

BYLAWS
OF
WATERFORD HOMEOWNER'S ASSOCIATION

ARTICLE I

Section 1. Purpose. WATERFORD HOMEOWNER'S ASSOCIATION is an Arizona nonprofit corporation organized to provide for maintenance, preservation and architectural control of lots, homes and other improvements within the development known as WATERFORD, located in Maricopa County, Arizona, which was created pursuant to the Declaration of Covenants, Conditions and Restrictions, Maricopa County, Arizona, Recording No. 94-0637351

Section 2. Definitions. The terms used herein which are defined in the Declaration shall have the same meanings as in the Declaration. If not otherwise defined in the Declaration, the following shall apply:

a. "Association" shall mean WATERFORD HOMEOWNER'S ASSOCIATION, an Arizona nonprofit corporation, its successors and assigns.

b. "Board" shall mean the Board of Directors of the Association.

c. "Common Expenses" shall mean the expenses for the operation of the Association and maintenance, repair and restoration of areas required to be maintained by the Association, as a result of the Owner's failure to maintain, or otherwise including but not limited to, salaries, wages, payroll taxes, attorneys' and accountants' fees, supplies, materials, parts, services, maintenance, repair and replacement, landscaping, and replacement of any property required to be maintained by the Association. Common Expenses shall also include those Common Expenses identified in the Declaration.

d. "Declarant" shall mean Fidelity National Title Insurance Company, as Trustee of Trust Number 9177, its successors and assigns, if such successors or assigns should acquire more than one (1) undeveloped Lot from Declarant for the purpose of development.

e. "Declaration" shall mean the Declaration of Covenants, Conditions and Restrictions, recorded on 8-25-94 at Recording Number 94-0637351, of the records of the County Recorder of Maricopa County, Arizona, as the same may be amended from time to time.

f. "Lot" or " Dwelling Unit" shall mean and refer to any plot or parcel of land and/or improvements thereto, including a condominium or apartment dwelling unit, as defined in the Declaration.

g. "Majority" or "Majority of Members" shall mean the Owners of more than fifty percent (50%) of the Lots situated within the Properties. "Member" shall mean an Owner of a Dwelling Unit. If the Member is a corporation, trust or partnership, the Member shall be represented by an officer, partner, agent, trustee or employee of such Member.

h. "Mortgage" means any recorded, filed or otherwise perfected instrument given in good faith and for valuable consideration which is not a fraudulent conveyance under Arizona law, as security for the performance of any obligation, including without limitation a Deed of Trust, but shall not include any instrument creating or evidencing solely a security interest arising under the Uniform Commercial Code on personal property. "Mortgagee" means a person secured by a mortgage, including a trustee and beneficiary under a Deed of Trust. "Mortgagor" means the party executing a mortgage, including a trustor of a Deed of Trust. "First Mortgage" means a mortgage of Deed of Trust which is the first and most senior of all mortgages or Deeds of Trust on the same property.

i. "Occupant" shall mean a person or persons other than a Member or Owner, in rightful possession of a Lot or Dwelling Unit, by means of a lease, assignment or otherwise.

j. "Owner" shall mean and refer to the record Owner, whether one or more persons or entities of equitable or beneficial title (or legal title if the same has been merged) of any Lot or Dwelling Unit. Owner shall include a purchaser of a Lot under an agreement for sale, but does not include persons or entities who hold an interest in a Lot or Dwelling Unit merely as security for the performance of an obligation.

k. "Properties" shall mean and refer to the certain real property described and covered in the Declaration and such additions thereto as may be hereafter brought within the jurisdiction of the Association.

Section 3. Application of Bylaws. All present and future Owners, Occupants, tenants, and their respective licensees, invitees and employees are subject to the provisions of these Bylaws. The act of ownership or mere occupation of a Lot or Dwelling Unit shall establish a conclusive presumption that the Bylaws are accepted, ratified and will be complied with by such Owner, occupant, tenant or their licensees, invitees and employees.

Section 4. Principal Offices. The principal offices of the Association shall be 2164 E. Broadway, Suite 300, Tempe, Arizona 85282, or such other place as the Board of Directors may from time to time designate.

Section 5. Priority of Declaration. The provisions of the Declaration shall have priority over these Bylaws (and the Articles of Incorporation), and any provision hereof which is contrary to or inconsistent with the Declaration (as amended from time to time) shall be void to the extent of such inconsistency.

Section 6. Priority off Articles of Incorporation. The provisions of the Articles of Incorporation shall have priority over these Bylaws, and any provision hereof which is contrary to or inconsistent with the Articles of Incorporation (as amended from time to time) shall be void to the extent of such inconsistency.

ARTICLE II MEMBERS

Section 1. Eligibility. The membership of the Association shall consist of all Owners of Lots or Dwelling Units in Waterford. Membership in the Association shall be mandatory and no Owner during his ownership of a Lot or Dwelling Unit shall have the right to relinquish or terminate his membership in the Association.

Section 2. Succession. The membership of each Owner shall terminate when he ceases to be an Owner and his membership in the Association shall automatically be transferred to the new Owner succeeding to such ownership interest.

Section 3. Annual Meetings. The first annual meeting of the Members shall be held as provided in the Articles of Incorporation. Thereafter the annual meeting of the Members shall be held on the third Monday of January each succeeding year. If the day for the annual meeting of the Members is a legal holiday, the meeting will be held on the first day following which is not a legal holiday. At such meetings there shall be elected by ballot the Board of Directors in accordance with the requirements of the Declaration, the Articles of Incorporation and these Bylaws. The Members may also transact such other business as my properly come before them as such annual meetings, in accordance with the Arizona law.

Section 4. Action Without Meeting. Any action that, under the provisions of Arizona Revised Statutes, Nonprofit Corporation Act may be taken at a meeting of the Members,

may be taken without a meeting, if authorized by a writing signed by all of the Owners and members who would be entitled to vote upon such action at a meeting, and properly filed with the Secretary of the Association.

Section 5. Special Meetings. Special meetings of the Members may be called at any time by the President, by a majority of the Board, or upon written request of 1/4 of all of the votes of the Class A membership, in accordance with the notice requirements provided in the Declaration.

Section 6. Notice of Meetings. Written notice of each meeting of the Members shall be given by the Secretary person authorized to call the meeting, by mailing a copy of such notice, postage pre-paid, at least ten (10) days and not more than fifty (50) days prior to the date of such meeting, to each Member entitled to vote thereat, addressed to the Member's address last appearing on the books of the Association. Such notice shall specify the date, place and hour of the meeting, and in the case of a special meeting, the purpose of such meeting.

Section 7. Voting. The Association shall have two (2) classes of voting membership, namely Class A and Class B, as provided below:

Class A. Class A Memberships shall be all Member ships except the Class B Membership held by Declarant, and each Owner shall be entitled to one vote for each Class A Membership held by the Owner, subject to authority of the Board to suspend voting rights of the Owner for violations of these Bylaws or the Declaration in accordance with the provisions hereof and thereof.

Class B. There shall be one Class B Membership which shall be held by Declarant. Declarant shall be entitled to three (3) votes per Lot held by Declarant. Class B Membership shall cease and be converted to Class A Membership upon the happening of any of the following events, whichever occurs earlier:

- (1) When the total votes outstanding in the Class A Membership equal the total votes outstanding in the Class B Membership, or
- (2) January 1, 2004, or
- (3) Five (5) years after Declarant stops all sales, recordation, construction and planning activity defined by the Declaration as "Constructive Abandonment".

Section 8. Quorum. The presence at a meeting of Members representing twenty-five percent (25%) of each Class of membership entitled to vote on such matters to be taken up by the Members shall constitute a quorum for any action, except as otherwise provided in the Articles of Incorporation, the Declaration or these Bylaws. If however, such quorum shall not be present or represented at any meeting, the Members entitled to vote thereat shall have the power to adjourn the meeting from time to time, without notice, other than the announcement at the meeting, until a quorum shall be present or represented.

Section 9. Proxies. At all meetings of Members, each Member may vote in person or by proxy. All proxies shall be in writing and filed with the Secretary. Every proxy shall automatically cease upon conveyance by the Member of their Lot or Dwelling Unit.

ARTICLE III BOARD OF DIRECTORS

Section 1. Number and Qualification of Board of Directors. The affairs of the Association shall be governed by a Board of Directors composed of not less than two (2) nor more than twenty-five (25) Directors, or such other number as the Members shall from time to time elect. The Board of Directors shall initially be comprised of three (3) members and shall be divided

into three classes for one year, two years and three years. If the number of Directors is thereafter increased or decreased, their respective terms shall be so staggered as to permit election of as similar a number as possible at each annual meeting. At the next annual meeting of the Members, the election of Directors shall be for terms of three years.

Section 2. Resignation and Removal of Directors. Any Director may be removed from the Board, with or without cause, by a majority vote of the Members of the Association. A Director may resign after thirty (30) days' written notice to the other Directors. In the event of death, resignation or removal of a Director, his or her successor shall be elected by the remaining members of the Board and shall serve for the unexpired term of his or her predecessor.

Section 3. Compensation. No compensation shall be paid to Directors or officers for their services as Directors or officers. No remuneration shall be paid to a Director for services performed by him or her for the Association in any capacity, unless a resolution authorizing such remuneration is unanimously adopted by the Board of Directors before the services are undertaken. Directors and officers, however, shall be reimbursed for any actual expenses incurred in connection with their duties as such officers or Directors.

Section 4. Action Taken Without Meeting. The Directors shall have the right to take any action in the absence of a meeting which they could have taken at a meeting, by obtaining the written approval of all Directors, in accordance with Arizona Revised Statutes, Nonprofit Corporation Act. Any action so approved shall have the same effect as though taken at a duly called meeting of the Directors.

Section 5. Election. Election to the Board shall be by written ballot or oral vote. Those candidates for election to the Board receiving the greatest percentage of votes cast either in person or by proxy at the meeting shall be elected.

Section 6. Powers and Duties. Without limiting the generality of the powers and duties of the Board, the Board of Directors shall be responsible to do the following:

(a) Adopt and publish rules and regulations governing the maintenance and use of the property within the jurisdiction of the Association and the personal conduct of the Members and their guests thereon, and to establish penalties for any infractions thereof;

(b) Suspend the voting rights of a Member during any period which such Member shall be in default in the payment of any assessment levied by the Association or violation of any covenant in the Declaration. Such rights may also be suspended after notice and hearing, for a period not to exceed sixty (60) days for infraction of any published rules and regulations;

(c) Exercise for the Association all powers, duties and authority vested in or delegated to the Association not reserved to the membership by other provisions of these Bylaws, the Articles of Incorporation or the Declaration;

(d) Declare the office of a member of the Board of Directors to be vacant in the event such member is absent from three (3) consecutive regular meetings of the Board of Directors;

(e) Employ such persons as may be necessary, and to prescribe their duties;

(f) Cause to be kept a complete record of all acts and affairs of the Association and to present a statement thereof to the Members at the Annual Meeting of the Members, or at any special meeting when such statement is requested in writing by 1/4 of the Class A Members entitled to vote;

(g) Appoint and supervise all officers, agents and employees of the Association including the Architectural Control Committee

and other committees, and see that their duties are properly performed;

(h) As more fully provided for in the Declaration, to

(1) Fix the amount of the annual assessment against each Lot or Dwelling Unit at least thirty (30) days in advance of each annual assessment;

(2) Send written notice of each assessment to every Owner subject thereto at least thirty (30) days in advance of each annual assessment and;

(3) Foreclose the lien against any Lot or Dwelling Unit for which assessments are not paid within thirty (30) days of the due date, or to bring legal action against the Owner personally obligated to pay the same.

(i) Issue, or cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for issuance of such certificates. If the certificate states that an annual assessment has been paid, such certificate shall be conclusive evidence of such payment;

(j) Procure and maintain adequate liability and hazard insurance, as defined in the Declaration, on property owned by the Association;

(k) Cause all officers or employees having fiscal responsibility to be bonded, if such is deemed necessary and appropriate;

(1) Cause the Lots and exteriors of Dwelling Units and Common Areas (if any) to be maintained; and

(m) Any and all necessary and reasonable functions which are normally performed by a Board of Directors in discharge of their duties to nonprofit corporations in general and to this Association in particular.

The foregoing enumeration of specific responsibilities and duties shall not be deemed to limit any power or duty of the Board of Directors arising by law or under the Declaration, Articles of Incorporation of these Bylaws.

ARTICLE IV MEETING OF DIRECTORS

Section 1. Regular Meeting. Regular meetings of the Board shall be held monthly without notice, at such place and hour as may be fixed from time to time by resolution of the Board.

Section 2. Special Meeting. Special meetings of the Board shall be held and called by the President of the Association or by any Director, after not less than three (3) days notice to each Directors, or within a reasonable time after the presentation to the President of the Association of a petition signed by fifty percent (50%) of the Class A Members.

Section 3. Quorum. A quorum shall be represented by a majority of the Directors then in office and presently serving. The acts of a majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors, there is less than a quorum present, the majority of those present may adjourn the meeting to another time.

Section 4. Waiver of Notice. Before, at or after any meeting of the Board of Directors, any Director may, in writing, waive notice of such meeting, and such waiver shall be

deemed equivalent to the giving of such notice. Attendance of a Director at any meeting shall constitute a waiver of notice of such meeting unless the Director attends for the sole and express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5. Organization Meeting. The first meeting of the original Board of Directors shall be called and held within one hundred twenty (120) days after the Articles of Incorporation of the Association have been accepted for filing, approved and reviewed by the Arizona Corporation Commission.

ARTICLE V COMMON EXPENSES/ASSESSMENTS

Section 1. Annual Budget. The Board shall cause an estimated annual budget of the Common Expenses to be prepared for each fiscal year of the Association. Such annual budget shall be presented to the Members and shall be used as a basis for assessments.

Section 2. Assessments for Common Expenses. As more fully described and provided in the Declaration, each Member is obligated to pay to the Association annual and special assessments which are secured by a continuing lien upon the property (the Lot or Dwelling Unit) against which the assessment is made. Annual Assessments shall be made by the Association in conformance with the annual budget prepared by the Board. Special Assessment shall be made against Lots or Dwelling Units and Members to defray costs incurred by the Association to maintain the Member's Lot or Dwelling Unit in conformance with the Declaration. Any assessments which are not paid when due shall be delinquent. If the assessment is not paid within thirty (30) days of the due date, the assessment shall bear interest from the date of delinquency at the rate of ten (10%) per annum, or as otherwise determined by the Board or specified in the Declaration. The Association may bring an action at law or equity against the Member personally obligated to pay the same or comply with the Declaration, or foreclose the lien against the Lot or Dwelling Unit, and interest and reasonable attorneys' fees of such action shall be added to the amount of such assessment. No Member may waive or otherwise escape liability for the assessments provided herein by nonuse or abandonment of any Common Area (if any) or his Lot or Dwelling Unit.

Section 3. Supplemental Budget. In the event that during the course of any fiscal year, the Board shall determine that the assessments levied in accordance with the estimated annual budget for the Common Expenses for such fiscal year are insufficient and inadequate, or are greater than required to cover the estimated expenses of operating the Association for the remainder of such fiscal year, the Board shall prepare and approve a supplemental budget covering the estimated deficiency or excess for the remainder of the fiscal year. A copy of such supplemental budget shall be furnished to each Member, and upon furnishing such copy, the Board shall levy a supplemental assessment for such estimated deficiency against each Lot or Dwelling Unit and each Member or reduce or increase (as the case may be) the existing annual assessment installments attributable to each Lot or Dwelling Unit and each Member for the proportionate share of such estimated deficiency or excess, which shall, in the event of a deficiency, be payable in the same manner and on the same date as the then remaining balance of the original assessment for the Common Expenses for such fiscal year. In the event of an excess, the reduced assessment shall be effective and applied in the same manner and on the same date as the then remaining balance of the original assessment for the Common Expenses for such fiscal year.

Section 4. Lien for Unpaid Assessments. Each installment, or if a lump sum, each Member's proportionate share, of the Common Expenses, together with a late charge established by the Board, not to exceed eighteen (18) percent of the amount of such installment, costs and reasonable attorneys' fees, shall constitute the personal obligation of the person who is a Member at the time such installment became due and an obligation running with the Lot or Dwelling Unit. The personal obligation for delinquent installments shall not pass to the Member's successor unless expressly assumed by such successor; provided, however, that the personal obligations shall survive any voluntary or involuntary transfer of a Lot or Dwelling Unit with respect to any Member who was the Owner of such Lot or Dwelling Unit at the time such payment became

due. Any person acquiring an interest in any Lot or Dwelling Unit shall, upon written notice to the Board be entitled to a statement from the Association setting forth the amount of the unpaid installments, if any, and such persons shall not be liable for nor shall any lien attach to such Lot or Dwelling Unit in excess of the amount set forth in such statement, except for assessments and other charges which become due after the date thereof. The lien provided for in this Section may be foreclosed upon by the Association in any manner provided or permitted for the foreclosure of L-éal property mortgages, deeds of trust or liens in the State of Arizona.

ARTICLE VI
BOOKS AND RECORDS

The books, records and papers of the Association shall be kept and maintained by the Board, or such officer(s) as the Board designates, and shall at all times during reasonable business hours be subject to inspection by any Member. The Declaration, Articles of Incorporation and Bylaws of the Association shall be available for inspection by any Member at the principal offices of the Association, and copies thereof may be purchased at a reasonable cost from the Association.

ARTICLE VII
INDEMNIFICATION

The Association shall indemnify and hold harmless each of its Directors and officers, each Member of any committee appointed by the Board and the Declarant, against any and all liability arising out of any acts of the Directors, officers, committee members, Board or Declarant (including any and all officers and DIRECTORS: directors of Declarant), or arising out of their status as Directors, officers, committee members, Board or Declarant, unless any such act is a result of gross negligence or criminal intent. It is intended that the foregoing indemnification shall include indemnification against all costs and expenses, including but not limited to attorneys' fees and costs reasonably incurred in connection with the defense of any claim, action or proceeding, whether civil, criminal, administrative or other, in which any such Director, officer, committee member, Board, Declarant or officer of Declarant may be involved by virtue of such person having the status of Director, officer, committee member, Board, Declarant, Declarant's director or officer.

ARTICLE VIII
AMENDMENTS

ATTEST

Notwithstanding anything to the contrary contained herein, these Bylaws may be amended by a vote in favor of such amendment by two-thirds (2/3) of the Class A Members and the Class C Member; provided, however, that any amendment to these Bylaws while there exists a Class B Member may be vetoed by the Federal Housing Administration or the Veterans' Administration.

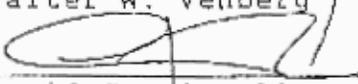
ARTICLE IX
FISCAL YEAR

Fiscal year of the Association shall begin on the first (1st) day of January and end on the thirty-first (31st) day of December each year, except that the first fiscal year shall begin on the date of incorporation and end on the thirty-first (31st) day of December.

IN WITNESS WHEREOF, the undersigned Directors have here unto set their hands of this 25th day of August, 1994.


David M. Brown


Walter W. Venberg


David J. Piccoli