 1-45, and Tracts 900-909, Plat of Skagit Highlands Division I,
recorded at Auditor's No. 200508160182

Assessor's Tax Parcel ID #: P121458

Reference Nos. of Documents Released or Assigned: N/A

**DECLARATION OF COVENANTS, CONDITIONS, AND
RESTRICTIONS FOR
SKAGIT HIGHLANDS RESIDENTIAL PROPERTY**



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<u>Exhibit</u>	<u>Subject Matter</u>
"A"	Land Subject to Master Plan
"B"	Land Initially Submitted
"C"	Initial Use Restrictions
"D"	Rules of Arbitration



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**DECLARATION OF COVENANTS, CONDITIONS,
AND RESTRICTIONS FOR
SKAGIT HIGHLANDS RESIDENTIAL PROPERTY**

THIS DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS is made this 16th day of August, 2005, by Skagit Highlands, LLC, a Washington limited liability company ("Declarant").

PART ONE: INTRODUCTION TO THE COMMUNITY

Skagit Highlands, LLC, as developer of the Skagit Highlands master planned community, has established this Declaration to provide a governance structure and a flexible system of standards and procedures for the development, administration, maintenance, and preservation of procedures for the residential property as a component of the Skagit Highlands master planned community. In addition, the Skagit Highlands Homeowners Association is assigned certain responsibilities for administration, maintenance, and preservation of property within and adjacent to the residential portions of Skagit Highlands as set forth in this Declaration and the Declaration of Easements and Covenant to Share Costs for Skagit Highlands. These additional responsibilities shall be for the benefit of the members and all property owners within the Skagit Highlands master planned community.

Article I Creation of the Community

1.1. Purpose and Intent.

Declarant, as the owner of the real property described in Exhibit "A," intends by Recording this Declaration to create a general plan of development for the residential portions of the master planned community known as Skagit Highlands. This Declaration provides a flexible and reasonable procedure for the future expansion of the Properties to include additional real property as Declarant deems appropriate and provides for the overall development, administration, maintenance, and preservation of the real property now and hereafter comprising the Properties. An integral part of the development plan is the creation of Skagit Highlands Homeowners Association, an association comprised of all owners of real property in the Properties, to own, operate, and/or maintain various common areas and community improvements and to administer and enforce this Declaration and the other Governing Documents referred to in this Declaration.

1.2. Binding Effect.

All property described in Exhibit "B," and any additional property described in Exhibit "A" which is made a part of the Properties in the future by Recording one or more Supplemental Declarations, shall be owned, conveyed, and used subject to all of the provisions



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of this Declaration, which shall run with the title to such property. This Declaration shall be binding upon all Persons having any right, title, or interest in any portion of the Properties, their heirs, successors, successors-in-title, and assigns.

This Declaration shall be enforceable by Declarant, the Association, any Owner, and their respective legal representatives, heirs, successors, and assigns, perpetually to the extent permitted by law. If, however, the period for the enforcement of covenants running with the land is limited by law, the Declaration shall be enforceable as provided above for a period of 20 years. After such time, this Declaration shall be extended automatically for successive periods of 10 years each, unless an instrument signed by a majority of the then Owners has been Recorded within the year preceding any extension, agreeing to amend, in whole or in part, or terminate this Declaration, in which case this Declaration shall be amended or terminated as specified in such instrument.

Notwithstanding the above, if any provision of this Declaration would be unlawful, void, or voidable by reason of applicability of the rule against perpetuities, such provision shall expire 21 years after the death of the last survivor of the now living descendants of Elizabeth II, Queen of England. Nothing in this Section shall be construed to permit termination of any easement created in this Declaration without the consent of the holder of such easement.

1.3. Governing Documents.

The Governing Documents create a general plan of development for the Properties which may be supplemented by additional covenants, restrictions, and easements applicable to particular Neighborhoods within the Properties. In the event of a conflict between or among the Governing Documents and any such additional covenants or restrictions, and/or the provisions of any other articles of incorporation, by-laws, rules, or policies governing any Neighborhood, the Governing Documents shall control. Nothing in this Section shall preclude any Supplemental Declaration or other Recorded covenants applicable to any portion of the Properties from containing additional restrictions or provisions which are more restrictive than the provisions of this Declaration. The Association may, but shall not be required to, enforce any such covenants, restrictions, or other instruments applicable to any Neighborhood.

All provisions of the Governing Documents shall apply to all Owners and to all occupants of their Units, as well as their respective tenants, guests, and invitees. Any lease on a Unit shall provide that the lessee and all occupants of the leased Unit shall be bound by the terms of the Governing Documents.

Throughout the Governing Documents there are diagrams to illustrate the concepts discussed and aid in the reader's comprehension. Such diagrams are for illustrative purposes.



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only. In the event of a conflict between any diagram and the text of the Governing Documents, the text shall control.

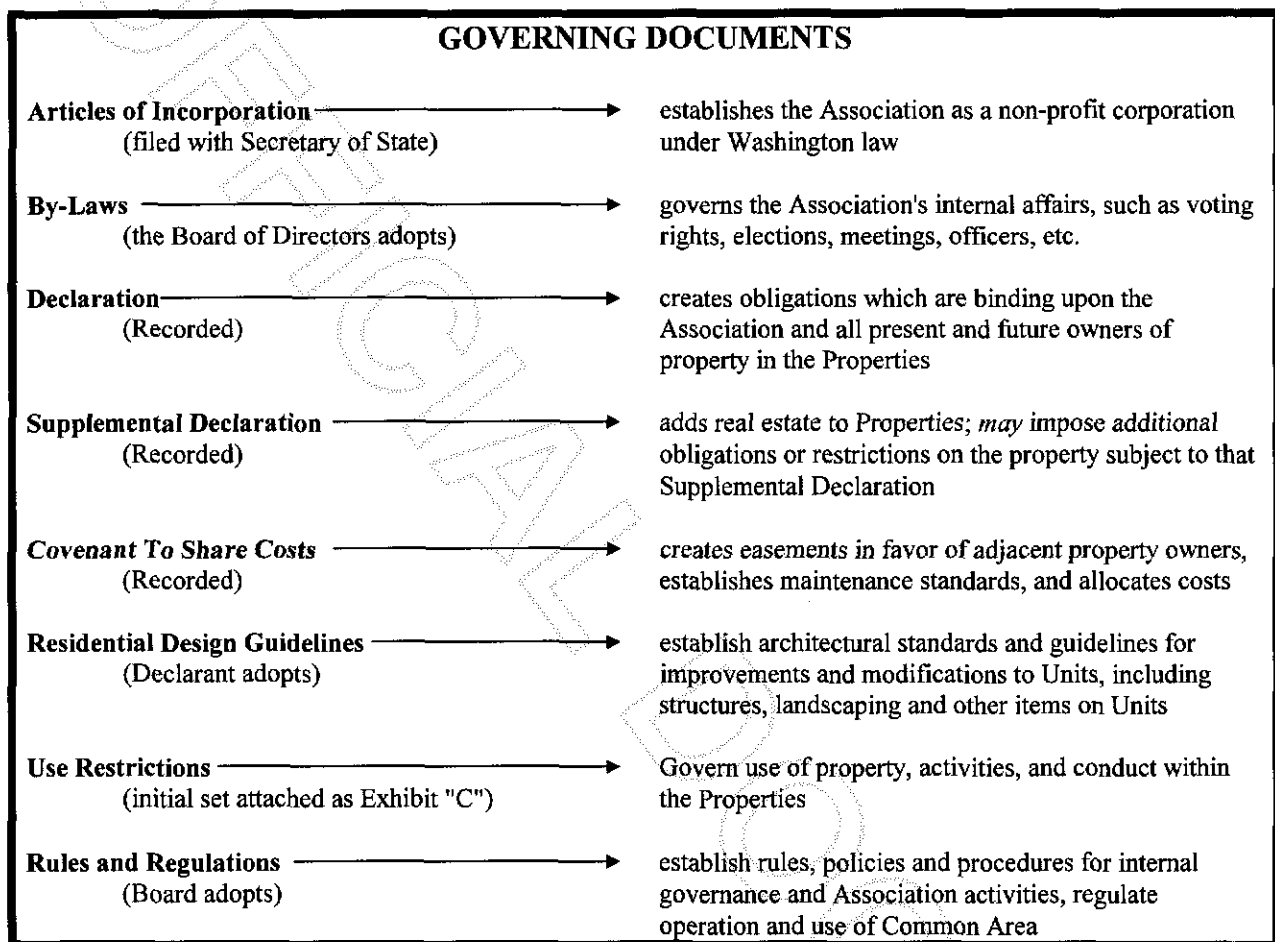


Diagram 1.1 - Governing Documents

If any provision of this Declaration is determined by judgment or court order to be invalid, or invalid as applied in a particular instance, such determination shall not affect the validity of other provisions or applications.

Article II Concepts and Definitions

The terms used in the Governing Documents shall generally be given their natural, commonly accepted definitions unless otherwise specified. Capitalized terms shall be defined as set forth below.



2.1. "Areas of Common Responsibility": The Common Area, together with such other areas the Association has or assumes responsibility pursuant to the terms of this Declaration, any Supplemental Declaration, the Covenant to Share Costs, or other applicable covenants, contracts, or agreements.

2.2. "Articles of Incorporation" or "Articles": The Articles of Incorporation of Skagit Highlands Homeowners Association, as filed with the Washington Secretary of State.

2.3. "Association" or "Residential Association": Skagit Highlands Homeowners Association, a Washington nonprofit corporation, its successors or assigns.

2.4. "Base Assessment": Assessments levied on all Units subject to assessment under Article VIII to fund Common Expenses for the general benefit of all Units, as determined in accordance with Section 8.1.

2.5. "Board of Directors" or "Board": The body responsible for administration of the Association, selected as provided in the By-Laws and serving as the board of directors under Washington corporate law.

2.6. "Builder": Any Person who purchases one or more Units for the purpose of constructing improvements for later sale to consumers, or who purchases one or more parcels of land within the Properties for further subdivision, development, and/or resale in the ordinary course of such Person's business.

2.7. "By-Laws": The By-Laws of Skagit Highlands Homeowners Association, as they may be amended.

2.8. "Class "B" Control Period": The period of time during which the Class "B" Member is entitled to appoint a majority of the members of the Board. The Class "B" Control Period expires upon the first to occur of the following:

(a) when 90% of the total number of Units permitted by the Master Plan for the property described in Exhibits "A" and "B" have been conveyed to Class "A" Members other than Builders;

(b) December 31, 2030; or

(c) when, in their discretion, the Class "B" Members so determine.



2.9. "Common Area": All real and personal property, including easements, which the Association owns, leases, or otherwise holds possessory or use rights in for the common use and enjoyment of the Owners, including, without limitation, entrance tracts, perimeter buffers, restrictive areas, parks, surface water retention/detention tracts, landscape tracts, the community center, and other tracts or parcels conveyed to the Association by Declarant. The term shall include the Exclusive Common Area and the Community Area, as defined below.

2.10. "Common Expenses": The actual and estimated expenses incurred, or anticipated to be incurred, by the Association for the general benefit of all Owners, including any reasonable reserve, as the Board may find necessary and appropriate pursuant to the Governing Documents. The Common Expenses shall include the Association's share of the Joint Expenses, defined below, in accordance with the Covenant to Share Costs. Common Expenses shall not include any expenses incurred during the Class "B" Control Period for initial development or other original construction costs unless approved by Members representing a majority of the total Class "A" vote of the Association

2.11. "Community Area": The real and personal property within the Master Plan so designated by Declarant, and which is owned and/or maintained by the Association for the common benefit of all Persons within Skagit Highlands, as more particularly described in the Covenant to Share Costs.

2.12. "Community-Wide Standard": The standard of conduct, maintenance, or other activity generally prevailing throughout the Properties. Such standard shall be established initially by Declarant and may contain both objective and subjective elements. The Community-Wide Standard may evolve as development progresses and as the needs and demands of the Properties change.

2.13. "Covenant To Share Costs": That certain Declaration of Easements and Covenant to Share Costs for Skagit Highlands executed and Recorded or to be Recorded by Declarant, which creates certain easements for the benefit of the Association and the present and future owners of other real property within Skagit Highlands subject to such Covenant to Share Costs and which obligates the Association and such owners to share the costs of maintaining certain property described in such Covenant to Share Costs.

2.14. "Declarant": Skagit Highlands, LLC, a Washington limited liability company, or any successor or assign who takes title to any portion of the property described in Exhibits "A" or "B" for the purpose of development and/or sale and who is designated as a Declarant in a Recorded instrument executed by the immediately preceding Declarant or assigned all or a portion of Declarant's rights hereunder. Upon a designation of a successor Declarant, all rights of the former Declarant in and to such status as "Declarant" under this Declaration shall cease.



At any time that more than one person holds any rights as a Declarant, a single Declarant may exercise any of the Declarant's rights described herein over that portion of the property owned by the single Declarant, and shall not be required to obtain the concurrence of any other Declarant who does not hold an ownership interest in the portion of the property over which a single Declarant desires to exercise sole authority, except for amendment of the Declaration, which shall require the concurrence of both Declarants unless otherwise agreed by the Declarants in writing. A single Declarant may conditionally or permanently assign to the other Declarant all of a Declarant's rights hereunder, by recorded instrument.

2.15 "Declaration"; This Declaration of Covenants, Conditions, and Restrictions for Skagit Highlands Residential Property.

2.16 "Exclusive Common Area": A portion of the Common Area primarily benefiting one or more, but less than all, Neighborhoods, as more particularly described in Article XII.

2.17. "Governing Documents": A collective term referring to this Declaration and any applicable Supplemental Declaration, the By-Laws, the Articles, the Residential Design Guidelines, the Use Restrictions, the Rules and Regulations, and the Covenant to Share Costs, (and for each Neighborhood, shall also include any Neighborhood Use Restrictions or Rules and Regulations), as each may be amended.

2.18. "Joint Expenses": The actual and estimated expenses incurred or anticipated to be incurred by the Association to own, operate, maintain, improve, repair, replace, and/or insure the Community Area, to provide services to, or to take actions for the general benefit of all of the association entities and/or property owners in the Skagit Highlands master planned community as may be authorized in the Covenant to Share Costs.

2.19 "Local Jurisdiction": Any governmental authority having jurisdiction over Skagit Highlands, for a matter described in this Declaration. A Local Jurisdiction may include the State of Washington, Skagit County, the City of Mount Vernon, or a local sewer or water district or other governmental entity assigned authority by law to regulate activities in Skagit Highlands. A Local Jurisdiction may refer to different governmental authorities, depending upon which governmental authority is assigned responsibility to regulate activities described in this Declaration.

2.20. "Master Plan": The land use plan for the real property described in the Declaration of Easements and Covenant to Share Costs for Skagit Highlands, Exhibit A, recorded at Skagit County Auditor's Number 200508170113, which includes all of the property described in Exhibit "A" of this Declaration and all of the property described in

Exhibit "B" of this Declaration. Inclusion of property on the Master Plan shall not, under any circumstances, obligate Declarant to subject such property to this Declaration, nor shall the omission of property described in Exhibit "B" from the Master Plan bar its later submission to this Declaration as provided in Article IX.

2.21. "Member": A Person subject to membership in the Association pursuant to Section 6.2.

2.22. "Mortgage": A mortgage, a deed of trust, a deed to secure debt, or any other form of security instrument affecting title to any Unit. A "Mortgage" shall refer to a beneficiary or holder of a Mortgage.

2.23. "Neighborhood": A group of Units designated as a separate Neighborhood for purposes of sharing Exclusive Common Areas and/or receiving other benefits or services from the Association which are not provided to all Units within the Properties. A Neighborhood may be comprised of more than one housing type and may include noncontiguous parcels of property. If the Association provides benefits or services to less than all Units within a particular Neighborhood, then the benefited Units shall constitute a sub-Neighborhood for purposes of determining and levying Neighborhood Assessments for such benefits or services.

Where the context permits or requires, the term Neighborhood shall also refer to the Neighborhood Committee (established in accordance with the By-Laws) or Neighborhood Association, if any, having concurrent jurisdiction over the property within the Neighborhood. Neighborhood boundaries may be established and modified as provided in Section 6.4.

2.24. "Neighborhood Assessments": Assessments levied against the Units in a particular Neighborhood to fund Neighborhood Expenses, as described in Section 8.2.

2.25. "Neighborhood Association": A condominium association or other owners association, if any, having concurrent jurisdiction (subject to this Declaration) with the Association over any Neighborhood.

2.26. "Neighborhood Committee": A committee which may be formed for a Neighborhood without a Neighborhood Association established in accordance with the By-Laws.

2.27. "Neighborhood Expenses": The actual and estimated expenses which the Association incurs or expects to incur for the benefit of Owners of Units within a particular Neighborhood, as may be authorized pursuant to this Declaration or in the Supplemental



Declaration(s) applicable to such Neighborhood(s). Neighborhood Expenses may include a reasonable reserve for capital repairs and replacements and a reasonable administrative charge.

2.28. "Owner": One or more Persons who hold the record title to any Unit, but excluding in all cases any party holding an interest merely as security for the performance of an obligation. If a Unit is sold under a Recorded contract of sale, and the contract specifically so provides, the purchaser (rather than the fee owner) will be considered the Owner.

2.29. "Permits": Collectively, the permits, Master Plan, land use restrictions and conditions of Plat approval as determined, approved and issued by the Local Jurisdiction related to the development and construction of improvements located at Skagit Highlands, as such may be amended or modified from time to time.

2.30. "Person": A natural person, a corporation, a partnership, a trustee, or any other legal entity.

2.31. "PIC": The Property Improvement Committee, as described in Article IV, Section 4.2.

2.32. "Plat": The plat of Skagit Highlands, Division 1, recorded at Skagit County Recorder's No. 200508160182, described in Exhibit "B," together with all requirements described or referenced therein. "Plat" shall also include the recorded plat of any property described in Exhibit "A", if not otherwise included with the plat of Skagit Highlands referred to herein, which may be subjected to the terms of this Declaration in the future in the manner described in Article IX.

2.33. "Properties:" The real property described in Exhibit "B," together with such additional property, whether contiguous or noncontiguous, as is subjected to this Declaration in accordance with Article IX.

2.34. "Record," "Recording," or "Recorded": To file, the filing, or filed of record in the Public Real Estate Records of Skagit County, Washington, or such other place which is designated as the official location for recording deeds and similar documents affecting title to real estate. The date of Recording shall refer to that time at which a document, map, or plat is Recorded.

2.35. "Residential Design Guidelines": The architectural, design, and construction guidelines and review procedures adopted pursuant to Article IV, as they may be amended; and if applicable, any additional Neighborhood Residential Design Guidelines for the Neighborhood.



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2.36. "Rules and Regulations": Board-adopted Rules and Regulations which establish administrative procedures for internal Association governance and operating procedures for use of the Common Area and property included within the Area of Common Responsibility.

2.37. "Sale" or "Sold" shall mean the date upon which ownership of a Unit is transferred from an Owner to another person or entity by recordation of an instrument of transfer such as a deed or real estate contract.

2.38. "Street Trees" shall mean the trees that are required to be planted, located and maintained on the property pursuant to any notes on the face of the Plat, or described by this Declaration.

2.39. "Special Assessment": An assessment levied in accordance with Section 8.4.

2.40. "Specific Assessment": An assessment levied in accordance with Section 8.5.

2.41. "Supplemental Declaration": An instrument Recorded pursuant to Article IX which subjects additional property to this Declaration, designates Neighborhoods, and/or imposes, expressly or by reference, additional restrictions and obligations on the land described in such instrument. The term shall also refer to an instrument Recorded by Declarant pursuant to Section 6.4(c) which designates Voting Groups.

2.42. "Skagit Highlands": The master planned development comprised of all property subjected (now or later) to this Declaration and other property developed in accordance with the Master Plan.

2.43. "Unit": A portion of the Properties, whether improved or unimproved, which may be independently owned and is intended for development, use, and occupancy as an attached or detached residence for a single family. The term shall refer to the land, if any, which is part of the Unit as well as any improvements thereon. In the case of a building within a condominium or other structure containing multiple dwellings, each dwelling shall be deemed to be a separate Unit.

Prior to Recording a subdivision plat, a parcel of vacant land, or land on which improvements are under construction, shall be deemed to contain the number of Units designated for residential use for such parcel on the preliminary plat or the site plan approved by Declarant, whichever is more recent. Until a preliminary plat or site plan has been approved, such parcel shall be deemed to contain the number of Units set by Declarant in conformance with the Master Plan.



2.44. "Use Restrictions": The initial Use Restrictions set forth in Exhibit "C," as they may be supplemented, modified, and repealed pursuant to in Article III.

2.45. "Voting Group": One or more Neighborhoods whose owners vote on a common slate for election of directors to the Board, as more particularly described in Section 6.4(c) or, if the context so indicates, the group of Members whose Units are represented thereby.

PART TWO: CREATION AND MAINTENANCE OF COMMUNITY STANDARDS

The standards for use and conduct, maintenance, and architecture within Skagit Highlands are what give the community its identity and make it a place that people want to call "home." This Declaration establishes procedures for regulation as a dynamic process which allows the community standards to evolve as the Properties change and grow over time.

Article III Use and Conduct

3.1. Framework for Regulation.

The Governing Documents establish, as part of the general plan of development for Skagit Highlands, a framework of affirmative and negative covenants, easements and restrictions which govern the Properties. Within that framework, the Board and the Members must have the ability to respond to unforeseen problems and changes in circumstances, conditions, needs, desires, trends, and technology which inevitably will affect the Properties, its Owners, and residents. Toward that end, this Article establishes procedures for modifying and expanding the initial Use Restrictions set forth in Exhibit "C."

3.2. Authority to Enact Use Restrictions.

(a) Subject to the terms of the Permits, this Article, and the Board's duty to exercise business judgment and reasonableness on behalf of the Association and its Members, the Board may adopt, modify, cancel, limit, create exceptions to, or expand the Use Restrictions. The Board shall conspicuously publish notice concerning any such proposed action at least five business days prior to the Board meeting at which such action is to be considered. Members shall have a reasonable opportunity to be heard at a Board meeting prior to such action being taken.

Such action shall become effective, after compliance with the distribution requirements below, unless disapproved at a meeting by Members representing more than 50% of the total Class "A" votes in the Association and by the Class "B" Members, if any. The Board shall have no obligation to call a meeting of the Members to consider disapproval except upon receipt of a



petition as required for special meetings in the By-Laws. Upon receipt of such petition prior to the effective date of any Board action under this Section 3.2(a), the proposed action shall not become effective until after such meeting is held, and then subject to the outcome of such meeting.

Alternatively, Members representing more than 50% of the total Class "A" votes in the Association at an Association meeting duly called for such purpose, may vote to adopt Use Restrictions which modify, cancel, limit, create exceptions to, or expand the Use Restrictions then in effect. Such action shall require approval of the Class "B" Members, if any.

Prior to any action taken under this Section 3.2(a) becoming effective, the Board shall send a copy of the new Use Restriction or explanation of any changes to the Use Restrictions to each Owner. The effective date shall be at least 30 days following distribution to Owners. The Association shall provide, without cost, a copy of the Use Restrictions then in effect to any requesting Member or Mortgagee.

Nothing in this Article shall authorize the Board or the Members to modify, repeal, or expand the Residential Design Guidelines or other provisions of this Declaration. In the event of a conflict between the Residential Design Guidelines and the Use Restrictions, the Residential Design Guidelines shall control.

(b) The procedures required under this Section 3.2 shall not apply to the enactment and enforcement of Rules and Regulations (*i.e.*, administrative issues, regulations governing the use of the Common Area, etc.) unless the Board chooses in its discretion to submit to such procedures. Examples of such administrative Rules and Regulations shall include, but not be limited to, hours of operation of a recreational facility, use of private trails, and the method of allocating or reserving use of a facility (if permitted) by particular individuals at particular times. The Board shall exercise business judgment in the enactment, amendment, and enforcement of such administrative Rules and Regulations.

3.3. Owners' Acknowledgment and Notice to Purchasers.

All Owners are given notice that use of their Units and the Common Area is limited by the Use Restrictions as they may be amended, expanded, and otherwise modified hereunder. Each Owner, by acceptance of a deed, acknowledges and agrees that the use and enjoyment and marketability of his or her Unit can be affected by this provision and that the Use Restrictions may change from time to time. All purchasers of Units are on notice that changes may have been adopted by the Association. Copies of the current Use Restrictions may be obtained from the Association.



3.4. Protection of Owners and Others.

Except as may be contained in this Declaration either initially or by amendment or in the initial Use Restrictions set forth in Exhibit "C," all Use Restrictions shall comply with the following provisions:

(a) Similar Treatment. Similarly situated Owners shall be treated similarly; provided, the Use Restrictions may vary by Neighborhood.

(b) Displays. The rights of Owners to display religious and holiday signs, symbols, and decorations inside structures on their Units of the kinds normally displayed in dwellings located in single-family residential neighborhoods shall not be abridged, except that such shall be consistent with the Local Jurisdiction's Ordinances and the Association may adopt time, place, and manner restrictions with respect to any displays (including those outside of a dwelling) visible from outside the dwelling.

No Use Restrictions shall regulate the content of political signs; however, rules may regulate the time, place, and manner of posting such signs (including design criteria) and the Local Jurisdiction's Ordinances shall apply.

(c) Household Composition. No Use Restriction shall interfere with the freedom of Owners to determine the composition of their households, except that the Association shall have the power to require that all occupants be members of a single housekeeping unit, to limit rental of Units, and to limit the total number of occupants permitted in each Unit on the basis of the size and facilities of the Unit its fair use of the Common Area, and on the basis of compliance with applicable the Local Jurisdiction's Ordinances. Use Restrictions may be adopted by the Association to limit or prohibit the occupancy of Units by persons who have been convicted of a crime for which continued supervision after conviction is imposed upon the proposed occupant.

(d) Activities Within Dwellings. No Use Restriction shall interfere with the activities carried on within the confines of dwellings, except that the Association may prohibit activities not normally associated with property restricted to residential use, it may restrict rental of Units, and it may restrict or prohibit any activities that create monetary costs for the Association or other Owners, that create a danger to the health or safety of occupants of other Units, that generate excessive noise or traffic, that create unsightly conditions visible outside the dwelling, that create an unreasonable source of annoyance, or that involve illegal conduct.

(e) Household Occupations. No Use Restriction may interfere with the rights of an Owner or occupant residing in a Unit to conduct business activities within the Unit so long as



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(i) the existence or operation of the business activity is not apparent or detectable by sight, sound or smell from outside the Unit; (ii) the business activity is consistent with the residential character of the Properties and does not constitute a nuisance, or a hazardous or offensive use, or threaten the security or safety of other residents of the Properties, as may be determined in the Board's sole discretion; (iii) any goods, materials or supplies used in connection with any trade, service or business, wherever the same may be conducted, be kept or stored inside any building on any Lot and that they not be visible from the exterior of the home and (iv) it is as otherwise allowed by the Permits and applicable law. Nothing in this Section shall permit (1) the use of a Lot for a purpose which violates law, regulations, rules or applicable zoning codes, or (2) activities that cause a significant increase in neighborhood traffic, or (3) modification of the exterior of the Unit. The Board may, from time to time, promulgate rules restricting the activities located on the Properties pursuant to the authority granted to the Association under this Declaration, the Bylaws, and RCW Chapter 64.38.

(f) Allocation of Burdens and Benefits. No Use Restriction shall alter the allocation of financial burdens among the various Units or rights to use the Common Area to the detriment of any Owner over that Owner's objection expressed in writing to the Association. Nothing in this provision shall prevent the Association from changing the Common Area available, from adopting generally applicable Rules and Regulations for use of Common Area, or from denying use privileges to those who abuse the Common Area or violate the Governing Documents. This provision does not affect the right to increase the amount of assessments as provided in Article VIII.

(g) Alienation. The Association may not impose any fee on the transfer of any Unit greater than an amount reasonably based on the costs to the Association of administering that transfer. The Association may regulate the leasing or rental of Units.

(h) Abriding Existing Rights. No Use Restriction shall require an Owner to dispose of personal property that was in or on a Unit prior to the adoption of such Use Restriction and which was in compliance with all Use Restrictions previously in force. This dispensation shall apply only for the duration of such Owner's ownership of such personal property, and this right shall not run with title to any Unit.

(i) Reasonable Rights To Develop. No Use Restriction, Rule or Regulation, or action by the Association or Board shall unreasonably impede Declarant's right to develop the Properties or other portions of Skagit Highlands.

The limitations in subsections (a) through (h) of this Section shall only limit the authority exercised under Section 3.2; they shall not apply to amendments to this Declaration adopted in accordance with Article XVIII.



Article IV Architecture and Landscaping

4.1. General.

No structure or thing shall be placed, erected, or installed upon any Unit within the Properties and no improvements or other work (including staking, clearing, excavation, grading and other site work, exterior alterations of existing improvements, or planting or removal of landscaping) shall take place within the Properties, except in compliance with this Article, the Residential Design Guidelines adopted pursuant to this Declaration, and additional Residential Design Guidelines applicable to the Neighborhood in which the Unit is located.

No approval shall be required to repaint the exterior of a structure in accordance with the originally approved color scheme or to rebuild in accordance with originally approved plans and specifications. Any Owner may remodel, paint, or redecorate the interior of his or her Unit without approval. However, modifications to the interior of screened porches, patios, and similar portions of a Unit visible from outside the structure and modifications to enclose garages as living space shall be subject to approval. Any request to enclose a garage must include plans for a replacement garage on the Unit, unless determined otherwise by application to the Reviewer for a variance, based upon availability of off-street parking and the specific needs of the applicant. If approval of a garage enclosure is granted by the Reviewer (as defined below), such approval may be conditional on the construction of a replacement garage.

All dwellings constructed on any portion of the Properties shall be designed by and built in accordance with the plans and specifications of a licensed architect or licensed building designer unless otherwise approved by Declarant or Declarant's designee, in its sole discretion.

This Article shall not apply to Declarant's activities, nor to the Association's activities during the Class "B" Control Period.

4.2. Design Review.

(a) By Declarants. Each Owner, by accepting a deed or other instrument conveying any interest in any portion of the Properties, acknowledges that, as the developer of the Properties and as an Owner of portions of the Properties as well as other real estate within the vicinity of the Properties, Declarant has a substantial interest in ensuring that the improvements within the Properties enhance Declarant's reputation as a community developer and do not impair Declarant's ability to market, sell, or lease their property. Therefore, each Owner agrees that no activity within the scope of this Article ("Work") shall be commenced on such Owner's Unit unless and until Declarant or Declarant's designee has given its prior written approval for



such Work, which approval may be granted or withheld in Declarant's or Declarant's designee's sole discretion.

In reviewing and acting upon any request for approval, Declarant or its designee shall be acting solely in Declarant's interest and shall owe no duty to any other Person. Declarant's rights reserved under this Article shall continue so long as Declarant owns any portion of the Properties or any real property within Skagit Highlands, unless earlier terminated in a written instrument executed and Recorded by Declarant.

Declarant may, in its sole discretion, designate one or more Persons from time to time to act on Declarant's behalf in reviewing applications hereunder.

Declarant may from time to time, but shall not be obligated to, delegate all or a portion of the Declarant's reserved rights under this Article to (i) a Property Improvement Committee appointed by the Association's Board of Directors (the "PIC"), or (ii) a committee comprised of architects, engineers, or other persons who may or may not be Members of the Association. Any such delegation shall be in writing, specifying the scope of responsibilities delegated, and shall be subject to (i) Declarant's right to revoke such delegation at any time and reassume jurisdiction over the matters previously delegated; and (ii) Declarant's right to veto any decision which Declarant determines, in Declarant's sole discretion, to be inappropriate or inadvisable for any reason. So long as Declarant has any rights under this Article, the jurisdiction of the foregoing entities shall be limited to such matters as are specifically delegated to it by Declarant.

(b) Property Improvement Committee. Upon delegation by Declarant or upon expiration or termination of Declarant's rights under this Article, the Association, acting through the PIC, shall assume jurisdiction over architectural matters hereunder. The PIC, when appointed, shall consist of at least three, but not more than seven, persons who shall serve and may be removed and replaced in the Board's discretion. The members of the PIC need not be Members of the Association, the Board, or representatives of Members, and may, but need not, include architects, engineers, or similar professionals, whose compensation, if any, shall be established from time to time by the Board. The PIC may be broken into or may form subcommittees to preside over particular areas of review (*i.e.*, a new construction subcommittee and a modifications subcommittee.) Any reference herein to the PIC should be deemed to include a reference to any such subcommittee.

Unless and until such time as Declarant delegates all or a portion of its reserved rights to the PIC or Declarant's rights under this Article terminate, the Association shall have no jurisdiction over architectural matters.



For purposes of this article, the entity having jurisdiction in a particular case shall be referred to as the "Reviewer."

(c) Reviewer Fees; Assistance. The Reviewer may establish and charge reasonable fees for review of applications hereunder and may require such fees to be paid in full prior to review of any application. Such fees may include the reasonable costs incurred in having any application reviewed by architects, engineers, or other professionals. Declarant and the Association may employ architects, engineers, or other persons as deemed necessary to perform the review. The Board may include the compensation of such persons in the Association's annual operating budget as a Common Expense.

4.3. Guidelines and Procedures.

(a) Residential Design Guidelines. Declarant may prepare the initial Residential Design Guidelines, which may contain general provisions applicable to all of the Properties as well as specific provisions which vary from Neighborhood to Neighborhood. The Residential Design Guidelines are not the exclusive basis for decisions of the Reviewer and compliance with the Residential Design Guidelines does not guarantee approval of any application.

Declarant shall have sole and full authority to amend the Residential Design Guidelines in a manner consistent with the Permits as long as the Declarant owns any portion of the Properties or has a right to expand the Properties pursuant to Section 9.1, notwithstanding a delegation of reviewing authority to the PIC, unless Declarant also delegates the power to amend to the PIC. Upon termination or delegation of Declarant's right to amend, the PIC shall have the authority to amend the Residential Design Guidelines in a manner consistent with the Permits, with the consent of the Board. Any amendments to the Residential Design Guidelines shall be prospective only and shall not apply to require modifications to or removal of structures previously approved once the approved construction or modification has commenced. Except for conditions of the Permits, there shall be no limitation on the scope of amendments to the Residential Design Guidelines, and such amendments may remove requirements previously imposed or otherwise make the Residential Design Guidelines less restrictive.

The Reviewer shall make the Residential Design Guidelines available to Owners and Builders who seek to engage in development or construction within the Properties. In Declarant's discretion, such Residential Design Guidelines may be Recorded, in which event the Recorded version, as it may unilaterally be amended from time to time, shall control in the event of any dispute as to which version of the Residential Design Guidelines was in effect at any particular time.



(b) Procedures. No Work shall commence on any portion of the Properties until an application for approval has been submitted to and approved by the Reviewer. Such application shall include plans and specifications ("Plans") showing site layout, structural design, exterior elevations, exterior materials and colors, landscaping, drainage, exterior lighting, irrigation, and other features of proposed construction, as applicable. The Residential Design Guidelines and the Reviewer may require the submission of such additional information as may be reasonably necessary to consider any application.

In reviewing each submission, the Reviewer may consider any factors it deems relevant, including, without limitation, harmony of external design with surrounding structures and environment. Decisions may be based on purely aesthetic considerations. Each Owner acknowledges that determinations as to such matters are purely subjective and opinions may vary as to the desirability and/or attractiveness of particular improvements.

The Reviewer shall respond in writing to the applicant at the address specified in the application. The response may (i) approve the application, with or without conditions; (ii) approve a portion of the application and disapprove other portions; or (iii) disapprove the application. The Reviewer may, but shall not be obligated to, specify the reasons for any objections and/or offer suggestions for curing any objections.

In the event that the Reviewer fails to respond in a timely manner (as provided in the Residential Design Guidelines), approval shall be deemed to have been given, subject to Declarant's right to veto approval by the PIC pursuant to this Section. However, no approval, whether expressly granted or deemed granted pursuant to the foregoing, shall be inconsistent with the Residential Design Guidelines unless a differing design proposal has been approved pursuant to Section 4.5. Notice shall be deemed to have been given at the time the envelope containing the response is deposited with the U. S. Postal Service. Personal delivery of such written notice shall, however, be sufficient and shall be deemed to have been given at the time of delivery to the applicant. The Board may also adopt other methods for providing notice, by promulgation of Rules.

Until expiration of Declarant's rights under this Article, the PIC shall notify Declarant in writing within three business days after the PIC has approved any application relating to proposed Work within the scope of matters delegated to the PIC by Declarant. The notice shall be accompanied by a copy of the application and any additional information which Declarant may require. Declarant shall have 10 days after receipt of such notice to veto any such action, in its sole discretion, by notice to the PIC and the applicant.

If construction does not commence on a project for which Plans have been approved within one year after the date of approval, such approval shall be deemed withdrawn and it shall



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be necessary for the Owner to reapply for approval before commencing the proposed Work. Once construction is commenced, it shall be diligently pursued to completion. All Work shall be completed within one year of commencement unless otherwise specified in the notice of approval or unless the Reviewer grants an extension in writing, which it shall not be obligated to do. If approved Work is not completed within the required time, it shall be considered nonconforming and shall be subject to enforcement action by the Association, Declarant or any aggrieved Owner.

The Reviewer may, by resolution, exempt certain activities from the application and approval requirements of this Article, provided such activities are undertaken in strict compliance with the requirements of such resolution.

4.4. No Waiver of Future Approvals.

Each Owner acknowledges that the persons reviewing applications under this Article will change from time to time and that opinions on aesthetic matters, as well as interpretation and application of the Residential Design Guidelines, may vary accordingly. In addition, each Owner acknowledges that it may not always be possible to identify objectionable features of proposed Work until the Work is completed, in which case it may be unreasonable to require changes to the improvements involved, but the Reviewer may refuse to approve similar proposals in the future. Approval of applications or Plans for any Work done or proposed, or in connection with any other matter requiring approval, shall not be deemed to constitute a waiver of the right to withhold approval as to any similar applications, Plans, or other matters subsequently or additionally submitted for approval.

4.5. Variances.

The Reviewer may authorize variances from compliance with any of its guidelines and procedures when circumstances such as topography, natural obstructions, hardship, or aesthetic or environmental considerations require, but only in accordance with duly adopted rules and regulations. Such variances may only be granted, however, when unique circumstances dictate and no variance shall (a) be effective unless in writing; (b) be contrary to this Declaration; or (c) estop the Reviewer from denying a variance in other circumstances. For purposes of this Section, the inability to obtain approval of any governmental agency, the issuance of any permit, or the terms of any financing shall not be considered a hardship warranting a variance.



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4.6. Limitation of Liability.

The standards and procedures established by this Article are intended as a mechanism for maintaining and enhancing the overall aesthetics of the Properties; they do not create any duty to any Person. Review and approval of any application pursuant to this Article is made on the basis of aesthetic considerations only and the Reviewer shall not bear any responsibility for ensuring the structural integrity or soundness of approved construction or modifications, nor for ensuring compliance with building codes and other governmental requirements, nor for ensuring that all dwelling are of comparable quality, value, or size or of similar design.

Declarant, the Association, the Board, any committee, or member of any of the foregoing shall not be held liable for soil conditions, drainage or other general site work, any defects in plans revised or approved hereunder, or any injury, damages, or loss arising out of the manner or quality of approved construction on or modifications to any Unit. In all matters, Declarant, the Board, the PIC, and any members thereof shall be defended and indemnified by the Association as provided in Section 7.6.

4.7. Certificate of Approval.

Any Owner may request that the Reviewer issue a certificate of approval certifying that there are no known violations on his or her Unit of this Article or the Residential Design Guidelines. The Association shall either grant or deny such request within 30 days after receipt of a written request and may charge a reasonable administrative fee for issuing such certificates. Issuance of such a certificate shall estop the Association from taking enforcement action with respect to any condition as to which the Association had notice as of the date of such certificate.

Article V Maintenance and Repair

5.1. Maintenance of Areas of Common Responsibility.

The Association shall maintain the Areas of Common Responsibility as described in Section 7.2.

5.2. Maintenance of Units.

Each Owner shall maintain his or her Unit and all landscaping and improvements comprising the Unit in a manner consistent with the Governing Documents, the Community-Wide Standard, and all applicable covenants, unless such maintenance responsibility is otherwise assumed by or assigned to the Association or a Neighborhood pursuant to any



Supplemental Declaration or other declaration of covenants applicable to such Unit. Each Owner shall also be responsible for maintaining and irrigating the landscaping within that portion of any adjacent Common Area or public right-of-way lying between the Unit boundary and any wall, fence, curb, or water's edge located on the Common Area or public right-of-way adjacent to the Unit boundary; provided, there shall be no right to remove trees, shrubs or similar vegetation from this area without prior approval pursuant to Article IV. Each Owner shall perform at the Owner's expense the maintenance and upkeep of fencing, Street Trees (if located on a Unit), drainage swales and/or underground drain lines and catch basins installed on their Unit.

5.3. Maintenance of Neighborhood Property.

Upon resolution of the Board, Owners within each Neighborhood shall be responsible for paying, through Neighborhood Assessments, the costs of operating, maintaining, and insuring certain portions of the Areas of Common Responsibility within or adjacent to such Neighborhood. This may include, without limitation, the costs of maintaining any signage, entry features, right-of-way, and greenspace between the Neighborhood and adjacent public roads, private streets within the Neighborhood, and lakes or ponds within the Neighborhood, regardless of ownership and regardless of the fact that such maintenance may be performed by the Association; provided, all Neighborhoods which are similarly situated shall be treated the same.

If formed, a Neighborhood Association shall maintain the Neighborhood's common property and any other property for which it has maintenance responsibility in a manner consistent with the Governing Documents, the Community-Wide Standard, and all applicable covenants. If there is no Neighborhood Association formed to administer a Neighborhood, the Association shall maintain the Neighborhood's common property, but may assess the Neighborhood separately for the cost thereof.

The Association may assume maintenance responsibility for property within any Neighborhood, in addition to that designated by any Supplemental Declaration, either by agreement with the Neighborhood or because, in the opinion of the Board, the level and quality of service then being provided is not consistent with the Community-Wide Standard. All costs of maintenance pursuant to this paragraph shall be assessed as a Neighborhood Assessment only against the Units within the Neighborhood to which the services are provided. The provision of services in accordance with this Section shall not constitute discrimination within a class.



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5.4. Responsibility for Repair and Replacement.

Unless otherwise specifically provided in the Governing Documents or in other instruments creating and assigning maintenance responsibility, responsibility for maintenance shall include responsibility for repair and replacement, as necessary to maintain the property to a level consistent with the Community-Wide Standard. Repair and replacement may include improvement if necessary to comply with applicable building codes or other regulations or if otherwise deemed appropriate, in the Board's reasonable discretion.

By virtue of taking title to a Unit, each Owner covenants and agrees with all other Owners and with the Association to carry property insurance for the full replacement cost of all insurable improvements on his or her Unit, less a reasonable deductible, unless either the Neighborhood Association (if any) for the Neighborhood in which the Unit is located or the Association carries such insurance (which they may, but are not obligated to do hereunder). If the Association assumes responsibility for obtaining any insurance coverage on behalf of Owners, the premiums for such insurance shall be levied as a Specific Assessment against the benefited Unit and the Owner.

Each Owner further covenants and agrees that in the event of damage to or destruction of structures on or comprising such Owner's Unit, the Owner shall proceed promptly to repair or to reconstruct in a manner consistent with the original construction or such other plans and specifications as are approved in accordance with Article IV. Alternatively, the Owner shall clear the Unit and maintain it in a neat and attractive, landscaped condition consistent with the Community-Wide Standard. The Owner shall pay any costs which are not covered by insurance proceeds.

The requirements of this Section shall apply to any Neighborhood Association responsible for common property within the Neighborhood in the same manner as if the Neighborhood Association were an Owner and the common property were a Unit. Additional Recorded covenants applicable to any Neighborhood may establish more stringent requirements for insurance and more stringent standards for rebuilding or reconstructing structures on the Units within such Neighborhood and for clearing and maintaining the Units in the event the structures are not rebuilt or reconstructed.

5.5 Remedies for Failure to Maintain.

If any Unit Owner shall fail to conduct maintenance on the Owner's Unit as required by this Article in the same condition as a reasonably prudent homeowner, or in a manner which preserves the drainage for other Units, the Association shall notify the Owner in writing of the maintenance required. If the maintenance is not performed within thirty (30) days of the date



notice is delivered, the Association shall have the right to provide such maintenance, and to levy an assessment against the non-performing Owner and Unit for the cost of providing the maintenance. The assessment shall constitute a lien against the Unit owned by the non-performing Owner and may be collected and foreclosed in the same manner as any other delinquent monthly or special assessment. The Association shall have all remedies for collection as provided in the Declaration. In the event that emergency repairs are needed to correct a condition on a Unit which poses a substantial risk of injury or significant property damage to others, the Association may immediately perform such repairs as may be necessary after the Association has attempted to give notice to the Owner of the repairs necessary. Such notice in emergency circumstances shall be sufficient if attempted orally or in writing immediately prior to the Association's undertaking the necessary repairs. Emergency repairs performed by the Association, if not paid for by the Owner, may be collected by the Association in the manner provided for herein notwithstanding the failure of the Association to give the Owner the thirty (30) day notice.

PART THREE: COMMUNITY GOVERNANCE AND ADMINISTRATION

The success of Skagit Highlands is dependent upon the support and participation of every residential owner in its governance and administration. The Declaration establishes the Association as the mechanism by which each Owner is able to provide that support and participation. While many powers and responsibilities are vested in the Association's Board of Directors, some decisions are reserved for the Association's membership – the Owners of property in the community.

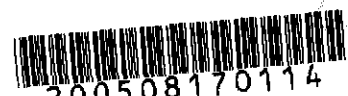
Article VI The Association and its Members

6.1. Function of Association.

The Association is the entity responsible for management, maintenance, operation, and control of the Areas of Common Responsibility and, if needed, for all Neighborhood Property. The Association also is the primary entity responsible for enforcement of the Governing Documents. The Association shall perform the duties of any Neighborhood Association that fails to perform duties required of it by a Neighborhood Declaration, or if such Neighborhood Association fails to elect and retain members of its Board of Directors. The Association shall perform its functions in accordance with the Governing Documents, the Permits and applicable Local Jurisdiction's Ordinances, and Washington law.

6.2. Membership.

Every Owner shall be a Member of the Association. There shall be only one membership per Unit. If a Unit is owned by more than one Person, all co-Owners shall share the privileges of such membership, subject to reasonable Board regulation and the restrictions on voting set forth in Section 6.3(c) and in the By-Laws, and all such co-Owners shall be jointly



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and severally obligated to perform the responsibilities of Owners. The membership rights of an Owner which is not a natural person may be exercised by any officer, director, partner, or trustee, or by the individual designated from time to time by the Owner in a written instrument provided to the Secretary of the Association.

6.3. Voting.

The Association shall have two classes of membership, Class "A" and Class "B."

(a) Class "A". Class "A" Members shall be all Owners except the Class "B" Member, if any. Class "A" Members shall have one equal vote for each Unit in which they hold the interest required for membership under Section 6.2, except that there shall be only one vote per Unit and no vote shall be exercised for any property which is exempt from assessment under Section 8.9.

(b) Class "B". The Class "B" Members shall be the Declarant. The Class "B" Members may appoint a majority of the members of the Board of Directors during the Class "B" Control Period, as specified in the By-Laws. Additional rights of the Class "B" Member are specified in the relevant sections of the Governing Documents.

The Class "B" membership shall terminate upon the earlier of:

- (i) five years after expiration of the Class "B" Control Period; or
- (ii) when, in its discretion, Declarant so determines and declares in a Recorded instrument.

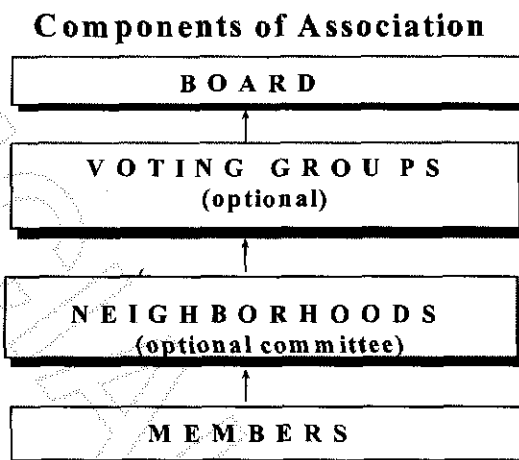
Upon termination of the Class "B" membership, Declarant shall be a Class "A" Member entitled to Class "A" votes for each Unit which they own.

(c) Exercise of Voting Rights. Members may exercise voting rights as set forth in the By-Laws. If there is more than one Owner of such Unit, the vote for such Unit shall be exercised as the co-Owners determine among themselves and advise the Secretary of the Association in writing prior to the vote being taken. Absent such advice, the Unit's vote shall be suspended if more than one Person seeks to exercise it.

Members who are also subject to a Neighborhood Association may have their voting rights exercised by a voting representative if and to the extent set forth in the governing documents of such Neighborhood Association.

6.4. Neighborhoods and Voting Groups.

The following diagram illustrates the interrelationships between possible components of the Association:



(a) Neighborhoods. Every Unit shall be located within a Neighborhood. Unless additional Neighborhoods are established, the Properties shall consist of a single Neighborhood. The Units within a particular Neighborhood may be subject to additional covenants, as recorded in a Supplemental Declaration, or additional rules or Design Guidelines. In addition, if required by law or otherwise approved by Declarant, the Owners within the Neighborhood may be members of a Neighborhood Association in addition to the Association. In the absence of a Neighborhood Association, the Owners within a Neighborhood may elect a Neighborhood Committee in the manner provided for in the By-Laws to represent their interests. If the Declarant establishes a Neighborhood, but at any time there is no Neighborhood Association formed to administer the rights and responsibilities assigned to the Neighborhood by the Neighborhood Declaration, the Declarant, the Board of the Association, or the Members who own Units in the Neighborhood may form and operate a Neighborhood Association.

Exhibit "A" to this Declaration, and each Supplemental Declaration submitting additional property to this Declaration may initially assign the property submitted thereby to a specific Neighborhood (by name or other identifying designation), which Neighborhood may be then existing or newly created. So long as Declarant has the right to subject additional property to this Declaration pursuant to Section 9.1, Declarant may unilaterally amend this Declaration or any Supplemental Declaration to create new Neighborhoods or to redesignate Neighborhood boundaries; provided, two or more existing Neighborhoods shall not be combined without the consent of Owners of a majority of the Units in the affected Neighborhoods.



Any Neighborhood, acting either through a Neighborhood Committee or through a Neighborhood Association, if any, may request that the Association provide a higher level of service than that which the Association generally provides to all Neighborhoods, or may request that the Association provide special services for the benefit of Units in such Neighborhood. Upon the affirmative vote, written consent, or a combination thereof, of Owners of a majority of the Units within the Neighborhood, the Association shall provide the requested services. The cost of such services, which may include a reasonable administrative charge in such amount as the Board deems appropriate (provided, any such administrative charge shall apply at a uniform rate per Unit to all Neighborhoods receiving the same service), shall be assessed against the Units within such Neighborhood as a Neighborhood Assessment.

The following is a summary of the formation and function of Neighborhoods:

NEIGHBORHOODS

- **Created by Declarant upon recording this Declaration or a supplemental declaration**
- **Comprised of units which share common interests**
- **May request special services or higher level of services**

(b) Voting Groups. Declarant may, from time to time, in its discretion, designate Voting Groups consisting of one or more Neighborhoods for the purpose of electing directors to the Board. Voting Groups may be designated to ensure groups with dissimilar interests are represented on the Board and to avoid allowing Members from similar Neighborhoods to elect the entire Board, due to the number of Units in such Neighborhoods, excluding representation of others. The number of Voting Groups within the Properties shall not exceed the total number of directors to be elected by the Class "A" Members pursuant to the By-Laws. Members within each Voting Group shall vote on a separate slate of candidates for election to the Board, with each Voting Group being entitled to elect an equal number of directors.

Declarant must establish Voting Groups, if the Declarant wishes to establish any, not later than the date of expiration of the Class "B" Control Period by filing with the Association and Recording a Supplemental Declaration identifying each Voting Group by legal description or other means such that the Units within each Voting Group can easily be determined. Such



designation may be amended from time to time by Declarant, acting alone, at any time prior to the expiration of the Class "B" Control Period. Until such time as Voting Groups are established, all of the Properties shall constitute a single Voting Group. After a Supplemental Declaration establishing Voting Groups has been Recorded, any and all portions of the Properties which are not assigned to a specific Voting Group shall constitute a single Voting Group.

Article VII Association Powers and Responsibilities

7.1. Acceptance and Control of Association Property.

The Association, through action of its Board, may acquire, hold, and dispose of tangible and intangible personal property and real property. Declarant and Declarant's designees may convey to the Association personal property and fee title, leasehold or other property interests in any real property, improved or unimproved, described in Exhibits "A" or "B." The Association shall accept and maintain such property at its expense for the benefit of its Members, subject to any restrictions set forth in the deed or other instrument transferring such property to the Association and any obligations or conditions appurtenant to such property. Upon a Declarant's written request, the Association shall reconvey to Declarant any unimproved portions of the Properties originally conveyed by a Declarant to the Association for no consideration, to the extent conveyed by a Declarant in error or needed by a Declarant to make minor adjustments in property lines.

7.2. Maintenance of Areas of Common Responsibility.

The Association shall maintain, in accordance with the Community-Wide Standard and the Permits, the Areas of Common Responsibility, which shall include, but need not be limited to:

(a) the Common Area and the Community Area, which includes the entry features, landscaping, private parks within the Properties, alleys serving all or any of the Units, private trails within the Master Plan, recreational amenities and the community center, open spaces, wetlands, natural preserve areas and conservation areas within the Master Plan, sensitive areas, and buffers;

(b) supplemental landscaping, maintenance, and repairs to property dedicated or conveyed to the Local Jurisdiction or other public entities (to the extent permitted by and consistent with any conditions imposed by such entities) and which may include public rights-of-way within or abutting the Properties, public parks and play areas, public trails, drainage areas, and storm water facilities;



(c) irrigation facilities, park and pool/ride lots, and transit shelters that are not maintained by the Local Jurisdiction;

(d) planter strips, medians, and central planting areas within cul-de-sacs;

(e) mailbox and mailbox shelters (which may not be moved or physically altered without approval of the PIC, the U.S. Postal Service and the Local Jurisdiction);

(f) such portions of any additional property included within the Areas of Common Responsibility as may be dictated by this Declaration, any Supplemental Declaration, the Covenant to Share Costs, or any contract or agreement for maintenance thereof entered into by the Association, including landscaping and other flora, viewsheds, parks, lakes, utility areas or improvements, structures, improvements, streets, alleyways, and bike/pedestrian pathways and trails;

(g) any ponds, streams and/or wetlands located within the Properties which serve as part of the storm water drainage system for the Properties, including improvements and equipment installed therein or used in connection therewith; and

(h) any property and facilities owned by Declarant and made available, on a temporary or permanent basis, for the primary use and enjoyment of the Association and its Members, such property and facilities to be identified by written notice from Declarant to the Association and to remain a part of the Areas of Common Responsibility and be maintained by the Association until such time as Declarant revokes such privilege of use and enjoyment by written notice to the Association.

The Association may maintain other property which it does not own, including, without limitation, Units, property dedicated to the public, or property owned or maintained by a Neighborhood Association, if the Board of Directors determines that such maintenance is necessary or desirable to maintain the Community-Wide Standard. The Association shall not be liable for any damage or injury occurring on, or arising out of the condition of, property which it does not own except to the extent that it has been negligent in the performance of its maintenance responsibilities.

The Association shall maintain the facilities and equipment within the Areas of Common Responsibility in continuous operation, except for any periods necessary, as determined in the sole discretion of the Board, to perform required maintenance or repairs, unless Members representing 67% of the Class "A" votes in the Association and the Class "B" Members, if any, agree in writing to discontinue such operation.



Except as provided above, the Areas of Common Responsibility shall not be reduced by amendment of this Declaration or any other means except with Declarant's prior written approval as long as Declarant owns any property described in Exhibits "A" or "B" of this Declaration.

The costs associated with maintenance, repair, monitoring, and replacement of the Areas of Common Responsibility shall be a Common Expense; provided, the Association may seek reimbursement from the owner(s) of, or other Persons responsible for, certain portions of the Areas of Common Responsibility pursuant to this Declaration, the Covenant to Share Costs, other Recorded covenants, or agreements with the owner(s) thereof. Maintenance, repair, and replacement of Exclusive Common Areas shall be a Neighborhood Expense assessed to the Neighborhood(s) such to which the Exclusive Common Areas are assigned, notwithstanding that the Association may be responsible for performing such maintenance hereunder.

7.3. Insurance.

(a) Required Coverages. After the conclusion of the Class B Control Period, or sooner if elected by the Declarant, the Association, acting through its Board or its duly authorized agent, shall obtain and continue in effect the following types of insurance, if reasonably available, or if not reasonably available, the most nearly equivalent coverages as are reasonably available:

(i) Blanket property insurance covering the full replacement cost all insurable improvements under current building ordinances and codes on the Common Area and within the Areas of Common Responsibility to the extent that Association has assumed responsibility in the event of a casualty, regardless of ownership;

(ii) Commercial general liability insurance on the Areas of Common Responsibility, insuring the Association and its Members with limits of (if generally available at reasonable cost, including primary and any umbrella coverage) at least \$1,000,000.00 per occurrence with respect to bodily injury, personal injury, and property damage, or such additional coverage and higher limits which a reasonably prudent person would obtain;

(iii) Workers compensation insurance and employers liability insurance, if and to the extent required by law;

(iv) Directors and officers liability coverage;

(v) Commercial crime insurance, including fidelity insurance covering all Persons responsible for handling Association funds in an amount determined in the Board's best



business judgment but not less than an amount equal to one-sixth of the annual Base Assessments on all Units plus reserves on hand. Fidelity insurance policies shall contain a waiver of all defenses based upon the exclusion of Persons serving without compensation; and

(vi) Such additional insurance as the Board, in its best business judgment, determines advisable.

In addition, the Association may, on request of a Neighborhood Association, and shall, if so specified in a Supplemental Declaration applicable to any Neighborhood, obtain and maintain property insurance on the insurable improvements within such Neighborhood which insurance shall comply with the requirements of Section 7.3(a)(i). Any such policies shall provide for a certificate of insurance to be furnished upon request to the Owner of each Unit insured.

Premiums for all insurance on the Areas of Common Responsibility shall be Common Expenses, except that (i) premiums for property insurance on the Community Area shall be a Joint Expense allocated in accordance with the Covenant to Share Costs; (ii) premiums for property insurance on Units within a Neighborhood shall be a Neighborhood Expense; and (iii) premiums for insurance on Exclusive Common Areas may be included in the Neighborhood Expenses of the Neighborhood(s) to which such Exclusive Common Areas are assigned unless the Board reasonably determines that other treatment of the premiums is more appropriate.

(b) Policy Requirements. The Association shall arrange for an annual review of the sufficiency of its insurance coverage by one or more qualified Persons, at least one of whom must be familiar with insurable replacement costs in Western Washington. All Association policies shall provide for a certificate of insurance to be furnished to the Association and, upon request, to each Member insured.

The policies may contain a reasonable deductible and the amount thereof shall not be subtracted from the face amount of the policy in determining whether the policy limits satisfy the requirements of Section 7.3(a). In the event of an insured loss, the deductible shall be treated as a Joint Expense, Common Expense, or a Neighborhood Expense in the same manner as the premiums for the applicable insurance coverage. However, if the Board reasonably determines, after notice and an opportunity to be heard in accordance with the By-Laws, that the loss is the result of the negligence or willful misconduct of one or more Owners, their guests, invitees, or lessees, then the Board may assess the full amount of such deductible against such Owner(s) and their Units as a Specific Assessment.



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All insurance coverage obtained by the Board shall:

(i) be written with a company authorized to do business in Washington which satisfies the requirements of the Federal National Mortgage Association, or such other secondary mortgage market agencies or federal agencies as the Board deems appropriate;

(ii) be written in the name of the Association as trustee for the benefited parties. Policies on the Common Areas shall be for the benefit of the Association and its Members. Policies secured on behalf of a Neighborhood shall be for the benefit of the Owners within the Neighborhood and their Mortgagees, as their interests may appear;

(iii) not be brought into contribution with insurance purchased by Owners, occupants, or their Mortgagees individually;

(iv) contain an inflation guard endorsement;

(v) include an agreed amount endorsement, if the policy contains a co-insurance clause;

(vi) provide that each Owner is an insured person under the policy with respect to liability arising out of such Owner's interest in the Common Area as a Member in the Association (provided, this provision shall not be construed as giving an Owner any interest in the Common Area other than that of a Member);

(vii) provide a waiver of subrogation under the policy against any Owner or household member of an Owner;

(viii) include an endorsement precluding cancellation, invalidation, suspension, or non-renewal by the insurer on account of any one or more individual Owners, or on account of any curable defect or violation without prior written demand to the Association to cure the defect or violation and allowance of a reasonable time to cure; and

(ix) include an endorsement precluding cancellation, invalidation, or condition to recovery under the policy on account of any act or omission of any one or more individual Owners, unless such Owner is acting within the scope of its authority on behalf of the Association.



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In addition, the Board shall use reasonable efforts to secure insurance policies which provide:

- (i) a waiver of subrogation as to any claims against the Association's Board, officers, employees, and its manager, the Owners and their tenants, servants, agents, and guests;
- (ii) a waiver of the insurer's rights to repair and reconstruct instead of paying cash;
- (iii) an endorsement requiring at least 30 days' prior written notice to the Association of any cancellation, substantial modification, or non-renewal; and
- (iv) a cross liability provision.

(c) Restoring Damaged Improvements. In the event of damage to or destruction of Common Area or other property which the Association is obligated to insure, the Board or its duly authorized agent shall file and adjust all insurance claims and obtain reliable and detailed estimates of the cost of repairing or restoring the property to substantially the condition in which it existed prior to the damage, allowing for changes or improvements necessitated by changes in applicable building codes.

Damaged improvements on the Common Area shall be repaired or reconstructed in a timely manner unless Members representing at least 75% of the total Class "A" votes in the Association, and the Class "B" Members, if any, decide not to repair or reconstruct. No Mortgagee shall have the right to participate in the determination of whether the damage or destruction to the Common Area shall be repaired or reconstructed. If a decision is made not to restore the damaged improvements, and no alternative improvements are authorized, the affected property shall be cleared of all debris and ruins and thereafter shall be maintained by the Association in a neat and attractive, landscaped condition consistent with the Community-Wide Standard.

Any insurance proceeds remaining after paying the costs of repair or reconstruction, or after such settlement as is necessary and appropriate, shall be retained by the Association for the benefit of its Members or the Persons entitled to use the damaged or destroyed property, as appropriate, and placed in a capital improvements account. This is a covenant for the benefit of Mortgagees and may be enforced by the Mortgagee of any affected Unit.

If insurance proceeds are insufficient to cover the costs of repair or reconstruction, the Board may, without a vote of the Members, levy Special Assessments to cover the shortfall



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against those Owners responsible for the premiums for the applicable insurance coverage under Section 7.3(a).

7.4. Compliance and Enforcement.

Every Owner and occupant of a Unit shall comply with the Governing Documents. The Board may impose sanctions for violation of the Governing Documents after notice and a hearing in accordance with the procedures set forth in the By-Laws. Such sanctions may include, without limitation:

(a) imposing reasonable monetary fines which shall constitute a lien upon the violator's Unit. (In the event that any occupant, guest or invitee of a Unit violates the Governing Documents and a fine is imposed, the fine shall first be assessed against the violator; provided, if the fine is not paid by the violator within the time period set by the Board, the Owner shall pay the fine upon notice from the Board);

(b) suspending an Owner's right to vote;

(c) suspending any Person's right to use any recreational facilities within the Common Area; provided, nothing herein shall authorize the Board to limit ingress or egress to or from a Unit;

(d) suspending any services provided by the Association to an Owner or the Owner's Unit if the Owner is more than 30 days delinquent in paying any assessment or other charge owed to the Association;

(e) exercising self-help or taking action to abate any violation of the Governing Documents in a non-emergency situation;

(f) requiring an Owner, at its own expense, to remove any structure or improvement on such Owner's Unit in violation of Article IV and to restore the Unit to its previous condition and, upon failure of the Owner to do so, the Board or its designee shall have the right to enter the property, remove the violation and restore the property to substantially the same condition as previously existed and any such action shall not be deemed a trespass;

(g) without liability to any Person, precluding any contractor, subcontractor, agent, employee or other invitee of an Owner who fails to comply with the terms and provisions of Article IV and the Residential Design Guidelines from continuing or performing any further activities in the Properties; and



(h) levying Specific Assessments to cover costs incurred by the Association to bring a Unit into compliance with the Governing Documents.

In addition, the Board may take the following enforcement procedures to ensure compliance with the Governing Documents without the necessity of compliance with the procedures set forth in the By-Laws:

- (a) exercising self-help in any emergency situation (specifically including, but not limited to, the towing of vehicles that are in violation of parking Rules and Regulations)
- (b) bringing suit at law or in equity to enjoin any violation or to recover monetary damages or both.

In addition to any other enforcement rights, if an Owner fails properly to perform his or her maintenance responsibility, the Association may Record a notice of violation or perform such maintenance responsibilities and assess all costs incurred by the Association against the Unit and the Owner as a Specific Assessment. If a Neighborhood Association fails to perform its maintenance responsibilities, the Association may perform such maintenance and assess the costs as a Specific Assessment against all Units within such Neighborhood. Except in an emergency situation, the Association shall provide the Owner or Neighborhood Association reasonable notice and an opportunity to cure the problem prior to taking such enforcement action.

All remedies set forth in the Governing Documents shall be cumulative of any remedies available at law or in equity. In any action to enforce the Governing Documents, if the Association prevails, it shall be entitled to recover all costs, including, without limitation, attorneys fees and court costs, reasonably incurred in such action.

The Association shall not be obligated to take any action if the Board reasonably determines that the Association's position is not strong enough to justify taking such action that the covenant, Use Restriction, or Rule and Regulation being enforced is, or is likely to be construed as, inconsistent with applicable law; or that it is not in the Association's interest, based upon hardship, expenses, or other reasonable criteria to pursue enforcement action. Such a decision shall not be construed a waiver of the right of the Association to enforce such provision at a later time under other circumstances or estop the Association from enforcing any other covenant, Use Restriction, or Rule and Regulation.

The Association, by contract or other agreement, may enforce applicable Local Jurisdiction ordinances, if applicable, and permit the Local Jurisdiction to enforce ordinances within the Properties for the benefit of the Association and its Members.



While conducting the Association's business affairs, the Board shall act within the scope of the Governing Documents and in good faith to further the legitimate interests of the Association and its Members. In fulfilling its governance responsibilities, the Board's actions shall be governed and tested by the rule of reasonableness. The Board shall exercise its power in a fair and nondiscriminatory manner and shall adhere to the procedures established in the Governing Documents.

7.5. Implied Rights; Board Authority.

The Association may exercise any right or privilege given to it expressly by the Governing Documents, or reasonably implied from or reasonably necessary to effectuate any such right or privilege. Except as otherwise specifically provided in the Governing Documents, or by law, all rights and powers of the Association may be exercised by the Board without a vote of the membership.

The Board may institute, defend, settle, or intervene on behalf of the Association in mediation, binding or non-binding arbitration, litigation, or administrative proceedings in matters pertaining to the Area of Common Responsibility, enforcement of the Governing Documents, or any other civil claim or action. However, the Governing Documents shall not be construed as creating any independent legal duty to institute litigation on behalf of or in the name of the Association or its members.

In exercising the rights and powers of the Association, making decisions on behalf of the Association, and conducting the Association's affairs, Board members shall be subject to, and their actions shall be judged in accordance with, the standards set forth in Section 3.27 of the By-Laws.

7.6. Indemnification of Officers, Directors, and Others.

Subject to Washington law, the Association shall indemnify every officer, director, volunteer and committee member of the Association and any Neighborhood Association against all damages and expenses, including counsel fees, reasonably incurred in connection with any action, suit, or other proceeding (including settlement of any suit or proceeding, if approved by the then Board of Directors) to which he or she may be a party by reason of being or having been an officer, director, or committee member, except that such obligation to indemnify shall be limited to those actions for which liability is limited under this Section and Washington law.

The officers, directors, and committee members shall not be liable for any mistake of judgment, negligent or otherwise, except for their own individual willful misfeasance, malfeasance, misconduct, or bad faith. The officers and directors shall have no personal liability with respect to any contract or other commitment made or action taken in good faith on behalf of the Association or any Neighborhood Association (except to the extent that such officers or directors may also be Members of the Association or Neighborhood Association). The Association shall indemnify and forever hold each such officer, director, and committee member harmless from any and all liability to others on account of any such contract, commitment, or action. This right to indemnification shall not be exclusive of any other rights to which any present or former officer, director, or committee member may be entitled. The Association shall, as a Common Expense, maintain adequate general liability and officers' and directors' liability insurance to fund this obligation, if such insurance is reasonably available.

7.7. Security.

The Association may, but shall not be obligated to, maintain or support certain activities within the Properties designed to make the Properties safer than they otherwise might be. Neither the Association nor Declarant shall in any way be considered insurers or guarantors of security within the Properties, nor shall either be held liable for any loss or damage by reason of failure to provide adequate security or ineffectiveness of security measures undertaken. No representation or warranty is made that any systems or measures, including any mechanism or system for limiting access to the Properties, cannot be compromised or circumvented, nor that any such systems or security measures undertaken will in all cases prevent loss or provide the detection or protection for which the system is designed or intended. Each Owner acknowledges, understands, and covenants to inform its tenants and all occupants of its Unit that the Association, its Board and committees, and Declarant are not insurers and that each Person using the Properties assumes all risks of personal injury and loss or damage to property, including Units and the contents of Units, resulting from acts of third parties.

7.8. Effect of Dissolution of Association.

In the event that the Association is dissolved and is no longer licensed as a non-profit corporation, the rights and duties of the Association (including, but not limited to, all ownership interest in the Common Areas) shall vest in the Owners, as an unincorporated association. Any Owner or any Mortgagee may reinstate the Association's corporate status, or create a successor entity as a successor to the Association, at any time by filing with the State of Washington such documents as required by law to reinstate the Association or create its successor; and upon such reinstatement, the Owners' rights and duties, as described in this Declaration, shall re-vest in the



reinstated or successor Association, and all owners shall be members thereof with all rights to vote provided by law and the organizational documents of the entity. To the greatest extent possible, any successor entity shall be governed by the Articles and Bylaws of the Association as if they had been made to constitute the governing documents of the successor entity. The same provisions described herein applicable to the Association shall also apply to any Neighborhood Association which is dissolved; provided, however, that the Association may elect to assume the duties of any Neighborhood Association which is dissolved and no longer licensed by reason of the failure of the Neighborhood Association's Board or Members to maintain the Neighborhood Association as an active non-profit corporation.

7.9. Powers of the Association Relating to Neighborhood.

Since a Neighborhood Committee is a committee of the Association, the Board shall have all of the power and control over any Neighborhood Committee that it has under applicable law over other committees of the Association. In the event that any Neighborhood Association that fails to perform duties required of it by a Neighborhood Declaration, or if such Neighborhood Association fails to elect and retain members of its Board of Directors, the Association shall assume all duties of the Neighborhood Association and act in its stead.

The Association shall have the power to veto any action taken or contemplated to be taken by any Neighborhood Committee or Neighborhood Association which the Board reasonably determines to be adverse to the interests of the Association or its Members or inconsistent with the Community-Wide Standard. The Association also shall have the power to require specific action to be taken by any Neighborhood Association in connection with its obligations and responsibilities, such as requiring specific maintenance or repairs or aesthetic changes to be effectuated and requiring that a proposed budget include certain items and that expenditures be made therefor.

A Neighborhood Association shall take appropriate action required by the Association in a written notice within the reasonable time frame set by the Association in the notice. If the Neighborhood Association fails to comply, the Association shall have the right to effect such action on behalf of the Neighborhood Association and levy Specific Assessments to cover the costs, as well as an administrative charge and sanctions.

7.10. Provision of Services.

The Association may provide or provide for services and facilities for the Members, their guests, lessees, and invitees, and shall be authorized to enter into and terminate contracts or agreements with other entities, including Declarant, to provide such services and facilities. The Board may charge use and consumption fees for such services and facilities. By way of



example, some services and facilities which might be offered include landscape maintenance, pest control service, cable television service, internet service, security, caretaker, transportation, fire protection, utilities, and similar services and facilities. Nothing herein shall be construed as a representation by Declarant or the Association as to what, if any, services shall be provided. In addition, the Board shall be permitted to modify or cancel existing services provided, in its discretion, unless otherwise required by the Governing Documents. No Owner shall be exempt from the obligation to pay for such services, if provided to all Owners as a Common Expense, based upon non-use or any other reason.

7.11. Relations with Other Properties.

The Association may enter into contractual agreements or covenants to share costs with other associations, properties or facilities for maintaining and/or operating shared or mutually beneficial properties or facilities. **Each Owner acknowledges and agrees that the Association is or shall be obligated under the Covenant to Share Costs to contribute funds for, among other things, shared or mutually beneficial property or services within Skagit Highlands.**

7.12. Facilities and Services Open to the Public.

Certain facilities and areas within the Properties may be open for use and enjoyment of the public. Such facilities and areas may include, by way of example: greenbelts, trails and paths, parks, and other neighborhood spots conducive to gathering and interaction, roads, sidewalks, and medians. Declarant may designate such facilities and areas as open to the public at the time Declarant makes such facilities and areas a part of the Areas of Common Responsibility or the Board may so designate at any time thereafter. Portions of the Common Area and/or Community Area which are not intended to be open to the public may be posted as private property.

7.13. Permit Matters.

The Properties are subject to a variety of permit restrictions and obligations which are contained in the Permits and other Local Jurisdiction Ordinances and are binding upon the Properties and run with the land. The Association and each Owner shall comply with the restrictions and requirements of the Permits, as applicable. During initial development of the Properties, Declarant shall implement, maintain, and enforce the programs and requirements of the Permits. Declarant shall have the right, but not the obligation, to delegate or assign certain responsibilities to the Association or any committee, and the Association or such committee shall have the obligation to accept and fulfill such delegation or assignment of such obligations.

The cost of such activities shall be either a Common Expense or a Joint Expense, if the activity is associated with the Community Area and for the general benefit of all of Skagit Highlands.

Examples of matters which Declarant may delegate or assign to the Association include, without limitation, preparing and implementing educational and environmental conservation programs and training materials with an emphasis on irrigation and landscape maintenance, preservation of groundwater, and wetland preserve areas. Declarant may assign water monitoring and reporting requirements to the Association. The Association may also assume responsibilities for implementation and operation of a transit program for Skagit Highlands, including staffing the position of a transportation coordinator, if such responsibilities are delegated by Declarant.

The Association shall adopt "best management practices" ("BMP") with regard to water quality within the Properties, which BMP shall be reevaluated from time to time by the Association in consultation with the Local Jurisdiction. The Association, each Owner, and each occupant of a Unit shall abide by such BMP.

The Association may assist in the production and distribution of educational materials regarding, among other things, fertilizer and pesticide/herbicide application, including practices relating to the quantity, timing, and type of fertilizer which may be applied to lawns and gardens to protect water quality. Such educational materials may be made available to all Owners and residents. In addition, all landscape contracts entered into by the Association shall comply with such BMP.

In the performance of its responsibilities, the Association shall follow the standards and requirements of the Permits and the Local Jurisdiction's Ordinances. The Association shall comply with the design guidelines and maintenance standards referenced in the Permits, particularly in the use and preservation of native vegetation and landscaping, in the performance of its responsibilities under this Declaration.

7.14. Recycling Programs.

The Board may establish a recycling program and recycling center within the Properties, and, in such event, all Owners and occupants of Units shall support such program by recycling, to the extent reasonably practical, all materials which the Association's recycling program or center is set up to accommodate. The Association may, but shall have no obligation to, purchase recyclable materials in order to encourage participation, and any income received by the Association as a result of such recycling efforts shall be used to offset Common Expenses.



7.15. Relationship with Tax-Exempt Organizations.

Declarant or the Association may create, enter into agreements or contracts with, or grant exclusive and/or non-exclusive easements over portions of the Common Area to non-profit, tax-exempt organizations, the operation of which confers some benefit upon the Properties, the Association, the Members, or residents. While such organization(s) may perform a variety of services and functions, it is anticipated that such activities will focus on environmental and conservation programs benefiting the Skagit Highlands area and the community as a whole.

If established by Declarant or the Association for activities within the Master Plan, the Association shall be responsible to fund the minimum organization expenses of maintaining such entity and may contribute money, real or personal property, or services to such entity. Such expenses and any such contributions shall be a Joint Expense. For the purposes of this Section, a "tax-exempt organization" shall mean an entity which is exempt from federal income taxes under the Internal Revenue Code ("Code"), such as, but not limited to, entities which are exempt from federal income taxes under Sections 501(c)(3) or 501(c)(4), as the Code may be amended from time to time.

Article VIII Association Finances

8.1. Budgeting and Allocating Common Expenses.

At least 60 days before the beginning of each fiscal year, the Board shall prepare a budget of the estimated Common Expenses for the coming year, including any contributions to be made to a reserve fund pursuant to Section 8.3. The budget or additional worksheets shall reflect Association expenses incurred in fulfilling the responsibilities and payments made pursuant to the Covenant to Share Costs. The Association's share of the amount owed under the Covenant to Share Costs shall be entered as a line item in the Association's budget of Common Expenses allocated to its Members hereunder. The budget shall also reflect the sources and estimated amounts of funds to cover such expenses, which may include any surplus to be applied from prior years, any income expected from sources other than assessments levied against the Units, and the amount to be generated through the levy of Base Assessments and Special Assessments against the Units, as authorized in Section 8.6.

The Association is hereby authorized to levy Base Assessments equally against all Units subject to assessment under Section 8.6 to fund the Common Expenses. In determining the Base Assessment rate per Unit, the Board may consider any assessment income expected to be generated from any additional Units reasonably anticipated to become subject to assessment during the fiscal year.

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Declarant may, but shall not be obligated to, reduce the Base Assessment for any fiscal year by payment of a subsidy (in addition to any amounts paid by Declarant under Section 8.7(b)), which may be either a contribution, an advance against future assessments due from Declarant, or a loan, in Declarant's discretion. Any such subsidy shall be disclosed as a line item in the income portion of the budget. Payment of such subsidy in any year shall not obligate Declarant to continue payment of such subsidy in future years, unless otherwise provided in a written agreement between the Association and Declarant.

Within 30 days after the adoption of a final budget by the Board, the Board shall send to each Owner a copy of the final budget, notice of the amount of the Base Assessment to be levied pursuant to such budget, and notice of a meeting to consider ratification of the budget. Such meeting shall be held not less than 14 nor more than 60 days from the mailing of such materials, or within such other time period that may be mandated by law for non-profit homeowner associations, such as RCW 64.38.035. The budget and assessment shall be ratified unless disapproved at a meeting by Members representing more than 50% of the total Class "A" votes in the Association and by the Class "B" Member, if such exists. Such ratification shall be effective whether or not a quorum is present.

If any proposed budget is disapproved or the Board fails for any reason to determine the budget for any year, then the budget most recently in effect shall continue in effect until a new budget is determined.

The Board may revise the budget and adjust the Base Assessment from time to time during the year, subject to the notice requirements and the right of the Members to disapprove the revised budget as set forth above.

8.2. Budgeting and Allocating Neighborhood Expenses.

At least 60 days before the beginning of each fiscal year, the Board shall prepare a separate budget covering the estimated Neighborhood Expenses for each Neighborhood on whose behalf Neighborhood Expenses are expected to be incurred during the coming year. Each such budget shall include any costs for additional services or a higher level of services which the Owners in such Neighborhood have approved pursuant to Section 6.4(a) and any contribution to be made to a reserve fund pursuant to Section 8.3. The budget shall also reflect the sources and estimated amounts of funds to cover such expenses, which may include any surplus to be applied from prior years, any income expected from sources other than assessments levied against the Units, and the amount required to be generated through the levy of Neighborhood and Special Assessments against the Units in such Neighborhood.



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The Association is hereby authorized to levy Neighborhood Assessments equally against all Units in the Neighborhood which are subject to assessment under Section 8.6 to fund Neighborhood Expenses; provided, if so specified in the applicable Supplemental Declaration or if so directed by petition signed by a majority of the Owners within the Neighborhood, any portion of the assessment intended for exterior maintenance of structures, insurance on structures, or replacement reserves which pertain to particular structures shall be levied on each of the benefited Units in proportion to the benefit received.

Within 30 days prior to the beginning of the fiscal year after the adoption of a final budget for a Neighborhood by the Board, the Board shall send to each Owner within the Neighborhood a copy of the final budget, notice of the amount of the Neighborhood Assessment to be levied pursuant to such budget, and notice of a meeting to consider ratification of the budget. Such meeting shall be held not less than 14 nor more than 60 days from the mailing of such materials, or within such other time period that may be mandated by law for non-profit homeowner associations, such as RCW 64.38.035. Such budget and assessment shall be ratified unless disapproved at a meeting of the Neighborhood by Owners of more than 50% of the Units in the Neighborhood to which the Neighborhood Assessment applies and the Class "B" Member, if any. Such ratification shall be effective whether or not a quorum is present.

If the proposed budget for any Neighborhood is disapproved or if the Board fails for any reason to determine the budget for any year, then until such time as a budget is determined, the budget in effect for the immediately preceding year shall continue for the current year.

The Board may revise the budget for any Neighborhood and the amount of any Neighborhood Assessment from time to time during the year, subject to the notice requirements and the right of the Owners of Units in the affected Neighborhood to disapprove the revised budget as set forth above.

8.3. Budgeting for Reserves.

The Board shall prepare and periodically review a reserve budget for the Areas of Common Responsibility and for each Neighborhood for which the Association maintains capital items as a Neighborhood Expense. The budgets shall take into account the number and nature of replaceable assets, the expected life of each asset, and the expected repair or replacement cost. The Board shall include in the Common Expense budget adopted pursuant to Section 8.1 or the Neighborhood Expense budgets adopted pursuant to Section 8.2, as appropriate, a capital contribution to fund reserves in an amount sufficient to meet the projected need with respect both to amount and timing by annual contributions over the budget period.



8.4. Special Assessments.

In addition to other authorized assessments, the Association may levy Special Assessments to cover unbudgeted expenses or expenses in excess of those budgeted. Any such Special Assessment may be levied as a Joint Expense and allocated in accordance with the Covenant to Share Costs, may be levied against the entire membership, if such Special Assessment is for Common Expenses, or may be levied against the Units within any Neighborhood if such Special Assessment is for Neighborhood Expenses. Except as otherwise specifically provided in this Declaration, any Special Assessment shall require the affirmative vote or written consent of Members (if a Common Expense) or Owners (if a Neighborhood Expense) representing more than 50% of the total votes allocated to Units which will be subject to such Special Assessment, and the affirmative vote or written consent of the Class "B" Members, if such exist. Special Assessments shall be payable in such manner and at such times as determined by the Board, and may be payable in installments extending beyond the fiscal year in which the Special Assessment is approved.

8.5. Specific Assessments.

The Association shall have the power to levy Specific Assessments against a particular Unit as follows:

(a) to cover the costs, including overhead and administrative costs, of providing services to Units upon request of an Owner pursuant to any menu of special services which may be offered by the Association (which might include the items identified in Section 7.9). Specific Assessments for special services may be levied in advance of the provision of the requested service; and

(b) to cover costs incurred in bringing the Unit into compliance with the Governing Documents, or costs incurred as a consequence of the conduct of the Owner or occupants of the Unit, their agents, contractors, employees, licensees, invitees, or guests; provided, the Board shall give the Unit Owner prior written notice and an opportunity for a hearing, in accordance with the By-Laws, before levying any Specific Assessment under this subsection (b).

The Association may also levy a Specific Assessment against the Units within any Neighborhood to reimburse the Association for costs incurred in bringing the Neighborhood into compliance with the provisions of the Governing Documents, provided the Board gives prior written notice to the Owners of Units in the Neighborhood and an opportunity for such Owners or members of the Neighborhood Committee to be heard before levying any such assessment.



8.6. Authority To Assess Owners; Time of Payment.

Declarant hereby establishes and the Association is hereby authorized to levy assessments as provided for in this Article and elsewhere in the Governing Documents. The obligation to pay assessments shall commence as to each Unit, after the Board first determines a budget and levies assessments, six months after the Unit is submitted to this Declaration. The first annual Base Assessment and Neighborhood Assessment, if any, levied on each Unit shall be adjusted according to the number of months remaining in the fiscal year at the time assessments commence on the Unit.

Assessments shall be paid in such manner and on such dates as the Board may establish. The Board may require advance payment of assessments at closing of the transfer of title to a Unit and impose special requirements for Owners with a history of delinquent payment. If the Board so elects, assessments may be paid in two or more installments. Unless the Board otherwise provides, the Base Assessment and any Neighborhood Assessment shall be due and payable in advance on the first day of each fiscal year. If any Owner is delinquent in paying any assessments or other charges levied on his Unit, the Board may require the outstanding balance on all assessments to be paid in full immediately.

8.7. Obligation for Assessments.

(a) Personal Obligation. Each Owner, by accepting a deed or entering into a Recorded contract of sale for any portion of the Properties, is deemed to covenant and agree to pay all assessments authorized in the Governing Documents. All assessments, together with interest (computed from its due date at a rate of 10% per annum or such higher rate as the Board may establish, subject to the limitations of Washington law), late charges as determined by Board resolution, costs, and reasonable attorneys' fees, shall be the personal obligation of each Owner and a lien upon each Unit until paid in full. Upon a transfer of title to a Unit, the grantee shall be jointly and severally liable for any assessments and other charges due at the time of conveyance.

Failure of the Board to fix assessment amounts or rates or to deliver or mail each Owner an assessment notice shall not be deemed a waiver, modification, or a release of any Owner from the obligation to pay assessments. In such event, each Owner shall continue to pay Base Assessments and Neighborhood Assessments on the same basis as during the last year for which an assessment was made, if any, until a new assessment is levied, at which time the Association may retroactively assess any shortfalls in collections.

No Owner may exempt himself from liability for assessments by non-use of Common Area, abandonment of his Unit, or any other means. The



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separate and independent covenant on the part of each Owner. No diminution or abatement of assessments or set-off shall be claimed or allowed for any alleged failure of the Association or Board to take some action or perform some function required of it, or for inconvenience or discomfort arising from the making of repairs or improvements, or from any other action it takes.

Upon written request, the Association shall furnish to any Owner liable for any type of assessment a certificate in writing signed by an Association officer setting forth whether such assessment has been paid. Such certificate shall be conclusive evidence of payment. The Association may require the advance payment of a reasonable processing fee for the issuance of such certificate.

(b) Declarant's Option To Fund Budget Deficits. During the Class "B" Control Period, Declarant may satisfy its obligation for assessments, if any, on Units which it owns either by paying such assessments in the same manner as any other Owner or by paying the difference between the amount of assessments levied on all other Units subject to assessment and the amount of actual expenditures by the Association during the fiscal year. Unless Declarant otherwise notifies the Board in writing at least 60 days before the beginning of each fiscal year, Declarant shall be deemed to have elected to continue paying on the same basis as during the immediately preceding fiscal year. Regardless of Declarant's election, Declarant's obligations hereunder may be satisfied in the form of cash or by "in kind" contributions of services or materials, or by a combination of these. After termination of the Class "B" Control Period, Declarant shall pay assessments on its unsold Units in the same manner as any other Owner.

8.8. Lien for Assessments.

The Association shall have a lien against each Unit to secure payment of delinquent assessments, as well as interest, late charges (subject to the limitations of Washington law), and costs of collection (including attorneys fees). Such lien shall be superior to all other liens, except (a) the liens of all taxes, bonds, assessments, and other levies which by law would be superior, and (b) the lien or charge of any Recorded first Mortgage (meaning any Recorded Mortgage with first priority over other Mortgages) made in good faith and for value. Such lien, when delinquent, may be enforced by suit, judgment, and judicial or nonjudicial foreclosure.

The Association may bid for the Unit at the foreclosure sale and acquire, hold, lease, mortgage, and convey the Unit. While a Unit is owned by the Association following foreclosure: (a) no right to vote shall be exercised on its behalf; (b) no assessment shall be levied on it; and (c) each other Unit shall be charged, in addition to its usual assessment, its pro rata share of the assessment that would have been charged should it not have been acquired by



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the Association. The Association may sue for unpaid assessments and other charges authorized hereunder without foreclosing or waiving the lien securing the same.

Sale or transfer of any Unit shall not affect the assessment lien or relieve such Unit from the lien for any subsequent assessments. However, the sale or transfer of any Unit pursuant to foreclosure of the first Mortgage shall extinguish the lien as to any installments of such assessments due prior to the Mortgagee's foreclosure. The subsequent Owner to the foreclosed Unit shall not be personally liable for assessments on such Unit due prior to such acquisition of title. Such unpaid assessments shall be deemed to be Common Expenses collectible from Owners of all Units subject to assessment under Section 8.6, including such acquirer, its successors and assigns.

8.9 Suspension of Voting Rights.

In the event any Member shall be in arrears in the payment of the assessments due or shall be in default of the performance of any of the terms of this Declaration, the Articles and Bylaws of the Association, the rules or regulations adopted by the Association, for a period of thirty (30) days, the Member's right to vote may be suspended by the Board, and if suspended shall remain suspended until all payments, together with interest, late fees, and attorneys' fees and costs, if any, are brought current and all defaults remedied. In addition, the Association shall have such other remedies against such delinquent Members as may be provided in the Articles, Bylaws, the Declaration, or Washington state law.

8.10. Exempt Property.

The following property shall be exempt from payment of Base Assessments, Neighborhood Assessments, and Special Assessments:

- (a) All Common Area and such portions of the property owned by Declarant as are included in the Areas of Common Responsibility;
- (b) Any property dedicated or conveyed to and accepted by any governmental authority or public utility; and
- (c) Property owned by any Neighborhood Association for the common use and enjoyment of its members, or owned by the members of a Neighborhood Association as tenants-in-common.

In addition, Declarant and/or the Association shall have the right, but not the obligation, to grant exemptions to certain Persons qualifying for tax exempt status under Section 501(c) of



the Internal Revenue Code so long as such Persons own property subject to this Declaration for purposes listed in Section 501(c).

8.11. Capitalization of Association.

Upon acquisition of record title to a Unit by the first Owner thereof other than Declarant or a Builder, a contribution shall be made by or on behalf of the purchaser to the working capital of the Association in the amount of \$300.00. This amount shall be in addition to, not in lieu of, the annual Base Assessment and shall not be considered an advance payment of such assessment. This amount shall be deposited into the purchase and sales escrow and disbursed therefrom to the Association for use in covering operating expenses and other expenses incurred by the Association pursuant to this Declaration and the By-Laws.

PART FOUR: COMMUNITY DEVELOPMENT

The Declaration reserves various rights to the developer in order to facilitate the smooth and orderly development of Skagit Highlands and to accommodate changes in the Master Plan which inevitably occur as a community the size of Skagit Highlands grows and matures.

Article IX Expansion of the Community

9.1. Expansion by Declarant.

Declarant may from time to time subject to the provisions of this Declaration all or any portion of the property described in Exhibit "A," including portions which are not contiguous to other portions of the Properties, by Recording a Supplemental Declaration describing the additional property to be subjected. A Supplemental Declaration Recorded pursuant to this Section shall not require the consent of any Person except the owner of such property, if other than Declarant.

Declarant's right to expand the Properties pursuant to this Section shall expire when all property described in Exhibit "A" has been subjected to this Declaration or 20 years after this Declaration is Recorded, whichever is earlier. Until then, Declarant may transfer or assign this right to any Person who is the developer of at least a portion of the real property described in Exhibits "A" or "B." Any such transfer shall be memorialized in a written, Recorded instrument executed by Declarant.

Nothing in this Declaration shall be construed to require Declarant or any successor to subject additional property to this Declaration or to develop any of the property described in Exhibit "A" in any manner whatsoever.



9.2. Expansion by the Association.

The Association may also subject additional property to the provisions of this Declaration by Recording a Supplemental Declaration describing the additional property. Any such Supplemental Declaration shall require the affirmative vote of Members representing more than 50% of the Class "A" votes of the Association and the consent of the owner of the property. In addition, so long as Declarant owns property subject to this Declaration or which may become subject to this Declaration in accordance with Section 9.1, Declarant's consent shall be necessary. The Supplemental Declaration shall be signed by the President and Secretary of the Association, by the owner of the property and by Declarant, if Declarant's consent is necessary.

9.3. Additional Covenants and Easements.

Declarant may subject any portion of the Properties to additional covenants and easements, including covenants obligating the Association to maintain and insure such property and authorizing the Association to recover its costs through Neighborhood Assessments. Such additional covenants and easements may be set forth either in a Supplemental Declaration subjecting such property to this Declaration or in a separate Supplemental Declaration referencing property previously subjected to this Declaration. If the property is owned by someone other than Declarant, then the consent of the Owner(s) shall be necessary and shall be evidenced by their execution of the Supplemental Declaration. Any such Supplemental Declaration may supplement, create exceptions to, or otherwise modify the terms of this Declaration as it applies to the subject property in order to reflect the different character and intended use of such property.

9.4. Effect of Recording Supplemental Declaration.

A Supplemental Declaration shall be effective upon Recording unless otherwise specified in such Supplemental Declaration. On the effective date of the Supplemental Declaration, any additional property subjected to this Declaration shall be assigned voting rights in the Association and assessment liability in accordance with the provisions of this Declaration.

9.5. Condominium Conversion.

In the event that any property subject to the Covenant to Share Costs which now or hereafter is used for rental apartments or other commercial use is converted to a condominium in accordance with the Washington Condominium Act, or to other residential use by which



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individual units or lots are offered for sale, the owner of such property is required by the Covenant to Share Costs to subject it to the provisions of this Declaration. Such property shall be subjected to this Declaration by Recording a Supplemental Declaration specifically submitting the property to the terms of this Declaration. Such Supplemental Declaration shall not require the consent of the Association, but shall require the written acknowledgment of an Association officer. In addition, Declarant's prior written consent shall be required so long as it owns any property described in Exhibits "A" or "B." As of the effective date of such Supplemental Declaration, the property thereby subjected to this Declaration shall be comprised of Units, the Owners of which shall be mandatory Members of the Association, and assigned voting rights and assessment liability in accordance with the terms of this Declaration.

Article X Additional Rights Reserved to Declarant

10.1. Withdrawal of Property.

Declarant reserves the right to amend this Declaration, so long as Declarant has a right to annex additional property pursuant to Section 9.1, for the purpose of removing any portion of the Properties which has not yet been improved with structures from the coverage of this Declaration, provided such withdrawal does not reasonably violate the overall scheme of development for the Master Plan. Such amendment shall not require the consent of any Person other than the Owner(s) of the property to be withdrawn, if not a Declarant; such amendment shall be subject to any required approval by the Local Jurisdiction. If the property is Common Area, the Association shall consent to such withdrawal.

10.2. Governmental Interests.

Declarant may designate sites it owns within the Properties for fire, police, water, and sewer facilities, public schools and parks, and other public facilities. Sites may be designated for use of water infiltration under the Permit. Development of such sites shall be subject to a non-binding review under the procedures set forth in Article IV. Neither the Association, the PIC, nor the Owners may object to the use of such sites for the designated public purposes.

10.3. Marketing and Sales Activities.

Declarant and Builders authorized by Declarant may construct and maintain upon portions of the Common Area such facilities and activities as, in Declarant's sole opinion, may be reasonably required, convenient, or incidental to the construction or sale of Units, including, but not limited to, business offices, signs, model units, and sales offices. Declarant and authorized Builders shall have easements for access to and use of such facilities and shall not be subject to fees or rental charges.

10.4. Right To Develop.

Declarant and Declarant's employees, agents, and designees shall have a right of access and use and an easement over and upon all of the Common Area for the purpose of making, constructing, and installing such improvements to the Common Area as Declarant deems appropriate in its sole discretion, so long as such improvements are not inconsistent with the permitted uses and purposes of the Common Areas as defined in the Permit.

Every Person that acquires any interest in the Properties acknowledges that Skagit Highlands is intended to be a master planned community, the development of which is likely to extend over many years, and agrees not to protest, challenge, or otherwise object to (a) changes in uses or density of property outside the Neighborhood in which such Person holds an interest, or (b) changes in the Master Plan as it relates to property outside the Neighborhood in which such Person holds an interest.

10.5. Right To Approve Additional Covenants.

No Person shall Record any declaration of covenants, conditions, and restrictions, or declaration of condominium or similar instrument affecting any portion of the Properties without Declarant's review and written consent. Any attempted Recordation without such consent shall result in such instrument being void and of no force and effect unless subsequently approved by written consent signed and Recorded by Declarant.

10.6. Right To Approve Changes in the Standards Within the Community

No amendment to or modification of any Use Restrictions or Residential Design Guidelines shall be effective without prior notice to and the written approval of Declarant so long as Declarant owns property subject to this Declaration or which may become subject to this Declaration in accordance with Section 9.1.

10.7. Right To Transfer or Assign Declarant Rights.

Any or all of Declarant's special rights and obligations set forth in this Declaration or the By-Laws may be transferred in whole or in part to other Persons; provided, the transfer shall not reduce an obligation nor enlarge a right beyond that which Declarant has under this Declaration or the By-Laws and shall not be inconsistent with the Permits. No such transfer or assignment shall be effective unless it is in a written instrument signed and Recorded by Declarant. The foregoing sentence shall not preclude Declarant from permitting other Persons to exercise, on a one time or limited basis, any right reserved to Declarant in this Declaration where Declarant does not intend to transfer such right in it



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not be necessary to Record any written assignment unless necessary to evidence Declarant's consent to such exercise.

10.8. Easement To Inspect and Right To Correct.

(a) Declarant reserves for Declarant and such other Persons as Declarant may designate perpetual non-exclusive easements throughout the Properties to the extent reasonably necessary for the purposes of access, inspecting, testing, redesigning, or correcting any portion of the Properties, including Units and the Area of Common Responsibility. Declarant shall have the right to redesign or correct any part of the Area of Common Responsibility, and the designees of Declarant shall have the right to redesign or correct any Unit or portion of a Neighborhood in which they were the Builder.

(b) Entry onto a Unit shall be after reasonable notice, except in an emergency. Entry into a structure on a Unit shall be only after Declarant notifies the Unit's Owner and agrees with the Owner regarding a reasonable time to enter the structures on such Unit to perform such activities.

(c) Any damage to a Unit or the Area of Common Responsibility resulting from the exercise of the easement or right of entry described in subsections (a) and (b) of this Section shall promptly be repaired by, and at the expense of, the Person exercising the easement right. The exercise of these easements shall not unreasonably interfere with the use of any Unit and entry onto any Unit shall be made only after reasonable notice to the Owner or occupant.

10.9. Right to Notice of Design or Construction Claims.

No Person shall retain an expert for the purpose of inspecting the design or construction of any structures or improvements within Skagit Highlands in connection with or in anticipation of any potential or pending claim, demand, or litigation involving such design or construction unless Declarant and any builder involved in the design or construction have been first notified in writing and given an opportunity to meet with the Owner of the property to discuss the Owner's concerns and conduct their own inspection.

10.10. Termination of Rights.

The rights contained in this Article shall not terminate until the earlier of (a) 30 years from the date this Declaration is Recorded, or (b) Recording by Declarant of a written statement that all sales activity has ceased.



PART FIVE: PROPERTY RIGHTS WITHIN THE COMMUNITY

The nature of living in a planned community, with its wide array of properties and development types and its ongoing development activity, requires the creation of special property rights and provisions to address the needs and responsibilities of the Owners, Declarant, the Association, and others within or adjacent to the community.

Article XI Easements

11.1. Easements in Common Area.

Declarant grants to each Owner a nonexclusive right and easement of use, access, and enjoyment in and to the Common Area, subject to:

- (a) The Governing Documents and any other applicable covenants;
- (b) The Covenant to Share Costs and rights of Persons set forth therein;
- (c) Any restrictions or limitations contained in any deed conveying such property to the Association;
- (d) The Board's right to:
 - (i) adopt Rules and Regulations governing the use and enjoyment of the Common Area, including rules limiting the number of guests who may use the Common Area;
 - (ii) suspend the right of an Owner to use recreational facilities within the Common Area (A) for any period during which any charge against such Owner's Unit remains delinquent, and (B) for a period not to exceed 30 days for a single violation or for a longer period in the case of any continuing violation, of the Governing Documents after notice and a hearing pursuant to the By-Laws;
 - (iii) dedicate or transfer all or any part of the Common Area, subject to such approval requirements as may be set forth in this Declaration;
 - (iv) impose membership requirements and charge admission or other use fees for the use of any recreational facility situated upon the Common Area (such membership requirements, admission or use fees may, in the Board's discretion, differentiate between Members of the Association and other persons entitled to use such facilities pursuant to the Covenant to Share Costs);



(v) permit use of any recreational facilities situated on the Common Area by persons other than Owners, their families, lessees, and guests upon payment of use fees established by the Board and designate other areas and facilities within the Areas of Common Responsibility as open for the use and enjoyment of the public;

(vi) mortgage, pledge, or hypothecate any or all of its real or personal property as security for money borrowed or debts incurred subject to the approval requirements contained in this Declaration; and

(e) The rights of certain Owners to the exclusive use of those portions of the Common Area designated "Exclusive Common Areas," as described in Article XII.

Any Owner may extend his or her right of use and enjoyment to the members of his or her family, lessees, and social invitees, as applicable, subject to reasonable regulation by the Board. An Owner who leases his or her Unit shall be deemed to have assigned all such rights to the lessee of such Unit for the period of the lease.

11.2. Easements of Encroachment.

Declarant grants reciprocal appurtenant easements of encroachment, and for maintenance and use of any permitted encroachment, between each Unit and any adjacent Common Area and between adjacent Units due to the unintentional placement or settling or shifting of the improvements constructed, reconstructed, or altered thereon (in accordance with the terms of these restrictions) to a distance of not more than three feet, as measured from any point on the common boundary along a line perpendicular to such boundary. However, in no event shall an easement for encroachment exist if such encroachment occurred due to willful and knowing conduct on the part of, or with the knowledge and consent of, the Person claiming the benefit of such easement.

11.3. Easements for Utilities, Etc.

(a) Installation and Maintenance. Declarant reserves for Declarant, so long as Declarant owns any property described in Exhibit "A" or "B" of this Declaration, on behalf of Declarant, Declarant's nominees, successors, and assigns, perpetual non-exclusive easements throughout the Properties (but not through a structure) to the extent reasonably necessary for the purpose of:

(i) installing utilities and infrastructure to serve the Properties, walkways, pathways and trails, drainage systems, street lights and signage on property which Declarant owns or within public rights-of-way or easements reserved for such purpose on Recorded plats;



(ii) inspecting, maintaining, repairing, and replacing the utilities, infrastructure, and other improvements described in Section 11.3(a)(i);

(iii) access to read utility meters; and

(iv) access to from the public rights-of-way to any wetland, body of water, or water monitoring site to perform water monitoring and testing.

Notwithstanding anything to the contrary herein, this easement shall not entitle the holders to construct or install any of the foregoing systems, facilities, or utilities over, under or through any existing dwelling on a Unit, and any damage to a Unit resulting from the exercise of this easement shall promptly be repaired by, and at the expense of, the Person exercising the easement. Exercise of this easement shall not unreasonably interfere with the use of any Unit and, except in an emergency, entry onto any Unit shall be made only after reasonable notice to the Owner or occupant.

No utilities may be installed or relocated on the Properties without approval of the Board or as provided by Declarant.

(b) Specific Easements. Declarant also reserve for Declarant the non-exclusive right and power to grant and Record such specific easements as may be necessary, in the sole discretion of Declarant, in connection with the orderly development of any property described in Exhibits "A" and "B." The location of the easement shall be subject to the written approval of the Owner of the burdened property, which approval shall not unreasonably be withheld, delayed or conditioned.

11.4. Easements To Serve Additional Property.

Declarant hereby reserves for Declarant and Declarant's duly authorized agents, successors, assigns, and mortgagees, an easement over the Common Area for the purposes of enjoyment, use, access, and development of the property described in Exhibit "B," whether or not such property is made subject to this Declaration. This easement includes, but is not limited to, a right of ingress and egress over the Common Area for construction of roads and for connecting and installing utilities on such property. Declarant agrees that Declarant and Declarant's successors or assigns shall be responsible for any damage caused to the Common Area as a result of their actions in connection with development of such property.

Declarant further agrees that if the easement is exercised for permanent access to such property and such property or any portion thereof benefiting from such easement is not made



subject to this Declaration, or any other declaration of covenants, conditions, and restrictions under which an owners' association is created or provided for, Declarant, Declarant's successors or assigns shall enter into a reasonable agreement with the Association to share the cost of any maintenance which the Association provides to or along any roadway providing access to such property. The allocation of costs in any such agreement shall be based on the number of residential dwellings or commercial units on the property served by the easement and not subject to this Declaration as a proportion of the total number of residential dwellings within the Properties and on such benefited property.

11.5. Easements for Maintenance, Emergency, and Enforcement.

Declarant grants to the Association easements over the Properties as necessary to enable the Association to fulfill its maintenance responsibilities under Section 7.2. The Association shall also have the right, but not the obligation, to enter upon any Unit for emergency, security, and safety reasons, to perform maintenance and to inspect for the purpose of ensuring compliance with and enforce the Governing Documents. Such right may be exercised by any member of the Board and its duly authorized agents and assignees, and all emergency personnel in the performance of their duties. Except in an emergency situation, entry shall only be during reasonable hours and after notice to the Owner.

11.6. Technology Utility Easements.

Declarant reserves, so long as Declarant owns any property described on Exhibit "A" or "B" of this Declaration, perpetual, non-exclusive easements adjacent to the public rights-of-way throughout the Properties, on behalf of Declarant, and Declarant's nominees, successors and assigns, for the purpose of installing, operating, maintaining, repairing and replacing telephone, cable television, telecommunications, security, and other systems for sending and receiving data and/or other electronic signals ("Technology Utilities"), to serve the Properties and each Unit, such easements shall be exclusive to Declarant until granted or conveyed to a third party, which may be exclusive, perpetual and irrevocable, at which point such easements or interests may be more particularly described in the instrument granting or conveying such easements or interests or on the recorded plats.

Declarant also reserves for Declarant the exclusive right and power to enter into contracts for the construction, installation, and provision of any of the items addressed in this Section and to grant and record in the Public Records such specific easements as may be necessary, in the sole discretion of Declarant, in connection with the orderly development of any property described on Exhibits "A" and "B." Any such contract, agreement, or easement may, in Declarant's sole discretion, grant the exclusive right to access or use of such system, including



the portions of the systems installed on or in the Units, dwellings, and other structures constructed on Units and Common Areas within the Properties.

Any such contract, agreement, or easement entered into by Declarant may require that the Board enter into a bulk rate service agreement for the provision of services offered to all Units within the Properties. In such case, the cost shall be a Common Expense of the Association and shall be assessed as a part of the Base Assessment. If the service provides additional services or benefits to certain Owners or Units at their request, such additional services or benefits shall be paid directly by the Owner to the service provider, or become a Neighborhood Assessment or Specific Assessment, as appropriate and specified in the agreement between the Association and the service provider.

Article XII Exclusive Common Areas

12.1. Purpose.

Certain portions of the Common Area may be designated as Exclusive Common Area and reserved for the exclusive use or primary benefit of Owners and occupants within a particular Neighborhood or Neighborhoods. By way of illustration and not limitation, Exclusive Common Areas may include entry features, recreational facilities, landscaped medians and cul-de-sacs, lakes, and other portions of the Common Area within a particular Neighborhood or Neighborhoods. All costs associated with maintenance, repair, replacement, and insurance of an Exclusive Common Area shall be a Neighborhood Expense allocated among the Owners in the Neighborhood(s) to which the Exclusive Common Areas are assigned.

12.2. Designation.

Initially, any Exclusive Common Area shall be designated as such in the deed conveying such area to the Association or on the subdivision plat relating to such Common Area; provided, any such assignment shall not preclude Declarant from later assigning use of the same Exclusive Common Area to additional Units and/or Neighborhoods, so long as Declarant has a right to subject additional property to this Declaration pursuant to Section 9.1.

Thereafter, a portion of the Common Area may be assigned as Exclusive Common Area and Exclusive Common Area may be reassigned upon approval of the Board and the vote of Members representing a majority of the total Class "A" votes in the Association, including a majority of the Class "A" votes within the Neighborhood(s) affected by the proposed assignment or reassignment. As long as Declarant owns any property subject to this



Declaration or which may become subject to this Declaration in accordance with Section 9.1, any such assignment or reassignment shall also require Declarant's written consent.

12.3. Use by Others.

Upon approval of a majority of Owners of Units within the Neighborhood to which any Exclusive Common Area is assigned, the Association may permit Owners of Units in other Neighborhoods to use all or a portion of such Exclusive Common Area upon payment of reasonable user fees, which fees shall be used to offset the Neighborhood Expenses attributable to such Exclusive Common Area.

Article XIII Party Walls and Other Shared Structures

13.1. General Rules of Law to Apply.

Each wall, fence, driveway, or similar structure built as a part of the original construction on the Units which serves and/or separates any two adjoining Units shall constitute a party structure. To the extent not inconsistent with the provisions of this Section, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions shall apply thereto.

13.2. Maintenance; Damage and Destruction.

The cost of reasonable repair and maintenance of a party structure shall be shared equally by the Owners who make use of the party structure.

If a party structure is destroyed or damaged by fire or other casualty, then to the extent that such damage is not covered by insurance and repaired out of the proceeds of insurance, any Owner who has used the structure may restore it. If other Owners thereafter use the structure, they shall contribute to the restoration cost in equal proportions. However, such contribution will not prejudice the right to call for a larger contribution from the other users under any rule of law regarding liability for negligent or willful acts or omissions.

13.3. Right to Contribution Runs With Land.

The right of any Owner to contribution from any other Owner under this Section shall be appurtenant to the land and shall pass to such Owner's successors-in-title.



13.4. Disputes.

Any dispute arising concerning a party structure shall be handled in accordance with the provisions of Article XIV.

PART SIX: RELATIONSHIPS WITHIN AND OUTSIDE THE COMMUNITY

The growth and success of the Properties as a community in which people enjoy living, working, and playing requires good faith efforts to resolve disputes amicably, attention to and understanding of relationships within the community and with our neighbors, and protection of the rights of others who have an interest in the community.

Article XIV Dispute Resolution and Limitation on Litigation

14.1. Consensus for Association Litigation.

Except as provided in this Section, the Association shall not commence a judicial or administrative proceeding without the approval of Members representing at least 67% of the total Class "A" votes in the Association. This Section shall not apply, however, to (a) actions brought by the Association to enforce the Governing Documents (including, without limitation, the foreclosure of liens); (b) the collection of assessments; (c) proceedings involving challenges to ad valorem taxation; (d) counterclaims brought by the Association in proceedings instituted against it; or (e) actions brought by the Association against any contractor or vendor arising out of a contract for services or supplies between the Association and such contractor or vendor. This Section shall not be amended unless such amendment is approved by the percentage of votes, and pursuant to the same procedures, necessary to institute proceedings as provided above.

14.2. Alternative Method for Resolving Disputes.

Declarant, the Association, its officers, directors, and committee members, all Persons subject to this Declaration, any Builder, and any Person not otherwise subject to this Declaration who agrees to submit to this Article (collectively, "Bound Parties") agree to encourage the amicable resolution of disputes involving the Properties, without the emotional and financial costs of litigation. Accordingly, each Bound Party covenants and agrees to submit those claims, grievances or disputes described in Sections 14.3 ("Claims") to the procedures set forth in Section 14.3 in lieu of filing suit in any court.

14.3. Claims.

Unless specifically exempted in this Section, all Claims arising out of or relating to the interpretation, application or enforcement of the Governing Documents; or the rights, obligations and duties of any Bound Party under the Governing Documents; or relating to the design or construction of improvements on the Properties, shall be subject to the provisions of this Article XIV. Unless all necessary parties otherwise agree, the following list of exemptions **shall not** be Claims and shall not be subject to the provisions of Section 14.4:

(a) any suit by the Association against any Bound Party to enforce the provisions of the Governing Documents;

(b) any suit by the Association to obtain equitable relief (*i.e.*, temporary restraining order, injunction, or specific performance) and such other ancillary relief as the court may deem necessary in order to maintain the status quo and preserve the Association's ability to enforce the provisions of Articles III, Article IV and Article V;

(c) any suit by a Board Party for declaratory or injunctive relief which seeks a determination as to applicability, enforcement, clarification, or interpretation of any provisions of the Declaration;

(d) any suit between Owners, which does not include Declarant or the Association as a party, if such suit asserts a Claim which would constitute a cause of action independent of the Governing Documents if the amount in controversy exceeds \$5,000.00, which amount shall be increased in proportion to increases in the Consumer Price Index for Seattle-Tacoma for All Urban Consumers, All Items, from the date of recordation of this Declaration to the date of any such claim;

(e) any suit in which any indispensable party is not a Bound Party; and

(f) any suit as to which any applicable statute of limitations would expire within 180 days of giving the Notice required by Section 14.4(a), unless the party or parties against whom the Claim is made agree to toll the statute of limitations as to such Claim for such period as may reasonably be necessary to comply with this Article.

However, with the consent of all parties thereto, any of the above exemptions voluntarily may be submitted to the alternative dispute resolution procedures set forth in Section 14.4.



14.4. Mandatory Procedures.

(a) Notice. Any Bound Party having a Claim ("Claimant") against any other Bound Party ("Respondent") (collectively, the "Parties") shall notify each Respondent in writing (the "Notice"), stating plainly and concisely:

- (i) the nature of the Claim, including the Persons involved and Respondent's role in the Claim;
- (ii) the legal basis of the Claim (*i.e.*, the specific authority out of which the Claim arises);
- (iii) Claimant's proposed remedy; and
- (iv) that Claimant will meet with Respondent to discuss in good faith ways to resolve the Claim.

(b) Negotiation and Mediation.

(i) The Parties shall make every reasonable effort to meet in person and confer for the purpose of resolving the Claim by good faith negotiation. If requested in writing, accompanied by a copy of the Notice, the Board may appoint a representative to assist the Parties in negotiation.

(ii) If the Parties do not resolve the Claim within 30 days of the date of the Notice (or within such other period as may be agreed upon by the Parties) ("Termination of Negotiations"), Claimant shall have 30 additional days to submit the Claim to mediation under the auspices of any Local Jurisdiction dispute resolution center or, if the Parties otherwise agree, to an independent agency providing dispute resolution services in the area.

(iii) If Claimant does not submit the Claim to mediation within such time, or does not appear for the mediation, Claimant shall be deemed to have waived the Claim, and Respondent shall be released and discharged from any and all liability to Claimant on account of such Claim; provided, nothing herein shall release or discharge Respondent from any liability to any Person other than the Claimant.

(iv) Any settlement of the Claim through mediation shall be documented in writing by the mediator and signed by the Parties. If the Parties do not settle the Claim within 30 days after submission of the matter to the mediation, or within such time as determined by the mediator, the mediator shall issue a notice of termination of the mediation proceedings



("Termination of Mediation"). The Termination of Mediation notice shall set forth that the Parties are at an impasse and the date that mediation was terminated.

(v) Within five days of the Termination of Mediation, the Claimant shall make a final written settlement demand ("Settlement Demand") to the Respondent, and the Respondent shall make a final written settlement offer ("Settlement Offer") to the Claimant. If the Claimant fails to make a Settlement Demand, Claimant's original Notice shall constitute the Settlement Demand. If the Respondent fails to make a Settlement Offer, Respondent shall be deemed to have made a "zero" or "take nothing" Settlement Offer.

(c) Final and Binding Arbitration.

(i) If the Parties do not agree in writing to a settlement of the Claim within 15 days of the Termination of Mediation, the Claimant shall have 15 additional days to submit the Claim to arbitration in accordance with the Rules of Arbitration contained in Exhibit "D" or such rules as may be required by the agency providing the arbitrator. If not timely submitted to arbitration or if the Claimant fails to appear for the arbitration proceeding, the Claim shall be deemed abandoned, and Respondent shall be released and discharged from any and all liability to Claimant arising out of such Claim; provided, nothing herein shall release or discharge Respondent from any liability to Persons other than Claimant.

(ii) This subsection (c) is an agreement to arbitrate and is specifically enforceable under Washington's applicable arbitration laws. The arbitration award (the "Award") shall be final and binding, and judgment may be entered upon it in any court of competent jurisdiction to the fullest extent permitted under Washington laws.

14.5. Allocation of Costs of Resolving Claims.

Each Party shall bear its own costs, including attorney's fees, and each Party shall share equally all charges rendered by the mediator(s) and all filing fees and costs of conducting the arbitration proceeding ("Post Mediation Costs").

Any Award which is equal to or more favorable to Claimant than Claimant's Settlement Demand shall add Claimant's Post Mediation Costs to the Award, such costs to be borne equally by all Respondents. Any Award which is equal to or less favorable to Claimant than any Respondent's Settlement Offer shall award to such Respondent its Post Mediation Costs, except as otherwise provided in this subsection.



14.6. Enforcement of Resolution.

If the Parties agree to a resolution of any Claim through negotiation or mediation in accordance with Section 14.4 and any Party thereafter fails to abide by the terms of such agreement, or if the Parties agree to accept the Award following arbitration and any Party thereafter fails to comply with such Award, then any abiding or complying Party may file suit or initiate administrative proceedings to enforce such agreement or Award without the need to again comply with the procedures set forth in Section 14.4. In such event, the Party taking action to enforce the agreement or Award shall be entitled to recover from the non-complying Party (or if more than one non-complying Party, from all such Parties pro rata) all costs incurred in enforcing such agreement or Award, including, without limitation, attorneys' fees and court costs.

Article XV Mortgage Provisions

The following provisions are for the benefit of holders, insurers and guarantors of first Mortgages on Units in the Properties. The provisions of this Article apply to both this Declaration and to the By-Laws, notwithstanding any other provisions contained therein.

15.1. Notices of Action.

An institutional holder, insurer, or guarantor of a first Mortgage which provides a written request to the Association (such request to state the name and address of such holder, insurer, or guarantor and the street address of the Unit to which its Mortgage relates, thereby becoming an "Eligible Holder"), will be entitled to timely written notice of:

(a) Any condemnation loss or any casualty loss which affects a material portion of the Properties or which affects any Unit on which there is a first Mortgage held, insured, or guaranteed by such Eligible Holder;

(b) Any delinquency in the payment of assessments or charges owed by a Unit subject to the Mortgage of such Eligible Holder, where such delinquency has continued for a period of 60 days, or any other violation of the Governing Documents relating to such Unit or the Owner or Occupant which is not cured within 60 days;

(c) Any lapse, cancellation, or material modification of any insurance policy maintained by the Association; or

(d) Any proposed action which would require the consent of a specified percentage of Eligible Holders.



15.2. Special FHLMC Provision.

So long as required by the Federal Home Loan Mortgage Corporation, the following provisions apply in addition to and not in lieu of the foregoing. Unless at least 67% of the first Mortgagees or Members representing at least 67% of the total Association vote consent, the Association shall not:

(a) By act or omission seek to abandon, partition, subdivide, encumber, sell, or transfer all or any portion of the real property comprising the Common Area which the Association owns, directly or indirectly (the granting of easements for utilities or other similar purposes consistent with the intended use of the Common Area shall not be deemed a transfer within the meaning of this subsection);

(b) Change the method of determining the obligations, assessments, dues, or other charges which may be levied against an Owner of a Unit (a decision, including contracts, by the Board or provisions of any declaration subsequently Recorded on any portion of the Properties regarding assessments for Neighborhoods or other similar areas shall not be subject to this provision where such decision or subsequent declaration is otherwise authorized by this Declaration);

(c) By act or omission change, waive, or abandon any scheme of regulations or enforcement pertaining to architectural design, exterior appearance or maintenance of Units and the Common Area (the issuance and amendment of architectural standards, Use Restrictions pursuant to Article III, procedures, or Rules and Regulations shall not constitute a change, waiver, or abandonment within the meaning of this provision);

(d) Fail to maintain insurance, as required by this Declaration; or

(e) Use hazard insurance proceeds for any Common Area losses for other than the repair, replacement, or reconstruction of such property.

First Mortgagees may, jointly or singly, pay taxes or other charges which are in default and which may or have become a charge against the Common Area and may pay overdue premiums on casualty insurance policies or secure new casualty insurance coverage upon the lapse of an Association policy, and first Mortgagees making such payments shall be entitled to immediate reimbursement from the Association.

15.3. Other Provisions for First Lien Holders.

To the extent not inconsistent with Washington law:



(a) Any restoration or repair of the Properties after a partial condemnation or damage due to an insurable hazard shall be performed substantially in accordance with this Declaration and the original plans and specifications unless the approval is obtained of the Eligible Holders of first Mortgages on Units to which at least 51% of the votes of Units subject to Mortgages held by such Eligible Holders are allocated.

(b) Any election to terminate the Association after substantial destruction or a substantial taking in condemnation shall require the approval of the Eligible Holders of first Mortgages on Units to which at least 51% of the votes of Units subject to Mortgages held by such Eligible Holders are allocated.

15.4. Amendments to Documents.

The following provisions do not apply to amendments to the constituent documents or termination of the Association as a result of destruction, damage, or condemnation pursuant to Section 15.3(a) and (b), or to the addition of land in accordance with Article IX.

(a) The consent of Members representing at least 67% of the Class "A" votes and of Declarant, so long as Declarant owns any land subject to this Declaration, and the approval of the Eligible Holders of first Mortgages on Units to which at least 67% of the votes of Units subject to a Mortgage appertain, shall be required to terminate the Association.

(b) The consent of Members representing at least 67% of the Class "A" votes and of Declarant, so long as Declarant owns any land subject to this Declaration, and the approval of Eligible Holders of first Mortgages on Units to which at least 51%% of the votes of Units subject to a Mortgage appertain, shall be required materially to amend any provisions of the Declaration, By-Laws, or Articles of Incorporation, or to add any material provisions thereto which establish, provide for, govern, or regulate any of the following:

- (i) voting;
- (ii) assessments, assessment liens, or subordination of such liens;
- (iii) reserves for maintenance, repair, and replacement of the Common Area;
- (iv) insurance or fidelity bonds;
- (v) rights to use the Common Area;



- (vi) responsibility for maintenance and repair of the Properties;
- (vii) expansion or contraction of the Properties or the addition, annexation, or withdrawal of Properties to or from the Association;
- (viii) boundaries of any Unit;
- (ix) leasing of Units;
- (x) imposition of any right of first refusal or similar restriction of the right of any Owner to sell, transfer, or otherwise convey his or her Unit;
- (xi) establishment of self-management by the Association where professional management has been required by an Eligible Holder; or
- (xii) any provisions included in the Governing Documents which are for the express benefit of holders, guarantors, or insurers of first Mortgages on Units.

15.5. No Priority.

No provision of this Declaration or the By-Laws gives or shall be construed as giving any Owner or other party priority over any rights of the first Mortgagee of any Unit in the case of distribution to such Owner of insurance proceeds or condemnation awards for losses to or a taking of the Common Area.

15.6. Notice to Association.

Upon request, each Owner shall be obligated to furnish to the Association the name and address of the holder of any Mortgage encumbering such Owner's Unit.

15.7. Failure of Mortgagee To Respond.

Any Mortgagee who receives a written request from the Board to respond to or consent to any action shall be deemed to have approved such action if the Association does not receive a written response from the Mortgagee within 30 days of the date of the Association's request, provided such request is delivered to the Mortgagee by certified or registered mail, return receipt requested.



15.8. Construction of Article XV.

Nothing contained in this Article shall be construed to reduce the percentage vote that must otherwise be obtained under this Declaration, the By-Laws, or Washington law for any of the acts set out in this Article.

15.9. Amendment by Board.

Should the Federal National Mortgage Association or FHLMC subsequently delete any of its respective requirements which necessitate the provisions of this Article or make any such requirements less stringent, the Board, without approval of the Owners, may record an amendment to this Article to reflect such changes.

PART SEVEN: CHANGES IN THE COMMUNITY

Communities such as Skagit Highlands are dynamic and constantly evolving as circumstances, technology, needs and desires, and laws change, as the residents age and change over time, and as the surrounding community changes. The Properties and its Governing Documents must be able to adapt to these changes while protecting the things that make Skagit Highlands unique.

Article XVI Changes in Ownership of Units

Any Owner desiring to sell or otherwise transfer title to his or her Unit shall give the Board at least seven days' prior written notice of the name and address of the purchaser or transferee, the date of such transfer of title, and such other information as the Board may reasonably require. Each transferee of a Unit shall, within seven days of taking title to a Unit, confirm that the information previously provided by the transferor is complete and accurate. The transferor shall continue to be jointly and severally responsible with the transferee for all obligations of the Owner of the Unit, including assessment obligations, until the date upon which such notice is received by the Board, notwithstanding the transfer of title.

Article XVII Changes in Common Area

17.1. Condemnation.

If any part of the Common Area shall be taken (or conveyed in lieu of and under threat of condemnation by the Board acting on the written direction of Members representing at least 67% of the total Class "A" votes in the Association and of Declarant, as long as Declarant owns any property subject to the Declaration or which may be made subject to the Declaration in accordance with Section 9.1) by any authority having the power of condemnation or eminent domain, each Owner shall be entitled to written notice of such taking or conveyance prior to



disbursement of any condemnation award or proceeds from such conveyance. Such award or proceeds shall be payable to the Association to be disbursed as follows:

If the taking or conveyance involves a portion of the Common Area on which improvements have been constructed, the Association shall restore or replace such improvements on the remaining land included in the Common Area to the extent available, unless within 60 days after such taking Declarant, so long as a Declarant owns any property subject to the Declaration or which may be made subject to the Declaration in accordance with Section 9.1, and Members representing at least 67% of the total Class "A" vote of the Association shall otherwise agree. Any such construction shall be in accordance with plans approved by the Board. The provisions of Section 7.3(c) regarding funds for restoring improvements shall apply.

If the taking or conveyance does not involve any improvements on the Common Area, or if a decision is made not to repair or restore, or if net funds remain after any such restoration or replacement is complete, then such award or net funds shall be disbursed to the Association and used for such purposes as the Board shall determine.

17.2. Partition.

Except as permitted in this Declaration, the Common Area shall remain undivided, and no Person shall bring any action partition of any portion of the Common Area without the written consent of all Owners and Mortgagees. This Section shall not prohibit the Board from acquiring and disposing of tangible personal property nor from acquiring and disposing of real property which may or may not be subject to this Declaration.

17.3. Transfer or Dedication of Common Area.

The Association may transfer, dedicate, or grant easements over portions of the Common Area to any other local, state, or federal governmental or quasi-governmental entity without a vote of the Owners subject to compliance with Section 15.2, if applicable.

Article XVIII Amendment of Declaration

18.1. By Declarant.

In addition to specific amendment rights granted elsewhere in this Declaration, until conveyance of the first Unit to a Person other than a Builder, Declarant may unilaterally amend this Declaration for any purpose. Thereafter, Declarant may unilaterally amend this Declaration if such amendment is necessary (a) to bring any provision into compliance with any applicable



governmental statute, rule, regulation, or judicial determination; (b) to enable any reputable title insurance company to issue title insurance coverage on the Units; (c) to enable any institutional or governmental lender, purchaser, insurer or guarantor of mortgage loans, including, for example, the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, to make, purchase, insure or guarantee mortgage loans on the Units; or (d) to satisfy the requirements of any local, state or federal governmental agency. However, any such amendment shall not adversely affect the title to any Unit unless the Owner shall consent in writing.

In addition, so long as Declarant owns property described in Exhibits "A" or "B" for development as part of the Properties, Declarant may unilaterally amend this Declaration for any other purpose, provided the amendment has no material adverse effect upon any right of any Owner or unless such Owner shall consent in writing.

18.2. By Members.

Except as otherwise specifically provided above and elsewhere in this Declaration, this Declaration may be amended only by the affirmative vote or written consent, or any combination thereof, of Members representing 67% of the total Class "A" votes in the Association, including 67% of the Class "A" votes held by Members other than Declarant, and Declarant's consent, so long Declarant owns any property subject to this Declaration or which may become subject to this Declaration in accordance with Section 9.1. In addition, the approval requirements set forth in Article XV shall be met, if applicable.

Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

18.3. Validity and Effective Date.

No amendment may remove, revoke, or modify any right or privilege of Declarant or the Class "B" Member without Declarant's written consent or the Class "B" Member, respectively (or the assignee of such right or privilege).

If an Owner consents to any amendment to this Declaration or the By-Laws, it will be conclusively presumed that such Owner has the authority to consent, and no contrary provision in any Mortgage or contract between the Owner and a third party will affect the validity of such amendment.



EXHIBIT "A"

Land Subject to Master Plan

LOTS 1 THROUGH 10, INCLUSIVE, OF THAT CERTAIN BOUNDARY LINE ADJUSTMENT SURVEY APPROVED AUGUST 18, 2003 AND RECORDED AUGUST 18, 2003 UNDER AUDITOR'S FILE NO. 200308180300 AND AS AMENDED AND APPROVED JUNE 8, 2005 AND RECORDED JUNE 8, 2005 UNDER AUDITOR'S FILE NUMBER 200506080122;

SAID LOTS BEING PORTIONS OF SECTIONS 14, 15, 22 AND 23, TOWNSHIP 34 NORTH, RANGE 4 EAST, W.M.;

SITUATE IN THE CITY OF MOUNT VERNON, COUNTY OF SKAGIT, STATE OF WASHINGTON.



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EXHIBIT "B"

Land Initially Submitted to Declaration

Neighborhood Designation: Skagit Highlands West

LOTS 1 THROUGH 45, AND TRACTS 900 THROUGH 909 OF SKAGIT HIGHLANDS DIVISION 1, ACCORDING TO THE PLAT THEREOF RECORDED AT SKAGIT COUNTY AUDITOR'S FILE NO. 200508160182, RECORDS OF SKAGIT COUNTY, WASHINGTON

(which property is a plat of the real property known as Lot 4 of that certain Boundary Line Adjustment Survey approved August 18, 2003 and recorded August 18, 2003 under Skagit County Auditor's File No. 20038180300, and being a portion of Sections 14, 15, 22 and 23, Township 34 North, Range 4 East, W.M., and Lot 154, Thunderbird East Fifth Addition, situated in the City of Mount Vernon, County of Skagit, State of Washington).



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EXHIBIT "C"

Initial Use Restrictions

The following Use Restrictions shall apply to all of the Properties until such time as they are amended, modified, repealed, or limited by the Association pursuant to Article III of the Declaration.

(a) General. The Properties shall be used only for residential, recreational, and related purposes (which may include, without limitation, offices for any property manager retained by the Association or business offices for Declarant, approved Builders, or the Association consistent with this Declaration and any Supplemental Declaration). Any Supplemental Declaration or additional covenants imposed on the property within any Neighborhood may impose stricter standards than those contained in the Declaration and the Association shall have standing and the power to enforce such standards.

(b) Restrictions. The following are prohibited within the Properties unless expressly authorized by, and then subject to such conditions as may be imposed by, the Board:

(i) Temporary Structures Prohibited. No basement, tent, shack, garage, barn or other outbuilding or buildings or any structure of a temporary or moveable character erected or placed on the Properties shall at any time be used as living quarters except as specifically authorized by the PIC.

(ii) Nuisances. No noxious or undesirable thing, activity or use of any Lot in the Properties shall be permitted or maintained. If the PIC shall determine that a thing or use of any Lot or any part of the Properties is undesirable or noxious, such determination shall be conclusive. The PIC may recommend and the Board may direct that steps be taken as is reasonably necessary including, without limitation, the institution of legal action or the imposition of fines in the manner authorized by RCW Chapter 64.38, to abate any activity, remove anything or terminate any use of property which is determined by the PIC or described in this Declaration to constitute a nuisance.

(iii) Limitation on Animals. No animal, livestock or poultry of any kind shall be raised, bred or kept on any Lot, except cats, dogs, birds or fish may be kept if they are not kept, bred or maintained for any commercial purpose, and they shall not be kept in numbers or under conditions reasonably objectionable in a closely built-up residential community. Animals shall not be allowed to roam loose outside the limits of any Lot on which they are kept. Any dogs must



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be kept so as to minimize excessive noise from barking or otherwise shall be considered a nuisance according to the terms of this Declaration.

(iv) Limitation on Signs. The Association may regulate or prohibit all signs, to the full extent allowed by State law. The Association's sign rules will limit the number of signs on any Unit to one sign, not to exceed 24 inches by 24 inches, and may establish any other guidelines or restrictions including duration, location and appearance of signs. In addition to other rights reserved to Declarant in the Declaration, Declarant hereby reserves for itself and all Builders, so long as Declarant or any Builders own any Lot, the right to maintain upon the Properties such signs as in the opinion of Declarant are required, convenient or incidental to the merchandising and sale of the Lots.

(v) Completion of Construction Projects. The work of construction of all building and structures shall be pursued diligently and continuously from commencement of construction until the structures are fully completed and painted. All structures shall be completed as to external appearance, including finish painting, within one year of the date of commencement of construction, except such construction as is performed by Declarant, which shall be exempt from the limitations contained in this Section. Front yard landscaping must be completed within 90 days of completion of a Unit, and rear yard landscaping must be completed within one year of completion of a Unit. Except with the approval of the Board, no person shall reside on the premises of any Unit until such time as the improvements to be erected thereon in accordance with the plans and specifications approved by the Board have been completed.

(vi) Unsightly Conditions. No unsightly conditions shall be permitted to exist on any Unit. Unsightly conditions shall include, without limitation, laundry hanging or exposed in view for drying, litter, trash, junk or other debris; inappropriate, broken or damaged furniture or plants; non-decorative gear, equipment, cans, bottles, ladders, trash barrels and other such items; and no awnings, air conditioning units, heat pumps or other projections shall be placed on the exterior walls of any Unit unless prior written approval shall have been obtained from the PIC.

(vii) Antennas, Satellite Reception. Satellite dishes of no more than one meter in diameter or diagonal measurement that are visually shielded from most of the view of the residents traveling upon streets located within the Properties are permitted on the Properties without PIC approval. All over-the-air reception devices shall comply with the Residential Design Guidelines or other applicable rules adopted by the Association pertaining to the means, method and location of antennas and satellite dishes. PIC approval will be consistent with FCC regulations.



(viii) Setbacks. No building shall be located on any Unit nearer to the front lot line or nearer to the side street than the minimum building setback lines adopted by the governmental authority with jurisdiction over the Properties.

(ix) Roofs. Roofs on all buildings must be finished with materials approved for use by the PIC. More than one type of material may be approved.

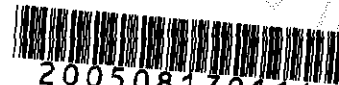
(x) Fences, Walls. In order to preserve the aesthetics of the Properties, no fence, wall or hedge shall be erected or placed on any Lot unless prior written approval has been obtained from the PIC. The design and color of any fence on the Properties, whether visible to the other Units or not, shall be constructed and finished according to the standard fence detail, as such detail is initially designated by the PIC. If a standard fence detail is attached to this Declaration, such fence detail and any required color for a fence may be modified by the PIC.

(xi) Residential Use Only. Except for Declarant's or a Builder's temporary sales, construction offices and model homes, no Lot shall be used for other than one detached single-family residential dwelling, with driveway parking used for not more than three cars.

(xii) Underground Utilities Required. Except for any facilities or equipment provided by the Developer or any utility, all electrical service, telephone lines and other outdoor utility lines shall be placed underground.

(xiii) Sales and Construction Facilities. Notwithstanding any other provision in this Declaration to the contrary, it is expressly permissible for Declarant, a Builder, and their agents, employees or nominees, to maintain on any portion of the Properties owned by Declarant, a Builder or on the Common Areas such facilities as the they may reasonably feel are required, convenient or incidental to the construction and/or sales of Units or improvements thereon. Declarant may permit, in writing, an individual Owner or third party purchaser to maintain temporary equipment and construction material on the Owner's Lot when the Declarant feels the same is reasonably required, convenient or incidental to construction activities for improvement of the Unit.

(xiv) Drainage Waters. Following original grading of the roads and ways of the Properties, no drainage waters shall be diverted or blocked from their natural course so as to discharge upon any public road rights-of-way. The Owner of any Unit, prior to making any alteration in the drainage system, must make application to and receive approval from the applicable governmental jurisdiction. Any enclosing of drainage waters in culverts or drains or rerouting thereof across any Unit as may be undertaken by or for the Owner of any Unit shall be done by and at the expense of such Owner.



(xv) NBA Restrictions and Maintenance. All areas designated on the Plat as Sensitive Area, Buffer, Natural Buffer Area, Wetland or Wetland Buffer (collectively, "NBA") shall be left permanently undisturbed in a substantially natural state. No clearing, grading, filling, building construction or placement, or road construction of any kind shall occur within these areas, except the activities approved by the Local Jurisdiction. Some activities that may be permitted are: (1) underground utility lines and drainage discharge swales may cross such areas, utilizing the shortest alignment possible if and only if no feasible alignment is available which would avoid such a crossing; (2) fences, when the NBA and its buffer are not detrimentally affected; and (3) removal of hazardous vegetation by the Owner of a Unit on which a NBA is located. The Association shall be responsible for operating, maintaining and restoring the condition of the NBA in the event any unauthorized disturbance occurs; however, in the event that this disturbance is determined to be the fault of a party, the Association may pursue a claim for reimbursement of damages to the NBA from the party disturbing the area.

(xvi) Deviation by Consent of Declarant. Declarant hereby reserve the right to enter into an agreement with the Owner of any Unit (without the consent of the Owner of any other Unit) to deviate from the conditions, restrictions, limitations or agreements contained in this Declaration. Any deviation shall be manifested in an agreement in writing and shall not constitute a waiver of any such condition; restriction, limitation, or agreement as to the remaining Lots located on the Properties; and the condition, restriction, limitation or agreement waived by Declarant shall remain fully enforceable as to all other Lots located in the Properties.

(xvii) Timeshares. No operation of a timesharing, fraction-sharing, or similar program whereby the right to exclusive use of the Unit rotates among participants in the program on a fixed or floating time schedule over a period of years, is permitted. However, the Declarant may operate such a program and may permit other developers of property within Skagit Highlands to operate such a program.

(xviii) Conversion of Carports or Garages. Conversion of any carport, garage, attic, or other unfinished space, other than a basement, to finished space for use as an apartment or other integral part of the living area on any Unit is prohibited.

(xix) Irrigation Systems. No sprinkler or irrigation systems or wells of any type may draw upon water from lakes, creeks, streams, rivers, ponds, wetlands, canals, or other ground or surface waters within the Properties, except that Declarant and its designees shall have the exclusive right to draw water from such sources and to reduce the level of such bodies of water, if and to the extent allowed by the Permits.



(xx) Burning. No open-air burning or use of wood stoves is permitted, except in compliance with Local Jurisdiction Ordinances. However, outdoor cooking facilities, such as barbeques, are permissible subject to rules, regulations, and Local Jurisdiction Ordinances.

(c) Street Trees. Street Trees are those trees planted by Declarant, or at the Declarant's direction, to comply with the requirements contained in the Plat. Street Trees may be located on Units near the public right of ways that lie within and along the boundaries of the Plat. Street Trees that are located within Common Areas are owned by the Association. A pre-existing tree or a tree planted by the Declarant on a Unit at the time it is purchased by an Owner is considered a Street Tree. Any tree located within twenty (20) feet of a public right of way (whether such right of way is located within or outside the Plat), shall be presumed to be a Street Tree subject to the restrictions contained herein, unless the Association, the Declarant or the Local Jurisdiction confirm otherwise in writing to the Owner.

(i) Easement Granted. The Association, the Declarant (and any Builder who has posted a bond related to the planting, maintenance or replacement of Street Trees with any government jurisdiction, and who has agreed to carry out the Declarant's duties as they pertain to Street Trees – who for the purpose of this Section may exercise the Declarant's rights related to Street Trees) are granted an easement to place, care for and maintain Street Trees on each Unit on the Properties, in locations adjacent to the public right of ways and sidewalks, whether such public right of ways are located along the front, side or back boundary of a Unit. The easement granted herein shall extend onto a Unit for a distance sufficient for a Street Tree (of a variety approved by the Local Jurisdiction or its successor) to be planted, maintained and pruned in manner consistent with good nursery practices. The Association and the Declarant are also granted such temporary easements that are needed to reach the location of any Street Tree, across any Unit or Common Areas on the Properties.

(ii) Responsibility for Planting and Maintenance of Street Trees. The Declarant shall, in their sole discretion (but consistent with the requirements of the Local Jurisdiction), plant the Street Trees in such locations on the Units along the right of ways and in the Common Areas that the Declarant determines. The Owners and the Association shall have primary responsibility for the maintenance of the Street Trees after they are planted. The division of responsibility between the Owners and the Association for different aspects of maintenance of the Street Trees may be established by rule. The Owners and the Association shall provide such maintenance to the Street Trees that is appropriate, based upon good nursery practices and requirements imposed by the Declarant or the Local Jurisdiction. The Owners and the Association shall be prohibited from (1) voting to abandon or ceasing the maintenance of the Street Trees, or (2) removing or altering (other than appropriate pruning) the Street Trees without permission of Declarant, until such date that the Declarant's performance and



maintenance bonds posted with any governmental jurisdiction related to the Street Trees is released and fully exonerated, without charge or reduction, or upon the bonds' forfeiture.

(iii) Remedies for Failure to Maintain Street Trees. In the event that any Owner and the Association fail to maintain the Street Trees, a Declarant may elect to maintain the Street Trees and may charge the Association and the Owners, as a special assessment, the cost of such maintenance. The special assessment arising under this section shall be a lien on the Properties in favor of Declarant, which Declarant may enforce (in place of the Association) in the manner described in the Declaration. In the alternative, Declarant may elect to charge any sums deducted from the Declarant's performance bond as a special assessment against the Association and the Owners, impose the special assessment as a lien on the Properties in favor of Declarant, and enforce such special assessment (in place of the Association) in the manner described in the Declaration. This provision may not be amended without the permission of Declarant, until the Declarant's performance and maintenance bonds posted with any governmental jurisdiction related to the Street Trees are released and fully exonerated, without charge or reduction, or such bonds are forfeited.

(iv) Remedies Upon Removal or Alteration of Street Trees. In the event that an Owner removes or alters inappropriately a Street Tree without written permission of a Declarant (until the Declarant's performance and maintenance bonds are released or forfeited, and then the Association), the removal shall be a violation of this Declaration and of RCW 64.12.030. Declarant, (until Declarant's performance and maintenance bonds are released in full without claim, and then the Association), may bring an action to restrain the removal of any Street Tree, or for damages arising from such removal, including such additional, treble damages and attorney's fees that are available under this Declaration or state law.

(v) Termination or Alteration of Restrictions on Removal of Street Trees. Declarant's rights and duties described herein shall cease and automatically terminate upon (1) release in full, without claims, of the Declarant's performance and maintenance bonds, (2) recovery of compensation by Declarant for all sums deducted from the bond, or (3) a date six years from the date of any bond forfeiture, whichever event occurs first. After Declarant's performance and maintenance bonds are released or forfeited, and the Declarant has received the full exoneration of the bonds without claims, or compensation for any payments made from the bonds, the Association may apply to the Local Jurisdiction or its successor for approval to terminate or alter the restrictions imposed upon the removal or alteration of Street Trees described in this Section. Such application may be made if a majority of the Owners approve of the Association's application for termination or alteration of the Street Tree restrictions. Upon written notification of the termination or alteration of the restrictions upon Street Trees contained herein, the Association shall record a copy of the written notice in the Recorder's Office of Skagit County. Upon recordation of such notice, the provisions of this related to Street Trees shall terminate or be amended in the manner described in the notice.



EXHIBIT "D"

Rules of Arbitration

1. Claimant shall submit a Claim to arbitration under these Rules by giving written notice to all other Parties stating plainly and concisely the nature of the Claim, the remedy sought and Claimant's submission of the Claim to arbitration ("Arbitration Notice").

2. The Parties shall select arbitrators ("Party Appointed Arbitrators") as follows: all the Claimants shall agree upon one Party Appointed Arbitrator, and all the Respondents shall agree upon one Party Appointed Arbitrator. The Party Appointed Arbitrators shall, by agreement, select one neutral arbitrator ("Neutral") so that the total arbitration panel ("Panel") has three arbitrators.

3. If the Panel is not selected under Rule 2 within 45 days from the date of the Arbitration Notice, any party may notify the nearest chapter of The Community Associations Institute, for any dispute arising under the Governing Documents, or the JAMS/Endispute, or such other independent body providing arbitration services, for any dispute relating to the design or construction of improvements at the Properties, which shall appoint one Neutral ("Appointed Neutral"), notifying the Appointed Neutral and all Parties in writing of such appointment. If either agency is unavailable or unable to provide such arbitration services, the Association or any Party may apply to any court of competent jurisdiction to appoint an arbitrator in accordance with Washington law. The Appointed Neutral shall thereafter be the sole arbitrator and any Party Appointed Arbitrators or their designees shall have no further duties involving the arbitration proceedings.

4. No person may serve as a Neutral in any arbitration in which that person has any financial or personal interest in the result of the arbitration. Any person designated as a Neutral or Appointed Neutral shall immediately disclose in writing to all Parties any circumstance likely to affect impartiality, including any bias or financial or personal interest in the outcome of the arbitration ("Bias Disclosure"). If any Party objects to the service of any Neutral or Appointed Neutral after receipt of that Neutral's Bias Disclosure, such Neutral or Appointed Neutral shall be replaced in the same manner in which that Neutral or Appointed Neutral was selected.

5. The Appointed Neutral or Neutral, as the case may be ("Arbitrator") shall fix the date, time and place for the hearing. The place of the hearing shall be within the Properties unless otherwise agreed by the Parties. In fixing the date of the hearing, or in continuing a



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hearing, the Arbitrator shall take into consideration the amount of time reasonably required to determine Claimant's damages accurately.

6. Any Party may be represented by an attorney or other authorized representative throughout the arbitration proceedings. In the event the Respondent fails to participate in the arbitration proceeding, the Arbitrator may not enter an Award by default, but shall hear Claimant's case and decide accordingly.

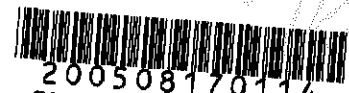
7. All persons who, in the judgment of the Arbitrator, have a direct interest in the arbitration are entitled to attend hearings. The Arbitrator shall determine any relevant legal issues, including whether all indispensable parties are Bound Parties or whether the claim is barred by the statute of limitations.

8. There shall be no stenographic record of the proceedings.

9. The hearing shall be conducted in whatever manner will, in the Arbitrator's judgment, most fairly and expeditiously permit the full presentation of the evidence and arguments of the Parties. The Arbitrator may issue such orders as it deems necessary to safeguard rights of the Parties in the dispute without prejudice to the rights of the Parties or the final determination of the dispute.

10. If the Arbitrator decides that it has insufficient expertise to determine a relevant issue raised during arbitration, the Arbitrator may retain the services of an independent expert who will assist the Arbitrator in making the necessary determination. The scope of such professional's assistance shall be determined by the Arbitrator in the Arbitrator's discretion. Such independent professional must not have any bias or financial or personal interest in the outcome of the arbitration, and shall immediately notify the Parties of any such bias or interest by delivering a Bias Disclosure to the Parties. If any Party objects to the service of any professional after receipt of a Bias Disclosure, such professional shall be replaced by another independent licensed professional selected by the Arbitrator.

11. No formal discovery shall be conducted in the absence of express written agreement among all the Parties. The only evidence to be presented at the hearing shall be that which is disclosed to all Parties at least 30 days prior to the hearing; provided, no Party shall deliberately withhold or refuse to disclose any evidence which is relevant and material to the Claim, and is not otherwise privileged. The Parties may offer such evidence as is relevant and material to the Claim, and shall produce such additional evidence as the Arbitrator may deem necessary to an understanding and determination of the Claim. The Arbitrator shall be the sole judge of the relevance and materiality of any evidence offered, and conformity to the legal rules



of evidence shall not be necessary. The Arbitrator shall be authorized, but not required, to administer oaths to witnesses.

12. The Arbitrator shall declare the hearings closed when satisfied the record is complete.

13. Unless requested by the Arbitrator, there will be no posthearing briefs.

14. The Award shall be rendered immediately following the close of the hearing, if possible, and no later than 14 days from the close of the hearing, unless otherwise agreed by the Parties. The Award shall be in writing, shall be signed by the Arbitrator and acknowledged before a notary public. If the Arbitrator believes an opinion is necessary, it shall be in summary form.

15. If there is more than one arbitrator, all decisions of the Panel and the Award shall be by majority vote.

16. Each Party agrees to accept as legal delivery of the Award the deposit of a true copy in the mail addressed to that Party or its attorney at the address communicated to the Arbitrator at the hearing.

