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DECLARATION OF COVENANTS, CONDITIONS, RESTRICTIONS AND RESERVATION OF EASEMENTS

FOR

LIBERTY LAKE ESTATES

A PLANNED UNIT DEVELOPMENT

LOCATED IN

SPOKANE COUNTY, WASHINGTON

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DECLARATION OF COVENANTS, CONDITIONS, RESTRICTIONS AND RESERVATION OF EASEMENTS FOR LIBERTY LAKE ESTATES

THIS DECLARATION of the Liberty Lake Estates Planned Unit Development (hereinafter sometimes referred to as "LLE-PUD") is made on this ____ day of _____, 1990, by WALTER WORTHY and KAREN WORTHY, husband and wife (hereinafter referred to as the "Sponsor").

A. The Sponsor is the Owner of certain property ("Properties") in Spokane County, Washington, sometimes referred to as Phase I, or Liberty Lake Estates First Addition, and described as follows:

Those portions of the SE¼ of Section 15 and of the NE¼ of Section 22, Township 25 North, Range 45 East, W.M., Spokane County, Washington, described as follows:

Beginning at a point which lies N15°58'47"E from the quarter corner common to said Sections 15 and 22 (basis of bearings is Record of Survey filed in Spokane County under Auditor's File No. 8808050163); thence N90°00'00"E, 99.03 feet to the westerly right-of-way line of Liberty Lake Road as deeded to Spokane County, by Right-of-Way Deed recorded under Auditor's File No. 8309010265, and a point on a nontangent, 1,960.93 foot radius curve to the left, the center of which bears N58°36'25"E; thence southeasterly along said right-of-way line the following two calls: 1) along the arc of said curve through a central angle of 14°59'10", 512.89 feet; 2) S46°22'45"E, 2.54 feet; thence S42°42'05"W, 141.93 feet; thence S20°43'13"E, 359.63 feet; thence S42°11'04"E, 207.74 feet; thence S76°24'15"E, 156.14 feet; thence N43°53'26"E, 232.36 feet to said westerly right-of-way line of Liberty Lake Road; thence southeasterly along said right-of-way line the following two calls: 1) S46°06'34"E, 351.81 feet to a point on a nontangent, 231.48 foot radius curve to the right, the center of circle of which bears S43°33'10"W; 2) along the arc of said curve, through a central angle of 33°45'14", 136.37 feet; thence N89°36'51"W, 648.67 feet; N45°24'13"W, 333.99 feet; thence S47°52'27"W, 82.83 feet; thence N42°07'33"W, 143.02 feet; thence N47°52'27"E, 70.00 feet; thence N14°15'21"W, 111.32 feet; thence S79°21'47"W, 170.08 feet; thence N00°00'00"E, 203.16 feet; thence N79°00'00"E, 215.00 feet; thence N23°45'00"W, 620.00 feet to the Point of Beginning.

B. The Sponsor will create a Corporation pursuant to the Washington Nonprofit Corporation Act (RCW Chapter 24.06) to which shall be assigned the powers and duties of maintaining and

administering the Common Area, administering and enforcing the covenants, conditions and restrictions, and collecting and disbursing the assessments and charges. That Corporation shall be called the Liberty Lake Homeowners Association and shall be referred to as the "Association" or the "Corporation".

C. The Sponsor will create such Corporation, the members of which shall be the Owners of Dwelling Units in the LLE-PUD.

D. The Sponsor intends to sell and convey all of the Dwelling Units subject to these covenants, conditions, restrictions, reserved easements, equitable servitudes, liens and charges.

E. The Sponsor declares that all of the Dwelling Units shall be held, sold, conveyed, encumbered, leased, used, occupied and improved subject to the following covenants, conditions, restrictions, easements and equitable servitudes, all of which are for the purpose of uniformly enhancing and protecting the value, attractiveness and desirability of the Dwelling Units, and in furtherance of a general plan for the protection, maintenance, improvement and sale of the Dwelling Units. The covenants, conditions, restrictions, reserved easements and equitable servitudes set forth herein shall run with the Properties and shall be binding upon all persons having any right, title or interest in the Lots and/or the Dwelling Units, or any part thereof, their heirs, successors and assigns; shall inure to the benefit of every portion of the Lots and Dwelling Units and any interest therein; and shall inure to the benefit of, and be binding upon, the Sponsor, each Owner and their respective heirs, executors, administrators, successors and assigns; and may be enforced by the Sponsor, or by the Association.

ARTICLE I
DEFINITIONS

Unless otherwise expressly provided, the following words and phrases, when used in this Declaration or any Supplemental Declaration, shall have the following meanings:

Section 1.01 Articles shall mean the Articles of Incorporation of the Liberty Lake Estates Homeowners Association to be filed in the Office of the Secretary of State of the State of Washington, as such Articles may be amended from time to time.

Section 1.02 Common Assessment shall mean the monthly charge against each Owner and his Dwelling Unit, representing a portion of the total ordinary costs of maintaining, improving, repairing, replacing, managing and operating the Common Area, those portions of the Lots which are not built upon and the exterior of the Dwelling Units, all as hereinafter provided.

Section 1.03 Special Assessment shall mean a charge against a particular Owner and his Dwelling Unit, directly attributable to such

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Owner, equal to the cost incurred, or fine levied, by the Association for corrective action pursuant to this Declaration or for maintenance, at the Owner's request, of any part of his Dwelling Unit not otherwise maintained pursuant to this Declaration.

Section 1.04 Reconstruction Assessment shall mean a charge against each Owner and his Dwelling Unit, representing a portion of the cost to the Association for the reconstruction of any portion of the Improvements on the Common Area, or of a Dwelling Unit, pursuant to this Declaration.

Section 1.05 Capital Improvement Assessment shall mean a charge against each Owner and his Dwelling Unit, representing a portion of the costs to the Association for installation or construction of any Improvements on any portion of the Common Area, or of a Lot which is not built upon, which the Association may, from time to time, authorize, pursuant to this Declaration.

Section 1.06 Association or Corporation shall mean the Liberty Lake Homeowners Association formed pursuant to the Washington Nonprofit Corporation Act.

Section 1.07 Beneficiary or Mortgagee shall mean a mortgagee under a mortgage or a beneficiary under a deed of trust, as the case may be, and the assignees of such mortgagee or beneficiary.

Section 1.08 Board or Board of Directors shall mean the Board of Directors of the Association.

Section 1.09 Bylaws shall mean the Bylaws of the Association.

Section 1.10 Close of Sale shall mean the date on which a deed or real estate contract is recorded conveying, or contracting to convey, a Dwelling Unit to a purchaser.

Section 1.11 Common Area or Common Areas shall mean all the real property and improvements, excepting only the Dwelling Units and the Lots on which they are located, including, without limitation, trees, shrubs, flowers, other landscaping, recreational facilities, ponds, roadways and walkways, which are for the common use and enjoyment of all of the Owners. The Common Area is legally described as follows:

Lot 21, Block 1, Lot 5, Block 2, Lot 1, Block 4, and Lot 1, Block 5, Liberty Lake Estates First Addition, according to plat recorded in the office of the auditor of Spokane County, Washington.

Section 1.12 Common Expenses shall mean the actual or estimated costs of: Maintenance, management, operation, repair and replacement of improvements to the Common Area (including unpaid Special Assessments, Reconstruction Assessments and Capital

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Improvement Assessments) and to parts of the Lots which are not built upon, including those costs not paid by the Owner responsible for payment, the costs of any commonly metered utilities and other commonly metered charges for the Properties, costs of management and administration of the Association, including, but not limited to, compensation paid by the Association to managers, accountants, attorneys and other employees, the costs of all utilities, gardening and other services benefiting the Common Area and to parts of the Lots which are not built upon; the costs of fire, casualty and liability insurance, workmen's compensation insurance, and other insurance all covering the Common Area and to parts of the Lots which are not built upon; the costs of fidelity bonds, taxes paid by the Association, amounts paid by the Association on the common area to discharge any lien or encumbrances levied against the Common Areas for the benefit of all of the Owners.

Section 1.13 Declaration shall mean this instrument as it may be amended from time to time.

Section 1.14 Deed of Trust or Mortgage shall mean a mortgage or a deed of trust, as the case may be, on any Lot or Dwelling Unit.

Section 1.15 Dwelling Unit shall mean a building, located on a Lot, designed and intended for use and occupancy as a residence by a single family.

Section 1.16 Family shall mean (1) a group of natural personas related to each other by blood or legally related to each other by marriage or adoption, or (2) a group of not more than three (3) natural persons not all so related, who maintain a common household in a Dwelling Unit.

Section 1.17 First Deed of Trust or First Mortgage shall mean the primary or first priority deed of trust or mortgage recorded prior to any Assessment.

Section 1.18 First Mortgage or First Deed of Trust Beneficiary shall mean a mortgagee or deed of trust beneficiary which is a bank, savings and loan association, mortgage company, or other entity chartered under federal or state laws, any corporation or insurance company, or any federal or state agency which holds or owns a first mortgage or first deed of trust on a Dwelling Unit.

Section 1.19 Sponsor shall mean Walter Worthy and Karen Worthy, husband and wife, their successors and assigns.

Section 1.20 Improvement shall mean any structure or appurtenance thereto of every type and kind, including, but not limited to, buildings, outbuildings, walkways, sprinkler pipes, garages, carports, ponds, cabanas, recreational facilities, roads, driveways, parking areas, fences, screening walls, retaining walls, stairs, decks, landscaping antennae, hedges, windbreaks, plantings,

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planted trees and shrubs, poles, signs, exterior air conditioning and water-softening fixtures or equipment.

Section 1.21 Initial Sale shall mean the final sale of a Dwelling Unit by the Sponsor to an Owner.

Section 1.22 Lease shall mean any agreement for the leasing or rental of a Dwelling Unit.

Section 1.23 Lot shall mean a platted lot in the Planned Unit Development on which there has been, or will or may be, constructed a Dwelling Unit.

Section 1.24 Manager shall mean the Person, if any, appointed by the Association as its agent to whom is delegated certain duties, powers or functions of the Association.

Section 1.25 Member shall mean any Person holding a membership in the Association.

Section 1.26 Mortgage; Deed of Trust; Mortgagee; or Mortgager shall mean any mortgage or deed of trust on a Dwelling Unit to secure the performance of any obligation, which will be released or reconveyed upon the completion of such performance. The term "Deed of Trust" or "Trust Deed" shall be synonymous with the term "Mortgage". The term "Mortgagee" shall mean a person to whom a Mortgage is given and shall include the beneficiary of a Deed of Trust. "Mortgagor" shall mean a person giving a mortgage to, and shall include the Trustor or Grantor of a Deed of Trust.

Section 1.27 Notice and Hearing shall mean written notice of a hearing at a regular or special meeting of the Board at which the Owner concerned shall have an opportunity to be heard in person, or by counsel at the Owner's expense, in the manner provided by the Bylaws.

Section 1.28 Owner shall mean the Person or Persons, including the Sponsor, holding a fee simple interest of record to, or a real estate contract for the purchase of, any Dwelling Unit or Lot. For purposes of Article X only, unless the context otherwise requires, Owner shall also include the family, guests, invitees, licensees and lessees of any Owner.

Section 1.29 Person shall mean a natural individual or any other entity with the legal capacity to hold title to real property.

Section 1.30 Phase shall mean a particular parcel of property which is, or may become, part of the Properties pursuant to the recordation of an appropriate Declaration of annexation. The property described in Paragraph A is the First Phase. Any parcel subsequently annexed to the Properties shall be a subsequent phase of the Properties.

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Section 1.31 Properties shall mean all of the real property described in Paragraph A, plus any validly annexed real property.

Section 1.32 Record; Recorded; Filed; or Recordation shall mean, with respect to any document, the recording of such document in the Office of the Auditor of Spokane County, Washington.

Section 1.33 Association Maintenance Funds shall mean the funds held by the Association, pursuant to Article V hereof.

Section 1.34 Water Company shall mean any municipality or district providing water service to the Properties and Dwelling Units.

ARTICLE II
MEMBERSHIP IN THE ASSOCIATION

Section 2.01 Membership. Every Owner of a Lot or of a Dwelling Unit, whether under construction or finished, or in subsequently annexed property, shall be a Member of the Association. Membership in the Association shall be appurtenant to, and may not be separated from, the ownership of each Lot or Dwelling Unit. Ownership of such Lot or Dwelling Unit shall be the sole qualification for membership in the Association. Membership as to any annexed property shall occur upon the filing of a Declaration of Annexation.

Section 2.02 Transfer. The Association membership held by any Owner shall not be transferred, pledged or alienated in any way, except upon the sale or transfer of such Dwelling Unit, and then only to the purchaser, or other person becoming the Owner of such Lot or Dwelling Unit. Any attempt to make a prohibited transfer is void. A Class A Member who has conveyed his Lot or Dwelling Unit or who has sold his Lot or Dwelling Unit under a real estate contract shall thereby have transferred to such grantee, or contract purchaser, his right membership in the Association.

ARTICLE III
VOTING RIGHTS

Section 3.01 Classes of Voting Membership. The Association shall have two (2) classes of voting membership as follows:

Class A. Class A Members shall be all Owners, with the exception of the Sponsor, but only for so long as there exists a Class B membership for the Development. Class A Members shall be entitled to one (1) vote for each Lot or Dwelling Unit owned. The Sponsor shall become a Class A Member with regard to Dwelling Units owned by the Sponsor upon conversion of the Sponsor's Class B membership as provided below. When more than one person holds an interest in any Dwelling Unit, all such persons shall be Members, but the vote for such Dwelling Unit shall be exercised in accordance with Article III, Section 3.02, of this Declaration, and in no event shall

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more than one (1) Class A vote be cast by a Class A Member with respect to any Dwelling Unit.

Class B. The Class B Member shall be the Sponsor. The Sponsor shall be entitled to five (5) votes for each Lot or Dwelling Unit owned by the Sponsor. Class B membership shall cease and be converted to Class A membership on the happening of the earlier of the following events:

a. Four (4) months after the total votes outstanding in the Class A membership equals or exceeds the total votes outstanding in the Class B membership (including any annexed Properties); or

b. Five (5) years from the Initial Sale unless, prior to that time, additional Phases are annexed to the Properties pursuant to Article XVII, in which event the time shall be extended to seven (7) years from Close of Sale of the first Dwelling Unit sold.

Section 3.02 Vote Distribution. Class A members being entitled to one (1) vote for each Lot or Dwelling Unit owned, when more than one person, other than the Sponsor, has an interest in any Lot or Dwelling Unit, all such persons shall be members and may attend any meeting of the Association, but only one shall be entitled to exercise the vote to which the Dwelling Unit is entitled. Such person may, from time to time, designate in writing one of their number to vote. Fractional votes shall not be allowed. Where no voting co-owner is designated, or if such designation has been revoked, the vote for such Dwelling Unit shall be exercised as the majority of the co-owners of the Dwelling Unit mutual agree. Unless the Board receives a written objection from a co-owner, it shall be presumed that the voting co-owner is acting with the consent of his co-owners. No vote shall be cast for any Dwelling Unit where the majority of the co-owners present in person or by proxy and representing such Dwelling Unit cannot agree to said vote or other action. All agreements and determinations lawfully made by the Association in accordance with the voting established herein, or in the Articles or Bylaws, shall be binding on all Owners, their successors and assigns. Said voting rights shall be subject to the restrictions and limitations provided in this Declaration, the Articles and Bylaws, provided, however, that so long as the Sponsor has any interest in any residential Lot or Dwelling Unit, the Sponsor, or his assignee, shall have the right to appoint at least one (1) member to the Board of Directors regardless of the voting results.

ARTICLE IV
JURISDICTION OF THE ASSOCIATION

The Association, acting through its Board, shall have the following authority and, where so indicated, duty:

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a. The authority and duty to maintain, repair and otherwise manage the Common Area and parts of the Lots which are not built upon, and all facilities, improvements and landscaping thereon, all in accordance with the provisions of this Declaration.

b. The authority and duty to maintain the streets within the Properties, including cleaning, snow removal, and periodic resurfacing as necessary.

c. The authority and duty to maintain sewer systems, water storm drains or drainage facilities within the Common Area.

d. The authority and duty to maintain electric, gas, water and sewer services to the Properties, provided that these functions and facilities to the points where they enter or leave the buildings may be assigned and transferred to the respective purveyors.

e. The authority and duty to grant easements, rights of way, or strips of land, where necessary, for utilities over the Common Area and parts of the Lots which are not built upon, to serve the Common Area and the Dwelling Units.

f. The authority and duty to maintain liability and fire insurance with respect to the Common Area and parts of the Lots which are not built upon, and personal property, if any, owned by the Association.

g. The authority, but not the duty, to employ or contract with a professional manager to perform all or any part of the duties and responsibilities of the Association, and the authority to delegate its authority and duties to committees, officers and employees.

h. The authority, but not the duty, after Notice and Hearing, without being liable to any Owner, to enter any Dwelling Unit for the purpose of enforcing, by peaceful means, the provisions of this Declaration, or for the purpose of maintaining or repairing any part of the Properties if for any reason whatsoever the Owner fails to maintain or repair any such area as required by this Declaration. Said cost shall be a Special Assessment on said Owner's property and shall create a lien enforceable in the same manner as other assessments as set forth in this Declaration. Such Owner shall pay promptly all amounts due for such work.

ARTICLE V
MAINTENANCE ASSESSMENTS

Section 5.01 Creation of the Lien and Personal Obligation of Assessments. The Sponsor, for each Lot or Dwelling Unit owned within the Properties, hereby grants to the Association a lien and mortgage upon such Lot or Dwelling Unit, and each Owner of any Lot or Dwelling Unit, by acceptance of a deed or real estate contract therefor, whether or not it shall be so expressed in such deed or contract,

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accepts and joins in granting such lien and mortgage to secure payment of all assessments and charges due from such Owner to the Association. Such assessments, together with interest at the highest rate allowed by law, or at twelve per cent (12%) per annum if no maximum rate exists, costs and reasonable attorney fees for the collection thereof, shall be secured by a lien and mortgage on the Lot or Dwelling Unit. Each such assessment, together with such interest, costs and reasonable attorney fees, shall also be the personal obligation of the person who was the Owner of the Dwelling Unit at the time when the assessment fell due. The personal obligation of the Owner shall continue as a lien and mortgage on the Dwelling Unit, but shall not be a personal obligation of a successor in title unless expressly assumed.

Section 5.02 Creation of Fund. The Board of Directors shall establish a separate account (the "Association Maintenance Fund") into which shall be deposited all Common Assessments paid to the Association and from which disbursements shall be made in performance of functions by the Association. Said Maintenance Fund shall include (1) an operating fund for current Common Expenses, and (2) a reserve fund for Common Expenses which would not reasonably be expected to recur on an annual or less frequent basis. If an operating fund or reserve fund proves at any time to be inadequate, the Board may at any time levy a supplemental Common Assessment, subject to the provisions of Section 5.04 of this Article.

Section 5.03 Purpose of Common Assessments. The Common Assessments levied by the Association shall be used exclusively to promote the common health, safety, benefit, recreation and welfare of the Owners and for the improvement and maintenance of the Common Area and portions of Lots which are not built upon, and the exteriors, including roofs, of the Dwelling Units. The Association shall pay, out of applicable funds, the following.

a. Water, sewer, electrical, lighting and other necessary utility services for the Common Area and water and sewer for all Dwelling Units.

b. Maintenance and repair of the private streets and parking areas within the Common Area and all costs of snow removal and street cleaning related to said areas.

c. Landscape planting and maintenance of all landscaping and plantings within the Common Areas and portions of Lots which are not built upon, including commonly metered irrigation and lighting.

d. Fire and casualty insurance with extended coverage, covering the full insurable replacement cost of all improvements on the Common Areas and portions of Lots which are not built upon.

e. Liability insurance, insuring the Association, its Directors and officers, against liability to the public or to any

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Owner, their invitees or tenants, incident to their occupation and use of the Common Areas and portions of Lots which are not built upon, with limits of liability to be set by the Board.

f. Workmen's compensation insurance to the extent necessary to comply with any applicable laws, medical payments, insurance, liquor liability insurance and any other insurance deemed appropriate by the Board.

g. Fidelity bonds covering all members of the Board and other employees and agents of the Association who are entrusted with Association funds or property, in amounts determined by the Board. The Board may elect not to bond any or all such persons.

h. Painting, maintenance and repair of all buildings, equipment, fences, and landscaping in the Common Area and portions of Lots which are not built upon. Re-roofing and painting of the exteriors of the Dwelling Units.

i. Any other materials, supplies, furniture, labor, services, maintenance, repairs, structural alterations, insurance, taxes or assessments which the Association is required to secure or pay for pursuant to the terms of this Declaration or by law or which, in the opinion of the Board, shall be necessary or proper for the operation of the Common Area and portions of Lots which are not built upon, or for carrying out this Declaration.

Section 5.04 Amount of Common Assessment. Owners of Dwelling Units shall initially pay One Hundred Fifty Dollars ($150.00) per month per Dwelling Unit as the Common Assessment. Said monthly assessment for Dwelling Units may be increased by the Association with the approval of at least two-thirds (2/3) of the voting power of the members at a meeting duly called for such purpose, written notice of which shall be sent to all members not less than thirty (30) nor more than sixty (60) days in advance of the meeting. Without the necessity of member approval and after consideration of current maintenance costs and future needs of the Association, the Board may, from time to time, decrease the monthly assessment or may increase the monthly assessment by not more than ten per cent (10%) in any year compared to the prior year.

Section 5.05 Reserved.

Section 5.06 Capital Improvement and Reconstruction Assessments. In addition to the Common Assessments, the Board may levy, in any calendar year, a Capital Improvement or Reconstruction Assessment for the purpose of defraying, in whole or in part, the cost, or anticipated cost, of any construction, reconstruction, repair or replacement of any improvement or addition upon the Common Area, including fixtures and personal property related thereto, and the outside of Dwelling Units, whether or not the expenditure is made

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during that year. All such assessments shall be held in the Association Reserve Fund.

Section 5.07 Uniform Rate of Assessment and Due Date. Except as stated to the contrary herein, Common Assessments, and Capital Improvement and Reconstruction Assessments must be fixed at a uniform rate for all Dwelling Units within the Properties; provided, nevertheless, that the Association may, subject to the provisions of this Article, levy Special Assessments against particular Owners who have caused the Association to incur special expenses by the willful or negligent acts of said Owners, their family, guests or agents. All Common Assessments shall be due and payable on or before the first business day of each month and other assessments shall be paid and collected at such frequency as the Board shall determine from time to time.

Section 5.08 Date of Commencement of Common Assessments; Budget. Upon the closing of each initial sale, the purchaser of the Unit shall pay to the Association a sum equal to the then prevailing monthly Common Assessment, as a non-refundable fee, and also, if closing occurs on other than the first day of a month, pay the current monthly Common Assessment prorated from the date of closing to the end of the month in which closing occurs. The regular monthly Common Assessments shall commence on the first day of the month following the date of closing, or on the day of closing if closing is on the first day of the month. Written notice of any change in the amount of any monthly Common Assessment shall be sent to every Owner not less than thirty (30) days prior to the effective date of such change.

The Association shall, upon demand, and for a reasonable charge, furnish a certificate signed by an officer or agent of the Association, setting forth whether the assessments on a specified Dwelling Unit have been paid. A properly executed certificate of the Association as to the status of assessments against a Dwelling Unit is binding upon the Association as of the date of its issuance.

The Board shall cause to be prepared an annual balance sheet and operating statement reflecting income and expenditures of the Association for the preceding calendar year, including a statement of deposits in, and withdrawals from, all Funds maintained by the Association, and shall cause to be distributed a copy of each such statement to each Owner, and to each first Mortgagee who has filed with the Board a written request for the same.

At least sixty (60) days prior to the beginning of each year the Board shall prepare and distribute to the Owners a budget of the anticipated income and expenses of the Association during the following year, including a reasonable provision for contingencies and deposits into the Association Maintenance Fund and the Association Reserve Fund, less any expected income and any surplus from the prior years. If the estimated sums prove inadequate, including nonpayment

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of any Owner's Assessment, the Board may, at any time, levy a supplemental Common Assessment.

Section 5.09 Exempt Property. The following property which is subject to this Declaration shall be exempt from assessments:

a. All Properties dedicated to, and accepted by, a local public authority;

b. The Common Area; and

c. All Properties and/or Dwelling Units owned by the Sponsor as long as the Sponsor is a Class B Member of the Association as set forth in Section 3.01, provided, however, the Sponsor shall reimburse the Association, as long as the Sponsor is a Class B member, for its proportionate share of the actual cost of snow removal, insurance and lawn care based on the number of Dwelling Units owned by the Sponsor in relation to the total number of Dwelling Units in the Properties.

ARTICLE VI
EFFECT OF NONPAYMENT OF ASSESSMENTS: REMEDIES OF THE ASSOCIATION

Section 6.01 Effect of Nonpayment of Assessment; Remedies of the Association. Any Common Assessment, Capital Improvement or Reconstruction Assessment, Special Assessment, or any installment thereof, not paid within thirty (30) days after the due date shall bear interest from the due date at the rate of twelve per cent (12%) per annum, and the Owner shall be required to pay a late charge of Five Dollars ($5.00) or five per cent (5%) of the delinquent amount, whichever is greater. The Association may bring an action at law against the Owner personally obligated to pay the same, and/or foreclose the lien against the Dwelling Unit. No Owner may escape liability for assessments by nonuse of the Common Area, abandonment of his Dwelling Unit or in any other way.

If any assessment, or installment thereof, is not paid within fourteen (14) days after its due date, the Board may mail an acceleration notice to the Owner and to the first Mortgagee of such Dwelling Unit if such First Mortgagee has requested a copy of the notice. The notice shall specify (1) the fact of delinquency, (2) the action required to cure the default, which action shall include paying all installments coming due during the period allowed to cure the default, (3) a date, not less than thirty (30) days from the date the notice is mailed to the Owner, by which such default must be cured, (4) that failure to cure the default on or before the date specified in the notice will result in acceleration of the balance of the installments of the assessment for the then current year and the sale of the Dwelling Unit, and (5) the legal description of the Dwelling Unit. If the delinquent amounts are not paid in full on or before the date specified in the notice, the Board may, at its election, without further demand, enforce the collection of the full

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assessment and all charges thereon in any manner authorized by law or this Declaration.

Section 6.02 Notice of Assessment. No action shall be brought to enforce any assessment lien unless at least thirty (30) days have expired following the date a Notice of Assessment is deposited in the United Sates mail, certified or registered mail, postage prepaid, to the Owner of the Dwelling Unit, and a copy thereof has been recorded in the Office of the Spokane County Auditor. The Notice of Assessment must recite the legal description of such Dwelling Unit, the record Owner or reputed Owner thereof, the amount claimed (which may, at the Association's option, include interest on the unpaid assessment at eighteen per cent (18%) per annum, plus reasonable attorney fees and expenses of collection in connection with the debt secured by said lien), and the name and address of the claimant. Such Notice of Assessment shall be signed and acknowledged by the manager or by an officer of the Association. For the purposes of this Section 6.02, an Acceleration Notice given under Section 6.01 shall be deemed to be a Notice of Assessment if recorded in the Office of the Spokane County Auditor.

Section 6.03 Foreclosure Sale. The Association may foreclose the lien as a mortgage. The Association shall have the right to bid on the Dwelling Unit at the foreclosure sale.

Section 6.04 Curing of a Default. Upon the timely curing of any default for which a Notice of Assessment or Acceleration Notice was recorded by the Association, the Association shall record a Release of Lien as to the amounts stated in the recorded notice, upon payment by the defaulting Owner of a reasonable fee, to be determined by the Association, to cover the cost of preparing and recording such release.

Section 6.05 Cumulative Remedies. The assessment lien and the right to have a foreclosure and sale thereunder shall be in addition to, and not in substitution for, all other rights and remedies which the Association may have hereunder or by law, including a suit to recover a money judgment for unpaid assessments.

Section 6.06 Mortgagee Protection. Any provision hereof to the contrary notwithstanding, no lien created under Articles V or VI, nor any breach of this Declaration, nor the enforcement of any provision hereof shall defeat or render invalid, in whole or in part, the rights of the beneficiary under any recorded first Deed of Trust upon a Dwelling Unit made in good faith and for value; provided that after such beneficiary, or some other person, obtains title to such Dwelling Unit by judicial or nonjudicial foreclosure, such Dwelling Unit shall remain subject to this Declaration and the payment of all assessments accruing subsequent to the date such beneficiary or other person obtains title thereto.

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ARTICLE VII
ARCHITECTURAL CONTROL

Section 7.01 Approval by the Board. No building, fence, wall or other structure shall be erected or maintained upon the Properties, nor shall any exterior addition to, or change or alteration thereto, be made until the plans and specifications showing the nature, kind, shape, height, materials and location of the same shall have been submitted to, and approved in writing by, the Association. In the event the Association fails to approve or disapprove such design and location, or request additional information or material, within thirty (30) days after said plans and specifications have been submitted to it, disapproval will be presumed. The Association has absolute discretion in approving or disapproving any matter subject to this Article VII.

Section 7.02 Standards. The Association shall have the right to establish reasonable standards against which to examine any request made pursuant to this Article VII, in order to ensure that the proposed plans are in harmony with the exterior design and existing materials of the Improvements of the Properties.

The Association may issue rules or guidelines setting forth procedures for the submission of plans for approval, requiring a fee payable to the Association to accompany each application for approval, or additional factors which it will take into consideration in reviewing submissions.

Section 7.03 No Waiver of Future Approvals. The approval by the Association of any proposals or plans and specifications or drawings for any work done or proposed, or in connection with any other matter requiring the approval and consent of the Association, shall not be deemed to constitute a waiver of any right to withhold approval or consent as to any similar proposals, plans and specifications, drawings or matter whenever subsequently or additionally submitted for approval or consent.

Section 7.04 Inspection of Work. Inspection of work and correction of defects therein shall proceed as follows:

a. Upon the completion of any work for which approved plans are required under this Article VII, the Owner shall give written notice of completion to the Association.

b. Within sixty (60) days thereafter, the may inspect such improvement. If the Association finds that such work was not done in substantial compliance with the approved plans it shall notify the Owner, in writing, of such noncompliance within such sixty (60) day period, specifying the particulars of noncompliance, and shall require the Owner to remedy the same.

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c. If, upon the expiration of thirty (30) days from the date of such notification, the Owner shall have failed to remedy such noncompliance and after affording such Owner Notice and Hearing, the Association shall determine whether there is a noncompliance and, if so, the nature thereof and the estimated cost of correcting or removing the same. If a noncompliance exists, the Owner shall remedy or remove the same within a period or not more than forty-five (45) days from the date of announcement of the Association ruling. If the Owner does not comply with the Association ruling within such period, the Association, at its option, may peacefully remove the noncomplying improvement, or otherwise peacefully remedy the noncompliance, and the Owner shall reimburse the Association, upon demand, for all expenses incurred in connection therewith. If such expenses are not promptly repaid by the Owner to the Association, the Association shall levy a Special Assessment against such Owner for reimbursement.

d. If, for any reason, the Association fails to notify an Owner of any noncompliance within sixty (60) days after receipt of said written notice of complete from the Owner, the improvement shall be deemed to be in accordance with said approved plans.

ARTICLE VIII
MAINTENANCE AND REPAIR OBLIGATIONS

Section 8.01 Maintenance Obligations of Owners. It shall be the duty of each Owner, at his sole cost and expense, to maintain, repair, replace, restore and to keep a neat, clean, sanitary and in a attractive condition, the interior of the Dwelling Unit and the deck, patio, driveway and approach area to said Dwelling Unit and any potted plants on decks, porches and patios. In the event that any Owner shall permit any improvement or potted plant which is the responsibility of such Owner to maintain, to fall into disrepair or not to be so maintained, so as to create a dangerous, unsafe, unsightly or unattractive condition, or to otherwise violate this Declaration, the Board shall have either the right to seek any remedies at law or in equity which it may have, and the right, but not the duty, after Notice and Hearing, to enter upon such Owner's Dwelling Unit to make such repairs or to perform such maintenance, and the cost thereof shall be charged to the Owner. Said cost shall be a Special Assessment and shall create a lien enforceable in the same manner as other assessments as set forth in this Declaration.

Section 8.02 Party Walls. Each wall which is built as a part of the original construction of a Dwelling Unit on the dividing line between Dwelling Units shall constitute a party wall and, to the extent not inconsistent with the provisions of this Section 8.02, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions shall apply thereto.

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

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b. If a party wall is destroyed or damaged by fire or other casualty, any Owner who has used the wall may restore it, and if the other Owner thereafter makes use of the wall, such Owner shall contribute equitably to the cost of restoration.

c. Notwithstanding any other provision of this Section 8.02, an Owner who, by his negligent or willful act, causes the party wall to be damaged by being exposed to the elements, or otherwise, shall bear the whole cost of repair and protection against such elements.

d. The right of any Owner to Contribution from any other Owner under this Section 8.02, shall be appurtenant to the land and shall pass to such Owner's successors in title.

Section 8.03 Exterior Maintenance. In addition to maintenance upon the Common Area and portions of Lots which are not built upon, the Association shall provide exterior maintenance upon each Dwelling Unit which is subject to assessment hereunder, as follows: painting, repair, replacement and care of roofs, gutters, downspouts, exterior building surfaces, trees, shrubs, grass, walks and other exterior improvements. Such exterior maintenance shall not include the glass in any Dwelling Unit, which shall be the responsibility of each Owner.

In the event that the need for maintenance or repair of a Dwelling Unit is caused by the willful or negligent acts of its Owner, or through the willful or negligent acts of the family, guests or invitees of the Owner, the cost of such exterior maintenance shall be added to, and become part of, the assessment to which such Dwelling Unit is subject.

The extent of exterior maintenance shall be determined by the Association.

The Association and any agent or contractor selected by it for the purpose of maintenance are hereby granted an easement to the Dwelling Units and over and across the Properties to accomplish the above purposes.

ARTICLE IX
CHARGES FOR UTILITY SERVICES

Section 9.01 Direct Charges. Charges to Owners for natural gas, power or electricity will be made directly by the utility company to the Owner, beginning with the first occupancy of the said Dwelling Unit. First occupancy means when the first individual service is requested for an Owner of a Dwelling Unit. Charges for telephone, refuse, cable television and individual security services will be similarly charged directly to the Owner receiving the service. Refuse containers must be kept inside the home or garage, except on collection days.

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ARTICLE X
USE RESTRICTIONS

All real property within the properties shall be held, used and enjoyed subject to the following limitations and restrictions, subject to the exemption of the Sponsor in Article XVI hereof:

Section 10.01 Single Family Dwelling Units/Leases. Each unit shall be used as a residence for a single family and for no other purpose. No unit shall be leased or rented for a term of less than three (3) months.

Section 10.02 No Business or Commercial Activity. No part of the Properties shall be used for any business, commercial, manufacturing, mercantile, storage, vending or such other non-residential purposes; except that the Sponsor or his assignee may use a portion of the Properties for a sales office during the sales period, and residents may use their telephones for business purposes and may engage in incidental gainful activities totally inside their units not involving customers or clients coming to their units.

Section 10.03 Nuisances. No noxious or offensive activity (including, but not limited to, the repair of motor vehicles or boats) shall be carried on, in or upon any Dwelling Unit, Common Area or portions of Lots which are not built upon, nor shall anything be done therein which may be, or become, an unreasonable annoyance or a nuisance to any other Owner. The Association shall have the right to determine if any noise, odor or activity constitutes a nuisance. No Owner, tenant or guest shall be allowed to store any boat, vehicle, camper, trailer or the like anywhere on the Properties, except within the Dwelling Unit, including the garage, for more than forty-eight (48) hours. All passenger vehicles are to be regularly parked inside each Dwelling Unit's garage and the garage shall be kept closed.

Section 10.04 Signs. No sign, poster, display, billboard or other advertising device of any kind shall be displayed to the public view on any portion of the Properties or any Dwelling Units, except signs of reasonable size, used by the Sponsor, its successors and assigns to advertise the Properties during the construction, sale or lease period, including with respect to additional Properties that may be annexed. The Association may provide one central advertising board not larger than four (4) feet square for use by any Dwelling Unit Owner to post "For Sale" or "For Rent" notices. The Association may determine the location and establish rules for use of the advertising board, and be responsible for maintenance thereof.

Section 10.05 Unlawful Activity. No unlawful use shall be made of the Properties, or any part thereof, and all laws, zoning ordinances and the regulations of all governmental bodies having jurisdiction thereof shall be observed.

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Section 10.06 Animal Restrictions. No insects, reptiles, poultry or animals of any kind shall be raised, bred or kept in, or on, any Dwelling Unit, the Common Area or portions of Lots which are not built upon, except usual and ordinary dogs, cats, fish, birds and other household pets which may be kept within the Dwelling Units in reasonable numbers, provided that they are not kept, bred or maintained for commercial purposes or in unreasonable quantities, or in violation of the rules and regulations adopted by the Association. Equine, bovine, caprine, porcine and ovine animals, without limitation, are prohibited. "Reasonable numbers" shall ordinarily mean not more than two (2) pets per household; provided, however, that the Association may determine that a reasonable number in any instance may be more or less. The Association shall have the right to prohibit maintenance of any animal which, in the opinion of the Board, constitutes a nuisance or threat to any other Owner. Animals belonging to Owners, occupants or their licensees, tenants or invitees within the Properties must be kept within the Dwelling Unit, on a leash or in a cage. Each Owner shall be liable, without proof of negligence, to each other Owner, their families, guests, tenants and invitees, for any unreasonable inconveniences or damage to person or property caused by any animals brought or kept upon the Properties by an Owner or by members of his family, his tenants or his guests, and it shall be the absolute duty of each Owner of an animal to promptly clean up after such animals which have sullied any portion of the Common Area or Dwelling Units. No dog runs or kennels will be allowed anywhere on the Properties. With the exception of the caretaker's quarters located within the recreation building, no pets will be allowed inside the fenced pool area or recreation building, even if on a leash or in a cage.

Section 10.07 Wood and Waste. No rubbish, trash, garbage or other waste material, firewood, coal, pellets or other fuel, shall be kept outside of any Dwelling Unit.

Section 10.08 Insurance Rates. Nothing shall be done or kept in the Properties which will increase the rate of insurance on any property insured by the Association, nor shall anything be done or kept in the Properties which would result in the cancellation of insurance on any property insured by the Association.

Section 10.09 Drainage. There shall be no interference with the established drainage patterns over any part of the Properties. For the purposes hereof, "established" drainage is defined as the drainage which exists at the time that such Dwelling Unit is first conveyed to a purchaser, or that which is shown on any plans approved by Spokane County, which may include drainage from the Common Area over any Lot or Dwelling Units in the Properties. The established drainage cannot be altered without the consent of Spokane County.

Section 10.10 Violation of Governing Instruments. If any Owner, his family, guest, licensee, lessee or invitee violates the restrictions of this Declaration or the rules and regulations of the

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Association, the Board may suspend the rights of said person to use the Common Area facilities. The Board may seek any other remedies provided herein or by law.

ARTICLE XI
EASEMENTS

Section 11.01 Encroachment Easements. Each Dwelling Unit and the Common Area shall have the benefit of, and be subject to, an easement for encroachments created by construction, including, without limitation, utility lines, vent pipes and storage units, settling and overhangs of the buildings and other improvements as actually constructed.

Section 11.02 General Easement. There is hereby created a general easement upon, through, across, over and under the Properties for ingress, egress, installation, replacing, repairing and maintaining of all utilities and service lines and systems, including, but not limited to, water, sewer, gas, telephone, electricity and heat pump lines, master antenna system and/or cable television system. By virtue of this easement, it shall be permissible for the companies providing electrical, water, sewer, gas, master television, antenna, cable television, telephone service, alarm systems, and/or heat pump lines to install, erect and maintain all necessary pipes, wires, and conduit underground and other necessary equipment at, above, or below grade and to affix and maintain electrical, cable television and/or telephone wires, gas lines, heat pump lines, circuits and conduits on, above, across and under the roofs and exterior walls and through party walls or other buildings and meters and shut-offs at or inside and/or outside said buildings.

An easement is granted to all police, fire protection, ambulance and all similar persons, companies or agencies performing emergency services to enter upon the Dwelling Units and Common Area in the performance of their duties.

An easement is granted to the Association, its officers, agents, employees, and to any manager or management company selected by the Association to enter into, or to cross over, the Common Area and the Dwelling Units and to enter any building during reasonable hours and upon request, when occupied (except in an emergency when request and permission may be dispensed with), to inspect and to perform the duties of maintenance and repair of the buildings or Common Area or portions of Lots which are not built upon, as provided herein.

Notwithstanding anything to the contrary contained in this paragraph, no sewers, electrical lines, water lines, gas lines, heat pump lines or other utilities may be installed or relocated on said Properties except as initially established by the Sponsor or thereafter approved by the Sponsor or the Association. Should any utility or organization furnishing a service covered by this general easement request that a specific easement be provided by a separate

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recordable document, the Sponsor or the Association shall have the right to grant such easement, provided that it is substantially equivalent to the terms hereof.

The easements provided for in this Section 11.02 shall in no way affect any other recorded easement on said premises.

Section 11.03 Reservation of Easements. Reciprocal, non-exclusive easements are hereby reserved for the benefit of adjoining Dwelling Unit Owners for the control, maintenance and repair of the utilities of adjoining Dwelling Unit Owners. The Sponsor reserves, for the benefit of all of the Properties, the Owners and the Association, reciprocal, non-exclusive easements for access, ingress and egress to all Dwelling Units, and over the Common Area, for the purposes and the enjoyment of the Dwelling Units in accordance with this Declaration, including, without limitation, for installation and repair of utility services, for drainage over, across and to adjacent Dwelling Units for water resulting from the normal use of adjoining Dwelling Units, and for maintenance and repair of all landscaping.

Section 11.04 Easement to Correct Drainage. For a period of fifteen (15) years from the date of the Initial Sale, the Sponsor reserves an easement and right, but not the obligation, for itself, its successors, and the Association on, over and under the ground within the Properties to maintain and to correct drainage or surface water in order to maintain reasonable standards of health, safety and appearance. Such right includes the right to cut any trees, bushes or shrubbery, to make changes in surface contours, install underground or surface drain pipes, and to take any other similar action reasonably necessary, following which the Sponsor, his successors or the Association shall restore the affected property, as near as practicable, to its original condition. Reasonable notice of intent to take such action shall be given to all affected Owners unless an emergency appears to exist which precludes such notice.

Section 11.05 Easements on Additional Properties. All easements established by this Declaration shall apply equally to additional Properties that may be annexed to, and thus become a part of, the LLE-PUD.

ARTICLE XII
OWNER'S PROPERTY RIGHTS

Section 12.01 Owner's Easements of Enjoyment. Every Owner shall have non-exclusive rights of ingress and egress to and over the Common Area and portions of Lots which are not built upon, and non-exclusive rights of enjoyment of the Common Area and portions of Lots which are not built upon, which shall be appurtenant to, and shall pass with, title to every Dwelling Unit, subject to the rights of the beneficiaries, other easements, and the rights and duties of the Association.

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Section 12.02 Easements for Parking. The Association is hereby empowered to establish "parking", "guest parking", and "no parking" areas within the Common Area as well as to enforce parking limitations by all reasonable means, including the removal and impounding of any violating vehicles.

Section 12.03 Delegation of Use. Any Owner may share or assign his right to enjoyment of the Common Area and facilities with or to members of his family, his tenants, and/or contract purchasers who reside on the property. Any guests of an Owner, his tenants or his contract purchaser must be accompanied by said Owner, tenant or contract purchaser when using any part of the Common Area.

Section 12.04 Waiver of Use. No Owner may exempt himself from personal liability for assessments duly levied by the Association, nor release his Dwelling Unit from liens and charges by waiver of the use and enjoyment of the Common Area and the facilities thereon or by abandonment of his Dwelling Unit.

Section 12.05 Title to the Common Area. The Sponsor covenants for itself, its successors and assigns, that it will convey to the Liberty Lake Estates Trust, subject to this Declaration and the Articles, Bylaws and rules, fee simple title to the Common Area, including Common Areas in additional parcels that may be annexed, free and clear of any and all encumbrances and liens, but subject to reservations, easements, covenants, and conditions then of record, and those set forth in this Declaration.

Section 12.06 Taxes. Each Owner shall execute such instruments and take such action as may reasonably be required by the Association to obtain a separate real estate tax assessment for each Dwelling Unit. If any taxes or assessments, in the opinion of the Association, nevertheless become a lien on the Common Area, or any part thereof, they may be paid by the Association and the Owner of such property shall be obligated to reimburse the Association for such taxes and assessments, provided, however, that it is the intent of the Sponsor that the Spokane County Assessor shall assess the Common Area taxes to the Dwelling Units/Owners equally rather than establishing a separate tax parcel for the Common Area.

ARTICLE XIII
INSURANCE

Section 13.01 Casualty Insurance on Common Area. The Association shall keep all insurable improvements and fixtures of the Common Area and portions of Lots which are not built upon, insured against loss or damage by fire for the full insurance replacement cost thereof, and may obtain insurance against such other hazards and casualties as the Association deems desirable. The Association may also insure any other property, real or personal, owned by the Association, against loss or damage by fire and such other hazards as the Association deems desirable, with the Association as the owner

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and beneficiary of such insurance. Such insurance coverage with respect to the Common Area shall be written in the name of, and the proceeds thereof shall be payable to, the Association. Insurance proceeds shall be used by the Association for the repair or replacement of the property for which the insurance was carried.

Section 13.02 Liability and Other Insurance. The Association may obtain general comprehensive public liability insurance and workmen's compensation insurance, insuring the Association, the Directors individually, the Owners, the Sponsor and any manager or agent, against liability to others. The Association may also obtain such errors and omissions insurance, indemnity bonds, fidelity bonds and other insurance as it deems advisable, insuring the Directors, the officers of the Association, the manager and any volunteers against liability for acts or omissions in carrying out their obligations hereunder, or resulting from their membership on the Board or on any committee thereof. Notwithstanding any other provisions herein, the Association shall continuously maintain in effect such casualty, flood and liability insurance and a fidelity bond meeting the requirements for Planned Unit Developments established by the Federal National Mortgage Association ("FNMA"), the Government National Mortgage Association ("GNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"), so long as any of those entities is a Mortgagee, mortgage insurer or an Owner of a Dwelling Unit, except to the extent that such coverage is not available or has been waived in writing by the FNMA, GNMA and FHLMC, as applicable.

Section 13.03 Casualty Insurance on Dwelling Units. In addition to casualty insurance on the Common Area, the Association shall maintain, on behalf of all Owners, adequate blanket casualty and fire insurance in such form as the Board deems appropriate in an amount equal to the full replacement value, without deduction for depreciation or co-insurance, of the structural portions of the Dwelling Units. The insurance coverage with respect to the Dwelling Units shall be written in the name of, and the proceeds thereof shall be payable to, the Association, as Trustee for the respective Owners. Each Owner of a Dwelling Unit may be named as an additional insured. Any insurance on fixtures, interior improvements and personal property and effects of an Owner shall be the sole responsibility of the Owner. The cost of such insurance on each Dwelling Unit shall be reimbursed to the Association by the Owner of the Dwelling Unit within thirty (30) days after notice to such Owner of the amount of the insurance premium for which he is responsible.

Section 13.04 Insurance Obligations of Owners. In the event the Association cannot maintain blanket casualty and fire insurance upon the Dwelling Units, then:

a. Each Owner shall insure his entire Dwelling Unit, including the structural portion of his Dwelling Unit, against loss or damage by fire or other casualty, under the standard form of extended endorsement now in use in the State of Washington, or under such

other insurance as may be required by any Mortgagee of his Dwelling Unit.

b. All such insurance shall be for the full replacement cost of the Dwelling Unit, without deduction for depreciation or co-insurance.

c. Each Owner shall, within thirty (30) days after his initial purchase, and thereafter at least fourteen (14) days prior to the expiration, termination, cancellation or modification of any existing policy, furnish to the Association duplicate copies of policies, or certificates thereof, showing that all required insurance is in force.

d. All such policies shall contain provisions that they shall not be canceled or terminated except upon at least thirty (30) days' written notice to the Association and each Owner shall notify the Association of the existence or non-existence of any assignment of such insurance upon the sale of his Dwelling Unit to another person.

Section 13.05 Apportioning Assessment for Insurance. Premiums for insurance acquired under Section 13.01 or 13.02 shall be borne equally by all Owners and included in the Common Assessments.

Section 13.06 Annual Insurance Review. All insurance policies shall be reviewed at least annually by the Association to confirm that the coverage is sufficient to make any necessary repairs to, or replacement of, the insured property in the event of loss or damage by an insured peril.

ARTICLE XIV
DAMAGE, DESTRUCTION OR CONDEMNATION

Section 14.01 Damage or Destruction of Common Area. In the event of damage to, or destruction of, all or any portion of the Common Area or portions of Lots which are not built upon:

a. If the insurance proceeds are sufficient to effect total restoration, the Association shall cause such damaged property to be restored substantially as it previously existed.

b. If the insurance proceeds are within Five Thousand Dollars ($5,000.00), or less, of being sufficient to effect such total restoration, then the Association shall cause such damaged property to be restored substantially as it previously existed, and the difference between the insurance proceeds and the actual cost shall be levied as a Reconstruction Assessment equally against each Owner, in accordance with Article V, Section 5.06, of this Declaration.

c. If the insurance proceeds are insufficient by more than Five Thousand Dollars ($5,000.00) to effect such total restoration, then, by written consent or vote of a majority of the members of the

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Association, the members shall determine whether (1) to restore the improvements to substantially the condition which existed prior to the damage and to raise the necessary funds by levying equal Reconstruction Assessments against all Owners, (2) to restore the improvements to the greatest extent possible utilizing all available insurance proceeds and an additional amount not in excess of Five Thousand Dollars ($5,000.00), which amount would be assessed equally to all Owners as a Reconstruction Assessment, or (3) subject to the provisions of Article XV, not to rebuild or restore, and to distribute the available insurance proceeds equally to the Owners and Mortgagees of Dwelling Units as their interests may appear.

d. Each Owner shall be liable to the Association for any damage to the Common Area caused by the willful or negligent act of such Owner, his family, guests or invitees, but not fully reimbursed to the Association by insurance proceeds. Repair or replacement shall, subject to Notice and Hearing, be at the Owner's expense, and be the subject of a Special Assessment against the Owner and his Dwelling Unit.

Section 14.02 Replacement and Repair of Dwelling Units. In the event that the Association is maintaining blanket casualty and fire insurance on the Dwelling Units, the Association shall repair or replace the same from the insurance proceeds available. If such insurance proceeds are insufficient to defray the cost of repair or replacement of the property damaged or destroyed, or if there is no insurance, the Owner of the damaged or destroyed Dwelling Unit shall restore the same to substantially its appearance and condition immediately prior to the casualty.

Section 14.03 Time Limitations. The Owner of any damaged Dwelling Unit and the Association shall be obligated to proceed with all due diligence, and the responsible party shall commence reconstruction within three (3) months after the damage occurs and complete reconstruction within six (6) months after damage occurs, unless prevented by causes beyond their reasonable control.

Section 14.04 Condemnation of Common Area. Except as otherwise provided herein, if all or any part of the Common Area shall be condemned by any public authority or sold in lieu thereof, the Association shall provide each Owner and First Mortgagee with notice of the commencement of any such condemnation proceeding and of any proposed sale or disposition in lieu thereof. All net compensation, damages, or other proceeds therefrom, such sum being called the "Condemnation Award", shall be payable to the Trust. In the event that all of the Common Area is taken or condemned, or sold in lieu thereof, the Condemnation Award shall be paid to the Trust, to be divided equally among the Owners and Mortgagees as their interests may appear.

In the event that less than the entire Common Area is taken or condemned, or sole in lieu thereof, the interests, of Owners and

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Mortgagees in the Common Area not so taken or condemned shall continue as provided in this Declaration.

Any reconstruction and repair necessitated by partial condemnation, or sale in lieu thereof, shall be governed by the procedures specified in Section 14.01 above.

ARTICLE XV
MORTGAGEE PROTECTION CLAUSE

Any provisions hereof to the contrary notwithstanding:

a. Each First Mortgagee of any Dwelling Unit, at its written request, is entitled to written notification from the Association of any default by the Mortgagor of such Dwelling Unit in the performance of such Mortgagor's obligations under this Declaration, the Articles or the Bylaws, which default is not cured within thirty (30) days after the Association learns of the default.

b. Unless at least seventy-five per cent (75%) of all First Mortgagees have given their prior written approval, neither the Association nor any Owner shall, by act or omission:

1. seek to abandon, partition, alienate, subdivide, release, pledge, encumber, sell or transfer the Common Area or any interest therein, or the improvements thereon, provided that the granting of easements for public utilities or for other public or common purposes, consistent with the intended use of such property as provided in this Declaration, shall not constitute a violation of this clause;

2. change the method of determining the obligations, assessments, dues or other charges which may be levied against an Owner, or the method of distributing hazard insurance proceeds or Condemnation Awards;

3. change, waive or abandon any scheme of regulations, or enforcement thereof, pertaining to the architectural design or the exterior appearance of the Dwelling Units, the maintenance of the exterior walls or common fences and driveways, or the upkeep of lawns and landscaping of the Properties;

4. fail to maintain fire insurance on the insurable Common Area property in an amount as near as possible to one hundred per cent (100%) of the current replacement cost;

5. use hazard insurance proceeds arising from losses to any Common Area property for other than the repair, replacement or reconstruction of such property; or

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6. amend this Declaration, or the Articles or the Bylaws, in such a manner that the rights of any First Mortgagee will be adversely affected.

c. First Mortgagees, upon written request, shall have the right (1) to examine the books and records of the Association during normal business hours, (2) to require from the Association the submission of annual financial reports and other financial data within ninety (90) days following the end of any fiscal year of the Association, (3) to receive written notice of all meetings of the members, and (4) to designate in writing a representative to attend any meetings of the Association.

ARTICLE XVI
SPONSOR EXEMPTION

The Sponsor, or his successors or assigns, will undertake the work of developing all of the Dwelling Units included within the Properties. The completion of that work and sale of Dwelling Units, is essential to the Properties being a first-class residential community. In order that said work may be completed and the Properties be established as a fully occupied, first-class residential community as rapidly as possible, no Owner, or the Association, shall do anything to interfere with that activity. Nothing in this Declaration shall prevent the Sponsor, his successors or assigns, his contractor, subcontractors, agents or employees:

a. from doing such work on any Dwelling Unit owned by him as he determines to be necessary or advisable and consistent with the intent of this Declaration; or

b. from erecting, constructing and maintaining on any Common Area or any Dwelling Unit, or portion thereof, owned or controlled by the Sponsor, such structures as may be reasonably necessary for the conduct of his work and developing the Properties and any annexed Properties as a first-class residential community and disposing of Dwelling Units by sale; or

c. from conducting on any Dwelling Unit, owned or controlled by him, his business of developing the Properties as a first-class residential community and selling such Dwelling Units; or

d. from maintaining such sign or signs on the Common Area or on any Lot or Dwelling Unit owned or controlled by him as may be reasonable in connection with the sale, lease or other marketing of Dwelling Units; or

e. at any time prior to acquisition of title to a Dwelling Unit by an Owner from the Sponsor from creating on the Properties, including any annexed Properties, such additional licenses, reservations and rights-of-way to utility companies or to others as

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may, from time to time, be reasonably incident to the development and marketing of the Dwelling Units.

ARTICLE XVII
ANNEXATION OF PHASES II AND III

Section 17.01 Additional Parcels of Real Property. The Sponsor shall have the right, at any time, to cause Phase II or Phase III, or both of said Phases, or any part thereof, in any order, all as shown on the approved preliminary planned unit development plan on file in the Planning Department of Spokane County, to be annexed to, and to thus become a part of, the LLE-PUD, on the following terms and conditions:

a. The Sponsor shall construct, at his own expense, all roads, driveways, utility lines and residential buildings, and shall complete all landscaping, all of which shall be done in a manner which is aesthetically compatible with the improvements on Phase I and shall, in no event, be of lessor quality.

b. The Dwelling Units in Phase II and/or Phase III, which will, on annexation, constitute a part of the LLE-PUD, may be located substantially as set forth in said approved preliminary planned unit development plan, provided that in no event shall more than eighteen (18) Dwelling Units be added in Phases II and III.

c. The Common Areas indicated on the preliminary Plot Plans of Phases II and III shall, in the event of annexation, become Common Areas of the LLE-PUD and shall be conveyed to the Trust.

d. In the event of the annexation of Phase II and/or Phase III, the Owners in the annexed Phase(s) shall be obligated to commence paying assessments to the Association in the same manner as Owners in Phase I are obligated to commence making assessment payments to the Association, and the Sponsor shall have the same obligations and the same exemptions with respect to making payments to the Association as with respect to Dwelling Units in Phase I.

e. Upon the annexation of Phase II and/or Phase III the Owners in Phase II and/or Phase III shall have the same interest in accumulated reserves as do the Owners in Phase I even though they made no contribution to those reserves, it being recognized that when Phase II and/or Phase III may be annexed the Dwelling Units and other improvements in said annexed phases will be new and not in need, in the then near future, of re-roofing, re-painting or other significant maintenance, repair or restoration.

f. Following the annexation of Phase II and/or Phase III, the Owners of Dwelling Units in said Phase(s) shall, in all respects, be equal in both benefits and burdens to the Owners in Phase I, all to the same effect as if Phases II and/or III had been a part of the

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LLE-PUD from its inception, except that they shall have no obligation to pay assessments that accrued prior to the annexation.

g. Annexation shall be complete when a Declaration of Annexation setting forth substantial compliance with all conditions of annexation and referencing the approval of the annexation by the legal authority having jurisdiction over such annexation.

h. Provided that annexation is sought in compliance with the provisions with this Article XVII, no Owner will hinder or oppose the annexation.

Section 17.02 De-Annexation of Parcels. Any parcel of property annexed to the Properties pursuant to this Article XVII, may be de-annexed by the Sponsor, and thus removed from the application of this Declaration by the recordation of any appropriate Declaration of De-annexation, provided that such de-annexation shall take place (1) before any Lot or Dwelling Unit in the annexed parcel has been sold, and (2) before any vote has been exercised on behalf of any such Lot or Dwelling Unit by anyone other than the Sponsor.

ARTICLE XVIII
ASSIGNABILITY BY SPONSOR

The Sponsor shall have the right, at any time, and upon notice to the Association, to assign his interest as Sponsor to any person or corporation reasonably believed by the Sponsor to be capable of performing the undertakings of the Sponsor in accordance with this Declaration.

ARTICLE XIX
GENERAL PROVISIONS

Section 19.01 Enforcement. This Declaration, the Articles and the Bylaws may be enforced as follows:

a. Breach of any of the covenants contained in this Declaration, or the Articles or Bylaws of the Association, and the continuation of any such breach, may be enjoined by legal proceedings by the Sponsor, or by the Association. Any judgment rendered in any action or proceeding pursuant hereto shall include an award of attorney fees and collection expenses against the non-prevailing party in such amount as the court deems reasonable.

b. The result of any act or omission whereby any of the covenants contained in this Declaration or the Bylaws are violated is hereby declared to be a nuisance, and every remedy allowed by law or equity against a nuisance, either public or private, shall be available to the Sponsor and to the Association against any person responsible therefor.

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c. The remedies herein provided for breach of the Declaration, the Articles or the Bylaws, shall be cumulative, none of such remedies being exclusive.

d. No failure of the Sponsor or the Association to enforce any of the covenants contained in this Declaration, the Articles or the Bylaws, shall constitute a waiver of the right to enforce the same thereafter.

e. A breach of this Declaration, the Articles or the Bylaws, shall not affect the lien or charge of any first Mortgage or Deed of Trust on any dwelling Unit.

f. Whereas an individual Owner is not given the authority to enforce this Declaration, the Articles, the Bylaws or the rules promulgated pursuant thereto, each Owner has the right, by Notice and Hearing, to bring any claimed breach before the Board asking the Association to enforce the same, and if at least twenty-five per cent (25%) of the Owners join in the request, and if the Association declines to take the requested action, to require a vote of all Owners to determine whether or not the requested action should be taken.

Section 19.02 Severability. The invalidation of any provision of this Declaration shall not affect any other provisions, all of which shall remain in full force and effect.

Section 19.03 Term. This Declaration shall run with the land for a term of not less than twenty-five (25) years from the date that this Declaration is recorded, or five (5) years beyond the payment period of any first Mortgage (with a payment period not exceeding thirty [30] years) on any Dwelling Unit, after which time this Declaration shall continue in effect from year to year, unless a Declaration of Amendment or Termination meeting the requirements of an amendment to this Declaration, adopted pursuant to Section 19.05, has been recorded amending or terminating this Declaration.

Section 19.04 Interpretation. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for the development and maintenance of a first-class residential community.

Article and Section headings have been inserted for convenience only, and shall not be considered to in resolving questions of interpretation or construction.

The singular shall include the plural, the plural the singular, and masculine, feminine and neuter references shall include each other.

Section 19.05 Amendments. Except as provided in Section 19.03, this Declaration may be amended only by the affirmative vote, or

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written consent, of not less than seventy-five per cent (75%) of the voting power of each class of members; provided, however, that the prior written approval of at least seventy-five per cent (75%) of all First Mortgagees must also be obtained before Article XV may be amended; and provided, further, that the prior written approval of the Sponsor must be obtained before any Article is amended which affects the rights of the Sponsor. Notwithstanding the foregoing, until the Initial Sale, the Sponsor shall have the right to amend or terminate this Declaration by recordation of an amendment or termination document.

Section 19.06 No Public Right of Dedication. Nothing contained in this Declaration shall be deemed to be a gift or dedication of all, or any part of, the Properties to the public, or for any public use.

Section 19.07 Constructive Notice and Acceptance. Every person who owns, occupies or acquires any right, title, estate or interest in or to any Dwelling Unit, or other portion of the Properties, is conclusively deemed to have consented to every provision of this Declaration, whether or not any reference to such provision is contained in the instrument by which such person acquires such interest.

Section 19.08 No Refunds. All assessments of any type which have been validly assessed against any Lot or Dwelling Unit and have been paid, become the property of the Association, to be used by the Association for the purposes described herein and in the Articles and Bylaws of the Association. No Lot owner or Dwelling Unit owner has any right to, or interest in, the same and no such assessement shall, under any circumstances, be refundable to any Lot or Dwelling Unit owner.

Section 19.09 Notices. Any notice permitted or required to be given, as provided herein, shall be in writing and shall be delivered either personally or by mail. If delivery is by mail, it shall be deemed to have been delivered three (3) days after it has been deposited in the United States mail, postage prepaid, properly addressed to the recipient at the address appearing in the records of the Association, or to the residence of such person if no address has been given to the Association. Such address may be changed from time to time by notice in writing to the Association.

Section 19.10 No Representation or Warranties. No representations or warranties of any kind, express or implied, have been given or made by, or on behalf of, the Sponsor in connection with the Properties or any portion thereof, or any improvement thereon, or Phases II or III, or any Dwelling Unit, its physical condition, zoning, compliance with applicable laws, fitness for intended use, or in connection with the subdivision, sale, operation, maintenance, taxes, local, state or federal, or regulation of the

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Planned Unit Development, except as specifically and expressly set forth in this Declaration the Articles or the Bylaws.

Section 19.11 No Warranty of Enforceability. While the Sponsor has no reason to believe that any of the restrictive covenants contained in this Declaration are invalid or unenforceable for any reason or to any extent, the Sponsor makes no warranty or representation as to the present or future validity or enforceability of any such restrictive covenants. Any Owner acquiring a Dwelling Unit assumes the risk of the invalidity and unenforceability hereof.

Section 19.12 Arbitration. In the event that a dispute should arise under this agreement, as a condition precedent to suit, the dispute shall be submitted to arbitration in the following manner: The party seeking arbitration shall submit to the other party a statement of the issue(s) to be arbitrated and shall designate such party's nominated arbitrator. The responding party shall respond with any additional or counter statement of the issue(s), to be arbitrated and shall designate the responding party's arbitrator, all within fourteen (14) days after receipt of the initial notice. The two arbitrators thus nominated shall proceed promptly to select a third arbitrator. The arbitrators shall, as promptly as the circumstances allow and within a time established by a majority vote of the arbitrators, conduct a hearing on the issues submitted to them, and shall render their decision in writing. Any decision as to procedure or substance made by a majority of the arbitration panel shall be binding. A decision by a majority of the arbitrators on any issue submitted shall be the decision of the arbitration panel as to that issue. The arbitrators have authority to award costs and attorney fees to either party in accordance with the merits and good faith of the positions asserted by the parties. In lieu of appointing three arbitrators in the manner set forth above, the parties may, by agreement, designate a single arbitrator. Except as provided herein the arbitration proceedings shall be conducted in accordance with the rules of the American Arbitration Association and the statutes of the State of Washington pertaining to binding arbitration.

Section 19.13 Compliance with FHLMC and FNMA Regulations. The Sponsor intends that all phases of the LLE-PUD, and everything related thereto, shall comply with all requirements of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) pertaining to the purchase by FHLMC and/or FNMA of conventional home loans. The Sponsor and all Owners agree that, in the event the Properties, Phases II and III, or any documents related thereto do not comply with FHLMC or FNMA requirements, the Association shall have the power to enter into any agreements with FHLMC or FNMA (or its designee or the Mortgagees of the Dwelling Units) reasonably required by FHLMC and/or FNMA or such Mortgagee to cause the document or the Properties to comply with such requirements.

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Section 19.14 Termination of Responsibilities of the Sponsor. In the event that the Sponsor shall convey all of its right, title and interest in and to the Properties to any person, the Sponsor shall be relieved of the performance of any further duty or obligation hereunder; provided that, in order for the Sponsor to be so relieved of liability, such transferee shall expressly assume all such duties and obligations and shall first be approved by any lender to the Sponsor holding a mortgage on all or any portion of the Properties.

The Sponsor has executed this Declaration on the date first written above.

Walter Worthy

Karen Worthy

STATE OF WASHINGTON)
) ss.
County of Spokane)

On this 7th day of June, 1990, before me the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared WALTER WORTHY and KAREN WORTHY, husband and wife, and acknowledged it to be their free and voluntary act for the uses and purposes mentioned in this instrument.

WITNESS my hand and official seal hereto affixed on the day and year first above written.

NOTARY PUBLIC in and for the State of Washington, residing at Spokane
My Commission Expires: 8/25/93

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OFFICIAL SEAL
JEAN M. AUERBACH
Notary Public, State of Washington
My Commission Expires 8-25-93

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