

BYLAWS
OF
THE VILLAGES at CHAPEL HILL PROPERTY OWNERS' ASSOCIATION

ARTICLE I
PLAN OF OWNERSHIP

1.1 Name and Location: The name of this association ("Association") is THE VILLAGES AT CHAPEL HILL PROPERTY OWNERS' ASSOCIATION. The principal office of the Association shall be at 815 West 7th Avenue, Suite 200, Spokane, Washington 99204.

1.2 Application to Project: The provisions of these Bylaws are applicable to that certain residential project consisting of a forty-eight (48) Lot residential project located at 6005, 6305 AND 6405 Chapel Hill Boulevard, Pasco, Washington, commonly known as The VILLAGES AT CHAPEL HILL - PHASE I. 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 Declaration of Covenants, Conditions and Restrictions for the Property ("Declaration") recorded or to be recorded in the office of the Franklin 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 II
MEMBERSHIP; MEETINGS AND VOTING RIGHTS

2.1 The Association shall have two (2) class of voting Members: Class A Membership and Class B Membership.

2.2 Quorum: The presence in person or by proxy of at least fifty-five percent (55%) of the total voting power of the Association 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.

2.3 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.

2.4 Annual Meeting: Regular annual meetings of the Members of the Association shall be held on the second Tuesday of each November.

2.5 Special Meetings: A special meeting of Members of the Association may only be called by the President or by any two (2) other members of the Board.

2.6 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.

2.7 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 presence in person or by proxy of at least fifty-five percent (55%) of the total voting power of the Association shall constitute a quorum at any such reconvened meeting.

2.8 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.

2.9 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.

2.10 Voting Waiver: MT III LLC, a Washington Limited Liability Company, is collectively referred to in the Declaration, the Articles of Incorporation, and these Bylaws as the "Declarant". As used in the Declaration, the Articles of Incorporation, and these Bylaws, the term "Declarant" shall also include any successor entity controlled by the Declarant to which such rights are assigned. As long as Declarant (or Declarant's assignee) owns two or more Lots, then any and all action by the Association shall be done and approved only by the Board of Directors, without the need for membership vote or consent. Once the Declarant (or Declarant's assignee) sells all but the last Lot, then the Members shall be entitled to vote on pertinent matters as provided in Paragraphs 2.1 through 2.9 above.

ARTICLE III BOARD OF DIRECTORS

3.1 Number and Term of Directors:

3.1.1 The affairs of this Association shall be managed by a Board of three (3) Directors. Until the sale of all but the last Lot by the Declarant (or Declarant's assignee), the Declarant (or Declarant's assignee) shall have the right to appoint all Directors. During this period of time, the provisions of Paragraph 3.1.2 through 3.3 shall not apply.

3.1.2 After the sale of all but the last Lot, the Members shall be entitled to vote on membership matters and appoint Directors. The Board shall consist of three (3) Directors, each of whom shall be an Owner of a Lot or an agent of a corporate Owner. The term of each Director shall be three (3) years staggered annually. Therefore, at each annual

meeting of the Members, the Members shall elect one (1) Director to fill the seat vacated by whichever Director is completing their three-year term.

3.2 Removal: An individual Director shall not be removed except by a vote greater than seventy percent (70%) of all Lot Owners.

3.3 Vacancies: Vacancies in the Board caused by any reason shall be filled as provided for in Section 5.4 below.

3.4 Regular Meetings: Regular meetings of the Board shall be conducted annually at a time and place within the Property, or at a convenient meeting place close to the Property, 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 (10) days following the annual meeting of Members.

3.5 Special Meeting: 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.

3.6 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.

3.7 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.

3.8 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.

3.9 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.

3.10 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 IV
POWER 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 maintain or contract for the maintenance of the Common Area as provided in the Declaration;

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

4.5 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;

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

4.7 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;

4.8 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 V
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 three (3) years staggered annually, 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 offices of President and Secretary.

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 has the power to sign all Association 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; and shall keep proper books of account and prepare or have prepared financial statements and tax returns as required in these Bylaws. The Treasurer shall have the power to sign any and all Association checks.

ARTICLE VI DISCIPLINE OF MEMBERS; SUSPENSION OF RIGHTS

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 as provided in the Declaration, the Articles or these Bylaws for any violation of any provision contained within the same. 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 VII BUDGET, FINANCIAL STATEMENTS, BOOKS AND RECORDS

7.1 Budgets and Financial Statements: Financial statements (audited, in the discretion of the Board) 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 therefore. Additionally, if the Board does not require an audited financial statement, any Member and any holder, insurer, or guarantor of any first mortgage on any Lot shall have the right to have an audited statement prepared at its expense.

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 their account setting forth the amount of any unpaid Assessments or other charges due and owing from such Owner.

ARTICLE VIII 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 IX 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: A Director may receive compensation for services rendered for or on behalf of the Association, to the extent authorized by the Board. To the maximum extent permitted by the Washington Non-Profit 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 any committees it deems appropriate or helpful in carrying out Association duties. However, the power and authority of any such committee shall be limited according to the Washington Non-Profit Corporation Act.

9.4 Notices: Unless otherwise specified, any notice permitted or required to be given by the Declaration, Articles or these Bylaws, may be delivered either personally or by mail. 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 THE VILLAGES AT CHAPEL HILL PROPERTY OWNERS' ASSOCIATION 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 the 24 day of August, 2005

Dagney Taggart LLC,
a Washington Limited Liability Company
Lorri A. Taylor, Managing Member


Lorri A. Taylor, Director

The John Galt Society LLC,
a Washington Limited Liability Company
Thomas R. Masters, Managing Member


Thomas R. Masters, Director
Lorri A. Taylor


Lorri A. Taylor, Director