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BYLAWS OF  
MONTROSE MASTER ASSOCIATION, INC.

ARTICLE 1.  
PLAN OF OWNERSHIP

1.1 Name and Location. The name of this association ( " Association " ) is MONTROSE MASTER ASSOCIATION, INC. The principal office of the Association shall be in Kootenai County, Idaho.

1.2 Application to Project. The provisions of these Bylaws are applicable to that certain residential planned unit development located in Kootenai County, Idaho, known as "Montrose." All present and future Owners, and their tenants, future tenants, and any other person who might occupy a Lot or use the facilities of the Property in any manner, are subject to the regulations set forth in these Bylaws, in the Articles of Incorporation for the Association, and in the Master Declaration of Covenants, Conditions and Restrictions for the Property ("Declaration") recorded or to be recorded in the office of the Kootenai County Recorder, and applicable to the Property.

1.3 Meaning of Terms. Unless otherwise specifically provided herein, the definitions contained in the Declaration are incorporated in these Bylaws by reference.

ARTICLE 2.  
MEMBERSHIP; MEETINGS AND VOTING RIGHTS

2.1 One Class of Members. The Association shall have one (1) class of voting membership, with voting power being as described in the Articles of Incorporation (subject to special allocations of voting rights for multi-family and commercial uses within the Project)

2.2 Voting Requirements. Except when otherwise expressly provided in the Declaration, the Articles or these Bylaws, any action by the Association which must have the approval of the Association membership before being undertaken shall require the vote of a majority of a quorum present at any meeting (in person or by proxy)

2.3 Quorum. The presence in person or by proxy of at least twenty percent (20%) of the voting power (and the presence of the Declarant, where the Declarant holds at least 15% of the total voting power) shall constitute a quorum. The Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum (provided that the Declarant shall be present at all times in order for business to be conducted, where the Declarant holds at least 15% of the total voting power).

2.4 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 before the appointed time of each

meeting. All proxies shall be valid only for the meeting for which the proxies are given (including any reconvened meeting in the event of an adjournment), unless provided otherwise in the proxy (but in no event for a period exceeding eleven (11) months from date of execution). Every proxy shall be revocable and shall automatically cease upon receipt of notice by the Secretary of the Association of the death or judicially declared incompetence of such Member.

2.5 Annual Meetings. Regular annual meetings of the Members of the Association shall be held on a date selected by the board of directors.

2.6 Special Meetings. A special meeting of Members of the Association may be called by the President or by any two (2) members of the Board. A special meeting shall be called by the Board upon receipt of a written request therefor signed by Members representing not less than thirty-three percent (33%) of the voting power of the Association.

2.7 Notice and Location of Meetings. At the direction of the President, the Secretary, or the officers or persons calling a meeting, written notice of regular and special meetings shall be given to all Members in the manner specified for notices under these Bylaws. Such notice shall specify the place, day, and hour of the business to be undertaken, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except in the case of an emergency, at least ten (10) days' notice (but not more than fifty (50) days' notice) of any meeting shall be provided prior to the meeting. Meetings of the Association shall be held within the Property, or at a convenient meeting place close to the Property. Notice shall also be delivered to any institutional lender filing a written request for notice with the Association, and any such lender shall be permitted to designate a representative to attend all such meetings.

2.8 Adjournment. In the absence of a quorum at a Members' meeting, a majority of those present in person or by proxy may adjourn the meeting to another time, but may not transact any other business. An adjournment for lack of a quorum shall be to a date not less than five (5) days and not more than thirty (30) days from the original meeting date. The quorum requirements for a reconvened meeting shall be the same as for the initial meeting.

2.9 Action Without Meeting. Any action which may be taken at a meeting of the Members may be taken without a meeting if a consent, in writing, setting forth the action so taken, is signed by all the Members entitled to vote thereon. Such consent shall have the same force and effect as a unanimous vote.

2.10 Rules at Meetings. Except as otherwise Provided in these Bylaws, the Articles or the Declaration, all meetings of the Members shall be governed by Roberts Revised Rules of Order.

ARTICLE 3.  
BOARD OF DIRECTORS

3.1 Number and Term of Directors. The Board shall consist, initially, of three (3) Directors. At each annual meeting of the Association, the number of Directors shall be adjusted automatically, according to the increase in voting power residing in Members other than the Declarant since the preceding annual meeting, according to the following:

<u>Non-Declarant Votes as of Annual Meeting Date</u>	<u>Number of Directors</u>
Up to 300	3
Up to 500	4
Up to 700	5
Up to 900	6
Up to 1200	7
Up to 1500	8
Over 1500	9

Each Director shall be an Owner of a Lot or an agent of a corporate Owner. The initial Directors shall serve until the first annual meeting of the Association.

Each Director shall be designated as a Category I or Category II Director. The first, third, fifth, seventh, and ninth Director positions shall be Category I Director positions. The second, fourth, sixth, and eighth Director positions shall be Category II Director positions. The Category I Directors shall serve from the date of their election until the annual meeting held in the next odd-numbered calendar year, and the Category II Directors shall serve from the date of their election until the annual meeting held in the next even-numbered calendar year. The intent of designating Directors by Category is to preserve the staggering of terms on a two-year basis.

3.2 Election of Board of Directors.

a. Nomination. Nominations for election to the Board of Directors may be made from the floor at the annual meeting of the Association. Additionally, the Board may appoint a Nominating Committee, which shall consist of a Chairman, who shall be a member of the Board of Directors, and two (2) or more Members of the Association. If the Board determines to appoint a Nominating Committee, the Committee shall be appointed at least sixty (60) days prior to each annual meeting of the Members, to serve until the close of such annual meeting, and shall

make as many nominations for election to the Board of Directors as it shall, in its discretion, determine, but not less than the number of vacancies that are to be filled.

b. Election of Directors; Declarant Control. Elections of Board members shall be by secret written ballot, with the persons receiving the most votes being elected to serve. If Director positions are available in both Categories described in Paragraph 3.1 above, the Director receiving the most votes shall be designated for the Category providing the longest term. No cumulative voting rights shall be available.

Notwithstanding the foregoing, the Declarant shall have the right to control the Board by appointing a majority of all Directors (but not less than three Directors), with all remaining Directors being elected by the vote of the Members. The special right of the Declarant to control the Board by appointment of Directors shall cease on the occurrence of any of the following:

(i) When the Declarant no longer holds at least 15% of the total voting power in the Association; provided that the control privilege, once lost, may be reinstated upon the annexation of additional Phases, if the Declarant thereby holds at least 25% of the total voting power again; or

(ii) Twenty-five (25) years from the date of recordation of the Declaration.

3.3 Removal. An individual Director may be removed by the majority vote of a quorum of the membership at a meeting called for such purpose; provided that a Director appointed by the Declarant shall only be removed by the Declarant.

3.4 Vacancies. Vacancies in the Board caused by any reason, other than the removal of a Director by the voting in of a replacement by the Members, shall be filled by the Vote of a majority of the remaining Directors, or, in the case of a Director appointed by the Declarant, by a new appointment by the Declarant. Each person so elected shall be a Director for the remainder of the term of the Director he or she replaces, or until a successor is elected at a special meeting of the Members called for that purpose.

3.5 Regular Meetings. Regular meetings of the Board shall be conducted at least quarterly at a time and place within the Property, or at a convenient meeting place as may be fixed by the Board. Notice of the time and place of regular meetings shall be given to each Director, personally or by mail or facsimile, at least five (5) days prior to the day named for the meeting. One of the regular meetings shall be the annual meeting, which shall be held within ten (30) days following the annual meeting of Members.

3.6 Special Meetings. A special meeting of the Board may be called by written notice signed by the President of the Association or by any two (2) Directors other than the President. Notice shall be provided to all Directors in the manner prescribed for notice of regular meetings, and shall include a description of the nature of any special business to be considered by the Board.

3.7 Waiver of Notice. Before or at any meeting of the Board, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such

notice to that Director. Attendance by a Director at any meeting of the Board shall be a waiver of notice by him or her of the time and place of the meeting, except where such attendance is for the limited and express purpose of objecting to the transaction of any business at the meeting because the meeting is not lawfully called or convened.

3.8 Quorum. The presence in person of a majority of the Directors at any meeting of the Board shall constitute a quorum. The vote of a majority of the quorum actually present at any meeting shall constitute the vote of the Board, unless expressly provided to the contrary in these Bylaws, or in the Declaration or Articles of the Association.

3.9 Action by Consent of Directors. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action.

3.10 Adjournment: Executive Session. The Board may, with the approval of a majority of a quorum of the Directors, adjourn a meeting and reconvene in executive session to discuss and vote upon personnel matters, litigation in which the Association is or may become involved, and orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

3.11 Board Meetings Open to Members. Regular and special meetings of the Board shall be open to all Members of the Association; provided, however, that Association Members who are not on the Board may not participate in any deliberation or discussion unless expressly so authorized by the unanimous vote of the Board.

#### ARTICLE 4.

#### POWERS AND DUTIES OF THE BOARD OF DIRECTORS

The Board shall have the powers and duties necessary for the administration of the affairs of the Association. Without limitation on the generality of the foregoing powers and duties, the Board shall be vested with, and responsible for, the following powers and duties:

4.1 To select, appoint, supervise, and remove all officers, agents and employees of the Association; to prescribe such powers and duties for them as may be consistent with law, and with the Articles, the Declaration and these Bylaws;

4.2 To enforce the applicable provisions of the Declaration, Articles, these Bylaws and other instruments relating to the ownership, management, architecture, and control of the Property;

4.3 To contract for casualty, liability and other insurance on behalf of the Association as required or permitted in the Declaration;

4.4 To keep, or cause to be kept, complete and accurate books and records of the receipts and expenditures of the Association, specifying and itemizing the maintenance and repair expenses

incurred, and to prepare budgets and financial statements for the Association as required in these Bylaws in accordance with good accounting procedures;

4.5 To borrow money and incur indebtedness for purposes of the Association, and to cause to be executed and delivered therefor, in the Association's name, promissory notes or other evidences of debt (and security therefor), subject to the approval requirements of the Articles, these Bylaws, or the law;

4.6 To fix and collect Assessments according to the Declaration and these Bylaws, and, if deemed appropriate in the Board's discretion, to record a Notice of Assessment Lien and foreclose the lien against any Lot for which an Assessment is not paid within thirty (30) days after the due date, or bring an action at law against the Owner personally obligated to pay such Assessment;

4.7 To prepare and file annual tax returns with the federal government and to make such elections as may be necessary to reduce or eliminate the tax liability of the Association. Without limiting the generality of the foregoing, the Board may, on behalf of the Association, elect to be taxed under Section 528 of the Internal Revenue Code or any successor or similar statute conferring income tax benefits on property owners associations.

## ARTICLE 5. OFFICERS

5.1 Enumeration and Term. The officers of this Association shall be a President, Vice-President, Secretary, and Treasurer, and such other officers as the Board may, from time to time, by resolution create. The officers shall be elected annually by the Board and each shall hold office for one (1) year unless he or she shall sooner resign, or shall be removed, or otherwise disqualified to serve.

5.2 Election of Officers. The election of officers shall take place at the first meeting of the Board of Directors following each annual meeting of the Members.

5.3 Resignation and Removal. Any officer may be removed from office by a majority of the Board at any time with or without cause. Any officer may resign at any time by giving written notice to the Board, the President or the Secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

5.4 Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he or she replaces.

5.5 Multiple Offices. Any two or more offices may be held by the same person, except the office of President.

5.6 Duties. The duties of the officers are as follows:

a. President. The President shall preside at all meetings of the Association and the Board of Directors; shall see that orders and resolutions of the Board are carried out; shall sign all written instruments, agreements, and orders of the Board; and shall co-sign all checks.

b. Vice-President. The Vice-President shall act in the place and stead of the President in the event of his or her absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him or her by the Board.

c. Secretary. The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members, serve notice of meetings of the Board and of the Members, keep appropriate current records showing the Members of the Association together with their addresses, and shall perform such other duties as required by the Board.

d. Treasurer. The Treasurer shall receive and deposit, in appropriate bank accounts, all monies of the Association, and shall disburse such funds as directed by resolution of the Board of Directors pursuant to approval of vouchers, when appropriate; shall co-sign all checks of the Association; and shall keep proper books of account and prepare or have prepared financial statements and tax returns as required in these Bylaws.

#### ARTICLE 6.

#### DISCIPLINE OF MEMBERS; SUSPENSION OF RIGHTS

The Association shall have no power to cause a forfeiture or abridgement of an Owner's right to the full use and enjoyment of his individually owned Lot on account of a failure by the Owner to comply with provisions of the Declaration, Articles, these Bylaws, or of duly enacted rules and regulations relating to the Property, except where the loss or forfeiture is the result of the judgment of a court or a decision arising out of arbitration or on account of a foreclosure or sale under a power of sale for failure of the Owner to pay Assessments levied by the Association.

Notwithstanding the foregoing, the Board shall have the power to impose monetary penalties (fines), temporary suspensions of an Owner's rights as a Member of the Association or other appropriate discipline for failure to comply with the Declaration, Articles, these Bylaws or duly enacted rules and regulations; provided that the accused shall be given notice and the opportunity to be heard by the Board with respect to the alleged Violations before a decision to impose discipline is reached. In the case in which monetary penalties (fines) are to be imposed, such amounts shall include actual attorney's fees and all costs in connection with the collection of such penalties.

ARTICLE 7.  
BUDGETS, FINANCIAL STATEMENTS, BOOKS AND RECORDS

7.1 Budgets and Financial Statements. Financial statements and pro forma operating budgets for the Association shall be regularly prepared (at least annually) and copies shall be distributed to each Member of the Association and to the holder, insurer, or guarantor of any first mortgage on any Lot who shall have made a written request therefor. Annual financial statements shall be prepared and shall be available for distribution to requesting parties not later than 120 days after the expiration of the Association's fiscal year.

7.2 Fiscal Year. The fiscal year of the Association shall be as designated by resolution of the Board. In the absence of such a resolution, the fiscal year shall be the calendar year.

7.3 Inspection of Association's Books and Records. The membership register, books of account, Vouchers authorizing payments, minutes of meetings of the Members and of the Board, and copies of the current Declaration, Articles, Bylaws and rules and regulations for the Property shall be made available for inspection and copying by any Member of the Association, by any holder, insurer, or guarantor of a first mortgage on any Lot, or by its duly appointed representative at any reasonable time and for a purpose reasonably related to its interest (and at the cost of the requesting party), at the office of the Association or at such other place within or near the Property as the Board shall prescribe.

7.4 Statement of Account. Upon ten (10) days' notice to the Board and payment of a reasonable fee, any Lot Owner shall be furnished a statement of its account setting forth the amount of any unpaid Assessments or other charges due and owing from such Owner.

ARTICLE 8.  
AMENDMENT OF BYLAWS

These Bylaws may be amended at any time and in any manner by resolution approved by a majority of the Board of Directors, provided any such amendment shall not be inconsistent with the Articles, the Declaration, or the law.

ARTICLE 9.  
MISCELLANEOUS PROVISIONS

9.1 Regulations. All Owners, tenants and their employees, and any other person that might use the facilities of the Project in any manner, are subject to the regulations set forth in these Bylaws and in the Project Documents and to all reasonable rules and regulations enacted pursuant to the Declaration. Acquisition, rental, or occupancy of any Lot shall constitute acceptance and ratification of the provisions of all such rules and regulations.

9.2 Compensation and Indemnity of Officers and Directors. No Director or officer shall receive any loan from the Association, or shall receive any compensation for services rendered for or on behalf of the Association, except reimbursement for actual sums spent on behalf of the Association, to the extent authorized by the Board. To the maximum extent permitted by the Idaho Nonprofit Corporation Act and the Articles, each Director and officer shall be indemnified by the Association against all expenses and liabilities, including attorney's fees, reasonably incurred by or imposed upon him or her by judgment or settlement in connection with any proceeding to which he or she may be a party, or in which he or she may become involved, by reason of his or her being or having been a Director or officer of the Association, except in cases of fraud, gross negligence or bad faith of the Director or officer in the performance of his or her duties.

9.3 Committees. The Board may appoint a Nominating Committee, as provided in these Bylaws. In addition, the Board of Directors may appoint other committees as deemed appropriate in carrying out its purpose; provided, however, that the power and authority of any such committee shall be limited according to the Idaho Nonprofit Corporation Act.

9.4 Notices. Any notice permitted or required to be given by the Property Documents may be delivered either personally or by mail or as otherwise specifically provided in the Property Documents. If delivery is by mail, it shall be deemed to have been given seventy-two (72) hours after a copy of the same has been deposited in the United States mail, postage prepaid, addressed to each person at the current address given by such person to the Secretary of the Association or addressed to the Lot of such person if no address has been given to the Secretary.

#### ADOPTION OF BYLAWS

We, the undersigned, being all of the Directors of MONTROSE MASTER ASSOCIATION, INC., do hereby assent to the within and foregoing Bylaws and hereby adopt the same as the Bylaws of said Association.

EXECUTED by the undersigned on October 7, 1998.

  
\_\_\_\_\_  
JAMES FRANK

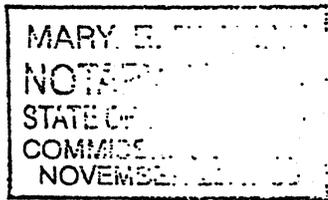
  
\_\_\_\_\_  
JASON WHEATON

  
\_\_\_\_\_  
GARY SCHNEIDMILLER

STATE OF WASHINGTON )  
 ) ss  
COUNTY OF SPOKANE )

On this 7<sup>th</sup> day of October, 1998, before me, Mary E. Duncan, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared James M. Frank, Jason S. Wheaton and Gary Schneidmiller, to me known to be the Directors of MONTROSE MASTER ASSOCIATION, INC., the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that they are authorized to execute the said instrument and that the seal affixed (if any) is the corporate seal of said corporation..

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



Mary E. Duncan  
NOTARY PUBLIC. in and for the  
State of Washington. Residing  
at Spokane. My commission  
expires 11/29/2000