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DESCHUTES COUNTY CLERK

CERTIFICATE PAGE



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**DECLARATION OF
COVENANTS, CONDITIONS, AND RESTRICTIONS
FOR THE CLIFFS OF REDMOND, A PLANNED COMMUNITY
FOR PERSONS AGE 55 AND OLDER**

201-

THIS DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS OF THE CLIFFS OF REDMOND (the "Declaration") is made this 3rd day of February, 2003, by Tri-County Investors II, an Oregon partnership ("Declarant").

Recitals:

Declarant owns all the real property and improvements thereon located in the City of Redmond, County of Deschutes, State of Oregon, described on Exhibit A" (the "Property"). All capitalized terms used herein shall have the meanings attributed to them in Article I hereof.

Declarant intends to develop the Property as a planned development for persons age 55 and older, which shall be called The Cliffs of Redmond, and to impose mutually beneficial covenants, conditions, restrictions, easements, assessments and liens on the property under a comprehensive general plan of improvement and development for the benefit of all of the Owners, the lots and the Common Area within The Cliffs of Redmond.

The Cliffs of Redmond is a platted subdivision and planned unit development of forty-four (44) Lots with Common Area. The initial development subject to this Declaration consists of forty-four (44) residential Lots. Declarant reserves the right to develop additional adjacent property and to subject it to the terms and provisions of this Declaration, the Articles, and the Bylaws, as the same may be amended or supplemented. Declarant may annex all or a portion of such property in one or more supplemental declarations.

Declarant deems it desirable for the preservation of the values and amenities in The Cliffs of Redmond to create a non-profit corporation, to which shall be delegated and assigned the powers and authority to own, maintain and administer the Association, the Common Area, and certain facilities; to administer and enforce the covenants, conditions, and restrictions of this Declaration; and to collect and disburse the assessments and charges hereinafter imposed.

NOW, THEREFORE, Declarant declares that the Property shall be held, transferred, sold, conveyed and occupied subject to the provisions of the Oregon Planned Community

Act, ORS 94.550, *et seq.*, and to the following covenants, conditions, restrictions, easements, charges and liens, which shall run with the land, which shall be binding upon all parties having or acquiring any right, title or interest in the Property or any part thereof, and which shall inure to the benefit of the association and each Lot Owner.

ARTICLE 1

DEFINITIONS

1.1 "Architectural Review Committee" or "ARC" shall mean and refer to Declarant until the Turnover Meeting, as defined in Section 8.2 hereof, has been held and thereafter shall refer to the Board of Directors unless the Board has appointed a separate body to carry out the functions described in Article 6 hereof, in which case "Architectural Review Committee" or "ARC" shall refer to the body so appointed.

1.2 "Articles" shall mean the Articles of Incorporation of The Cliffs of Redmond Homeowners Association, an Oregon non-profit corporation, not a political body, as filed with the Oregon Corporation Commissioner.

1.3 "Association" shall mean and refer to The Cliffs of Redmond Homeowners Association, an Oregon non-profit corporation, its successors and assigns.

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

1.5 "Bylaws" shall mean and refer to the Bylaws of the Association.

1.6 "Common Area" shall mean and refer to that area of land shown on the recorded Plat, which is not included within the boundaries of a platted lot, which area has been subjected to this Declaration, including any improvements thereon, *i.e.*, streets, sidewalks, fences, landscaping, lighting fixtures, sewer, water, electrical and cable lines, which is intended to be devoted to the common use and enjoyment of the Members or for preservation of natural features; and, if Declarant annexes additional property to the Association and subjects it to the terms and provisions of this Declaration, the Articles and the Bylaws, that area of land shown, including any improvements thereon, which is intended to be devoted to the common use and enjoyment of the Members or the preservation of natural features.

1.7 "Declarant" shall mean and refer to Tri-County Investors II, LLC, its successors or assigns, or any successor or assign to all or the remainder of its interest in the development of the Property.

1.8 "Family" means an individual or two or more persons related by blood, marriage, legal adoption or legal guardianship living together as one housekeeping unit using a common kitchen and providing lodging to not more than these additional unrelated persons, or a group of not more than five unrelated persons living together as one housekeeping unit using a common kitchen. The term family shall also include a "housesitter" who resides in the residence rent-free to safeguard and maintain the house during the owners' absence. The Association shall be given the names of all unrelated persons living in the residence, including a housesitter, and the intended length of stay.

1.9 "Declaration" shall mean the covenants, conditions, restrictions, and all other provisions set forth in this Declaration of Covenants, Conditions and Restrictions for The Cliffs of Redmond Homeowners Association.

1.10 "General Plan of Development" shall mean Declarant's general plan of development of the Property, as approved by appropriate governmental agencies, as such plan may be amended from time to time.

1.11 "Home" shall mean and refer to any portion of a structure situated on a Lot, which portion is designed and intended for use and occupancy as a residence by a family or household.

1.12 "Living Unit" shall mean and refer to any portion of a structure situated on a Lot or Lots, which portion is designed and intended for use and occupancy as a residence by a single family or household.

1.13 "Lot" shall mean and refer to each and any lot which is shown on the Plat and which has been subject to this Declaration and, if Declarant annexes any additional property and subjects it to this Declaration, the Articles and the Bylaws, each and any of such lots shall be deemed a "Lot;" provided, however, that "lot" shall not include any area, lot or tract that is designated for use or defined as Common Area on the Plat, in the Declaration or in any supplemental declaration annexing additional property to the Association and subjecting it to this Declaration, the Articles and the Bylaws.

1.14 "Members" shall mean and refer to Owners, who by virtue of their ownership of a Lot, are members of the Association.

1.15 "Occupant" shall mean and refer to the occupant of a Home who shall be either the Owner, a lessee or any other person authorized by the Owner to occupy the premises.

1.16 "Owner" shall mean and refer to the owner of record, whether one (1) or more persons or entities, of the fee simple title to any Lot or to a purchaser in possession under a land sale contract. The foregoing does not include persons or entities that hold an interest in any Lot merely as security for the performance of an obligation.

1.17 "Plat" shall mean and refer to the plat for The Cliffs of Redmond, which has been recorded in the County of Deschutes and which depicts the Lots and Common Area, as well as adjacent property, with respect to which Declarant is reserving the right to annex to the Association and to subject to this Declaration, the Articles and the Bylaws.

1.18 "Property" shall mean and refer to all real property that is subject to this Declaration, including Lots, the Common Area Tract and all improvements located thereon, as more particularly set forth on Exhibit "A."

1.19 "Rules and Regulations" shall mean and refer to the documents containing rules, regulations and policies adopted by the Board of the Association or the ARC, as such documents may be from time to time amended.

1.20 "Tracts" or "Common Area Tracts" shall mean and refer to those parcels of land that are not located within the boundaries of lots or streets which are defined herein as Common Area, and those so designated on a recorded plat for any additional property annexed to the Association and subjected to this Declaration, the Articles and the Bylaws.

1.21 "The Cliffs of Redmond" shall mean the Lots and Common Area described on the Plat or on any recorded plat for any additional property annexed to the Association and subjected to this Declaration, the Articles and the Bylaws.

1.22 "The Cliffs of Redmond Homeowners Association" is an Oregon non-profit corporation, a private entity not a political body, membership in which is held by all Owners of Homes in The Cliffs of Redmond.

ARTICLE 2

PROPERTY SUBJECT TO THIS DECLARATION

The real property that is and that shall be held, transferred, sold, conveyed and occupied subject to this Declaration is located in the City of Redmond, Deschutes County, Oregon, and is shown on the Plat, which has been filed in the plat records of Deschutes County, Oregon, and which is also described on Exhibit "A."

ARTICLE 3

OWNERSHIP AND EASEMENTS

3.1 Non-Severability. The interest of each Owner in the use and benefit of the Common Area shall be appurtenant to the Lot owned by the Owner. No Lot shall be conveyed by any Owner separately from the interest in the Common Area. Any conveyance of any Lot shall automatically transfer the right to use the Common Area without the necessity of express reference thereto in the instrument of conveyance. There shall be no judicial partition of the Common Area. Each Owner, whether by deed, gift, devise or operation of law, for his own benefit and for the benefit of all other Owners, specifically waives and abandons all rights, interests and causes of action for judicial partition of any interest in the Common Area and agrees that no action for judicial partition shall be instituted, prosecuted or reduced to judgment. The ownership interest in the Common Area and Lots described in this Article 3 shall be subject to the easements granted and reserved in this Declaration. Each of the easements reserved or granted herein shall be deemed to be established upon the recordation of this Declaration and thenceforth shall be deemed to be covenants running with the land for the use and benefit of the Owners and their Lots and shall be superior to all other encumbrances applied against or in favor of any portion of The Cliffs of Redmond.

3.2 Ownership of Lots. Title to each Lot in The Cliffs of Redmond shall be conveyed in fee to an Owner. If more than one (1) person and/or entity owns an undivided interest in the same Lot, such person and/or entity shall constitute one (1) Owner. Ownership and occupancy shall be subject to all rules and regulations related to ownership within a residential area approved for occupancy by older adults. The Declarant reserves the right to establish such rules and regulations in conformance with applicable federal and state statutes and regulations. All ownership and conveyances shall be subject to those rules which will be recorded by separate legal documents.

3.3 Ownership of Common Areas. Title to any Common Area shall be conveyed to the Association no later than sixty (60) days after eighty percent (80%) of the Lots shown on the Plat have been conveyed to purchasers and home construction completed thereon, or seven (7) years from the date of this Declaration, whichever is earlier. If Declarant annexes additional property to the Association and subjects it to this Declaration, the Articles and the Bylaws, title to any additional common area shall be conveyed to the Association not later than sixty (60) days after eighty percent (80%) of the Lots shown on the plat pertaining to such additional property have been conveyed to purchasers or six (6) months after the supplemental declaration annexing the additional property to the Association has been recorded, whichever is earlier.

3.4 Easements. Individual deed to Lots may, but shall not be required to, set forth the easements specified in this Article 3.

3.4.1 Easements on Plat. The Common Area and Lots are subject to the easements and rights of way shown on the Plat.

3.4.2 Easements for Common Area. Every Owner shall have a limited, non-exclusive right and easement of use and enjoyment in and to the Common Area, which right and easement shall be appurtenant to and shall pass with the title to every Lot. Use and enjoyment of Common Area shall be limited to its purpose for which the Common Area was created or designed. Those Common Areas designated for preservation shall only be accessible to the Declarant, the adjacent Owner and the Association.

3.4.3 Easements Reserved by Declarant. So long as Declarant owns any Lot, Declarant reserves an easement over, in, upon, under and across the Common Areas to carry out sales activities necessary or convenient for the sale of Lots. In addition, Declarant hereby reserves to itself and to Owners of Lots shown on any recorded Plat pertaining to any additional property annexed to the Association and subjected to this Declaration, the Articles and the Bylaws, a perpetual easement and right of way for access over, in, upon, under and across the Common Areas for construction, utilities, communication lines, drainage and ingress and egress for the benefit of other property owned by Declarant. Declarant, for itself and its successors and assigns, hereby retains a right and easement of ingress and egress over, in, upon, under and across the Common Area and the right to store materials thereon and to make such other use thereof as may be reasonably necessary or incident to the construction of the improvements on the Property or other real property owned by Declarant in such a way as not unreasonably to interfere with the occupancy, use, enjoyment or access to an Owner's Lot by that Owner or his family, tenants, employees, guests or invitees.

3.4.4 Additional Easements. Notwithstanding anything expressed or implied to the contrary on the Plat, the Bylaws or herein, this Declaration shall be subject to all easements granted by Declarant for the installation and maintenance of utilities and drainage facilities necessary for the development of current and future phases of The Cliffs of Redmond. No structure, planting or other material that may damage or interfere with the installation or maintenance of utilities, that may change the direction of flow of drainage channels in the easement area, or that may obstruct or retard the flow of water through drainage channels in the easement areas shall be placed or permitted to remain within any easement area. The easement area of each Lot and all improvements thereon shall be maintained continuously by the Owner of the Lot, except for those improvements for which a public authority, a utility company or the Association is responsible.

3.4.5 Association's Easements. Such easements as are necessary to perform the duties and obligations of the Association, as set forth in this Declaration, the Bylaws and Articles, as the same may be amended or supplemented, hereby are reserved to the Association and its duly authorized agents and representatives. These easements include those stated above and the right to go upon Owners' Lots as necessary to perform landscaping and lawn maintenance, snow removal and other maintenance and repair as provided herein. In using the easements affecting Owners' Lots, the Association shall interfere in the Owners' use of their Lots as little as reasonably practicable and shall restore or repair any easement area on a Lot to its prior condition as reasonably possible, if any damage arises from use of it.

3.4.6 Easement to Governmental Entities. A non-exclusive easement over the Common Area hereby is reserved and granted to all governmental and quasi-government entities, agencies, utilities, and their agents for the purposes of performing their duties within The Cliffs of Redmond.

3.4.7 Easement to Benefit Future Annexable Property. Declarant, for itself and its successors and assigns hereby reserves an easement over, in, upon, under and across all of the Common Area for access and egress and utility easements reasonably necessary or convenient for the development and occupancy of homes or other improvements on the real property described on Exhibit "B." This easement shall be perpetual, but shall be terminated with respect to any of such real property that is annexed to the Association and subjected to this Declaration upon such annexation. Persons benefitted by this easement shall pay all reasonable costs associated with its use and shall interfere with the use and enjoyment by the Owners of the Lots, Homes and Common Area as little as is reasonably possible.

ARTICLE 4

LOTS AND HOMES

4.1 Residential Use. Lots shall be used for only residential purposes or those home occupations permitted under applicable zoning regulations which are also approved by the Board. Except with the consent of the Board, no trade, craft, business, profession, commercial or similar activity of any kind shall be conducted on any Lot; nor shall any goods, equipment, vehicles, materials or supplies used in connection with any trade, service or business be kept or stored on any Lot. Nothing in this paragraph 4.1 shall be deemed to prohibit (a) activities relating to the sale of residences, (b) the right of Declarant or any contractor or homebuilder to construct residences on any Lot, to store construction materials and equipment on such Lots in the normal course of construction, and to use any residence as a sales office or model home for purposes of sales in The Cliffs of Redmond, and (c) the right of the Owner of a Lot to maintain his professional or personal library, keep his personal business or professional records or accounts, handle his personal business or professional telephone calls or confer with business or professional associates, clients or customers in his residence. The Board shall not approve commercial activities otherwise prohibited by this paragraph 4.1 unless the Board determines that only normal residential activities would be observable outside of the residence and that the activities would not be in violation of applicable local government ordinances.

4.2 Construction of Homes. No construction, reconstruction or exterior alterations shall occur on a Lot unless the approval of the ARC is first obtained pursuant to Article 6 hereof. Declarant shall adopt architectural and landscaping guidelines for the ARC and shall act as the ARC until the Turnover Meeting. Considerations such as siting, shape, size, color, design, height, solar access or material may be taken into account by the ARC in determining whether or not to consent to any proposed work. The following minimum standards apply to all Lots:

4.2.1 Height. The top plate of the first story shall not be higher than twenty-four (24) feet from the unfinished floor of the first story. No Home shall exceed twenty-four (24) feet in height above the ground.

4.2.2 Floor Area. The square footage area of a single-story Home shall not be less than twelve hundred (1200) square feet, exclusive of basements, attics, patios, decks, porches, balconies and garages.

4.2.3 Garages. A garage for housing at least two (2) cars must be constructed on the Lot.

4.2.4 Multifamily Buildings. No multifamily buildings shall be permitted.

4.2.5 Special Zoning Regulations. All Lots adjacent to the canyon rim may be subject to special zoning regulations of the Redmond Code and shall comply thereto. The current regulations for rim lots are found in RC 8.0335(A) and (B) for the year 2002.

4.2.6 Trees. No existing trees within twenty-five feet (25') of the canyon rim over three inches (3") caliper measured three feet (3') above the ground shall be removed from a Lot within one hundred feet (100') of the canyon rim unless the trees are replaced by an equal number of trees that are at least two inches (2") caliper measured three feet (3') above the ground.

4.3 Completion of Construction. The construction of any building on any Lot, including painting and all exterior finish, shall be completed within one (1) year from the time the building permit is secured, or pushout of the foundation, whichever comes first. In the event of undue hardship due to weather conditions, this provision may be extended for a reasonable length of time upon written approval from the ARC. The Lot and building area shall be kept reasonably clean, in workmanlike order and free of litter during the construction period, with a garbage disposal facility located on site or in the Common Area or an adjacent Lot as close to the construction site as reasonably practicable during such construction period. If construction has not commenced within three (3) months after the project has been approved by the ARC, the approval shall be deemed to be revoked unless the Owner has applied for and received an extension of time from the ARC.

4.4 Landscaping. Landscaping within each Lot shall commence within thirty (30) days after and shall be completed within six (6) months after the final building inspection by the local government jurisdiction. Both the initial landscaping plan and any subsequent material modifications must receive ARC approval.

4.5 Maintenance of Lots and Homes. Each Owner shall maintain those portions of his Lot not maintained by the Association and all improvements on such Lot in a clean and attractive condition, in good repair and in such fashion as not to create a fire hazard. Such maintenance shall include, without limitation, painting, repair and replacement of and care for roofs, gutters, downspouts, exterior building surfaces, walks and other exterior improvements and glass surfaces. All repainting or restaining and exterior remodeling shall be subject to prior review and approval by the ARC. In addition, each Owner shall keep all shrubs, trees, grass and plantings of every kind on his Lot, which is not maintained by the Association, neatly trimmed, properly cultivated and free of trash, weeds and other unsightly material. Damage caused by fire, flood, storm, earthquake, riot, vandalism or other causes

shall likewise be the responsibility of each Owner, and any Lot or improvement thereon that is so damaged shall be restored within a reasonable period of time.

4.6 Right of Maintenance and Entry by Association. If an Owner fails to perform maintenance and/or repair that he is obligated to perform pursuant to this Declaration and if the Board determines, after notice and a hearing (given pursuant to the provisions of the Bylaws) that such maintenance and/or repair is necessary to preserve the attractiveness, quality, nature and/or value of The Cliffs of Redmond, the Board may cause such maintenance and/or repair to be performed and may enter any Lot whenever entry is necessary in connection with the performance of such maintenance and/or repair that the Board is authorized to undertake. Entry shall be made only after advance written notice of not less than forty-eight (48) hours, except in emergency situations. The costs of such maintenance and/or repair shall be chargeable to the Owner of the Lot as a special assessment and may become a lien on the Lot as provided herein.

4.7 Rental of Homes. An Owner shall be entitled to rent or lease his residence, subject to the following conditions:

4.7.1 Written Rental Agreements Required. A written rental or lease agreement entered into by and between the Owner and the tenant specified that: (i) the tenant shall be subject to all provisions of the Declaration, Bylaws and Rules and Regulations, and (ii) a failure to comply with any provision of the Declaration, Bylaws and Rules and Regulations shall constitute a default under the rental agreement.

4.7.2 Minimum Rental Period. The period of the rental or lease is not less than six (6) months.

4.7.3 Tenant Must Be Given Documents. The Owner gives each tenant a copy of the Declaration, Bylaws and Rules and Regulations.

4.7.4 Compliance with Fair Housing Act. Property may be rented only in compliance with the rules for a 55 and older residential subdivision.

4.7.5 Housesitter. A housesitter shall not be considered a renter.

4.8 Animals. No animals of any kind, other than one (1) household pet, which is not kept, bred or raised for commercial purposes and which is controlled so as not to be a nuisance, shall be permitted within any Lot. Any inconvenience, damage or unpleasantness caused by such pets shall be the responsibility of the respective Owners thereof. Pets shall

not be permitted to roam the Property unattended, and all pets shall be kept on a leash while outside their owner's Lot. An Owner shall be required to remove a pet upon the receipt of the third notice in writing from the Board of violation of any rule, regulation or restriction governing pets within the Property. Any pet, which the Board of Directors determines is a nuisance to Owners of Lots, their families and guests, shall be removed by the Owner thereof immediately upon written notice from the Board of Directors. At the Owner's request after such removal, a hearing will be held by the Board of Directors to review its determination and affirm or reverse its previous determination. Any pet, which is considered vicious under any City of Redmond ordinance, shall be conclusively deemed a vicious pet which the Board of Directors shall exclude from the Property.

4.9 Nuisance. No noxious, harmful or offensive activities shall be carried on upon any Lot or Common Area, nor shall anything be done or placed on any Lot or Common Area that interferes with or jeopardizes the enjoyment of, or that is a source of annoyance to, the Owners or other Occupants.

4.10 Parking. Boats, trailers, commercial vehicles, mobile homes, campers and other recreational vehicles or equipment, regardless of weight, shall not be parked on any part of the Lot or Common Area for more than twenty-four (24) hours or such other period as may be permitted by the Association Rules and Regulations; provided, however, that boats, trailers, campers and other recreational vehicles may be stored in the Owners' garages out of the visibility of other Owners or in an area approved for storage by the Declarant or the Association. Parking shall also be restricted by the Association or Declarant in the manner described in Section 5.8.4.

4.11 Vehicles in Disrepair. No Owner shall permit any vehicle that is in a state of disrepair to be abandoned or to remain parked upon any Lot or on the Common Area for a period in excess of twenty-four (24) hours. A vehicle shall be deemed to be in a "state of disrepair" when the Board reasonably determines that its presence offends the Owners or Occupants. Should any Owner fail to remove such vehicle within five (5) days following the date on which the notice is mailed to him by the Association, the Association may have the vehicle removed from the Property and may charge the expense of such removal to the Owner as a special assessment subject to a lien.

4.12 Signs. No signs shall be erected or maintained on any Lot except that not more than one (1) "For Sale" sign placed by the Owner, Declarant or a licensed real estate agent, not exceeding twenty-four (24) inches high and thirty-six (36) inches long, may be temporarily displayed on any Lot.

4.13 Rubbish and Trash. No Lot or part of a Common Area shall be used as a dumping ground for trash or rubbish of any kind. All garbage and other waste shall be kept in appropriate containers for proper disposal and out of public view. Yard rakings, dirt and other material resulting from landscaping work shall not be dumped onto streets, the Common Areas or any other Lots. Should any Owner fail to remove any trash, rubbish, garbage, yard rakings or any such materials from any Lot, any streets or Common Area where deposited by him within five (5) days following the date on which notice is mailed to him by the Board, the Association may have such materials removed and may charge the expense of such removal to the Owners as a special assessment subject to a lien.

4.14 Fences and Hedges. No fences/pet runs or boundary hedges shall be installed without prior written approval of the ARC.

4.15 Service Facilities. Service facilities (garbage containers, fuel tanks, clotheslines, etc.) shall be screened such that the service facilities are not visible at any time from the street or neighboring properties.

4.16 Antennas and Satellite Dishes. Exterior antennas, microwave, aerial, tower or other devices for the transmission or reception of television, radio or other forms or sound or electromagnetic radiation shall not be erected, constructed or placed on any Lot, except as may be provided by preemption of federal law. With prior written consent from the ARC or subject to the prior right of Declarant to develop a community cable telephone system, exterior satellite dishes with a surface diameter of twenty-four (24) inches or less may be placed on any Lot so long as they are not visible from the street or neighboring properties.

4.17 Exterior Lighting or Noisemaking Devices. Except with the consent of the ARC, no exterior lighting or noisemaking devices, other than security and fire alarms, shall be installed or maintained on any Lot. The ARC shall not unreasonably withhold its consent to exterior lighting along walkways, over entry doors and on patios/decks. Each home will also be allowed one bollard in the front yard, with back lighting, to display the home address. All exterior lighting shall be cast downward and shielded so that it does not shine into the Redmond Dry Canyon, neighboring yards or houses or onto public streets. All exterior lighting shall be controlled by a timer or other device that turns the lights off after the light has been on for a reasonable period of time, such as a motion detector. Exterior security lighting shall be turned off no later than midnight and shall remain off until 5:00 a.m. Lights controlled by a motion detector, however, may be illuminated during this time period when motion is detected in the area illuminated. Exterior lighting on lots shall be maintained by each Owner. The Declarant will install fluorescent tube lighting in the Common Area cabanas. Common Area lighting shall, thereafter, be maintained and paid for by the Association.

4.18 Grades, Slopes and Drainage. The established drainage patterns or systems over or through any Lot with The Cliffs of Redmond shall not be interfered with so as to affect any other Lot or Common Area or any real property outside The Cliffs of Redmond unless adequate alternative provision is made for proper drainage and is approved by the ARC. The term "established drainage" shall mean the drainage swales, conduits, inlets and outlets naturally existing or designed and constructed for storm water run off.

4.19 Damage or Destruction to Home and/or Lot. If all or any portion of a Lot or Home is damaged by fire or other casualty, the Owner shall either (i) restore the damaged improvements or (ii) remove all damaged improvements, including foundations, and leave the Lot in a clean and safe condition. Any restoration proceeding under (i) above must be performed so that the improvements are in substantially the same condition in which they existed prior to the damage, unless the provisions of Article 6 hereof are complied with by the Owners. The Owner must commence such work within sixty (60) days after the damage occurs and must complete the work within six (6) months thereafter.

4.20 Association Rules and Regulations. The Board from time to time may adopt, modify or revoke Rules and Regulations governing the conduct of persons and the operation and use of Lots and Common Areas as it may deem necessary or appropriate in order to assure the peaceful and orderly use and enjoyment of the Property. A copy of the Rules and Regulations, upon adoption, and a copy of each amendment, modification or revocation thereof, shall be delivered by the Board promptly to each Owner and shall be binding upon all Owners and Occupants of all Lots upon the date of delivery or actual notice thereof. The method of adoption of such Rules and Regulations shall be provided in the Bylaws. Such rules and regulations shall be consistent with the legal requirements for a planned community for people ages 55 and older.

4.21 City Ordinances and Regulations. The standards and restrictions set forth in this Article 4 shall be the minimum required. To the extent that the ordinances and regulations of the City of Redmond are more restrictive or provide for a higher or different standard, the ordinances and regulations of the City of Redmond shall prevail.

4.22 Construction Debris. Every contractor building any improvement upon any Lot or the Common Area shall furnish trash containers and at all times shall keep the premises free from accumulation of trash and scrap caused by construction. Trash shall not be allowed outside a designated trash and scrap area and any that does intrude beyond shall be cleaned up immediately. Upon completion of the work, all remaining trash and scrap shall be disposed of legally. Tools, construction equipment, machinery and surplus materials shall be removed from the site. The ARC or Declarant shall be entitled to enter upon any construction site within The Cliffs of Redmond and to clean up, remove and dispose of

materials on-site, to charge the contractor for any costs incurred by the ARC or Declarant in performing such acts and to recover such costs and attorneys' fees and court costs in a legal action against the contractor or owner.

4.23 Construction Activities and Noise. Construction activities shall not take place before noon on Sundays and Holidays. Holiday hours shall be announced by the Association. Radios are not allowed on construction sites. Pets shall not be permitted on any construction site.

4.24 Occupancy Upon Final Inspection. A final inspection shall be obtained from the City of Redmond Building Department before any home within The Cliffs of Redmond may be occupied or rented.

4.25 Temporary Structures. No structure of a temporary character, trailer, basement, tent, shack, garage, barn or other outbuilding shall be used on any Lot at any time as a residence, either temporarily or permanently.

4.26 Tree Removal. In addition to the regulations of paragraph 4.2.6, no trees with a diameter of six (6) inches or more, measured at a height of six (6) feet above ground level, may be removed without the prior written approval of the ARC.

ARTICLE 5

COMMON AREA AND LOT MAINTENANCE

5.1 Use of Common Areas. Use of Common Areas shall be subject to the provisions of the Declaration, Bylaws, Articles and Rules and Regulations promulgated by the Board. There shall be no use of the Common Area except by Owners and their invitees. There shall be no obstruction of any part of the Common Area. Nothing shall be stored or kept in the Common Area without the prior written consent of the Board. No alterations or additions to the Common Area shall be permitted without the prior written approval by the Board. Nothing that shall increase the rate of insurance on the Common Area shall be stored or kept in the Common Area without the prior written consent of the Board.

5.2 Maintenance of Common Area. The Association shall be responsible for maintenance, repair, replacement, upkeep and snow removal of the Common Area, including, without limitation, all drainage systems, pathways and streets thereon. The Association shall keep the Common Area and improvements thereon in good condition and repair, shall provide for all necessary services and shall cause all acts that may be necessary or proper to

assure the maintenance of the Common Area in first-class condition to be done. Common Areas designated for preservation shall be preserved in their natural state.

5.3 Alterations to Common Area. Only the Association shall construct, reconstruct or alter any improvement situated upon a Common Area. A proposal for any construction of or alteration, maintenance or repair to an improvement may be made at any Board or Association meeting. The Board may adopt, reject or modify any such proposal, subject to the limitations contained in the Bylaws and this Declaration.

5.4 Funding. Expenditures for alterations, maintenance or repairs to an existing capital improvement for which a reserve has been collected shall be made from the reserve account. As provided in Section 10.5 hereof, the Board may levy a special assessment to fund any construction, alteration, repair or maintenance of an improvement for which no reserve has been collected or for which the balance in the reserve account is insufficient to cover the cost of the proposed improvement.

5.5 Lot Landscape, Maintenance and Snow Removal. The Association shall be responsible for landscape - lawn maintenance and snow removal from streets, driveways and sidewalks, except as hereafter provided.

5.5.1 Landscape and Lawn Maintenance. The Association shall maintain the front and rear yards of all Lots, except for those areas located within patios, entryways or enclosed courtyards.

5.5.2 Landscape Obligation of Association and Owners. All landscaping shall be maintained and cared for in a manner consistent with the standards of design and quality originally established by the Declarant or the ARC. Maintenance shall include lawn cutting, fertilization and weed abatement and pruning of trees and shrubs. Any dead or diseased lawn, trees, ground cover or shrubs shall be removed and replaced. The costs associated with replacing diseased or dead lawns, trees, ground cover or shrubs shall be assessed to the Owner. All lawns shall be neatly mowed and trees and shrubs shall be neatly trimmed.

5.5.3 Snow Removal. Snow removal on all streets, driveways, sidewalks and pathways shall be done in that order as soon as reasonably possible given the weather conditions.

5.6 Condemnation of Common Area. If all or any portion of the Common Area is taken for any public or quasi-public use under any statute, by right of eminent domain or

by purchase in lieu of eminent domain, the entire award shall be received and expended by the Board in a manner that, in the Board's discretion, is in the best interest of the Association. The Association shall represent the interest of all Owners in any negotiations, suit or action or settlement relating to such matters.

5.7 Damage or Destruction of Common Area. If any Common Area is damaged or destroyed by an Owner or any of his Occupants, guests, tenants, licensees, agents or members of his family in a manner that would subject such Owner to liability for such damage under Oregon law, such Owner does hereby authorize the Association to repair such damage. The Association shall repair the damage and restore the area in a workmanlike manner as originally constituted or otherwise, in the discretion of the Board. The reasonable cost necessary for such repairs shall become a special assessment upon the Lot of the Owner who caused or is responsible for such damage. The Association will be responsible for maintaining the Common Area gates, once the Common Area is turned over to the Association. These covenants hereby authorize the City of Redmond Fire Department and Police Department to damage or remove the gate system in the event the gate malfunctions during a fire or medical emergency. The Association shall hold the City harmless for damages to the gate system in such an event.

5.8 Members' Easement of Enjoyment. Subject to the provisions of this Declaration, the Bylaws and Rules and Regulations of the Association, every Owner shall have a non-exclusive right and easement of enjoyment in and to the Common Property, which shall be appurtenant to and shall pass with the title to every Lot. The members' easements of enjoyment created hereby shall be subject to the following:

5.8.1 Rules, Assessments and Fees. The right of the Association to establish reasonable rules and to charge reasonable assessments and fees for capital expenditures on the Common Property and the maintenance and upkeep of the Common Property and payment of all Association expenses.

5.8.2 Suspension of Right to Use Common Area. The right of the Association to suspend the right of an Owner or any Occupant of a Lot to use the Common Property and facilities for any period during which any assessment against such Owner or Occupant's Lot remains unpaid for more than thirty (30) days after notice of such non-payment; the right of the Association to suspend the right of a member to use any Common Property for a period not to exceed sixty (60) days for any other infraction of the Declaration, Bylaws or the Rules and Regulations of the Association. Provided, however, that no such suspension pursuant to this Section 5.8.2 shall deprive an Owner of access to his Lot. An Owner deprived of use shall nevertheless be required to pay all assessments.

5.8.3 Power of Association to Sell, Dedicate or Transfer Common Area. As provided by ORS 94.665, the right of the Association to sell, dedicate or transfer any portion of the Common Property or to create a security interest therein. Except as to the grant of easements for utilities and similar or related purposes, no such sale, dedication or transfer shall be effective unless approved by eighty percent (80%) of the votes of both Class A, Class B and Class C members. Provided further, if there is only one or two classes of votes, such sale, dedication or transfer (except for utility and similar easements) must be approved by eight percent (80%) of the votes held by Owners other than the Declarant.

5.8.4 Power and Obligation of Declarant and Association to Impose No Parking Restrictions. The land use approval for the Planned Development requires the Association to restrict parking to one side of all Common Area streets as follows: (a) no parking on the east side of 18th Street north of Cliffside Way; (b) no parking on the west side of 18th Street south of Cliffside Way; (c) no parking on the south side of Nickernut Place; (d) no parking on the northeast side of Cliffside Way, although the no parking restriction may, in the alternative, be placed on the southwest side of the street between Nickernut Place and 19th Street. The no parking restrictions shall be applied until such time as the City of Redmond allows parking on both sides of reduced width streets that are 32' wide or narrower. The Association or Declarant shall mark the curbs with red paint to show where parking is prohibited or, if they wish, shall use such other method as is approved by the City of Redmond Community Development Department. The Association shall establish a system of fines, by adoption of rules and regulations (not to exceed \$250 per incident in 2002 dollars) that may be assessed against Owners, residents and guests who park in violation of the no parking restriction.

ARTICLE 6

ARCHITECTURAL REVIEW COMMITTEE

6.1 Architectural Review. No improvement shall be commenced, erected, placed or altered on any Lot until the construction plans and specifications showing the nature, shape, heights, materials, colors and proposed location of the improvement have been submitted to and approved in writing by the ARC. All applications will require prepayment of a \$100 processing fee before the request is reviewed. It is the intent and purpose of this Declaration to assure quality of workmanship and materials and the harmony of exterior design with the existing improvements and landscaping. The ARC is not responsible for determining compliance with structural and building codes, solar ordinances, zoning codes

or other governmental regulations. Nor shall the ARC's review analyze structural, geophysical, engineering or other similar factors. Such compliance and analysis are the responsibilities of the Owners. The procedure and specific requirements for review and approval of construction may be set forth in design guidelines adopted from time to time by the ARC. In all cases in which the ARC's consent is required by this Declaration, the provisions of this Article 6 shall apply.

6.2 Architectural Review Committee, Appointment and Removal. The ARC shall consist of no fewer than three (3) members and no more than five (5) members. Declarant reserves the right to appoint all members of the ARC and, from time to time, any replacements thereto until the Turnover Meeting, as defined in Section 8.2 hereof. Declarant may appoint a single person to serve as the ARC until the Turnover Meeting. After the Turnover Meeting, Declarant shall delegate the right to appoint and remove members of the ARC to the Board. The term of office for each member of the ARC shall be one (1) year unless lengthened by the Board at the time of appointment or unless the Board serves as the ARC, in which event the terms of ARC members shall be the same as their terms as Board members. The Board may appoint any members. The Board may appoint one (1) or more members who are not Owners but who have special expertise regarding the matters which come before the ARC to the ARC. In the sole discretion of the Board, such non-Owner members of the ARC may be paid.

6.3 Majority Action. Except as otherwise provided in this Declaration, a majority of the members of the ARC shall have the power to act on behalf of the ARC, without the necessity of a meeting and without the necessity of consulting the remaining members of the ARC. The ARC may render its decision only by written instrument setting forth the action taken by the members consenting thereto.

6.4 Duties. The ARC shall consider and act upon the proposals and/or plans submitted pursuant to this Article 6. The ARC, from time to time and at its sole discretion, may adopt architectural rules, regulations and guidelines ("Architectural Standards"). The Architectural Standards shall interpret and implement the provisions of this Declaration for architectural review and guidelines for architectural design, placement of buildings, color schemes, exterior finishes and materials and similar features that may be used in The Cliffs of Redmond; provided, however, that the Architectural Standards shall not be in derogation of the minimum standards established by this Declaration.

6.5 ARC Decision. The ARC shall render its approval or denial decision with respect to a construction proposal within thirty (30) working days after it has received all materials required by it with respect to the application. All decisions shall be in writing.

6.6 ARC Discretion. The ARC may, at its sole discretion, withhold consent to any proposed work if the ARC finds the proposed work would be inappropriate for the particular Lot or incompatible with the design standards that the ARC determines are appropriate for The Cliffs of Redmond. Siting, shape, size, color, design, height, solar access, effect on the enjoyment of other Lots or the Common Area, effect on an easement and any other factors which the ARC reasonably believes to be relevant may be taken into consideration by the ARC in determining whether to consent to any proposed work.

6.7 Non-Waiver. Consent by the ARC to any matter proposed to it or within its jurisdiction shall not be deemed to constitute precedent or waiver impairing its right to withhold approval as to any similar matter thereafter proposed or submitted to it for consent.

6.8 Appeal. At any time after Declarant has delegated appointment of the members of the ARC to the Board pursuant to Section 6.2 hereof, any Owner adversely affected by action of the ARC may appeal such action to the Board. Appeals shall be made in writing within ten (10) days of the ARC's action and shall contain specific objections or mitigating circumstances justifying the appeal. If the Board is already acting as the ARC, the appeal shall be treated as a request for a rehearing, but in such case, the Board must actually meet and receive evidence and argument. A final, conclusive decision shall be made by the Board within fifteen (15) days after receipt of such notification. The determination of the Board shall be final.

6.9 Effective Period of Consent. The ARC's consent to any proposed work shall automatically be revoked three (3) months after issuance unless construction of the work has been commenced or the Owner has applied for and has received an extension of time from the ARC. Once commenced, any such work shall be completed in six (6) months.

6.10 Determination of Compliance. From time to time, the ARC shall inspect all work performed and shall determine whether it is in substantial compliance with the approval granted. If the ARC finds that the work was not performed in substantial conformance with the approval granted, or if the ARC finds that the approval required was not obtained, the ARC shall notify the Owner in writing of the non-compliance. The notice shall specify the particulars of non-compliance and shall require the Owner to remedy the non-compliance.

6.11 Non-Compliance. If the ARC determines that an Owner has not constructed an improvement consistent with the specifications of an approval granted, and if the Owner fails to agree to and diligently commence to remedy such non-compliance in accordance with the provisions of the notice of non-compliance, then at the expiration of the third (3rd) day from the date of such notification, the ARC shall provide notice to such Owner of a hearing at which such Owner's continuing non-compliance shall be considered. The hearing shall

be held not more than thirty (30) days after the date of the notice of non-compliance. At the hearing, if the ARC finds that there is no valid reason for the continuing non-compliance, the ARC shall determine the estimated costs of correcting it. The ARC shall then require the Owner to remedy or remove the same within ten (10) days after the date of the ARC's determination. If the Owner does not comply with the ARC's ruling within such period or within any extension of such period as the ARC, at its discretion, may grant, the ARC may remove the non-complying improvement, remedy the non-compliance, or file suit to compel compliance. The costs of such action, including all attorneys' fees and other costs incurred to enforce compliance, whether incurred before or after suit is filed, at trial or on any appeal or review therefrom, shall be assessed against the Owner and his Lot.

6.12 Liability. Neither the ARC nor any member thereof shall be liable to any Owner, Occupant, builder or Declarant for any damage, loss or prejudice suffered or claimed on account of any action or failure to act of the ARC or a member thereof, provided that the ARC or member has, in accordance with its or his actual knowledge, acted in good faith.

6.13 Estoppel Certificate. Within fifteen (15) working days after written request is delivered to the ARC by an Owner, and upon payment to the ARC of a reasonable fee fixed by the ARC to cover costs, the ARC shall provide such Owner with a certificate executed by the Chairman of the ARC and acknowledge, certifying with respect to any Lot owned by the Owner, that as of the date thereof either: (a) all improvements made or done upon or within such Lot by the Owner comply with this Declaration and any Rules and Regulations promulgated by the Board or the ARC, or (b) such improvements do not so comply, in which event, the certificate shall also identify the non-complying improvements and set forth with particularity the nature of such non-compliance. The Owner, his heirs, devisees, successors and assigns shall be entitled to rely on the certificate with respect to the matters set forth therein. The certificate shall be conclusive as among Declarant, the ARC, the Association and all Owners and such persons deriving any interest through any of them.

6.14 Approval of Contractors and Insurance. Contractors providing services in connection with the development or improvement of any Lot or Common Area shall be subject to the following requirements: Contractors shall be approved by the ARC. General contractors and subcontractors shall be licensed as required by the City of Redmond Building Department. General contractors shall warrant all materials and workmanship to be a good quality and to remain in good condition for a period of one (1) year. A general contractor shall furnish to the Association evidence of public liability insurance in amounts reasonably acceptable to the ARC. Combined single limits of \$1,000,000 shall be deemed acceptable.

6.15 Other Applicable Law. All improvements must be constructed in full compliance with all applicable governmental building codes. All ARC review and inspection

procedures are intended to assure compliance with the only with aesthetic considerations. Declarant, its affiliates, and the ARC are not responsible for design or construction defects or failure of the building to meet appropriate building codes.

ARTICLE 7

MEMBERSHIP IN THE ASSOCIATION

7.1 **Members.** Each Owner, by virtue of ownership of a Lot, shall be a Member of the Association. Membership in the Association shall be appurtenant to, and may not be separated from, ownership of any Lot. Transfer of ownership of a Lot automatically transfers member in the Association. Without any other act or acknowledgment, Occupants and Owners shall be governed and controlled by this Declaration, the Articles, Bylaws and Rules and Regulations and any amendments thereof.

7.2 **Proxy.** Each Owner may cast his vote in person, pursuant to a proxy executed by the Owner, or by written ballot, as provided by ORS 65.222. An Owner may not revoke a proxy given pursuant to this Section 7.2 except by actual notice of revocation to the person presiding over a meeting of the Association. A proxy shall not be valid if it is undated or purports to be revocable without notice. A proxy shall terminate one (1) year after its date, unless the proxy specifies a shorter term.

7.3 **Voting Rights.** The Association shall have three (3) classes of voting members:

7.3.1 **Class A.** Class A members shall be all Owners of all Lots that do not meet Class B or Class C criteria. Each Class A member shall be entitled to one vote for each lot owned.

7.3.2 **Class B.** Class B members shall be the owners of Lots who have completed construction of the residence and who have occupied the residence. Class B members shall have two (2) votes for each Lot owned that meets the Class B criteria.

7.3.3 **Class C.** Class C members shall be the Declarant and its successors or assigns. Class C members shall have four (4) votes for each Lot owned. Class C membership shall cease and be converted to Class B membership upon the earlier of the following dates:

7.3.3.1 The date on which eighty percent (80%) of the Lots shown on the Plat have been sold and conveyed to Owners other than Declarant and completed homes have been constructed thereon; or

7.3.3.2 The date on which Declarant elects in writing to terminate Class C membership.

Thereafter, each owner, including Declarant, shall be entitled to one (1) or two (2) votes as provided for A and B members for each Lot owned, with respect to all matters upon which Owners are entitled to vote.

At such time as all Lots have been built upon and construction completed and the home occupied, each Owner, including Declarant, shall be entitled to one (1) vote for each Lot owned with respect to all matters upon which Owners are entitled to vote, and the total number of votes shall be equal to the total number of Lots.

When more than one (1) person or entity owns a Lot, the vote for such Lot may be cast as they shall determine, but in no event shall fractional voting be allowed. Fractional or split votes shall be disregarded, except for purposes of determining a quorum.

7.4 Procedure. All meetings of the Association, the Board, the ARC and Association committees shall be conducted pursuant to such rules of order as from time to time may be adopted by the Board. Notwithstanding which rule of order is adopted, the chairman shall be entitled to vote on all matters and not merely to break a tie vote. A tie vote shall not constitute a majority vote or approval of any motion or resolution.

ARTICLE 8

DECLARANT CONTROL

8.1 Interim Board and Officers. Declarant hereby reserves administrative control of the Association, including, without limitation, the right and power, in its sole discretion, to appoint and remove members of an interim Board of Directors (the "Interim Board"), which shall manage the affairs of the Association and which shall be invested with all powers and rights of the Board. The Interim Board shall consist of from one (1) to three (3) members. Notwithstanding the provision of this Section 8.1, at the Turnover Meeting at least one (1) Director shall be elected by Owners other than Declarant, even if Declarant otherwise has voting power to elect all of the members of the Board.

8.2 Turnover Meeting. Declarant shall call a meeting for the purpose of turning over administrative control of the Association from Declarant to Class A and B members within one hundred twenty (120) days of the earliest of the following dates:

8.2.1 Upon Sale of Lots. The date on which Lots representing eighty percent (80%) of the total number of votes have been conveyed to persons other than Declarant and completed homes have been constructed thereon. (For purposes of this calculation, the votes which would be attributable to annexable lots shall be counted as "Lots" owned by Declarant);

8.2.2 Date Certain. Seven (7) years from the date on which this Declaration is recorded; or

8.2.3 Declarant's Election. The date on which Declarant elects in writing to terminate Class C membership.

Declarant shall give notice of the meeting to each Owner as provided in the Bylaws. If Declarant does not call the meeting required under this Section 8.2, any Owner may do so.

ARTICLE 9

FUNDS AND ASSESSMENTS

9.1 Purpose of Assessments. The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety and welfare of the Owners and Occupants and for the improvement, operation and maintenance of the Common Areas.

9.2 Covenants to Pay. Declarant and each Owner covenants and agrees to pay the Association the assessments and any additional charges levied pursuant to this Article 9.

9.2.1 Funds Held in Trust. The assessments collected by the Association shall be held by the Association for and on behalf of each Owner and shall be used solely for the operation, care and maintenance of The Cliffs of Redmond as provided in this Declaration. Upon the sale or transfer of any Lot, the Owner's interest in the funds shall be deemed automatically transferred to the successor in interest of such Owner.

9.2.2 Offsets. No offset against any assessment shall be permitted for any reason, including, without limitation, an offset based on any claim that the Association is not properly discharging its duties.

9.3 Basis of Assessment. Assessments are to be levied against all Lots whether or not such Lots have been improved with a substantially completed Home; provided, however, that Declarant shall be exempt from paying assessments on all unimproved Lots owned by it until after the Turnover Meeting. Completion shall be conclusively determined to have occurred upon final inspection approval by the City of Redmond, notwithstanding that any portion of Lot finish work or Lot landscaping remains to be completed. Assessments for all Lots conveyed by Declarant to others shall begin on the first day of the month following the recording of the deed or land sale contract conveying or contracting to convey the Lot to the new Owner.

9.4 Annual Assessments. Annual assessments for each fiscal year shall be established when the Board approves the budget for that fiscal year. Annual assessments shall be levied on a fiscal year basis. The fiscal year shall be from July 1 to June 30 unless another year is adopted by vote of the Board members. Unless otherwise specified by the Board, annual assessments shall be due and payable in monthly installments on the first day of each month during the term of this Declaration.

9.4.1 Budget. Each year, the Board shall prepare, approve and make available to each Member a pro forma operating statement (budget) containing: (i) estimated revenue and expenses on an accrual basis; (ii) the amount of the total cash reserves of the Association currently available for replacement or major repair of the Common Area and for contingencies; (iii) an itemized estimate for the remaining life of, and the methods of funding to defray repair or replacement of, or additions to, major components of the Common Area; and (iv) a general statement setting forth the procedures used by the Board in the calculation and establishment of reserves to defray the costs of repair or replacement of or additions to major components of the Common Area. For the first fiscal year, the budget shall be approved by the Board no later than the date on which annual assessments are scheduled to commence. Thereafter, the Board annually shall prepare and approve the budget and distribute a copy thereof to each Member, together with written notice of the amount of the annual assessments to be levied against the Owner's Lot, not less than thirty (30) days and not more than ninety (90) days before the beginning of the fiscal year.

9.4.2 Allocation of Assessments. The total amount of assessments set forth in the budget shall be divided among and charged equally against all Lots that are not exempt from assessment as annual assessments. As provided in Section 9.3 hereof.

unimproved Lots owned by Declarant shall be exempt from assessment until after the Turnover Meeting.

9.4.3 Non-Waiver of Assessments. If, before the expiration of any fiscal year, the Association fails to fix the amount of annual assessments for the next fiscal year, the amount of annual assessments established for the preceding year shall remain in effect until the Association fixes a new amount of annual assessments.

9.5 Special Assessments. The Board shall have the power to levy special assessments against an Owner or all Owners in the following manner for the following purposes.

9.5.1 Deficits in Operating Budget. To correct a deficit in the operating budget, by vote of a majority of the Board;

9.5.2 Breach of Documents. To collect amounts due to the Association from an Owner for breach of the Owner's obligations under the Declaration, the Bylaws or the Rules and Regulations, by vote of a majority of the Board;

9.5.3 Repairs. To make repairs or renovations to the Common Area if sufficient funds are not available from the operating budget or replacement reserve accounts, by vote of a majority of the Board; and

9.5.4 Capital Additions. To make capital acquisitions, additions or improvements, by vote of at least eighty percent (80%) of all votes allocated to the voting classes.

9.6 Accounts.

9.6.1 Types of Accounts. Assessments collected by the Association shall be deposited into at least two (2) separate accounts with a bank, which accounts shall be clearly designated as (i) the Current Operating Account and (ii) the Reserve Account. The Board shall deposit those portions of the assessments collected for current maintenance and operation levied under Section 9.4.1 hereof into the Current Operating Account and shall deposit those portions of the assessments collected as reserves for replacement and deferred maintenance of capital improvements into the Reserve Account. Special Assessments shall be deposited into one (1) of the two (2) accounts, whichever is deemed by the Board to be appropriate. Withdrawal of funds from the Association's Reserve Account shall require the signatures of either two (2) Directors or one (1) Director and an officer of the Association who is not a Director.

9.6.2 Reserve Account for Replacing Common Property. Declarant shall establish a reserve account, in the name of the Association, which account shall be called the "Common Property Reserve Account," and which shall be kept separate and apart from all other funds of the Association. Except as provided in Section 9.6.2(a) below, the Common Property Reserve Account shall be used exclusively for replacement of items of property held by the Association that normally require replacement, in whole or in part, within three (3) to thirty (30) years after acquisition thereof ("Common Property") and not for regular or periodic maintenance and expenses. The assessment for this account shall begin to accrue on the date on which the first Lot in The Cliffs of Redmond is conveyed by Declarant.

(a) **Assessments.** Not less often than annually, the Association shall inventory all items of Common Property and shall estimate the remaining life of each item of Common Property and the current replacement cost of each of such items. The Association may identify items for which a reserve account assessment is required because those items are insurable and are insured by a common carrier of all-purpose risk insurance. For the purpose of funding the Common Property Reserve Account, the Association shall impose an assessment to be called the "Common Property Reserve Account Assessment" against each Lot within The Cliffs of Redmond, using the budgeting method as set forth in Section 9.4.1. The total Common Property Reserve Account Assessment shall be equal to the sum of the estimated replacement cost of each item of Common Property which has an estimated life of greater than three but less than 30 years, divided by the estimated number of years of life for such item of Common Property (not the estimated years of life remaining).

(b) **Loan From Common Property Reserve Account.** After the Turnover Meeting described in Section 8.2, the Board of Directors may borrow funds from the Common Property Reserve Account to meet high seasonal demands on the Association's regular operating fund or to meet other temporary expenses. Funds borrowed to meet high seasonal demands or temporary expenses under this Subsection 9.6.2(b) must be repaid from special assessment or maintenance fees within six (6) months of the date on which such funds are borrowed.

(c) **Increase, Reduction or Elimination of Common Property Reserve Account Assessment.** At any time after the second year after the Turnover Meeting, future assessment for the Common Property Reserve Account may be increased, reduced or eliminated by the vote of Owners of Lots representing eighty percent (80%) of the votes computed in accordance with Section 7.3.

(d) Investment of Reserve Account. Nothing in this Section 9.6 prohibits the prudent investment of reserve account funds, subject to any constraints imposed by the Board of Directors of the Association, the Bylaws or the Rules and Regulations.

(e) Refunds of Assessments. Assessments paid into the Reserve Account are the property of the Association and are not refundable to sellers or Owners of Lots. Sellers or Owners of Lots may treat their outstanding share of the Reserve Account balance as a separate item in the sales contract providing for conveyance of their respective Lot(s).

9.6.3 Current Operating Account. All other costs may be paid from the Current Operating Account.

9.7 Default in Payment of Assessments, Enforcement of Liens.

9.7.1 Personal Obligation. All assessments properly imposed under this Declaration or the Bylaws shall be the joint and several personal obligation of all Owners of the Lot to which such assessment pertains. In a voluntary conveyance (that is, one other than through foreclosure or a deed in lieu of foreclosure), the grantees shall be jointly and severally liable with the grantor(s) for all Association assessments imposed through the recording date of the instrument affecting the conveyance. A suit for a money judgment may be initiated by the Association to recover such assessments without either waiving or foreclosing the Association's lien.

9.7.2 Association Lien. At any time when any assessment (of any type provided for by this Declaration or the Bylaws) or installment thereof is delinquent, the Association, by and through its Board or any management agent, may file a notice of lien in the deed records of Deschutes County, Oregon, against the Lot in respect to which the delinquency pertains. Once filed, such lien shall accumulate all future assessments or installments, interest, late fees, penalties, fines, attorneys' fees (whether or not suit or action is instituted) and other appropriate costs properly chargeable to an Owner by the Association, until such amounts are fully paid. Said lien may be foreclosed at any time, but not later than six (6) years after the latest lienable charge has been imposed. The lien of the Association shall be superior to all other liens and encumbrances except for property taxes and assessments; any first mortgage, deed of trust or land sale contract that was recorded previously to the recording of the Association's notice of lien; and any mortgage or deed of trust that was granted to an institutional lender and that was recorded previously to the recording of the Association's notice of lien.

9.7.3 Interest; Fines; Late Fees; Penalties. The Board, in its reasonable discretion, may from time to time adopt resolutions to set the rate of interest and to impose late fees, fines and penalties on delinquent assessments or for violations of the provisions of this Declaration, the Bylaws, any Rules and Regulations, and any rules and regulations adopted by the ARC. The adoption of such impositions shall be communicated to all Owners in writing not less than thirty (30) days before the effective date by a notice mailed to the assessment billing addresses of such Owners. Such impositions shall be considered assessments that are lienable and collectible in the same manner as any other assessments; provided, however, that fines or penalties for violation of this Declaration, the Bylaws or any Rules or Regulations, other than late fees, fines or interest arising from an Owner's failure to pay regular or special assessments may not be imposed against an Owner or his Lot until such Owner is given an opportunity for a hearing, as elsewhere provided herein.

9.7.4 Acceleration of Assessments. If an Owner is delinquent in payment of any monthly assessment or any installment on a special assessment, the Association, upon not less than ten (10) days' written notice to the Owner, may accelerate the due date of the full annual assessment for that fiscal year and all future installments of any special assessments.

9.7.5 Association's Right to Rent/Receiver. In any foreclosure suit by the Association with respect to an Association lien, the Association shall be entitled to collect reasonable rent from the defaulting Owner for the use of his Lot or shall be entitled to the appointment of a receiver. Any default by the Owner in any provisions of the Declaration or Bylaws shall be deemed to be a default by the Owner of any mortgage to which the Owner is a party or to which the Lot is subject.

9.8 Reallocation Upon Annexation or Withdrawal of Property. When additional property is annexed to the Association, the Board of Directors shall, within sixty (60) days of the annexation, recompute the budget in accordance with Section 9.4.1, based upon the additional lots and common areas and recompute assessments for each Lot based upon the methods set forth in Section 9.4. Newly annexed Lots shall be subject to assessment from the time of annexation of such Lot to the Association in accordance with the provisions of Section 8.2. The Association shall send notice of the assessment to the Owners of newly annexed Lots not later than sixty (60) days after the annexation or with the next occurring (annual, bi-annual or monthly) assessment, whichever is sooner. Assessments shall be due and payable on or before a date set forth in the notice which shall be not less than thirty (30) days from the date the notice is mailed or at such time or times set in accordance with this Declaration or the Bylaws as the Association may specify in the notice. If additional Lots are annexed to the Association during the Association's fiscal year, the Association shall

send notice of and shall collect adjustments to assessments for Lots which were within The Cliffs of Redmond prior to the annexation in the manner specified in Section 9.4 above, except that notice of the adjustment in the assessment shall be sent to Owner not later than sixty (60) days after the annexation or with the next occurring annual assessment, whichever is sooner. To the extent that any adjustment results in a credit for the Owner, such credit shall be applied towards the next occurring payment or payments on the annual assessment.

ARTICLE 10

GENERAL PROVISIONS

10.1 Records. The Board shall preserve and maintain minutes of the meetings of the Association, the Board and any Board committees. The Board also shall keep detailed and accurate financial records, including individual assessment accounts of Owners, the balance sheet and income and expense statements. Individual assessment accounts shall designate the name and address of the Owner or Owners of the Lot, the amount of each assessment as it becomes due, the amounts paid upon the account, and the balance due on the assessments. The minutes of the Association, the Board and Board committees and the Association's financial records shall be reasonably available for review and copying by the Owners. A reasonable charge may be imposed by the Association for providing copies.

10.2 Indemnification of Directors, Officers, Employees and Agents. The Association shall indemnify any director, officer, employee or agent who was or who is a party or who is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by the Association), by reason of the fact that he is or was a director, officer, employee or agent of the Association or is or was serving at the request of the Association as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by said person in connection with such suit, action or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interest of the Association, and, with respect to any criminal action or proceedings, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or with a plea of *nolo contendere* or its equivalent shall not of itself create a presumption that a person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interest of the Association, and, with respect to any criminal action or proceedings, that a person did not have reasonable cause to believe that his conduct was unlawful. Payment under this clause may be made during the pendency of such claim, action,

suit or proceeding as and when incurred, subject only to the right of the Association, should it be proven at a later time that said person had no right to such payments. All persons who are ultimately held liable for their actions on behalf of the Association as a director, officer, employee or agent shall have a right of contribution over and against all other directors, officers, employees or agents and members of the Association who participated with or benefited from the acts which created said liability.

10.3 Enforcement; Mediation/Arbitration; Attorneys' Fees. The Association, the Owners and any mortgagee on any Lot shall have the right to enforce all of the covenants, conditions, restrictions, reservations, easements, liens and charges now or hereinafter imposed by any of the provisions of this Declaration as may pertain specifically to such parties or Owners by any proceeding at law or in equity. Failure by the Association, any Owner, or a mortgagee to enforce any covenant, condition or restriction herein contained shall in no event be deemed to be a waiver of its right to do so thereafter.

It is a principle of The Cliffs of Redmond that disagreements and disputes between owners and/or between an owner and the Association be resolved as civilly and inexpensively as possible. Accordingly, all such disputes and disagreements arising out of or in relation to interpretations or alleged violations of the Association's Declaration, Bylaws or rules and regulations, which are not resolved between the parties, excepting for non-payment of assessments, shall be mediated; provided, however, the Declarant shall only be required to mediate or arbitrate upon its written consent, which may be revoked at any time. The declarant may elect or seek judicial relief and in which case each party shall be solely responsible for their costs and attorneys' fees.

Except as provided above for the Declarant, if the disagreeing or disputing parties cannot agree upon a solution, they shall select a mediator. If they cannot agree upon a mediator, then one shall be selected through the process provided by a recognized mediation service designated by the first party who notifies the other of the mediation service selected. The fees and other charges of the mediation shall be split equally between the parties.

If mediation is unsuccessful, then an arbitrator shall be selected using the same process as for a mediator, *i.e.*, by mutual agreement or through a recognized arbitration service selected by the first party to notify the other. The award of the arbitrator shall be final and unappealable, and such award may be entered in an appropriate court to be enforced in the same manner as a judgment of that court. The arbitrator shall award to the prevailing party the reasonable attorneys' fees and other costs incurred in the arbitration and in the previously unsuccessful mediation.

All assessments made by the Association against owners, including, without limitation, assessments to pay operating expenses, reserves, special assessments, fines, interest and late fees, shall be imposed and collected in the manner provided herein and in the Planned Community Act. The suit for collection of the assessments or foreclosure of the Association's lien to secure the assessments may be filed by the Association in the appropriate court. In such suit or action, the prevailing party shall be entitled to its reasonable attorneys' fees and costs as shall be awarded by the court in such suit or action and in any appeal therefrom.

10.4 Equitable Remedies. In addition to awarding damages or other legal remedies, the arbitrator shall have the power and authority to award equitable remedies, including, without limitation, prohibitory and mandatory injunctions and specific enforcement. Such equitable awards shall be entered in an appropriate court to be enforced in the same manner as any other arbitrator's award entered in such court. If, for any reason, a court finds that the arbitrator does or did not have the appropriate authority to award a particular form of equitable relief, then the parties to the dispute may litigate the matter before an appropriate court, both as to legal and equitable issues. The prevailing party in such litigation shall be entitled to its reasonable attorneys' fees and costs incurred in pursuing such litigation to be set by the trial court or the appellate court on appeal.

10.5 Construction; Severability. This Declaration and all declarations annexing property to the Association shall be liberally construed as one document to accomplish the purposes stated in the introductory paragraphs hereof. Nevertheless, each provision of this Declaration and all declarations annexing property to the Association shall be deemed to be independent and severable, and the invalidity or partial invalidity of any provision shall not affect the validity or enforceability of the remaining part of that or any other provision. As used herein, the singular shall include the plural and the plural the singular, and the masculine and neuter shall each include masculine, feminine and neuter, as the context requires. All captions used herein are intended solely for convenience of reference and shall in no way limit any of the provisions of this Declaration.

10.6 Duration. The covenants, conditions and restrictions of this Declaration shall run with and bind the land for a term of thirty-five (35) years from the date of this Declaration being recorded, after which time they shall be automatically extended for successive periods of ten (10) years, unless rescinded by a vote of at least ninety percent (90%) of the Owners and ninety percent (90%) of the first mortgagees; provided, however, that amendments that do not constitute rescission of the planned community may be adopted as provided in Section 10.7 below. Additionally, any such rescission that affects the Common Area shall require the prior written consent of the City of Redmond, and, if any provision of this Declaration violates the rule against perpetuities or any other limitation on

the duration of the provisions herein contained imposed by law, then such provision shall be deemed to remain in effect only for the maximum period permitted by law or, in the event the rule against perpetuities applies, until twenty-one (21) years after the death of the last survivor of the now living descendants of Governor John Kitzhauber.

10.7 Amendment. As provided by ORS 94.590, and except as otherwise provided in Sections 10.6 and 10.9 hereof and the restrictions set forth elsewhere herein, this Declaration may be amended at any time by an instrument approved by not less than eighty percent (80%) of the total votes of each class of Members that are eligible to vote. Any amendment must be executed, recorded and certified as provided by law; provided, however, that no amendment of this Declaration shall affect an amendment of the Bylaws or Articles without compliance with the provisions of such documents and those of the Oregon Non-Profit Corporation Act; and provided further that, so long as Declarant owns any Lot, no amendment affecting the general plan of development or any other right of Declarant herein contained may be affected without the express written consent of Declarant or its successors and assigns.

10.8 Release of Right of Control. Declarant may release its right of control in writing at any time by notice to the Association.

10.9 Unilateral Amendment by Declarant. Declarant may amend this Declaration to comply with the requirements of the Federal Housing Administration of the United States, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Mortgage Loan Corporation, any department, bureau, board, commission or agency of the United States or the State of Oregon, or any other state in which the Lots are marketed and sold, or any corporation wholly owned, directly or indirectly, by the United States or the State of Oregon, or such other state, the approval of which entity is required in order for it to insure, guarantee or provide financing in connection with development of the Property and sale of Lots. Before the Turnover Meeting, no such amendment shall require notice to or approval by any Class A or B member.

10.10 Private Agreement. This Declaration and the covenants and agreements contained herein constitute a private agreement among the Owners of Lots in The Cliffs of Redmond, and the City of Redmond is under no obligation to enforce any of its provisions. Likewise, the ARC, the Association and Declarant are under no obligation or duty to enforce City of Redmond regulations or to warrant to Owners that proposed improvements comply with City of Redmond regulations, such being the sole and exclusive responsibility of the Owner. This Declaration does not restrict the City of Redmond authority to adopt or amend its development regulations. The City of Redmond shall limit its review of a development application to the requirements of its regulations. It is the duty of every person engaged in

development or remodeling of a Lot or an improvement in The Cliffs of Redmond to know the requirements of this Declaration and the covenants and agreements contained herein. In the event that a City of Redmond regulation conflicts with a provision of this Declaration, any question regarding which provision controls shall be directed to the ARC. While the ARC lack authority to authorize the Owner to violate a City of Redmond standard, it may require the Owner to meet standards that meet or exceed the City's standards. The City of Redmond shall not be liable for any approvals or permits that are granted in compliance with the City of Redmond regulations but that are not in compliance with this Declaration.

10.11 Cable and Telephone Systems. Declarant hereby reserves the right (but not the obligation) to erect, repair and maintain to a third party or parties, the right to erect, repair and maintain on, over, in, upon, under and across portions of the Common Area (a) one (1) or more satellite receivers or transmission disks and other equipment for the purpose of providing cable television service to Lots and other neighboring properties, and (b) equipment and structures connected with providing telephone systems (private or otherwise) and services, and security systems and services to Lots and other neighboring properties, so long as such equipment and structures comply with all applicable city, state and federal laws and regulations. Declarant hereby reserves and may grant to a third party or parties an easement over, in, upon, under and across all or such parts of the Common Area as are reasonably required to accomplish such purposes. It is the intention of Declarant that any business or businesses operated by Declarant or a third party or parties in accordance with this Section 10.11 shall be owned and considered as, and shall be entitled the rights and easements granted hereunder to, other utility companies or service providers. Nothing in this Declaration shall be construed to mean that the ownership of such equipment and structures and benefits of such business and businesses shall belong to the Association or to any Owner or Owners.

10.12 Right of First Mortgagee Relating to Maintenance. At any time that the Common Areas are not maintained or repaired by the Association to the extent reasonably necessary to protect and preserve the value of the Property for security purposes, then the record mortgagee, upon giving written notice as hereinafter provided, shall be entitled to exercise the rights of the Owner of the Lot as a member of the Association to vote at all regular and special meetings as of the date of such notice. During this one-year period, the Association shall give notice of all regular and special meetings to both the Owner and the mortgagee, and the Owner may attend such meetings as an observer. Notice from the mortgagee under this Section 10.12 shall quote this Section 10.12 and shall be sent postage prepaid by certified United States mail, return receipt requested, to the Owner with a copy by regular mail to the Association, directed to the last known address of each.

10.13 Resolution of Document Conflicts. In the event of a conflict among any of the provisions in the documents governing The Cliffs of Redmond, such conflict shall be resolved by looking to the following documents in the order shown below:

1. Declaration of Covenants, Conditions and Restrictions;
2. Articles of Incorporation;
3. Bylaws; and
4. Rules and Regulations.

The provisions of the Oregon Planned Community Act, ORS 94.550 *et seq.*, shall be paramount to the provisions in all of the above-listed documents.

ARTICLE 11

DECLARANT'S SPECIAL RIGHTS

11.1 General. Declarant is undertaking the work of developing Lots and other improvements within The Cliffs of Redmond. The completion of the development work and the marketing and sale of the Lots is essential to the establishment and welfare of the Property as a residential community. Until the Homes on all Lots on the Property have been constructed, fully completed and sold, or the Turnover Meeting, whichever first occurs, with respect to the Common Areas and each Lot on the Property, Declarant shall have the special rights set forth in this Article 11.

11.2 Marketing Rights. Declarant shall have the right to maintain a sales office and model on one (1) or more of the Lots that Declarant owns, which sales office(s) and model(s) shall be staffed by the employees of Declarant or any licensed real estate sales agents. Declarant and prospective purchasers and their agents shall have the right to use and occupy the sales office and models during reasonable hours any day of the week. Declarant may maintain a reasonable number of "For Sale" signs at reasonable locations on the Property, including, without limitation, the Common Area.

11.3 Declarant Easements. Declarant has reserved easements over, in, upon, under or across the Property as more fully described in Article 3 of this Declaration.

11.4 Appearance of Common Area. Declarant shall not be prevented from changing the exterior appearance of the Common Area, including the landscaping or any other matter directly or indirectly connected with The Cliffs of Redmond, in any manner deemed desirable

by Declarant, provided that Declarant obtains any governmental consents required therefor by law.

11.5 Mediation and Arbitration. The Declarant shall not be required to mediate or arbitrate a dispute, except upon the Declarant's express written consent, which consent may be revoked at any time by Declarant.

IN WITNESS WHEREOF, the undersigned being the Declarant herein, has executed this instrument this 3 day of September, 2003.

TRI-COUNTY INVESTORS II, LP

By: 
Robert L. Childers, General Partner

STATE OF OREGON)
) ss.
County of Deschutes)

This instrument was acknowledged before me on September 3, 2003,
by Robert L. Childers, as General Partner of Tri-County Investors II, LP.



Angelique J. White
Notary Public for Oregon