

*Shangri-La Estates
Homeowners Association
CC&R's*



*Shangri-La Estates
Homeowners Association
P.O. Box 5720
Mesa, AZ 85211*

PREFERRED COMMUNITIES
"LOVING WHERE YOU LIVE."



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DECLARATION OF COVENANTS, CONDITIONS,
RESTRICTIONS AND RESERVATIONS PROP RSTR (RS)
FOR 87 565441

SHANGRI-LA ESTATES

City of Peoria, County of Maricopa
State of Arizona

THIS DECLARATION is made this 3RD day of September, 1987, by SHANGRI-LA INVESTMENTS, INC., an Arizona corporation, hereinafter referred to as "Declarant."

W I T N E S S E T H :

WHEREAS, Declarant is the owner of certain property located in the County of Maricopa, State of Arizona, which is more particularly described as TRACT B, BEDFORD VILLAGE, according to Book 277 of Maps, Page 32, records of Maricopa County, Arizona (the "Property").

WHEREAS, the Property is intended to be developed into an appealing residential area and the Declarant, in order to achieve the aesthetic value which each Owner is to enjoy, shall landscape the Common Area to insure a uniform look in harmony with the external architectural designs of the dwellings; and

WHEREAS, it is the purpose of this Declaration to provide a means for maintaining, controlling, and preserving the Property as a residential community desirable for residential living for all present and future Owners and it is intended that the covenants, conditions and restrictions contained herein shall be construed to achieve that objective.

NOW, THEREFORE, Declarant hereby declares that all of the Property shall be held, sold, conveyed and occupied subject to the following easements, restrictions, covenants and conditions, which are for the purpose of protecting the value and desirability of, and which shall run with, the Property and be binding on all parties having any right, title or interest in the Property or any part thereof, their heirs, successors and assigns, and shall inure to the benefit of each Owner thereof as hereinafter set forth.

RECORDED IN OFFICIAL RECORDS OF MARICOPA COUNTY, ARIZONA SEP 09 '87 - 3 00 KEITH POLETIS, County Recorder FEE 37 ⁰⁰ PGS 32 I.G. 1

ARTICLE I

DEFINITIONS

Section 1.1. Defined Terms. The following capitalized terms, for purposes of this Declaration, shall have the specific meanings set forth below:

(A) "Architectural Committee" means the committee established pursuant to Section 4.6 of this Declaration.

(B) "Architectural Committee Rules" means the rules adopted by the Architectural Committee, as they may be amended from time to time.

(C) "Articles of Incorporation" means the Articles of Incorporation of the Association, as the same may be amended from time to time.

(D) "Assessments" means the Common Expense Assessment and Special Assessments levied and assessed against each Lot pursuant to Article VI of this Declaration.

(E) "Assessment Lien" means the lien granted to the Association pursuant to Article VI of this Declaration to secure the payment of Assessments and other charges owed to the Association.

(F) "Association" means the Arizona nonprofit corporation organized by the Declarant to administer and enforce the Governing Documents and to exercise the rights, powers and duties set forth therein, and its successors and assigns. Declarant intends to organize the Association under the name of "Shangri-La Estates Homeowners Association," but if such name is not available, the Declarant may organize the Association under such other name as the Declarant deems appropriate. Unless this Declaration specifically requires a vote of the Members, approvals or other actions to be given or taken by the Association shall be valid if given or taken by the Board of Directors or its authorized delegate.

(G) "Board of Directors" or "Board" shall mean the Board of Directors of the Association.

(H) "By-Laws" means the By-Laws to be adopted by the Association, as the same may be amended from time to time.

(I) "Common Area" means the real property and improvements thereon owned by the Association for the common use and enjoyment of the Owners.

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(J) "Common Expense" means general landscape maintenance, repair and replacement of any improvements in the Common Areas, including unpaid Special Assessments; the costs of any and all cable television service which is provided in bulk to all Lots in the Property; costs of management and administration of the Association including, but not limited to, compensation paid by the Association to employees, accountants, attorneys and other agents; the costs of utilities, gardening, and other services benefiting the Common Areas; the costs of casualty, liability, workmen's compensation and other insurance covering the Common Areas and reasonable reserves as deemed appropriate by the Board; the costs of bonding of the members of the management body; taxes paid by the Association; amounts paid by the Association for the discharge of any lien or encumbrance levied against the Common Areas or portions thereof; costs incurred by the Architectural Committee; and the costs of any (one or more) item or items designated by, or in accordance with other expenses incurred by, the Association for any reason whatsoever which in the good faith judgment of the Board, are required in connection with the Common Areas, the Articles of Incorporation, or the By-Laws, or in furtherance of the purpose of the Association or in the discharge of any obligation imposed on the Association by this Declaration.

(K) "Common Expense Assessment" means the assessment levied against the Lots pursuant to Section 6.3 of this Declaration.

(L) "Declarant" means Shangri-La Investments, Inc., an Arizona corporation, and its successors and assigns if such persons acquire more than one (1) Lot from Declarant for purposes of development.

(M) "Declaration" means this Declaration of Covenants, Conditions, Restrictions and Reservations, as it may be amended from time to time.

(N) "Eligible Insurer or Guarantor" means an insurer or governmental guarantor of a First Mortgage who has requested notice of certain matters in accordance with Section 11.1 of this Declaration.

(O) "Eligible Mortgage Holder" means a First Mortgagee who has requested notice of certain matters from the Association in accordance with Section 11.1 of this Declaration.

(P) "First Mortgage" means any mortgage or deed of trust on a Lot with first priority over any other mortgage or deed of trust.

(Q) "First Mortgagee" means the holder of any First Mortgage.

(R) "Governing Documents" means this Declaration and the Articles of Incorporation and By-Laws of the Association.

(S) "Improvement" means all physical structures including, but not limited to, buildings, private drives, parking areas, fences, and walls and all landscaping, including, but not limited to, hedges, trees, and shrubs and flora of every type and kind.

(T) "Lot" means a recorded, identified plot of land, as shown on the Plat, that is designated for separate ownership, occupancy and use. The designation "Lot" shall not include any portion of the Common Area.

(U) "Member" means any person which is the Owner of a Lot subject to Assessment.

(V) "Owner" means the record owner, whether one or more persons, of beneficial or equitable title (and legal title if the same has merged with the beneficial or equitable title) to the fee simple interest of a Lot. Owner shall not include (i) persons or entities having an interest in a Lot merely as security for the performance of an obligation, or (ii) a lessee or tenant of a Lot. Owner shall include a purchaser under a contract through which a seller has conveyed to a purchaser equitable title in a Lot. Owner shall not include a purchaser under an executory contract which is intended to control the rights and obligations of the parties pending the closing of a sale or purchase transaction.

(W) "Party Wall" means any wall which is adjacent to a Use & Benefit Easement, as that term is defined in Section 3.11 and as shown on the Plat, notwithstanding the fact that such walls are not located on a property boundary or shared as a common interior wall.

(X) "Plat" means the subdivision plat for Shangri-La Estates, which plat has been recorded with the County Recorder of Maricopa County, Arizona, at Book 313 of maps, page 31, on July 29, 1987, and any amendments, supplements or corrections thereto.

(Y) "Property" means the real property located in Maricopa County, Arizona, which is described above, together with all buildings and other Improvements located thereon and all easements, rights and appurtenances belonging thereto.

(Z) "Purchaser" means any person, other than the Declarant, who by means of a voluntary transfer becomes a Lot Owner except for a person who purchases a Lot and then leases it to the Declarant for use as a model in connection with the sale of other Lots.

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(AA) "Single Family" means a group of one or more persons each related to the other by blood, marriage or legal adoption, or a group of persons not all so related, who maintain a common household on a Lot.

Section 1.2. Undefined Terms. Except as otherwise specifically defined elsewhere in this Declaration, all other words shall have their common and ordinary usage, as the context requires.

ARTICLE II

LOT BOUNDARIES; ALLOCATION OF COMMON EXPENSE LIABILITIES

Section 2.1. Lot Boundaries. The boundaries of each Lot are as set forth on the Plat.

Section 2.2. Allocation of Common Expense Liabilities. The Common Expenses of the Association shall be allocated equally among the Lots. Accordingly, each Lot shall bear an undivided 1/54th of the Common Expenses of the Association.

ARTICLE III

PROPERTY RIGHTS AND EASEMENTS

Section 3.1. Utility Easement. There is hereby created an easement upon, across, over and under the Common Area for reasonable ingress, egress, installation, replacing, repairing or maintaining of all utilities, including, but not limited to, gas, water, sewer, telephone, cable television and electricity. By virtue of this easement, it shall be expressly permissible for the providing utility company to erect and maintain the necessary equipment on the Common Area, but no sewers, electrical lines, water lines, or other utility or service lines may be installed or located on the Common Area except as initially designed, approved and constructed by the Declarant or as approved by the Board of Directors, and no common utility lines may pass over, under, or through any of the Lots, and no connecting utility line may run under any Lot other than the Lot which it serves. This easement shall in no way affect any other recorded easements on the Common Area.

Section 3.2. Easements for Ingress and Egress. There is hereby created an easement for ingress and egress for pedestrian traffic over, through and across sidewalks, paths, walks, and lanes that from time to time may exist upon the Common Area. There is also created an easement for ingress and egress for pedestrian and vehicular traffic over, through and across such driveways and parking areas as from time to time may be paved and intended for such purposes. Such easements shall run

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in favor of and be for the benefit of the Owners and occupants of the Lots and their guests, families, tenants and invitees.

Section 3.3. Drainage Easement. There is hereby created an easement upon, across, over and under the Common Area for drainage purposes. Neither the Association nor any Owner shall make any use of the Common Area which would interfere with the established drainage pattern or the ability to use the Common Area for drainage, or would otherwise increase the amount of drainage occurring over any of the Lots. This easement shall in no way affect any other recorded easements on the Common Area.

Section 3.4. Owners' Easements of Enjoyment.

(A) Every Owner shall have a right and easement of enjoyment in and to the Common Area which shall be appurtenant to and shall pass with the title to every Lot, subject to the following provisions:

(i) The right of the Association to charge reasonable admission and other fees for the use of any recreational facility situated upon the Common Area;

(ii) The right of the Association to suspend the voting rights and right of use of the recreational facilities by an Owner for any period during which any assessment against his Lot remains unpaid and, for a period not to exceed sixty (60) days, for any infractions of its published rules and regulations after hearing by the Board of Directors;

(iii) The right of the Association to dedicate or transfer easements or permits over all or any part of the Common Area to any public agency, authority or utility for such purposes and subject to such conditions as may be agreed to by the Members, and subject to the rights of the First Mortgagees. No such dedication or transfer shall be effective unless an instrument signed by two-thirds (2/3) of each class of the Members agreeing to such dedication or transfer has been recorded;

(iv) The right of the Association to establish uniform rules and regulations pertaining to the use of the Common Area and facilities; and

(v) All rights and easements set forth in this Declaration including, but not limited to, the rights and easements granted to the Declarant by Sections 3.5 and 3.6 of this Declaration.

(B) If a Lot is leased or rented, the lessee and the members of his family residing with the lessee shall have the right to use the Common Area during the term of the lease, and the Owner shall have no right to use the Common Area until the termination or expiration of the lease.

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(C) The guests and invitees of any Member or other person entitled to use the Common Area pursuant to Subsection (A) above or of any lessee who is entitled to use the Common Area pursuant to Subsection (B) above may use the Common Area provided they are accompanied by a Member, lessee or other person entitled to use the Common Area pursuant to Subsection (A) or (B) above. The Board of Directors shall have the right to limit the number of guests and invitees who may use the Common Area at any one time and may restrict the use of the Common Area by guests and invitees to certain specified times.

(D) An Owner's right and easement of enjoyment in and to the Common Area shall not be conveyed, transferred, alienated or encumbered separate and apart from a Lot. Such right and easement of enjoyment in and to the Common Area shall be deemed to be conveyed, transferred, alienated or encumbered upon the sale of any Lot, notwithstanding that the description in the instrument of conveyance, transfer, alienation or encumbrance may not refer to such right and easement.

Section 3.5. Declarant's Use for Sales and Leasing Purposes.

(A) Declarant shall have the right and an easement to maintain sales or leasing offices, management offices and models throughout the Property and to maintain one or more advertising signs on the Common Area while the Declarant is selling Lots in the Property. Declarant reserves the right to place models, management offices and sales and leasing offices in any Lots owned by Declarant and on any portion of the Common Area in such number, of such size and in such locations as Declarant deems appropriate.

(B) Declarant may from time to time relocate models, management offices and sales and leasing offices to different locations within the Property. Upon the relocation of a model, management office or sales and leasing office constituting a Common Area, Declarant may remove all personal property and fixtures therefrom.

(C) So long as Declarant is marketing Lots in the Property, Declarant shall have the right to restrict the use of the parking spaces which are not allocated to specific Lots. Such right shall include reserving such spaces for use by prospective Lot purchasers, Declarant's employees, and others engaged in sales, leasing, maintenance, construction or management activities.

(D) The Declarant reserves the right to retain all personal property and equipment used in the sales, management, construction and maintenance of the Property that has not been represented as property of the Association. The Declarant reserves the right to remove from the Property any and all

goods and improvements used in development, marketing and construction, whether or not they have become fixtures.

Section 3.6. Declarant's Easements.

(A) Declarant shall have the right and an easement on and over the Common Area to construct the Common Area and the Lots shown on the Plat and all other buildings and improvements the Declarant may deem necessary and to use the Common Area and any Lots owned by Declarant for construction or renovation related purposes, including the storage of tools, machinery, equipment, building materials, appliances, supplies and fixtures, and the performance of work respecting the Property.

(B) Declarant shall have the right and an easement on, over and under those portions of the Common Area not located within the buildings for the purpose of maintaining and correcting drainage of surface, roof or storm water. The easement created by this Subsection expressly includes the right to cut any trees, bushes, or shrubbery, to grade the soil or to take any other action reasonably necessary.

(C) The Declarant shall have an easement through the Lots for any access necessary to complete any renovations, warranty work or modifications to be performed by Declarant.

(D) The Declarant shall have the right and an easement on, over and through the Common Area as may be reasonably necessary for the purpose of discharging its obligations arising under this Declaration.

Section 3.7. Easement for Support. To the extent necessary, each Lot shall have an easement for structural support over each adjoining Lot and the Common Area, and each Lot and the Common Area shall be subject to an easement for structural support in favor of each adjoining Lot and the Common Area.

Section 3.8. Common Area Easements in Favor of Owners. The Common Area shall be subject to the following easements in favor of the Lots benefited:

(A) For the installation, repair, maintenance, use, removal or replacement of pipes, ducts, heating and air conditioning systems, electrical, telephone and other communication wiring and cables and all other utility lines and conduits which are a part of or serve any Lot and which pass across or through a portion of the Common Area.

(B) For the installation, repair, maintenance, use, removal or replacement of lighting fixtures, electrical receptacles, panel boards and other electrical installations which are a part of or serve any Lot but which encroach into a

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part of a Common Area adjacent to such Lot; provided that the installation, repair, maintenance, use, removal or replacement of any such item does not unreasonably interfere with the common use of any part of the Common Area, adversely affect either the thermal or acoustical character of a building or impair or structurally weaken a building.

(C) For the maintenance of any lighting devices, outlets, exhaust fans, ventilation ducts, registers, grilles and similar fixtures which serve only one Lot but which encroach into any part of the Common Area.

Section 3.9. Inspection Easement in Favor of Association. The Lots are hereby made subject to the following easements in favor of the Association and its directors, officers, agents, employees and independent contractors:

(A) For inspection of the Lots in order to verify the performance by Owners of all items of maintenance and repair for which they are responsible;

(B) For inspection, maintenance, repair and replacement of the Common Area situated in or accessible from such Lots;

(C) For correction of emergency conditions in one or more Lots or casualties to the Common Area or the Lots.

(D) For the purpose of enabling the Association, the Board of Directors, the Architectural Committee or any other committees appointed by the Board of Directors to exercise and discharge their respective rights, powers and duties under the Governing Documents.

(E) For inspection, at reasonable times and upon reasonable notice to the Owner, of the Lots in order to verify that the provisions of the Governing Documents are being complied with by the Owners, their guests, tenants, invitees and the other occupants of the Lot.

Section 3.10. Easement for Encroachments. To the extent that any Lot or Common Area encroaches on any other Lot or Common Area as a result of original construction shifting or settling, or alteration or restoration authorized by this Declaration, a valid easement for the encroachment, and for the maintenance thereof, exists.

Section 3.11. Use & Benefit Easement. There is reflected on the Plat the approximate location of a Use & Benefit Easement upon each Lot. Every Owner shall have a right and easement of use and enjoyment to the Use & Benefit Easement which is adjacent to such Owner's Lot (in all circumstances, the Use & Benefit Easement situated on the Lot which is numbered one higher than the Lot benefited), and to only that Use & Benefit

Easement. This easement shall be appurtenant to and shall pass with the title to every Lot. Notwithstanding the approximate locations of the Use & Benefit Easements shown on the Plat, the Use & Benefit Easements granted hereunder shall extend to all property which is separated from the remainder of the Lot on which the Use & Benefit Easement is situated by an originally positioned fence (or a fence which has been relocated in accordance with Article VII). The foregoing notwithstanding, any person entitled to use the Common Area pursuant to Section 3.4 shall have a right and easement of use and enjoyment to the Use & Benefit Easement situated upon Lot #13, which is adjacent to the Common Area.

ARTICLE IV

MEMBERSHIP IN THE ASSOCIATION; DUTIES OF THE ASSOCIATION; VOTING RIGHTS

Section 4.1. Membership. Every Owner of a Lot which is subject to assessment shall be a Member of the Association. The Membership of the Association shall at all times consist exclusively of all the Owners. Membership shall be appurtenant to and may not be separated from ownership of a Lot. The terms and provisions set forth in this Declaration which are binding upon all Owners are not exclusive, as Owners and Members shall, in addition, be subject to the terms and provisions of the Articles of Incorporation and the By-Laws of the Association to the extent the provisions thereof are not in conflict with this Declaration.

Section 4.2. Rights, Powers and Duties of the Association. The Association shall be the entity through which the Owners shall act. The Association shall have such rights, powers and duties as are prescribed by law and as are set forth in the Governing Documents, together with such rights, powers and duties as may be reasonably necessary in order to effectuate the objectives and purposes of the Association as set forth in this Declaration. Unless the Governing Documents specifically require a vote of the Members, approvals or actions to be given or taken by the Association shall be valid if given or taken by the Board. In addition to the duties and powers enumerated in its Articles and By-Laws, or elsewhere provided for herein, and without limiting the generality thereof, the Association shall:

(A) Enforce the provisions of this Declaration by appropriate means, including, without limitation, the expenditure of funds of the Association, the employment of legal counsel, the commencement of actions, and the promulgation of the Association Rules as provided in the By-Laws, which may include the establishment of a system of penalties for violation of the Rules;

(B) Own, maintain, and otherwise manage all of the Common Areas and all improvements and landscaping thereon,

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and all other property acquired by the Association, as more fully described in Article V;

(C) Pay any real and personal property taxes and other charges assessed against the Common Areas;

(D) Have the right to finance capital improvements in the Property by encumbering future Assessments if such action is approved by the written consent or affirmative vote of Owners representing more than fifty percent (50%) of the votes of each class of membership in the Association;

(E) Obtain, as may be appropriate for the benefit of all of the Common Areas, water, electric services and refuse collection;

(F) Grant easements for utilities where necessary over the Common Areas;

(G) Collect assessments to defray expenses associated with the Common Areas and maintenance thereof;

(H) Cause the exterior of the dwellings situated upon the Lots to be maintained, pursuant to Section 5.4;

(I) Maintain such policy or policies of insurance as the Board of Directors deems necessary or desirable in furthering the purpose of and protecting the interests of the Association and the Owners;

(J) Establish and maintain a working capital and contingency fund in an amount to be determined by the Board of Directors.

Section 4.3. Association Rules. The Association shall also have the power to adopt, amend and repeal such rules and regulations as it deems reasonable (the "Rules").

Section 4.4. Voting Rights. The Association shall have two classes of voting membership:

Class A. Class A Members shall be all Owners, with the exception of the Declarant, and shall be entitled to one vote for each Lot owned. When more than one person holds an interest in any Lot, all such persons shall be Members. The vote for such Lot shall be exercised as they, among themselves, determine, but in no event shall more than one vote be cast with respect to any Lot.

Class B. The Class B Members shall be the Declarant and shall be entitled to three votes for each Lot owned. The Class B membership shall cease and be converted to Class A membership on the happening of either of the following events, whichever occurs earlier:

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(a) When the total votes outstanding in the Class A membership equals the total votes outstanding in the Class B membership; or

(b) Within three (3) years from the date this Declaration is recorded.

Section 4.5. Directors and Officers. The Owners shall elect the Board of Directors which must consist of at least three members, none of whom shall be required to be Owners. The Board of Directors elected by the Owners shall then elect the officers of the Association.

Section 4.6. Architectural Committee. The Board of Directors shall establish an Architectural Committee consisting of not less than three (3) members appointed by the Board of Directors to regulate the external design, appearance, use and maintenance of the Property and to perform such other functions and duties as are imposed upon it by the Governing Documents or by the Board of Directors.

Section 4.7. Suspension of Voting Rights. In the event any Owner is in arrears in the payment of any amount due pursuant to any provision of this Declaration for a period of thirty (30) days, or shall be in default in the performance of any provision of this Declaration for a period of thirty (30) days, said Owner's right to vote as a Member of the Association shall be suspended and shall remain suspended until all payments are brought current and all defaults remedied.

ARTICLE V

MAINTENANCE AND REPAIR OF COMMON AREA AND LOTS

Section 5.1. Duties of the Association. The Association shall maintain, repair and make necessary improvements to all Common Areas. In addition to maintenance upon the Common Areas, the Association shall provide maintenance for the private water and sewer systems located upon the Common Areas as follows: repair, replace and clean all water and sewer lines from points of origination to intersection with public water and sewer facilities. The cost of all such repairs and maintenance shall be a Common Expense and shall be paid for by the Association.

Section 5.2. Duties of Lot Owners.

(A) Each Owner shall be responsible for the maintenance, repair, and replacement, at his own expense, of the interior and exterior of his residence (and any other structures situated upon his Lot) and for the upkeep and maintenance of individual patios, trees, shrubs, grass, walks and other exterior improvements located on his Lot and property not otherwise

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maintained by the Association. Each Owner shall keep his Lot free of and clean from unsightly accumulations of weeds, trash and litter. All fixtures and equipment installed within a residential unit, commencing at a point where the utility lines, pipes, wire, conduits or systems enter upon a Lot, shall be maintained and kept in repair by the Owner thereof. Termite control shall be the responsibility of the Owner. An Owner shall do no act nor any work that will impair any easement, nor do any act nor allow any condition to exist which will adversely affect the other residential units or their Owners.

(B) In the event any residential dwelling is damaged or destroyed, the Owner shall, within sixty (60) days from the date of the occurrence of the damage or destruction, enter into a binding bona fide contract for the repair and rebuilding of the exterior of said residential unit and of any damage to the exterior of adjacent residential dwellings or property in a good and workmanlike manner, in conformance with the original plans and specifications used in the construction of said residential dwellings, the cost of such repair and rebuilding to be paid from the proceeds of the casualty loss insurance maintained by the Association. In the event such Owner refuses or fails to so repair and rebuild any and all such damage to the exterior of the residential unit and adjacent property within a reasonable time, not to exceed six (6) months from the date of the occurrence of the damage or destruction, the Association, by and through its Board of Directors, is hereby irrevocably authorized by such Owner to repair and rebuild any such residential dwellings and/or adjacent property from such insurance proceeds in good workmanlike manner in conformance with the original plans and specifications of the residential units. In the event such insurance proceeds are insufficient to pay the full costs of such repair and rebuilding, the additional funds required shall be raised through a Special Assessment upon all Lots pursuant to Section 6.5.

Section 5.3. Repair or Restoration Necessitated by Owner. Each Owner shall be liable to the Association, to the extent permitted by Arizona law, for any damage to the Common Area or the Improvements, landscaping or equipment thereon which results from the negligence or willful conduct of the Owner, or any of his guests, tenants, licensees, agents or members of his family. The cost to the Association of any such repair, maintenance or replacements required by such act of an Owner shall be paid by the Owner, upon demand, to the Association. The Association may enforce collection of any such amounts in the same manner and to the same extent as provided for in this Declaration for the collection of Assessments.

Section 5.4. Owner's Failure to Maintain. If an Owner fails to maintain in good condition and repair his residence, any other structures situated upon his Lot, or any other elements of his Lot which he is obligated to maintain, and any required maintenance, repair or replacement is not performed

within fifteen (15) days after written notice has been given to the Owner by the Association, the Association shall have the right, but not the obligation, after approval by two-thirds (2/3) vote of the Board of Directors, to perform the required maintenance, repair or replacement, and the expense of such maintenance, repair or replacement shall be assessed against the nonperforming Owner pursuant to Section 6.9 of this Declaration.

ARTICLE VI

COVENANT FOR ASSESSMENTS

Section 6.1. Creation of the Lien and Personal Obligation of Assessments.

(A) The Declarant, for each Lot, hereby covenants and agrees, and each Owner of any Lot by acceptance of a deed therefore, whether or not it shall be so expressed in such deed, is deemed to covenant and agree, to pay to the Association: (1) annual Common Expense Assessments or charges; and (2) Special Assessments for capital improvements, such Assessments to be established and collected as hereinafter provided.

(B) The Assessments, together with interest, costs and reasonable attorneys' fees, shall be a charge on the land and shall be a continuing lien upon the property against which each Assessment is made. Each Assessment, together with interest, costs and reasonable attorneys' fees, shall also be the personal obligation of the Owner of such property at the time when the Assessment fell due. The personal obligation for delinquent Assessments shall not pass to such Owner's successors in title unless expressly assumed by them, or unless prior to the transfer of title as evidenced by the records of the County Recorder or other appropriate governmental agency, a lien for such assessments shall have been filed or recorded.

Section 6.2. Purpose of Assessments. The Assessments levied by the Association shall be used exclusively to promote the health, safety, and welfare of the residents in the Property and for the improvement and maintenance of the Common Area and of the residences situated upon the Property.

Section 6.3. Maximum Annual Common Expense Assessment. Until January 1 of the year immediately following the conveyance of the first Lot to an Owner, the maximum annual Common Expense Assessment amount shall be Three Hundred Fifty Dollars (\$350.00) per Lot.

(A) From and after January 1 of the year immediately following the conveyance of the first Lot to an Owner, the maximum annual Common Expense Assessment may not be increased in any year by more than five percent (5%) above the maximum assessment for the previous year except by a vote of the membership.

(B) The maximum annual Common Expense Assessment may be increased by an amount greater than five percent (5%) above the maximum assessment for the previous year by a vote of two-thirds of each class of Members who are voting in person or by proxy, at a meeting duly called for this purpose.

(C) The Board of Directors may fix the annual Common Expense Assessment at an amount not in excess of the maximum. The Common Expense Assessment shall be made at least annually, based on a budget adopted at least annually. The Board of Directors is expressly authorized to adopt and amend budgets for the Association, and no ratification of any budget by the Owners shall be required.

(D) If the Board of Directors determines during any fiscal year that its funds budgeted or available for that fiscal year are, or will become, inadequate to meet all Common Expenses for any reason, including, without limitation, nonpayment of Assessments by Members, it may increase the Common Expense Assessment for that fiscal year and the revised Common Expense Assessment shall commence on the date designated by the Board of Directors, except that no increase in the Common Expense Assessment assessed pursuant to this Subsection (D) exceeding the maximum Common Expense Assessment for such fiscal year shall become effective until approved by Members entitled to cast at least two-thirds (2/3) of the votes entitled to be cast by each class of Members who are voting in person or by proxy at a meeting duly called for such purpose.

Section 6.4. Replacement Fund. The annual Common Expense Assessment shall include, in addition to amounts required for normal maintenance, an amount for a replacement fund which the Board of Directors shall determine to be adequate for the repair and replacement of Common Area improvements. Such amount shall be set aside as a pro rata portion of each installment of the annual Common Expense Assessment.

Section 6.5. Special Assessments for Capital Improvements. In addition to the annual Common Expense Assessment authorized above, the Association may levy, in any assessment year, a Special Assessment, applicable to that year only, for the purpose of defraying, in whole or in part, the cost not covered by the replacement fund of any construction, reconstruction, repair, or replacement of a capital improvement upon the Common Area, including fixtures and personal property related thereto, or replacement of damaged or destroyed common elements or dwellings where the insurance proceeds have failed to fully replace or rebuild the damaged structures pursuant to Section 5.2(B) herein, provided that any such assessment shall have the assent of two-thirds of the votes of each class of Members who are voting in person or by proxy at a special meeting duly called for that purpose, or at any annual meeting.

Section 6.6. Notice and Quorum for Any Action Authorized Under Sections 6.3(D) and 6.5. Written notice of any meeting called for the purpose of taking any action authorized under Section 6.3(D) or 6.5 shall be sent to all Members not less than thirty (30) days nor more than fifty (50) days in advance of the meeting. At the first such meeting called the presence of Members or of proxies entitled to cast sixty percent (60%) of all the votes of each class of the membership shall constitute a quorum. If the required quorum is not present, another meeting may be called subject to the same notice requirement, and the required quorum at the subsequent meeting shall be one-half of the required quorum as the preceding meeting. No such subsequent meeting shall be held more than sixty (60) days following the preceding meeting.

Section 6.7. Uniform Rate of Assessment. All Assessments must be fixed at a uniform rate for all Lots and may, in the discretion of the Board of Directors, be collected on a monthly basis.

Section 6.8. Date of Commencement of Assessments: Due Dates. The Assessments provided for herein shall commence as to all Lots on the first day of the month following the conveyance of the Common Area to the Association. The first annual Common Expense Assessment shall be adjusted according to the number of months remaining in the calendar year, and all annual assessments thereafter shall be made on a calendar year basis. The Board of Directors shall fix the amount of the annual Common Expense Assessment against each Lot for the next year by no later than December 1st. Written notice of the annual Common Expense Assessment shall be sent to every Owner subject thereto. The due dates shall be established by the Board of Directors, and no offsets against such Assessments and other fees and charges shall be permitted for any reason, including, without limitation, a claim that the Association is not properly exercising its duties and powers as provided in the Governing Documents. The Association shall, upon demand, and for a reasonable charge, furnish a certificate signed by an officer of the Association setting forth whether the Assessments on a specified Lot have been paid. A properly executed certificate of the Association as to the status of Assessments shall be binding upon the Association as of the date of its issuance.

Section 6.9. Assessments for Misconduct. If any Common Expense is caused by the misconduct of any Owner, the Association shall assess that Common Expense exclusively against his Lot.

Section 6.10. Reduced Common Expense Assessments. The Common Expense Assessment for any Lot the dwelling upon which is unoccupied shall be an amount equal to twenty-five percent (25%) of the Common Expense Assessment for Lots which have been occupied. The full Assessment shall immediately become payable by any such Lot upon the first occupancy of the dwelling thereon.

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So long as any Lot owned by the Declarant qualifies for the reduced Common Expense Assessment provided for in this Section, the Declarant shall be obligated to pay to the Association any deficiency in funds resulting from the Declarant having paid a reduced Common Expense Assessment and necessary for the Association to be able to timely pay all Common Expenses.

Section 6.11. Effect of Nonpayment of Assessments:
Remedies of the Association.

(A) Any assessment not paid within thirty (30) days after the due date shall bear interest from the due date at the rate of six percent (6%) per annum, or at the then highest rate of interest allowed by law if such rate would be less than six percent (6%) per annum.

(B) All Assessments and other fees and charges imposed or levied against any Lot or Owner shall be secured by the Assessment Lien as provided for in this Declaration. The recording of this Declaration constitutes record notice and perfection of the Assessment Lien and no further recordation of any claim of lien shall be required.

(C) The Association shall have the right, at its option, to enforce collection of any delinquent Assessments and all other fees and charges owed to the Association in any manner allowed by law including, but not limited to, (i) bringing an action at law against the Owner personally obligated to pay the delinquent amounts and such action may be brought without waiving the Assessment Lien securing any such delinquent amounts, or (ii) bringing an action to foreclose its Assessment Lien against the Lot in the manner provided by law for the foreclosure of a realty mortgage. The Association shall have the power to bid in at any foreclosure sale and to purchase, acquire, hold, lease, mortgage and convey any and all Lots purchased at such sale. No Owner may waive or otherwise escape liability for the assessments provided for herein by non-use of the Common Area or abandonment of his Lot.

Section 6.12. Subordination of Assessment Lien to Mortgages. The Assessment Lien provided for herein shall be subordinate to the lien of any First Mortgage. Sale or transfer of any Lot shall not affect the Assessment Lien. However, the sale or transfer of any Lot pursuant to foreclosure of a First Mortgage or any proceeding in lieu thereof, shall extinguish the Assessment Lien as to payments which become due prior to such sale or transfer. No sale or transfer shall relieve such Lot from liability for any Assessments thereafter becoming due or from the lien thereon. Any delinquent Assessments and other fees and charges which are extinguished pursuant to this Section may be reallocated and assessed to all Lots as a Common Expense. Any Assessments and other fees and charges against the Unit which accrue prior to such sale or transfer shall remain the obligation of the defaulting Owner. The Assessment Lien provided for herein

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shall also be subordinate to any lien for real estate taxes and other government assessments or charges against the Lot.

Section 6.13. Working Capital Fund. To insure that the Association shall have adequate funds to meet its expenses or to purchase necessary equipment or services, each Purchaser of a Lot from the Declarant shall pay to the Association, immediately upon becoming the Owner of the Lot, a sum equal to one-sixth (1/6th) of the Common Expense Assessment on his Lot for the then current fiscal year. Such amount shall be nonrefundable and shall not be considered as an advance payment of any Assessments levied by the Association pursuant to this Declaration.

Section 6.14. Exempt Property. There shall be exempt from the Assessments created herein; (i) all properties dedicated to and accepted by a local public authority; and (ii) the Common Areas. However, no Lot, land or improvement devoted to residential dwelling use shall be exempt from the Assessments.

ARTICLE VII

ARCHITECTURAL CONTROL

Section 7.1. Acts Requiring Committee Approval. No alteration, change, relocation of, or addition to the exterior of any building, fence, wall or other structure, nor the addition of any building, fence, wall, or other structure, shall be commenced, erected or maintained upon the Property until the plans and specifications showing the nature, kind, shape, height, materials, and location of the same have been submitted to and approved in writing by the Architectural Control Committee, hereinafter referred to as the "Committee," as to harmony of external design and location in relation to surrounding structures and topography. Plans may be approved by a representative designated by a majority of the members of said Committee.

Section 7.2. Membership. The Committee shall be established upon the recordation of this Declaration, and shall be composed of three (3) members to be appointed by Declarant. The original members shall be Sol Moretsky, Rita Eisenfeld-Moretsky and Scott Moretsky. In the event of death or resignation of any member of said Committee, the remaining member, or members, shall have full authority to approve or disapprove such design and location, or to designate a representative with like authority. In the event of the death or resignation of any member of the Committee, the remaining member or members shall appoint, by a duly recorded written instrument, a replacement, who shall have the same authority as an original member of the Committee. Neither the members of the Committee nor its designated representative shall be entitled to any compensation for the services pursuant to this covenant.

Section 7.3. Effect of Committee Action. The approval of plans by the Committee or its representative shall not

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make it or them responsible for any structural defect in such plans or specifications. In the event the Committee, or its designated representative, fails to approve or disapprove any proposed plans or specifications within thirty (30) days after such plans and specifications have been submitted to it, or in any event, if no suit to enjoin the construction of such buildings or the making of such alterations has been commenced prior to the completion thereof, such approval will not be required and this covenant will be deemed to have been fully complied with.

Section 7.4. Termination. The powers and duties of the Committee and of its designated representatives shall cease on and after January 1, 2007. Thereafter, the approval described in this covenant shall not be required unless, prior to said date and effective thereon, a written instrument shall be executed by the then record Owners of a majority of the Lots in this tract and duly recorded appointing a representative or representatives, who shall thereafter exercise the same powers previously exercised by said Committee. The initial address for the three Committee members is 5134 North Central Avenue, Suite 204, Phoenix, Arizona 85012.

Section 7.5. Change of Membership or Duties. At any time, the Owners of not less than two-thirds (2/3) of the Lots shall have the power, through a duly recorded written instrument, to change the membership of the Committee or to withdraw from or restore to the Committee any of its powers or duties.

ARTICLE VIII

PARTY WALLS

Section 8.1. Rights and Duties. The rights and duties of the Owners of any Lots within the Property with respect to Party Walls shall be governed by the following:

(A) Each wall, including a patio wall, which is constructed as part of the original construction of a residential unit, any part of which is placed on the dividing line between separate residential units, shall constitute a Party Wall. With respect to any such wall, each of the adjoining Owners shall assume the burdens and be entitled to the benefits of these restrictive covenants, and, to the extent not inconsistent herewith, the general rules of law regarding Party Walls shall be applied thereto.

(B) In the event any such Party Wall is willfully or negligently damaged or destroyed through the act of one adjoining Owner, or any of his guests, tenants, licensees, agents, or members of his family so as to deprive the other adjoining Owner of the full use and enjoyment of such wall, then, the first of such Owners shall forthwith proceed to rebuild and repair the same to as good a condition as formerly existed, without cost to the adjoining Owner.

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(C) In the event any such Party Wall is damaged or destroyed by some cause other than the willful or negligent act of one of the adjoining Owners, his agents, tenants, licensees, guests or family (including ordinary wear and tear and deterioration from lapse of time), then, in such event, both such adjoining Owners shall proceed forthwith to rebuild or repair the same to as good a condition as formerly existed at their joint and equal expense.

(D) Notwithstanding any other provision of this Article, an Owner who, by his negligent or willful act, causes any Party Wall to be exposed to the elements shall bear the whole cost of furnishing the necessary protection against such elements.

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

Section 8.2. Consent of Adjoining Owner. In addition to meeting the other requirements of these restrictive covenants and of any building code or similar regulations or ordinances, any Owner proposing to modify, make additions to, or rebuild his residential unit in any manner which requires the extension or other alteration of any Party Wall, shall first obtain the written consent of the adjoining Owner.

Section 8.3. Arbitration. In the event of a dispute between Owners with respect to the repair or rebuilding of a Party Wall or with respect to the sharing of the cost thereof, the matter shall be submitted to binding arbitration in accordance with the provisions of Section 12.12.

Section 8.4. Binding Effect. These covenants shall be binding upon the heirs and assigns of any Owner, but no person shall be liable for any act or omission respecting any Party Wall except such as took place while an Owner.

ARTICLE IX

INSURANCE

Section 9.1. Scope of Coverage.

(A) Commencing not later than the date of the first conveyance of a Lot to a Purchaser, the Association shall maintain, to the extent reasonably available, the following insurance coverage:

(i) Hazard (casualty loss) insurance on the Common Areas and Improvements thereon, and upon all residences situated upon the Lots within the Property, issued under a standard form "All Risk of Direct Physical Loss Form" in an amount equal to the maximum insurable replacement value of the

Common Areas and Improvements, and of the residences upon the Lots, as determined by the Board of Directors; provided, however, that the total amount of insurance after application of any deductibles shall not be less than one hundred percent (100%) of the current replacement cost of the insured property, exclusive of land, excavations, foundations and other items normally excluded from a property insurance policy.

(ii) Broad Form Comprehensive general liability insurance, with a limit to be determined by the Board, but not less than \$1,000,000.00 for any single occurrence. Such insurance shall cover all occurrences commonly insured against for death, bodily injury and property damage arising out of or in connection with the use, ownership or maintenance of the Common Areas. Such policy shall include (i) a cross liability clause to cover liabilities of the Owners as a group to an Owner, (ii) medical payments insurance and contingent liability coverage arising out of the use of hired and nonowned automobiles, and (iii) coverage for any legal liability that results from lawsuits related to employment contracts in which the Association is a party.

(iii) Workmen's compensation insurance to the extent necessary to meet the requirements of the laws of Arizona.

(iv) Such other insurance as the Association shall determine from time to time to be appropriate to protect the Association, the members of the Board of Directors, the members of the Architectural Committee or the Owners.

(v) If the Property is located in an area identified by the Secretary of Housing & Urban Development as an area having special flood hazards, a "blanket policy" of flood insurance on the Property in the lesser of one hundred percent (100%) of the current replacement cost of the buildings and any other property covered on the required form of policy or the maximum limit of coverage available under the National Insurance Act of 1968, as amended.

(B) The insurance policies purchased by the Association shall, to the extent reasonably available, contain the following provisions:

(i) Each Owner shall be an insured under the policy with respect to liability arising out of his ownership of an undivided interest in the Common Area or his membership in the Association.

(ii) There shall be no subrogation with respect to the Association, its agents, servants, and employees against Owners and members of their household.

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(iii) No act or omission by any Owner, unless acting within the scope of his authority on behalf of the Association, shall void the policy or be a condition to recovery on the policy.

(iv) The coverage afforded by such policy shall be primary and shall not be brought into contribution or proration with any insurance which may be purchased by Owners or their mortgagees or beneficiaries under deeds of trust.

(v) A "severability of interest" endorsement which shall preclude the insurer from denying the claim of an Owner because of the negligent acts of the Association or other Owners.

(vi) The Association shall be the insured for use and benefit of the individual Owners (designated by name if required by the insurer).

(vii) For policies of hazard insurance, a standard mortgagee clause providing that the insurance carrier shall notify the Association and each First Mortgagee named in the policy at least ten (10) days in advance of the effective date of any substantial change in coverage or cancellation of the policy.

(viii) Any Insurance Trust Agreement will be recognized by the insurer.

(C) If, at the time of a loss insured under an insurance policy purchased by the Association, the loss is also insured under an insurance policy purchased by an Owner, the Association's policy shall provide primary coverage.

Section 9.2. Fidelity Bonds.

(A) The Association shall maintain blanket fidelity bonds for all officers, directors, trustees and employees of the Association and all other persons handling or responsible for funds of or funds administered by the Association, whether or not they receive compensation for their services. The total amount of the fidelity bonds maintained by the Association shall be based upon the best business judgment of the Board. Fidelity bonds obtained by the Association must also meet the following requirements, to the extent reasonably available:

(i) The fidelity bonds shall name the Association as an obligee;

(ii) The bonds shall contain waivers by the issuers of the bonds of all defenses based upon the exclusion of persons serving without compensation from the definition of "employees" or similar terms or expressions;

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(iii) The bonds shall provide that they may not be cancelled or substantially modified (including cancellation from nonpayment of premium) without at least ten (10) days' prior written notice to the Association and each First Mortgage.

(B) The Association shall require any management agent of the Association to maintain its own fidelity bond in an amount equal to or greater than the amount of the fidelity bond to be maintained by the Association pursuant to Subsection (A) of this Section. The fidelity bond maintained by the management agent shall cover funds maintained in bank accounts of the management agent and need not name the Association as an obligee.

Section 9.3. Payment of Premiums. Premiums for all insurance obtained by the Association pursuant to this Article shall be Common Expense and shall be paid for by the Association.

Section 9.4. Payment of Insurance Proceeds. Any loss covered by property insurance obtained by the Association in accordance with this Article shall be adjusted with the Association and the insurance proceeds shall be payable to the Association and not to any mortgagee or beneficiary under a deed of trust. The Association shall hold any insurance proceeds in trust for Owners and lienholders as their interests may appear.

ARTICLE X

USE RESTRICTIONS

Section 10.1. Single Family Residential. The Property is hereby restricted to residential dwellings for single family residential use, except for improvements within the Common Area. No structure except one single family residence, not to exceed two stories in height, and a private garage or carport, for not more than two cars, or other outbuildings incidental to residential use of the Lot shall be erected, maintained, placed or permitted on any Lot or portion of a Lot. All buildings or structures erected upon the Property shall be of new construction and no buildings or structures shall be moved from other locations onto the Property. No subsequent buildings or structures other than residential units, being residences joined together by Party Walls, shall be built on any parcel where there has previously been constructed a residential unit. No structures of a temporary character, and no trailer, basement, tent, shack, garage, barn, or other outbuilding shall be used on any portion of the Property at any time as a residence, either temporarily or permanently.

Section 10.2. Buildings. No garage or other building whatsoever shall be erected on any Lot until a residential unit shall have been erected or until a contract with a licensed contractor shall have been entered into for the construction of a residential unit which complies with these restrictions.

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Section 10.3. Minimum Area. No residential unit shall have a ground floor area of less than nine hundred (900) square feet, exclusive of open porches, attached garages, if any, and patios.

Section 10.4. Setbacks. No Lot shall have a building located on it the front walls of which are closer than fifteen (15) feet from the front property line, the back walls of which are closer than fifteen (15) feet from the back property line, or the side walls of which are closer than five (5) feet from the side property lines.

Section 10.5. Location and Height of Fences. No fence shall be relocated or otherwise moved without the approval of the Architectural Control Committee, which shall maintain a site plan certifying the original location of all fences and any approved changes thereto. No fence or wall, other than the walls of a residential unit, storage room, carport or garage shall exceed six (6) feet in height. No hedge exceeding three (3) feet in height shall be erected or permitted between the front street and the front setback line.

Section 10.6. Offensive Activity. No noxious or offensive activity shall be carried on upon any Lot, nor shall anything be done thereon which may be or become an annoyance or nuisance to the neighborhood, or in any way endanger the health or unreasonably disturb the Owner of any Lot.

Section 10.7. Trash Collection. No Lot or any part thereof, including, without limitation, the carport area, shall be used or maintained as a dumping ground for rubbish. Trash or garbage or other waste shall not be kept except in sanitary containers and shall be regularly removed and not be allowed to accumulate. All equipment for the storage or disposal of such material shall be kept in a clean and sanitary condition.

Section 10.8. Animals. No animals, livestock or poultry of any kind shall be raised, bred or kept on any Lot except that dogs, cats and other household pets may be kept, provided that they are not kept, bred, or maintained for any commercial purpose. Any pet or animal taken outside the Lot boundaries shall be accompanied by its Owner and controlled by means of a leash, and its Owner shall be responsible for immediate removal or cost of removal of unsanitary conditions created by said animal.

Section 10.9. Clotheslines. No clothesline shall be erected or maintained except between the rear wall of a residential unit and the rear property line. No clothesline, even of a temporary use, shall be permitted in the carport area.

Section 10.10. Signs. No sign, billboard or advertising device of any character shall be erected or maintained on any

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Lot, excepting, however, a sign, not to exceed 18" by 24" and unlighted, for each Lot advertising such for sale or rent.

Section 10.11. Business Use Prohibited. No business activities of any kind whatsoever shall be conducted on any portion of a Lot; provided, however, the foregoing covenant shall not apply to the business activities, or the construction and maintenance of buildings, if any, of the Declarant or any builder, its agents and assigns during the construction and sale period, and of the Association, its successors and assigns, in the furtherance of its powers and purposes as herein set forth.

Section 10.12. Insects and Pests. All trees, hedges, shrubs, flowers and lawns growing on each Lot shall be maintained and cultivated so that insects, pests and/or diseases shall not be a menace to other trees, hedges, flowers, lawns on surrounding properties, and so that the landscaping and vegetation on each Lot is not detrimental to the neighborhood as a whole. Each Owner of a Lot, other than Declarant, hereby agrees to landscape the front yard of his Lot within six (6) months after receiving title thereto. Landscaping shall include lawns or such other ground cover as are usual in and appropriate to the neighborhood and shall include the ordinary care and maintenance thereof.

Section 10.13. Common Area. No planting or gardening shall be done, and no fences, hedges or walls shall be erected or maintained by any Owner upon the Common Area.

Section 10.14. Trucks, Trailers, Campers and Boats. No truck, mobile home, travel trailer, tent trailer, trailer, camper shell, detached camper, recreational vehicle, boat, boat trailer, or other similar equipment or vehicle may be parked, kept, maintained, constructed, reconstructed or repaired on any part of the Property except for (i) pickup trucks of less than three-quarter (3/4) ton capacity with camper shells not exceeding seven (7) feet in height measured from ground level or mini-motor homes not exceeding seven (7) feet in height and eighteen (18) feet in length which are parked in compliance with this Declaration and the Rules and are used on a regular and recurring basis for basic transportation and (ii) temporary parking of vehicles by the guests and invitees of the Owner or tenant of a Lot subject to the Rules.

Section 10.15. Machinery. No machinery or equipment of any kind shall be placed, operated or maintained upon any Lot, except such machinery or equipment as is usual and customary in connection with the use and maintenance of a residential unit.

Section 10.16. Antennas. No antenna, satellite television dish or other device for the transmission or reception of television or radio signals or any other form of electromagnetic radiation shall be erected, used or maintained outdoors on any portion of the Property whether attached to a building or

structure or otherwise, unless approved by the Architectural Committee.

Section 10.17 Cable Television. No unauthorized connections shall be made to any cable television facilities located on the Property, nor shall any such facilities be tampered with, altered, or changed in any way without the express written permission of the entity which owns such facilities.

ARTICLE XI

RIGHTS OF FIRST MORTGAGEES

Section 11.1. Notification to First Mortgagees. Upon receipt by the Association of a written request from a First Mortgagee or insurer or governmental guarantor of a First Mortgage informing the Association of its correct name and mailing address and number or address of the Lot to which the request relates, the Association shall provide such Eligible Mortgage Holder or Eligible Insurer Or Guarantor with timely written notice of the following:

(A) Any condemnation loss or any casualty loss which affects a material portion of the Property or any Lot on which there is a First Mortgage held, insured or guaranteed by such Eligible Mortgage Holder or Eligible Insurer Or Guarantor;

(B) Any delinquency in the payment of Assessments or charges owed by an Owner subject to a First Mortgage held, insured or guaranteed by such Eligible Mortgage Holder or Eligible Insurer Or Guarantor or any other default in the performance by the Owner of any obligation under the Governing Documents, which delinquency or default remains uncured for the period of sixty (60) days;

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

(D) Any proposed action which requires the consent of a specified percentage of Eligible Mortgage Holders as set forth in Section 11.2 of this Declaration.

Section 11.2. Approval Required for Amendment to Declaration, Articles or By-Laws.

(A) The approval of Eligible Mortgage Holders holding First Mortgages on Lots the Owners of which have at least fifty-one percent (51%) of the votes in the Association allocated to Owners of all Lots subject to First Mortgages held by Eligible Mortgage Holders shall be required to add or amend any material provisions of the Declaration, Articles or By-Laws which establish, provide for, govern or regulate any of the following:

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- (i) Voting rights;
 - (ii) Assessments, assessment liens or subordination of assessments liens;
 - (iii) Reserves for maintenance, repair and replacement of Common Area;
 - (iv) Insurance or fidelity bonds;
 - (v) Responsibility for maintenance and repairs;
 - (vi) Expansion or contraction of the Property;
 - (vii) Boundaries of any Lot;
 - (viii) Reallocation of interests in the Common Area or rights to its use;
 - (ix) Convertibility of Lots into Common Area or of Common Area into Lots;
 - (x) Leasing of Lots;
 - (xi) Imposition of any restrictions on an Owner's right to sell or transfer his Lot;
 - (xii) A decision by the Association to establish self management when professional management had been required previously by an Eligible Mortgage Holder;
 - (xiii) Restoration or repair of the Property (after a hazard damage or partial condemnation) in a manner other than that specified in the Governing Documents;
 - (xiv) Any action to terminate the legal status of the Property after substantial destruction or condemnation occurs; and
 - (xv) Any provisions which expressly benefit First Mortgagees, Eligible Mortgage Holders or Eligible Insurers Or Guarantors.
- (B) Any action to terminate the legal status of the Property for reasons other than substantial destruction or condemnation of the Property must be approved by Eligible Mortgage Holders holding mortgages on Lots the Owners of which have at least sixty-seven percent (67%) of the votes of all Lots subject to First Mortgages held by Eligible Mortgage Holders.
- (C) Any First Mortgagee who receives a written request to approve additions or amendments to the Declar-

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ation, Articles or By-Laws, which additions or amendments are not material, who does not deliver or mail to the requesting party a negative response within thirty (30) days shall be deemed to have approved such request. Any addition or amendment to the Declaration, Articles or By-Laws shall not be considered material if it is for the purpose of correcting technical errors or for clarification only.

Section 11.3. Prohibition Against Right of First Refusal. The right of an Owner to sell, transfer or otherwise convey his Lot shall not be subject to any right of first refusal or similar restriction.

Section 11.4. Restrictions on Transfer of Common Area. Neither the Common Area nor any facilities located thereon may be alienated, released, transferred, hypothecated, or otherwise encumbered without approval of all First Mortgagees.

Section 11.5. Right of Inspection of Records. Any Owner, First Mortgagee or Eligible Insurer Or Guarantor will, upon written request, be entitled to (i) inspect the current copies of the Governing Documents and the books, records and financial statements of the Association during normal business hours, (ii) receive within ninety (90) days following the end of any fiscal year of the Association, an audited financial statement of the Association for the immediately preceding fiscal year of the Association, free of charge to the requesting party, and (iii) receive written notice of all meetings of the Members of the Association and be permitted to designate a representative to attend all such meetings.

Section 11.6. Liens Prior to First Mortgage. All taxes, assessments, and charges which may become liens prior to the First Mortgage under local law shall relate only to the individual Lot and not to the Property as a whole.

Section 11.7. Condemnation or Insurance Proceeds. No Owner, or any other party, shall have priority over any rights of any First Mortgagee of the Lot pursuant to its mortgage in the case of a distribution to such Owner of insurance proceeds or condemnation awards for losses to or a taking of Lots and/or Common Area.

Section 11.8. Limitation on Partition and Subdivision. No Lot shall be partitioned or subdivided without the prior written approval of the holder of any First Mortgage on such Lot.

Section 11.9. Conflicting Provisions. In the event of any conflict or inconsistency between the provisions of this Article and any other provision of the Governing Documents, the provisions of this Article shall prevail; provided, however, that in the event of any conflict or inconsistency between the different Sections of this Article or between the provisions of this

Article and any other provision of the Governing Documents with respect to the number or percentage of Owners, First Mortgagees, Eligible Mortgage Holders or Eligible Insurers Or Guarantors that must consent to (i) an amendment of the Declaration, Articles or By-Laws, (ii) a termination of this Declaration, or (iii) certain actions of the Association as specified in Section 11.2 of this Declaration, the provision requiring the consent of the greatest number or percentage of Owners, First Mortgagees, Eligible Mortgage Holders or Eligible Insurers or Guarantors shall prevail; provided, however, that the Declarant, without the consent of any Owner or First Mortgagee being required, shall have the right to amend this Declaration, the Articles or the By-Laws in order to comply with (i) applicable Arizona law, (ii) the requirements or guidelines in effect from time to time of any governmental or quasi-governmental entity or federal corporation guaranteeing or insuring mortgage loans or governing transactions involving mortgage instruments including, without limitation, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the Veterans Administration or (iii) the rules or requirements of any federal, state or local governmental agency whose approval of the subdivision, the Plat or the Governing Documents is required by law or requested by the Declarant.

ARTICLE XII

GENERAL PROVISIONS

Section 12.1. Enforcement. The Association, or any Owner, shall have the right to enforce, by any proceeding at law or in equity, all restrictions, conditions, covenants, reservations, liens and charges now or hereafter imposed by the provisions of the Governing Documents. Failure by the Association or by an Owner to enforce any covenant or restriction contained in the Governing Documents shall in no event be deemed a waiver of the right to do so thereafter.

Section 12.2. Severability. Invalidation of any one or more of these covenants or restrictions by judgment or court order shall in no way affect any other provisions, which shall remain in full force and effect.

Section 12.3. Term. The covenants, conditions, and restrictions of this Declaration shall run with and bind the Property, for a term of twenty (20) years from the date this Declaration is recorded, after which time they shall be automatically extended for successive periods of ten (10) years. While there is any Class B membership, any termination of this Declaration must be approved by the Veterans Administration or the Federal Housing Administration.

Section 12.4. FHA/VA Approval. As long as there is a Class B membership, and providing the Federal Housing Administration or the Veterans Administration has issued commitments to

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insure one or more mortgages within the Property, the following actions will require the prior approval of the Federal Housing Administration or the Veterans Administration: dedication of Common Area, and amendment of this Declaration.

Section 12.5. Lease Agreements. Any lease agreement between an Owner and a lessee shall be required to provide that the terms of the lease shall be subject in all respects to the provisions of the Governing Documents and that any failure by the lessee to comply with the terms of such documents shall be a default under the lease. All leases shall be required to be in writing. Other than the foregoing, there is no restriction on the right of any Owner to lease his Lot.

Section 12.6. Flood Insurance.

So long as the Federal National Mortgage Association ("FNMA") or Governmental National Mortgage Association ("GNMA") is a Mortgagee of a Lot in the planned development, or owns a Lot therein, the Association shall maintain in effect at least such casualty, flood and liability insurance and a fidelity bond meeting standards established by FNMA and GNMA for planned developments, as published in the FNMA and GNMA "Servicer's Guide" or otherwise, except to the extent such requirements shall have been waived in writing by FNMA or GNMA.

Section 12.7. Notices. Any notice required to be sent to any Owner under the provisions of the Governing Documents shall be deemed to have been properly sent when mailed postage prepaid to the last known address of the person who appears as Owner or Member on the records of the Association at the time of such mailing.

Section 12.8. Construction. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for the development of a residential community. Section headings are inserted for convenience only and are not intended to be part of this document or in any way to define, limit or describe the scope or intent of the particular section to which they refer.

Section 12.9. Singular Includes Plural. Whenever the context of this Declaration requires it, the singular shall include the plural and the masculine shall include the feminine.

Section 12.10. Attorneys' Fees. In the event action is instituted to enforce any of the provisions contained in this Declaration, the party prevailing in such action shall be entitled to recover from the other party thereto as part of the judgment reasonable attorneys' fees and costs of such action.

Section 12.11. Nuisance. The result of every act or omission whereby any of the covenants contained in this Declaration is violated is hereby declared to be and constitutes both a

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public and a private nuisance. Every remedy allowed by law against a nuisance, either public or private, shall be available to any Owner, the Declarant or its successors in interest, or to the City of Peoria or any other affected governmental entity. Such remedies shall be deemed cumulative and not exclusive.

Section 12.12. Arbitration. In the event of any dispute regarding the enforcement or application of any provision of the Governing Documents, then, upon written request of one of the parties addressed to the Association, the matter shall be submitted to arbitration under such rules as may from time to time be adopted by the Association. If no such rules have been adopted, then the matter shall be submitted to three (3) arbitrators, one chosen by each of the parties and the third chosen by the two so chosen, or, if the arbitrators cannot agree as to the selection of the third arbitrator within five (5) days, then by the Presiding Judge of the Superior Court of the State of Arizona for Maricopa County, and shall be governed by the rules of the American Arbitration Association. If one party shall have failed to select an arbitrator within ten (10) days after personal receipt of a request in writing for arbitration from the other party, then said other party shall have the right and power to choose both arbitrators. A determination of the matter signed by any two of the three arbitrators shall be binding upon the parties, who shall share the cost of arbitration equally.

Section 12.13. Amendments.

(A) This Declaration may be terminated, extended, modified or amended, at any time or times, as to the whole Property or any part thereof, by an instrument signed by not less than ninety percent (90%) of the Owners of the Lots if such modification is made within twenty (20) years of the date of this Declaration, and thereafter by an instrument signed by not less than seventy-five percent (75%) of the Owners of said Lots, provided that no such termination, extension, modification or amendment shall be effective until a proper instrument in writing has been executed, acknowledged and recorded in the Office of the Recorder, County of Maricopa, State of Arizona. The easements reserved in this Declaration may not be terminated, modified or amended except with the written consent of the Owners of all Lots benefited and the removal of all encroachments on any affected Lots.

(B) Except to the extent expressly permitted or required by law, an amendment to the Declaration shall not increase the number of Lots or change the boundaries of any Lot, or the use as to which any Lot is restricted, in the absence of unanimous consent of the Owners.

(C) Any amendment adopted by the Owners pursuant to Subsection (A) above shall also be signed by the President or Vice President of the Association and shall be recorded with the County Recorder of Maricopa County, Arizona.

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Any such amendment shall certify that the amendment has been approved as required by this Section.

(D) The Declarant shall have the right at any time there is a Class B membership to amend this Declaration unilaterally if necessary or advisable to comply with the rules or guidelines in effect from time to time of any governmental or quasi-governmental entity or federal corporation guaranteeing or insuring mortgage loans or governing transactions involving mortgage instruments.

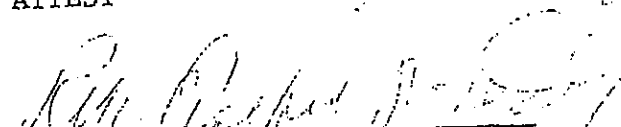
Section 12.14. Mortgages. A breach by any Owner of a Lot of any of the terms of this Declaration shall not defeat or render invalid the lien of any Mortgage or deed of trust made in good faith and for value as to said Lot or any part thereof, but this Declaration shall be binding upon and effective against any subsequent Owner of such Lot whose title thereto is acquired by foreclosure, trustee, sale or otherwise.

IN WITNESS WHEREOF, the undersigned, being the record title holder herein, has hereunto set its hand as of the day, month, and year first above written.

SHANGRI-LA INVESTMENTS, INC., an
Arizona corporation

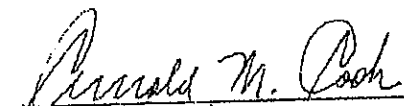
By 
Sol Moretsky, President

ATTEST


Rita Eisenfeld-Moretsky, Secretary

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 3rd day of September, 1987, by SOL MORETSKY, and RITA EISENFELD-MORETSKY, the President and Secretary, respectively, of Shangri-La Investments, Inc., an Arizona corporation, on behalf of the corporation.


Notary Public

My Commission Expires:

4/3/90

2 0 0 1 0 0 0 0

ARIZONA CORPORATION COMMISSION
INCORPORATING DIVISION

Phoenix Address 1200 West Washington
Phoenix, Arizona 85007

Tucson Address 402 West Congress
Tucson, Arizona 85701

CERTIFICATE OF DISCLOSURE

A.R.S. Sections 10-128 & 10-1084

PLEASE SEE REVERSE SIDE

Shangri-La Estates Homeowners
EXACT CORPORATE NAME Association

CHECK APPROPRIATE BOX(ES) A or B

ANSWER "C"

THE UNDERSIGNED CERTIFY THAT:

- A. No persons serving either by elections or appointment as officers, directors, incorporators and persons controlling, or holding more than 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation:
1. Have been convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate.
 2. Have been convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses, or restraining the trade or monopoly in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate.
 3. Have been or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven-year period immediately preceding the execution of this Certificate where such injunction, judgment, decree or permanent order
 - (a) Involved the violation of fraud or registration provisions of the securities laws of that jurisdiction; or
 - (b) Involved the violation of the consumer fraud laws of that jurisdiction; or
 - (c) Involved the violation of the antitrust or restraint of trade laws of that jurisdiction

B. For any person or persons who have been or are subject to one or more of the statements in Items A.1 through A.3 above, the following information MUST be attached:

1. Full name and prior name(s) used
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7-year period)
5. Date and location of birth.
6. Social Security number.
7. The nature and description of each conviction or judicial action, date and location, the court and public agency involved and file or cause number of case

STATEMENT OF BANKRUPTCY, RECEIVERSHIP OR REVOCATION

A.R.S. Sections 10-128.01 and 10-1083

C. Has any person serving (a) either by election or appointment as an officer, director, trustee or incorporator of the corporation or, (b) major stockholder possessing or controlling any proprietary, beneficial or membership interest in the corporation, served in any such capacity or held such interest in any corporation which has been placed in bankruptcy or receivership or had its charter revoked? YES _____ NO A

IF YOUR ANSWER TO THE ABOVE QUESTION IS "YES", YOU MUST ATTACH THE FOLLOWING INFORMATION FOR EACH CORPORATION.

1. Name and address of the corporation
2. Full name, including alias and address of each person involved.
3. State(s) in which the corporation:
 - (a) Was incorporated
 - (b) Has transacted business
4. Dates of corporate operation.
5. A description of the bankruptcy, receivership or charter revocation, including the date, court or agency involved and the file or cause number of the case

SEP 29 1987

Under penalties of law, the undersigned incorporators/Officers declare that we have examined this Certificate, including any attachments, and to the best of our knowledge and belief it is true, correct and complete

BY Scott Moretsky
TITLE Incorporator

DATE 9/2/87

BY Scott Moretsky

DATE 9/2/87

TITLE Incorporator

BY Rita Eisenfeld-Moretsky

DATE 9/2/87

TITLE Incorporator

FISCAL DATE December 31