

ARTICLE VI

6. Funds and Assessments.

6.1. Obligation.

Declarant and any Merchant Builder, for each Lot or Condominium owned by Declarant or such Merchant Builder which is subject to assessment, hereby covenants and every other Owner of any Lot or Condominium, by acceptance of a deed or other conveyance therefor, whether or not it shall be so expressed in such deed or such other instrument, is deemed to covenant to pay to the Association (i) annual Common Assessments for Common Expenses, (ii) Capital Improvement Assessments, (iii) Special Assessments, and (iv) Reconstruction Assessments; such assessments to be established and collected as hereinafter provided. All assessments other than Special Assessments, together with interest, costs, and reasonable attorneys' fees for the collection thereof, shall be a charge on the land and shall be a continuing lien upon the Lot or Condominium against which such assessment is made. The personal obligation of assessments shall not pass to the successors-in-title to any Owner, unless expressly assumed by them. The Association's lien securing the payment of assessments pursuant to this Declaration is subject and subordinate to the lien which secures Meadowood Association assessments pursuant to the Meadowood Declaration.

6.2. Maintenance Funds.

The Board shall Budget, establish and maintain at least the following separate accounts (the "Maintenance Funds") into which shall be deposited all monies paid to the Maintenance Association, and from which disbursements shall be made, as provided herein, in the Association's performance of its functions under the Restrictions:

6.2.1. General Operating Fund. A General Operating Fund for current expenses of the Association, exclusive of current expenses attributable to the Improvements and maintenance responsibilities included within the Cost Centers, if any.

6.2.2. General Reserve Fund. An adequate General Reserve Fund for the deposit of Reserves attributable to Improvements within the Association Property, exclusive of Reserves attributable to Improvements included in the Cost Centers, if any.

6.2.3. Cost Center Operating Fund. A Cost Center Operating Fund for current expenses of each Cost Center, if any, which has been completed and is subject to maintenance by the Association.

6.2.4. Cost Center Reserve Fund. An adequate Cost Center Reserve Fund for the deposit of Reserves attributable to each Cost Center, if any, which has been completed and is subject to maintenance by the Association.

6.2.5. Miscellaneous Maintenance Funds. Any other Maintenance Funds which the Board of Directors may deem necessary.

6.3. Disbursements.

All amounts deposited into the Maintenance Funds must be used solely for the purposes authorized by the Restrictions, as amended. The Board is authorized to transfer interest and other earnings on the General Reserve Fund and Cost Center Reserve Fund into the respective Operating Fund in order to satisfy income taxes payable by the Association attributable to such interest and earnings. The signatures of either two (2) Directors of the Association or one (1) Director and one (1) officer who is not also a Director of the Association shall be required for the withdrawal of money from the Association's Reserve funds. Disbursements from the particular Maintenance Funds shall be limited to specific purposes as follows:

6.3.1. Cost Center Reserves. Disbursements from each Cost Center Reserve Fund shall be made solely for the purpose of funding Reserve expenditures attributable to the Cost Center for which the fund was created.

6.3.2. Cost Center Operations. Disbursements from each Cost Center Operating Fund shall be made solely for the purpose of funding the current operating Common Expenses of the Cost Center for which the fund was created.

6.3.3. General Reserves. Disbursements from the General Reserve Fund shall be made solely for the purpose of funding those Reserve expenditures which are not Budgeted to a Cost Center.

6.3.4. General Operations. Disbursements from the General Operating Fund shall be made for such purposes as are necessary for the discharge of the Association's responsibilities under the Restrictions, for the common benefit of all Owners, other than those purposes specified in Subsections 6.3.1 through 6.3.3 above.

Nothing contained herein shall preclude the establishment of additional Maintenance Funds by the Association earmarked for specified purposes authorized by the Restrictions. The Association shall not impose or collect an assessment, penalty or fee which exceeds the amount necessary for the purpose or purposes for which it is levied.

6.4. Association Property and Parkway Trees/Damage or Neglect.

If any maintenance, repair or replacement of a Parkway Tree or the Association Property (including, without limitation, damage to any Association Property Wall or parkway adjacent to a Lot, Condominium or Common Area) is necessitated in the sole judgment of the Board as a result of the willful or negligent act or neglect of a Project Association, its members, guests or invitees, or an Owner, his family, guests, or invitees, such maintenance, repairs or replacements shall be performed at the expense of such Project Association or Owner, after Notice and Hearing, and a Special Assessment therefor shall be levied against such Project Association or

Owner; provided, however, that the liability of an individual Project Association or Owner for such damage to the Association Property shall not be absolute, but shall only be that for which the Project Association or Owner is legally responsible under California law. The foregoing shall include, without limitation, any settlement damage to any Association Property Wall and wall footings adjoining a Lot, Condominium or Common Area and any damage to a Parkway Tree caused by any excavation, construction or excess irrigation occurring on such Lot, Condominium or Common Area.

6.5. Common Assessments.

Each annual Common Assessment shall constitute an aggregate of separate assessments for each of the Maintenance Funds, reflecting an itemization of the amounts assessed and attributable to prospective deposits into the General Operating and Reserve Funds, the Cost Center Operating and Reserve Funds, and any other Maintenance Fund established by the Association. Sums sufficient to pay Common Expenses shall be assessed as Common Assessments against the Owners of Lots and Condominiums as follows:

6.5.1. General Assessment Component. The Common Expenses of the Association exclusive of Common Expenses Budgeted to the Cost Centers ("General Assessment Component") shall be allocated equally among all of the Lots and Condominiums in the Properties and their respective Owners.

6.5.2. Cost Center Assessment Component. That portion of the Common Expenses of the Association comprising Cost Center Operating and Reserve Funds Budgeted to any particular Cost Center ("Cost Center Assessment Component") shall be assessed to the Owners of Lots and Condominiums designated in a Supplemental Declaration as Lots and Condominiums to which the exclusive or disproportionate maintenance of such Cost Center has been allocated. The Supplemental Declaration covering a Lot or Condominium subject to a Cost Center Assessment Component shall: (i) Identify the Cost Center, if existing, or describe the Cost Center if proposed; (ii) Identify the Lots and Condominiums covered by the Supplemental Declaration which are entitled to use the facilities of the Cost Center or which are obligated to bear the exclusive or disproportionate maintenance of such Cost Center and which shall be obligated to pay the Cost Center Assessment Component attributable to such Cost Center; and (iii) Specify the Common Expenses comprising the Cost Center Assessment Component attributable to such Cost Center. Unless otherwise provided in such Supplemental Declaration, the Cost Center Assessment Component of Common Expenses for a Cost Center shall be allocated equally among all of the Lots and Condominiums in the Cost Center and their respective Owners.

Common Assessments shall be levied against the Owners of Lots and Condominiums in the first Phase of Development in which Common Assessments commence in the amounts as set forth in the Association Budget on file with the DRE. Thereafter, as Common Assessments commence with respect to each Phase of Development, the Common Assessments shall be adjusted, subject to the provisions of Section 6.7 below, in accordance with the combined Budget of the Association approved by the Board from time to time, and subject to the

limitations imposed by the maximum range of Common Assessments disclosed in all previous Public Reports for the Properties.

6.6. Commencement of Common Assessments.

6.6.1. Commencement Date. Common Assessments shall commence as to each Lot or Condominium in any Phase of Development on the first day of the first month following the month in which the first Close of Escrow occurs for the sale of a Lot or Condominium in such Phase of Development. Each such Lot or Condominium shall thereafter be subject to its share of the then established annual Common Assessment as set forth herein. The first annual Common Assessment shall be adjusted according to the number of months remaining in the fiscal year established pursuant to the Bylaws.

6.6.2. Payment Procedure. Subject to Section 6.7.4, the Board shall fix the amount of the annual Common Assessment to be levied against each Lot or Condominium at least thirty (30) days in advance of each Common Assessment period. However, unless otherwise established by the Board, the initial annual Common Assessment shall be levied in accordance with the most recent Budget on file with and approved by the DRE. Written notice of any increase in the amount of the annual Common Assessment or any Capital Improvement or Reconstruction Assessment shall be sent by first class mail to every Owner subject thereto, not less than thirty (30) nor more than sixty (60) days prior to the increased assessment becoming due. All installments of Common Assessments shall be collected in advance on a regular basis by the Board, at such frequency and on such due dates as the Board determines from time to time in its sole and absolute discretion. Each installment of a Common Assessment may be paid to the Association in one (1) check or in separate checks, as payments attributable to deposits into specified Maintenance Funds. If any payment of a Common Assessment installment is less than the amount assessed and the payment does not specify the Maintenance Fund or Funds into which it should be deposited, the payment received by the Association from that Owner shall be credited in order of priority first to the General Operating Fund until that portion of the Common Assessment has been satisfied, then to any applicable Cost Center Operating Fund until that portion of the Common Assessment has been satisfied, then to the General Reserve Fund until that portion of the Common Assessment has been satisfied, then to any applicable Cost Center Reserve Fund until that portion of the Common Assessment has been satisfied, then to any other Maintenance Funds established by the Association.

6.6.3. Excess Funds. During the term of any subsidy agreement between Declarant and the Association approved by the DRE ("Subsidy Agreement"), and during any period of time that the amount of the Common Assessments invoiced to the Owners is stabilized at a level amount pursuant to Section 6.7.4 below, all excess funds remaining in the Maintenance Funds over and above the amounts used for the operation and payment of Common Expenses of the Properties (including Reserves) shall be used by the Association to fund future Maintenance Fund deficits. After the termination of any Subsidy Agreement and any program of stabilized Common Assessment payments pursuant to Section 6.7.4, the Board of Directors may determine

that excess funds remaining in the Operating Funds, over and above the amounts used for the operation of the Properties, may be used to reduce the following year's Common Assessment attributable to such Maintenance Funds.

6.6.4. Exemption. Subject to the provisions of any Subsidy Agreement, notwithstanding any other provision of this Declaration, until (i) a notice of completion (if applicable) of an Association Property Improvement has been recorded, (ii) such Association Property Improvement has been placed into use, or (iii) the completion date for such Association Property Improvement specified in the Planned Construction Statement on file with the DRE with respect to such Association Property Improvement, whichever occurs first, each Owner (including Declarant and the Merchant Builders) is exempt from paying that portion of any Common Assessment which is for the purpose of defraying expenses and Reserves directly attributable to the existence and use of such Association Property Improvement. The preceding sentence shall not apply if VA or FHA has issued a "project approval" as described in Section 2.2.6(i) of this Declaration.

6.7. Limitations on Common Assessment Increases.

Subject to Section 6.7.4 below, the Board shall not levy, for any fiscal year, an annual Common Assessment which exceeds the "Maximum Authorized Common Assessment" as determined pursuant to Sections 6.7.1 and 6.7.2 below, unless first approved by the vote of Delegates representing at least (i) in the case of an increase in the General Assessment Component, a majority of votes at a meeting or written ballot of Delegates in which more than fifty percent (50%) of the total voting power of the Association is represented, and (ii) in the case of an increase in a Cost Center Assessment Component, a majority of votes at a meeting or written ballot of the Delegates for the Cost Center generating such Cost Center Assessment Component at which more than fifty percent (50%) of the total voting power attributable to such Cost Center is represented.

6.7.1. Maximum Authorized Common Assessment for Initial Year of Operations. Until the first day of the fiscal year immediately following the fiscal year in which Common Assessments commence, the Maximum Authorized Common Assessment per Lot or Condominium is one hundred twenty percent (120%) of the amount of Common Assessments disclosed in the current Budget of the Association filed with the DRE at the time Common Assessments commence. The provisions of this Subsection shall be applied separately to the General Assessment Component and the Cost Center Assessment Component, if any, of the Common Assessment. Notwithstanding the foregoing, this Section does not limit Common Assessment increases authorized pursuant to Section 6.7.4 below, or necessary to address an Emergency Situation as defined in Section 6.7.5 below.

6.7.2. Maximum Authorized Assessment for Subsequent Fiscal Years. Beginning with the fiscal year immediately following the fiscal year in which Common Assessments commence, the Maximum Authorized Common Assessment in any fiscal year is one hundred twenty percent (120%) of the level of Common Assessments levied in the

immediately preceding fiscal year; provided that distribution of the Budget for the current fiscal year in accordance with Section 1365(a) of the California Civil Code or other applicable law is a prerequisite to any increase in the Maximum Authorized Common Assessment for such fiscal year pursuant to this Subsection. The provisions of this Subsection shall be applied separately to the General Assessment Component and the Cost Center Assessment Component, if any, of the Common Assessment. Notwithstanding the foregoing, this Section does not limit Common Assessment increases authorized pursuant to Section 6.7.4 below, or necessary to address an Emergency Situation as defined in Section 6.7.5 below.

6.7.3. Supplemental Common Assessments. If the Board determines that the important and essential functions of the Association may be properly funded by an annual Common Assessment less than the Maximum Authorized Common Assessment, it may levy such lesser Common Assessment. If the Board levies a Common Assessment in an amount less than the Maximum Authorized Common Assessment for any fiscal year and thereafter, during such fiscal year, determines that the important and essential functions of the Association cannot be funded by such lesser Common Assessment, the Board may levy one (1) or more supplemental Common Assessments up to the Maximum Authorized Common Assessment.

6.7.4. Automatic Assessment Increases. Notwithstanding any other provisions of this Declaration, upon the annexation of additional Phases of Development pursuant to Article II hereof, the Common Assessments shall be automatically increased by the amount, if any, necessary to maintain the Association Property located within such additional Phases of Development in accordance with the standards prescribed by the then current DRE Operating Cost Manual or, if the Operating Cost Manual is no longer maintained by the DRE, pursuant to standards prescribed by comparable maintenance cost guidelines prepared in accordance with prudent property management practices for "common interest developments" (as defined in Section 1351(c) of the California Civil Code) consistently applied throughout the geographic region in which the Properties are located. However, such increase shall occur only if (i) the annexation of such additional Phases of Development is permitted by VA or FHA, if applicable, and (ii) the amount of such increase does not result in the levy of a Common Assessment which exceeds the upper range of Common Assessments disclosed in all previously issued Public Reports for the Properties. If annexation of Association Property results in an increase in the Common Assessment which is permissible under the requirements of the preceding sentence, then the Association shall be obligated to collect such increased Common Assessment and accept title to and assume the maintenance responsibility for such Association Property. However, to minimize the need for frequent adjustments in the amount of the Common Assessments during the development of the Properties, the Board may stabilize the amount of the Common Assessments invoiced to the Owners at a level amount calculated to defray the Common Expenses of the Association during the time that Common Assessments are fluctuating due to the periodic annexation of Lots, Condominiums and Association Property. By accepting title to a Lot or Condominium in the Properties, each Owner consents to the Common Assessment increases specified in this section.

6.7.5. Emergency Situations. For purposes of Sections 6.7.1, 6.7.2 and 6.8, an "Emergency Situation" is any of the following:

(i) Court Ordered Items. An extraordinary expense required by an order of a court;

(ii) Safety Items. An extraordinary expense necessary to repair or maintain the Association Property or any portion thereof for which the Association is responsible when a threat to the safety of Persons within the Properties is discovered; and

(iii) Reasonably Unforeseen Items. An extraordinary expense necessary to repair or maintain the Association Property or any portion thereof for which the Association is responsible that could not have been reasonably foreseen by the Board when preparing the Budget. Prior to the imposition or collection of an assessment pursuant to this Subparagraph (iii), the Board must pass a resolution containing written findings as to the necessity of the extraordinary expense involved and why the expense was not or could not have been reasonably foreseen in the budgeting process. The resolution shall be distributed to the Members with the notice of the assessment.

6.8. Capital Improvement Assessments.

The Board may levy, in any fiscal year, a Capital Improvement Assessment applicable to that year only for the purpose of defraying, in whole or in part, the cost of any construction, reconstruction, repair or replacement of a Capital Improvement upon the Association Property, including fixtures and personal property related thereto; provided that all proposed Capital Improvement Assessments shall require the vote of Delegates representing at least a majority of votes at a meeting or written ballot of Delegates in which is represented more than fifty percent (50%) of the total voting power attributable to Members subject to such Capital Improvement Assessment. Notwithstanding the foregoing, the Board may levy in any fiscal year a Capital Improvement Assessment applicable to that fiscal year without the vote of the Delegates if such Capital Improvement Assessment is necessary for addressing an Emergency Situation as defined in Section 6.7.5. All Capital Improvement Assessments must be levied against all Lots and Condominiums in the same manner and in the same proportions as Common Assessments are levied (for example, Owners located in a Cost Center will pay their proportionate share of any Capital Improvement Assessment attributable to their Cost Center Improvements, and Owners not located in such Cost Center are exempt from such Capital Improvement Assessment). Capital Improvement Assessments shall be collected in the manner and frequency determined by the Board.

6.9. Exempt Property.

The following property subject to this Declaration shall be exempt from the assessments herein: those portions of the Properties dedicated in fee and accepted by a public body, agency or authority; the Association Property owned in fee by the Association; all Meadowood Property

owned in fee by the Meadowood Association; and all Common Area owned in fee by any Project Association.

6.10. Remedies of the Association.

Any installment of a Common Assessment, Capital Improvement Assessment, Special Assessment, or Reconstruction Assessment not paid within thirty (30) days after the due date shall bear interest from the due date of such installment at a rate determined by the Board, but in no event more than the then maximum nonusurious rate permitted by law. Additionally, the Board may levy a late charge in accordance with California Civil Code Section 1366 or any successive law or ordinance in addition to the interest charged as described above to compensate the Association for increased bookkeeping, billing and other administrative costs. No such late charge on any delinquent installment of an assessment shall exceed the maximum amount allowable by law. If any installment of an assessment is not paid within thirty (30) days after it is due, the Association may bring an action at law against the Owner(s) personally obligated to pay the same, or, with respect to Common Assessments, Capital Improvement Assessments and Reconstruction Assessments, foreclose the lien against the Lot or Condominium. No Owner may escape liability for the assessments provided for herein by relinquishment of the Membership, or by nonuse of the Association Property or abandonment of the Lot or Condominium.

6.11. Notice of Lien.

No action may be brought to enforce any assessment lien herein, unless at least thirty (30) days have expired following the date a Notice of Lien is deposited in the United States mail, certified or registered, postage prepaid, to the Owner of the Lot or Condominium, and a copy thereof has been Recorded by the Association. The Notice of Lien shall be in such form and shall contain such information required by Section 1367(b) of the California Civil Code, or any similar California Statute hereafter enacted, and must be signed and acknowledged by an officer of the Association or such other Person expressly authorized by the Board to sign Notices of Liens, and such lien shall be (i) subordinate to the lien which secures Meadowood Association assessments pursuant to the Meadowood Declaration, and (ii) prior to any declaration of homestead Recorded after the date on which this Declaration is Recorded. The lien shall continue until fully paid or otherwise satisfied.

6.12. Foreclosure Sale.

A sale to foreclose the assessment lien may be conducted by the trustee designated in the Notice of Lien (or any successor trustee substituted therefor) in accordance with the provisions of Section 2924, 2924a, 2924b, 2924c and 2924f of the California Civil Code, or in accordance with any similar statute hereafter enacted applicable to the exercise of powers of sale in Deeds of Trust, or in any other manner permitted by law. The Association, through duly authorized agents, may bid on the Lot or Condominium, at foreclosure sale, and may acquire and hold, lease, mortgage, and convey the same. Upon completion of the foreclosure sale, the Association or the purchaser at the sale may file suit to secure occupancy of the Lot or Condominium, and the defaulting Owner shall be required to pay the reasonable rental value of the Lot or Condominium

during any period of continued occupancy by the defaulting Owner or any persons claiming under the defaulting Owner.

6.13. Curing of Default.

Upon the timely curing of any default for which the Association filed a Notice of Lien, the Association shall Record an appropriate Release of Lien, upon payment by the defaulting Owner of a reasonable fee to be determined by the Board to cover the cost of preparing and Recording such release. A certificate, executed and acknowledged by any officer of the Association, or such other person expressly authorized by the Board, stating the indebtedness secured by the liens upon any Lot or Condominium created hereunder, shall be conclusive upon the Association and the Owners as to the amount of such indebtedness as of the date of the certificate in favor of all persons who rely thereon in good faith. Such certificate shall be furnished to any Owner upon request at a reasonable fee, to be determined by the Board.

6.14. Cumulative Remedies.

The assessment lien and the rights of foreclosure and sale thereunder are in addition to and not in substitution for all other rights and remedies which the Association and its assigns may have against any delinquent Owner or delinquent Project Association hereunder and by law, including a suit to recover a money judgment for unpaid assessments, as above provided.

6.15. Mortgage Protection-Liens.

Subject to Section 6.16 below, no lien created under this Article VI, nor any breach of this Declaration, nor the enforcement of any provision hereof or of any Supplemental Declaration hereto defeats or renders invalid the rights of the Beneficiary under any Recorded Deed of Trust upon a Lot or Condominium, made in good faith and for value. After a Beneficiary or other Person obtains title to a Lot or Condominium by judicial foreclosure or by means of the powers set forth in such Deed of Trust, the Lot or Condominium shall remain subject to the Restrictions and the payment of all installments of assessments and other obligations, accruing after the date the Beneficiary or other Person obtains title.

6.16. Priority of Assessment Lien.

Mortgages Recorded before a Notice of Lien have lien priority over the Notice of Lien. The sale or transfer (including any "deed in lieu" of foreclosure) of any Lot or Condominium does not affect the assessment lien; except that the sale or transfer of any Lot or Condominium pursuant to judicial or nonjudicial foreclosure of a first Mortgage Recorded prior to a Notice of Lien extinguishes the lien of such assessment as to payments which became due prior to such foreclosure sale or transfer. No sale or transfer relieves such Lot or Condominium from lien rights for any assessments thereafter becoming due. No Person who obtains title to a Lot or Condominium through judicial or nonjudicial foreclosure of the first Mortgage is liable for the share of the Common Expenses or assessments chargeable to such Lot or Condominium which became due prior to the acquisition of title to such Lot or Condominium by such Person. Such unpaid share of Common Expenses and assessments is a Common Expense collectible from all of the Lots and Condominiums, including the Lot or Condominium belonging to such Person.

6.17. Capital Contribution.

If FHA or VA issued a Project Approval (as defined in Section 2.2.6(i) above) for the first Phase of Development in which a Close of Escrow occurs ("Initial Closing Phase"), Declarant, if Declarant is the developer of the Initial Closing Phase, or if not, the Merchant Builder developing such Initial Closing Phase, shall make a one time only contribution to the capital of the Association in an amount equal to one-sixth (1/6th) of the annual amount of the Common Assessment for all Lots or Condominiums in the Initial Closing Phase. A capital contribution pursuant to this Section is not required if FHA or VA has not issued a Project Approval for the Initial Closing Phase.

ARTICLE VII

7. Destruction or Condemnation.

Damage to or destruction of all or any portion of the Association Property or Parkway Trees, or condemnation of all or any portion of the Association Property shall be handled in the following manner:

7.1. Damages by Owners or Project Associations.

To the extent permitted by law, each Owner and Project Association is liable to the Association for any damage to the Association Property or Parkway Trees not fully reimbursed to the Association by insurance (including any insurance policy deductible amounts) if the damage is sustained because of the negligence, neglect, willful misconduct or unauthorized or improper installation or maintenance of any Improvement by the Project Association, its members, guests or invitees, or the Owner, his Family, guests, tenants or invitees, or any other Persons deriving their right and easement of use and enjoyment of the Association Property from the Project Association, the Owner, or their respective Family and guests, both minor and adult. However, the Association, acting through the Board, may determine whether any claim will be made upon the insurance maintained by the Association, and after Notice and Hearing the Association may levy a Special Assessment equal to the increase, if any, in insurance premiums directly attributable to the damage caused by the Owner or the Person for whom the Owner may be liable as described above. In the case of joint ownership of a Lot or Condominium, the liability of the Owners is joint and several, except to the extent that the Association has previously contracted in writing with the joint Owners to the contrary. After Notice and Hearing, the cost of correcting the damage, to the extent not reimbursed to the Association by insurance, shall be a Special Assessment.

7.2. Repair of Damages.

If Association Property Improvements or Parkway Trees which are the maintenance responsibility of the Association are damaged by fire or other casualty, any insurance proceeds payable by reason thereof shall be paid to the Association, which thereupon shall contract for the repair or replacement of all the Association Property Improvements or Parkway Trees so damaged. The Association shall levy a Reconstruction Assessment on Owners to satisfy any