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CAPTION HEADING: Declaration of Covenants, Conditions and Restrictions

**DECLARATION OF COVENANTS,
CONDITIONS AND RESTRICTIONS
FOR APPALOOSA MEADOWS PHASE II**

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**DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR
APPALOOSA MEADOWS PHASE II**

WHEREAS, VERACEN, INC., a California corporation, hereinafter collectively referred to as "Declarant," is the fee title Owner of that certain real property located in Yavapai County, Arizona, and which is legally described as follows:

Lots 3 through 19 inclusive and lots 21 through 112 inclusive, of Appaloosa Meadows, Phase II according to the plat of record in the office of the County Recorder of Yavapai County, Arizona, recorded in Book 42 of Maps and Plats, Page 63-65.

(Hereinafter referred to as the "Property.")

NOW, THEREFORE, the Property as described herein will be held, sold and conveyed subject to the following covenants, conditions, restrictions and easements, all of which are for the purpose of enhancing and protecting the value, desirability and attractiveness of the Property. These covenants, conditions, restrictions and easements shall run with the Property and be binding upon all parties having or acquiring any right, title or interest in the Property or any part thereof and will inure to the benefit of each such party.

**ARTICLE I
DEFINITIONS**

Section 1.01. "Additional Property" means any property which maybe annexed pursuant to the Declaration and become a part of the Property.

Section 1.02. "Annual Assessments" means those assessments levied by the Association and used to Promote the recreation, health, safety and welfare of the Members and their guests and family, for the improvement of the Common Areas and for all other purposes set forth in the Articles, Bylaws and this Declaration.

Section 1.03. "Architectural Review Committee" refers to the Committee established by the Board of Directors pursuant to Section 3.04 of this Declaration.

Section 1.04. "Article" refers to the Articles of Incorporation of the Association and any amendments which have been filed in the Office of the Arizona Corporation Commission.

Section 1.05. "Association" refers to Appaloosa Meadows II Homeowners Association, Inc., its successors and assigns. Declarant reserves the right to incorporate the Association under such other name as Declarant deems appropriate if the foregoing name is not available.

Section 1.06. "Association's Governing Documents" refers to this Declaration, the Articles of Incorporation of the Association, the Bylaws, the Design Guidelines and any Rules and Regulations adopted by the Association, whether recorded with this Declaration or hereinafter adopted by the Association

Section 1.07. "Board" refers to the Board of Directors of the Association

Section 1.08. "Bylaws" refer to the Bylaws of the Association, as may be amended from time to time.

Section 1.09. "Common Areas" means all real property, whether improved or unimproved, designated as Common Area on the Plat and owned by the Association for the common use and enjoyment of the owners.

Section 1.10. "Declaration" refers to this Declaration of Covenants, Conditions and Restrictions for Appaloosa Meadows, as amended from time to time.

Section 1.11. "Declarant" refers to Veracen Inc., its successors or assignees.

Section 1.12. "Declarant's Affiliate(s)" as utilized herein refers to a company or entity which is controlled or majority owned by Declarant's principals and receives transfer of one or more lots for construction, marketing, financing or any combination of the same.

Section 1.13. "Design Guidelines" refers to the architectural standards set by the Association for new home construction and modification to an existing Single Family Dwelling.

Section 1.14. "Dwelling Unit" means the real property and improvements placed within the boundary of any Lot.

Section 1.15. "Lot" refers to any numbered plot of land shown contained in the Property as amended from time to time, with the exception of the Common Areas, if any.

Section 1.16. "Member" means the owner of a Lot who is entitled to membership in the Association, who is entitled to use and enjoy any Common Areas, and who is obligated to pay assessments to the Association, as more fully set forth herein.

Section 1.17. "Mortgage" means any mortgage, deed of trust or other security instrument by which a Lot or any part thereof is encumbered.

Section 1.18. "Owner" refers to the record owner, whether one or more persons, of the fee simple title to any Lot which is part of the Property, including a buyer under a contract for the sale of real estate, but excluding persons holding an interest merely as security for the performance of an obligation.

Section 1.19. "Person" includes a corporation, Limited Liability Company, partnership, trust, firm, association or society, as well as a natural person.

Section 1.20. "Plat" refers to the map of record in the Office of the Yavapai County Recorder which is legally described in Book 42 of Maps, Page 63.

Section 1.21. "Property" and "Subdivision" shall be synonymous and shall refer to that certain real property described as follows:

Lots 3 through 19 inclusive and lots 21 through 112 inclusive, of Appaloosa Meadows, Phase II according to the plat of record in the office of the County Recorder of Yavapai County, Arizona, recorded in Book 42 of Maps and Plats, Pages 63-65.

Section 1.22. "Rules and Regulations" means those policies and procedures adopted by the Board to govern the conduct and actions of Owners, tenants, visitors, contractors, and guests on the Lots and any Common Areas.

Section 1.23. "Single Family" refers to a group of one or more persons each related to the other by blood, marriage or legal adoption; or a group of three or fewer persons who are not all so related, but who maintain a common household in a Dwelling Unit

Section 1.24. "Single Family Dwelling" means a Site Built Home erected and maintained in conformance with the requirements of this Declaration for private residential purposes and designed for occupancy by a Single Family.

Section 1.25. "Site Built Home" refers to a structure which meets the following criteria:

(a) designed and constructed for residential use, attached permanently to a Lot, connected to water, electric utilities and other services, includes either a garage or a carport (with enclosed storage space);

(b) contains completed plumbing, heating, cooling and electrical hook-ups on a Lot;

(c) contains, at a minimum, 1,500 interior square feet of living area exclusive of garages, carports, and porches;

(d) is no taller than two stories, to a maximum of 37 feet measured from lowest ground level adjacent to the structure to the top of any roof peak, vent, cooling stack or other improvement excepting antennae or satellite dishes.

(e) meets the requirements of applicable zoning regulations.

Section 1.25. "Special Assessment" means those assessments which the Association may levy pursuant to Section 5.04 herein.

Section 1.26. "Visible from Neighboring Properties" means, with respect to any object, that such object is, or would be, visible to a person six (6) feet tall, standing on any part of a neighboring Lot, or the Common Areas, at an elevation no greater than the elevation of the base of the object being viewed.

ARTICLE II GENERAL USE RESTRICTIONS

All real property within the Subdivision will be held, used and enjoyed subject to the following limitations and restrictions.

Section 2.01. Houses and Accessory Buildings. Not more than one (1) Single Family Dwelling shall be constructed on each Lot. No identical Dwellings shall be constructed on adjacent Lots. All Single Family Dwellings shall be Site Built Homes in accordance with Section 1.2 hereof, and no prefabricated or manufactured homes shall be allowed in the Subdivision. Each Single Family Dwelling shall have an enclosed living area of not less than 1500 square feet of floor area, exclusive of porches, garages and carports, and shall

not be taller than two stories, to a maximum of 35 feet. A two car garage is required to be attached to each Single Family Dwelling. Accessory buildings, such as a guest house, must be approved by the Architectural Review Committee, shall be constructed in an architectural design and material similar to that of the Dwelling Unit, and shall not be constructed any closer to the front lot line than the front wall of the home.

The placement of all buildings on any Lot must comply with the set back and zoning requirements of the Town of Chino, Valley and Yavapai County. Construction of a Single Family Dwelling shall be completed within one (1) year of commencement.

Section 2.02. Landscaping. Within 120 days of close of escrow for the purchase of a substantially completed Single Family Dwelling or within 120 days of substantial completion of any other single family dwelling by a Lot Owner's contractor, all Lot Owners except Declarant and Declarant's Affiliates are required to have completed front yard landscaping. Lot Owners of corner lots shall be required to complete landscaping on the front yard and side yards within such time period. All Lots upon which a Dwelling Unit has not been constructed shall be kept clear of excessive vegetation.

Section 2.03. Insurance Rates/Declarant's Exemption/No Warranty of Enforceability. Nothing will be done or kept on any Lot which will increase the rate of, or which will result in the cancellation of, insurance on any such Lot or which would be in violation of any law. Nothing contained in this Declaration or the Association's Governing Documents shall be construed to prevent Declarant, or its duly authorized agents, from constructing or erecting structures, improvements or signs necessary or convenient to the development, sale or lease of Single Family Dwellings or Lots within the Property. While Declarant has no reason to believe that any of the restrictive covenants contained in this Article 2 are or may be invalid or unenforceable for any reason or to any extent, Declarant makes no warranty or representation as to the present or future validity or enforceability of any such restrictive covenant. Any Lot Owner acquiring a Lot in the Subdivision in reliance on one or more of such restrictive covenants shall assume all risks of the validity and enforceability thereof and by acquiring the Lot agrees to hold Declarant harmless therefrom.

Section 2.04. Signs. Without the approval of the Board, or to the extent allowed by the Design Guidelines, no Owner may display any signs of any kind which are Visible from Neighboring Properties, except signs which may be required by legal proceedings or by State of Arizona imposed licensing requirements, one (1) standard real estate "For Sale or Lease" sign that is post mounted and does not exceed 18" x 24" in dimension, or one (1) standard residential identification sign containing the name and address of the Lot owner and not exceeding two square feet. After 4 days of written notice being delivered to the home, a Board member or agent of the board may enter on the property (but not into the home) of a homeowner and remove any prohibited sign(s) and such person will not be deemed guilty of trespassing reasons of such entry or the Board may seek and Lot Owner agrees that it shall receive a temporary restraining order for removal of the offending signage.

Section 2.05. Animals.

A. On all lots of less than 1.5 acres, a reasonable number of generally recognized household animals shall be allowed, so long as they are not kept, bred or maintained for any commercial purpose. Chickens, other fowl, goats, swine (including pot bellied pigs) cattle, donkeys, mules and horses are not considered household animals and are specifically prohibited on any Lot.

B. No animal will be allowed to become a nuisance due to noise or odor, nor will any animal cause any detrimental health condition to exist. The Board may adopt Rules and Regulations limiting the size, number and kinds of pets which may be kept by the Owner. No animal shall be kept or permitted to remain on any Lot until the completion of a Single Family Dwelling on the Lot. All domestic household pets shall be kept on a leash when outside its Owner's Lot and unless contained within a fence, shall be leashed when on Owners' Lot.

Section 2.06. Trash Containers. No garbage or trash will be kept on any Lot in the Subdivision except in closed containers of a type, size, and style which has been approved by the Board. All trash containers will, at all times, be hidden from view except on the day of trash pick-up.

All rubbish, trash or garbage, including but not limited to building materials, manure piles, inoperable appliances and furniture, will be removed from Lots and will not be allowed to accumulate thereon. No incinerators will be allowed. The Board of Directors, in its sole discretion, may limit trash collection to one service provider to be used by all of the Members of the Association. The cost of such services will be borne by the Members. The purpose of contracting with one Service provider is to limit the number of days on which the trash will be collected in the Subdivision to maximize the aesthetic appearance of the Property.

Section 2.07. Vehicles. Trucks classified by manufacturer rating as exceeding one ton carrying capacity, tent trailers, camper shells, detached campers, boats, boat trailers, or other similar equipment or vehicles may not be parked or kept on any Lot or street so as to be Visible from Neighboring Property unless attractively screened as defined in the Architectural Design Guidelines and as approved by the Board. Recreational vehicles, motor homes, and travel trailers which are operable and have current registration may be, parked on a Lot for 72 hours and occupied by non resident visitors for a temporary visit and otherwise may only be parked within a garage or, if on, the Lot so that no portion of the vehicle/trailer extends no closer than five feet from the front of the home without screening so long as such vehicle does not render any Lot or any portion of the Lot, unsanitary, unsightly, offensive or detrimental to any other Lot or to its occupants. No motor vehicle, boat, recreational vehicle, trailer of any kind, truck, camper, permanent tent, or similar structure will be constructed, reconstructed or repaired upon any portion of a Lot, other than emergency work or minor repairs requiring less than one (1) day's work. Garages and carports will be used for parking vehicles and storage purposes only, and will not be converted to living quarters or used for recreational activities. Except as provided above, only vehicles in operating, condition or bearing current registration will be parked on the Property. Other than vehicles requiring screening as set forth above, all vehicles belonging to the residents, and where possible, vehicles belonging to guests, must only be parked in the garage or carport or the area designated as the driveway only. If parking is not available in the garage, in the carport, or on the Driveway, guests may park on the streets within the Subdivision for visits of a temporary nature only. For purposes of this Section "Temporary Visits" will be defined as visits to the Owner which are limited to 72 hours and not on a regular or recurrent basis. No overnight parking on the streets is allowed.

Section 2.08. Garages/Carports. All Dwelling Units constructed on the Property shall have an attached garage capable of housing two cars at a minimum. Storage areas within carports shall be enclosed.

Section 2.09. Antennas. Except as may be installed by Declarant, no aerial, antenna or satellite dish to be used for television, radio or other forms of communication reception, of a temporary or permanent character, will be erected on any Lot or attached to the Dwelling Unit unless the design and/or location thereof has been approved by the Board and the Architectural Review Committee prior to installation, subject to reasonable restrictions regarding screening thereof. All roof-mounted antennas and satellite dishes may not exceed the

Dwelling Unit's roof line by more than four (4) feet. All ground mounted satellite dishes must be located so as not to hinder or obstruct any other Lot Owner's view and must be located as close to the Single Family Dwelling as is practical. No antenna, aerial or satellite dish will be allowed to be installed on the front ½ of the dwelling.

Section 2.10. Nuisances. No rubbish or debris of any kind will be allowed to accumulate or be placed on any Lot, so as to render any Lot or any portion of the Lot, unsanitary, unsightly, offensive or detrimental to any other Lot or to its occupants. No noise or other nuisance will be permitted on any Lot at any time which is Offensive or detrimental to the Owners of adjacent Lots. The Board, in its sole discretion, has the right to determine the existence of any such nuisance and to require its removal.

Section 2.11. Unsightly Articles. No unsightly articles will be permitted which are Visible from Neighboring Property, including trash containers, except as otherwise provided herein. Clotheslines may be permitted with the Approval of the Architectural Control Committee. All items stored in the garage/carport area must not be Visible from Neighboring Property and in the case of carports, must be stored in an enclosed storeroom as installed by the Lot Owner, with the consent of the Board or Architectural Review Committee. Grass, shrub or tree clippings and all clotheslines, machinery, building materials, storage piles, wood piles, garbage or trash containers must not be Visible from Neighboring Property, except when such items are being collected by any trash removal company, and then, only for the shortest time reasonably necessary for such collection. The Board has the sole discretion to determine if any activity is in violation of this section. This Section Excludes firewood neatly stacked no more than 3-1/2 feet high adjacent to the rear of the dwelling.

Section 2.12. Diseases and Insects/Machinery and Equipment. No Owner will permit anything or condition to exist upon any Lot which will induce, breed or harbor infectious plant diseases or noxious insects. No machinery or equipment of any kind shall be placed, operated or maintained upon or adjacent to any Lot, except such machinery or equipment as is usual and customary in connection with the use, maintenance or construction (during the period of construction) of a building, appurtenant structures, or other improvements or such machinery or equipment as the Declarant or the Association may require for the operation and maintenance of the Subdivision.

Section 2.13. Native Growth and Plantings. In the event Common Areas are included in the subdivision, the native growth and/or plantings upon such Common Areas will not be destroyed or removed unless written permission is obtained from the Board. Owners must obtain the written approval of the Board before planting in any Common Areas.

Section 2.14. Drainage/Mineral Exploration. No Dwelling Unit, structure, building, landscaping, fence wall or other improvement shall be constructed, installed, placed or maintained in any manner that would obstruct, interfere with or change the direction of flow of water in accordance with the drainage plan for the Subdivision, or any part hereof, or for any Lot as shown on the drainage plans on file with the Town of Chino Valley and Yavapai County. No Lot or other portion of the Property shall be used in any manner to explore for or to remove any water, oil or other hydrocarbons, minerals of any kind, gravel, earth or any earth substance of any kind. Property lines shall be considered to be drainage easements. Said easements are intended to facilitate lot to lot drainage. Walls and fences are permitted within these easements so long as surface run off water flow is not restricted from a course along or across a property line to a water collection ditch, swale or drainage area.

Section 2.15. Improvements and Alterations. Except for any construction undertaken by Declarant or

Declarant's agents, there will be no construction or alteration of Single Family Dwellings unless such Single Family Dwelling meets the definition of a "Site Built Home" pursuant to the Yavapai County and the Town of Chino Valley Zoning Regulations and the requirements set forth in Section 1.24 hereof. Any construction or alteration of a Single Family Dwelling appurtenant structures which alters the exterior appearance of any Lot (other than landscaping), must receive the prior written approval of the Architectural Review Committee.

Section 2.16. Modification of Dwelling Unit or Lot. No Owner shall alter or modify the Dwelling Unit or Lot (including fencing, but excluding landscaping) in any manner whatsoever without first obtaining the written approval of the Architectural Review Committee.

Section 2.17. Utility Easements. A blanket easement is created upon, across, over and under the Property for ingress, egress, installation, replacing, repairing and maintaining all utility and service lines and systems including but not limited to water, sewer, gas, telephone, electricity, television cable or communication lines and systems, etc. By virtue of this easement, it is expressly permissible for the providing utility or service company to install and maintain facilities and equipment on the Property and to affix and maintain wires, circuits and conduits on, in, and under the roofs and exterior walls of dwelling units. Notwithstanding anything to the contrary contained in this section, no sewers, electrical lines, water lines, or other utilities or service lines may be installed or relocated on the Property except as initially designed and installed or thereafter approved by the Board. The easement will in no way affect any other recorded easements on the Property.

Section 2.18. Electrical Service, Telephone Lines, Natural Gas Mains, Cable Lines and Sanitation Devices. With the exception of the primary lines installed by the electric, gas, cable and telephone companies, all utility service lines, cable line and telephone line will be placed underground and no outside electrical lines will be placed overhead. All Dwelling Units shall include water flush toilets and all bathrooms, toilets and sanitary conveniences shall be inside the Dwelling Unit and shall be connected to a sewer or septic system, as applicable.

Section 2.19. Right of Inspections. During reasonable hours, and with reasonable notice, any two Board members or any two individuals authorized by the Board, may enter upon and inspect any Lot (except the interior of the Dwelling Unit), for the purpose of ascertaining whether or not the provisions of this Declaration have been or are being complied with, and such persons will not be deemed guilty of trespass by reason of such entry.

Section 2.20. Solar Devices. Solar devices may be allowed with the prior written approval of the Board or the Architectural Review Committee in accordance with the Design Guidelines. The Architectural Review Committee may dictate the placement and the color of the solar devices, except for the color of the solar collecting surfaces.

Section 2.21. Sale of Lots/Subdivision of Lots. Each Owner will promptly notify the Board of any sale or transfer of his/her Lot and will provide the Board with the name and address of the subsequent Owner and any other information which is reasonably required by the Association. The Association may charge a reasonable fee to any subsequent Owner for updating its records and providing notices resulting from transfer. No Lot shall be further subdivided or separated into smaller Lots by any Owner other than Declarant and no portion less than all of any such Lot shall be conveyed or transferred by any Owner other than Declarant, except that a trade or transfer of not more than 10% of the area of a lot will be allowed if specifically approved by the Board in its sole discretion and such transfers or trades or series of the same does not alter the total size of any

lot by over 10% and does not impair or alter the character, nature or specific easements of the property. In this event, the applying lot owners shall bear all costs and responsibility for such change including any re-platting of the property. Nothing in this Declaration shall be construed as preventing Declarant from replatting the boundaries of adjacent Lots owned by Declarant or as requiring the consent of any Owner, the Board, the Architectural Review Committee or any first Mortgagee.

Section 2.22. Association Rules and Regulations. The Board is empowered to adopt, amend or repeal such Rules and Regulations as it deems reasonable and appropriate, which are binding on all Persons subject to this Declaration, and which govern the use and/or occupancy of the Lots or the Property subjected to this Declaration. The Rules and Regulations may include the establishment of a system of fines and penalties enforceable as Special Assessments. The Rules and Regulations may govern such matters as the Board deems to be in furtherance of the purposes of this Declaration and the Association. The Rules and Regulations adopted and will be binding on all Owners, their guests, tenants, and invitees and they shall be enforceable in the same fashion as those set forth in this Declaration. However, the terms of this Declaration control over such rules and regulations and no rule or regulation may be enforced in contravention of the terms of this Declaration.

The Rules and Regulations will be available for review at the principal office of the Association by each Person subject to such Rules. The Board of Directors shall provide notice to each Owner and resident of its adoption or modification of any Rule or Regulation. It will be the responsibility of each Person subject to the Rules and Regulations to review and keep abreast of any changes in, the provisions thereof. In the event of any conflict between any provision of the Rules and Regulations and any provisions of this Declaration, or the Articles, Bylaws or Design Guidelines, the provisions of the Rules and Regulations will be superceded by the provisions of this Declaration, the Articles, Bylaws or Design Guidelines, to the extent of any such conflict.

Section 2.23. Windows. No reflective materials, including, but not limited to aluminum foil, reflective screens or glass, mirrors, or similar items will be permitted on any Lot or Dwelling Unit so as to be visible from outside the Dwelling Unit or in any manner which creates a nuisance to other occupants in the Subdivision. Low "E" glass in windows is acceptable.

Section 2.24. Violation of the Covenants, Conditions or Restrictions and Rules. If any Owner, his family, or any licensee, tenant, lessee or invitee violates the Declaration or the Rules, the Board may impose a Reimbursement Assessment solely upon the offending Owner of not more than Two Hundred Dollars (\$200.00) for each violation. Before invoking any such assessment, the Board will give the Owner notice and an opportunity for a hearing before the Board. Any assessment imposed by the Board which remains unpaid for a period of thirty (30) days or more after its due date, will be collectable in the same manner as regular Annual Assessments.

ARTICLE III OWNERS' PERMITTED USES, RESTRICTIONS ON AND RIGHTS OF DWELLING UNIT AND LOT OWNERS

Section 3.01. Private Residential Purposes. Except as provided for elsewhere in this Declaration, Lots will be occupied and used solely as a private residence for a Single Family, by the Owner, his/her family, tenants and social guests and for no other purpose.

A. An Owner or occupant residing in a Dwelling Unit may operate a "Home Occupation" solely within the private confines of the Dwelling Unit so long as: a) the existence or operation of the business activity is not apparent from the outside of the Dwelling Unit, and there is no sound or smell from the outside of the Dwelling Unit indicating the conduct of business is detectable; b) the business activity conforms to all zoning requirements for the Property; c) the business activity does not involve frequent or annoying traffic, as determined by the Board, by persons coming on the Property who do not reside in the Property or door-to-door solicitation of residents by the Property; and d) the business activity is consistent with the residential character of the Property and does not constitute a nuisance or hazardous or offensive use, nor threaten the security or safety of other residents of the Property, as may be determined in the sole discretion of the Board.

B. No Home Occupation may involve equipment or machinery, manufacturing, drilling, burning, retailing or wholesaling of services or products, or conversion of any garage into a business office or room.

C. "Home Occupation," as permitted by this section includes private consultation and advice in trades and professions.

D. No business conducted upon the Property or in any Dwelling Unit will result in any change in the exterior appearance of any Dwelling Unit or Lot, and no business will involve signs, buildings, or structures in addition to the Dwelling Unit or of a commercial nature, unless such signs are of the minimum size and type as may be required by Arizona law for the conduct of business under a license issued by the State of Arizona.

Section 3.02. Renting. Each Owner has a right to lease or rent his/her Dwelling Unit. However, all leases must be in writing and must provide that the tenant or lessee will abide by the Rules and Regulations, Bylaws, Articles, and the provisions of this Declaration. In the event any lease does not contain this provision, such lease will, at the option of the Board, be null and void. All leases must be for a term of one month or longer. The Owner, or Owner's rental agent, will provide the Association with the names, telephone number, number of people residing in the Dwelling Unit, the number of pets, and any other information reasonably desired by the Association concerning the lessee.

Section 3.03. Maximum Size of Fences/Common Fences. Fences may not exceed a maximum height of six (6) feet. All fencing plans and materials shall be approved by the Architectural Review Committee. Chain link fences shall be allowed in the rear yards only, may be no more than 6' high and shall be of a color as determined by the Board or Architectural Review Committee. Chain link fences shall not be allowed forward of the back wall of the home. Fences forward of the back wall of the home may not exceed 4 feet in height. The rights and duties of the Owners with respect to common fences will be as follows:

A. Where a fence is placed on the dividing line between two (2) Lots by agreement between the lot owners, it will constitute a common fence.

B. With respect to any such fence, each of the adjoining Owners will assume the burden and be entitled to the benefits recited in this Section 3.03, and to the extent it is consistent with this section, the general rules of law regarding common fences will be applied.

C. The Owners of Lots who share a common fence will have reciprocal easements for support and an equal right to use such fence provided that the use by one Owner does not interfere with the use and enjoyment of the fence by the other Owner.

D. Unless other provisions of this section 3.03 are applicable, the costs of reasonable repair and maintenance of a common fence will be shared equally by the Owners using the common fence.

E. In the event any common fence is damaged or destroyed through the act of one adjoining Owner, or any of his/her guests or agents or members of his/her family (whether or not such act is negligent or otherwise culpable) so as to deprive the other Owner of the full use and enjoyment of such fence, then the first of such Owners will forthwith proceed to rebuild and repair the fence to its former condition without cost to the other Owner.

F. In the event any common fence is damaged or destroyed by some cause other than the act of one of the adjoining Owners, his/her agents, guests or family (including ordinary wear and tear and deterioration from lapse of time), then in such event, both Owners will promptly rebuild or repair the fence to its former condition, the cost of which shall be equally shared by the Owners.

G. Notwithstanding anything to the contrary contained in this Declaration and in addition to meeting the other requirements of the restrictions herein contained and of any building code or similar regulation or ordinance, any Owner proposing to modify, make additions to or rebuild his/her Dwelling Unit in any manner which requires the extension or other alteration of any common fence must first obtain the written consent of the Board. The Board will consult with the adjoining Owners concerning the proposed modification, extension or alteration of the common fence prior to giving any written consent thereto, although the Board, in its discretion, may grant permission to the Owner, regardless of whether the adjoining Owner disapproves of the modification, extension or alteration. All disputes regarding common fences shall be addressed by the applicable court of law at the expense of the parties thereto and the Board shall have no responsibility or obligation regarding such disputes.

Section 3.04. Architectural Control.

A. General. Except for construction or alterations caused or installed by Declarant, its agents, Declarant's affiliates or its agents, and other than exterior landscaping, no building, paving, fence, wall, antenna, and no other improvement or other structure Visible from Neighboring Property will be commenced, erected or maintained on a Lot, nor will any exterior addition to, or change in, or alteration of a Dwelling Unit or the exterior color scheme, roof or finish thereof, be made until the plans and specifications showing the nature, kind, shape, height, materials, and location have been submitted to and approved in writing by the Board in accordance with the Design Guidelines. In approving such construction, the Board shall consider the harmony of external design and location in relation to the surrounding structures and topography. The Board of Directors may delegate its authorization to an Architectural Review Committee composed of two (2) or more representatives appointed by the Board. In the event the Board or its designated committee fails to approve or disapprove the design and location of the improvement within forty-five (45) days after all supporting plans and specifications requested by the Board have been submitted to it, approval will automatically be deemed as given except where approval would violate Sections 2.01, 2.04, 2.08, 2.14, 2.18, 2.21, 2.23, 3.03 or impair any existing easement. No awnings, covers or shades will be allowed either temporarily (other than for the purpose to protect the Dwelling Unit and the Owner's personal property during the construction of/or the painting of improvements) or permanently fastened to or suspended from the exterior of any Dwelling Unit without the written consent of the Board and no metal carports or awnings shall be allowed at any time.

B. Guidelines. The Board of Directors and Architectural Review Committee will establish standards and design guidelines relating to the construction, erection or placement of improvements on the Lots (the "Design Guidelines"), which the Architectural Review Committee and Board of Directors may, from time to time in their sole discretion, amend, repeal or augment. The Design Guidelines are incorporated by reference in this Declaration and are binding on all Members, Owners, Occupants or other Persons in the same manner as the provisions of this Declaration. A copy of the current Design Guidelines will be a part of the Association's Governing Documents. The Design Guidelines may include, among other things, restrictions and limitations regarding:

- a) Site planning and site development, including but not limited to rules, regulations and restrictions on grading; leveling; transplanting and preserving native vegetation; construction and maintenance of drainage ways and structures and other modifications to the natural environment;
- b) Architectural design and maintenance of any or all structures, including rules, regulations, and restrictions pertaining to building materials, exterior appearances, architectural styles, exterior colors, height restrictions, set back requirements, allowable age and style of relocated improvements and similar restrictions;
- c) Time limitations for the completion, within specified periods after approval, of the improvements for which approval is required pursuant to the Design Guidelines and where the improvements include an entire residence not less than 180 days;
- d) The designation of a "building envelope" within a Lot outside of which improvements will not be permitted;
- e) Procedural rules and regulations governing the manner in which the Architectural Review Committee will operate, the types of submittals to be required in connection with the requests for development or architectural approvals, and the manner in which the Architectural Review Committee will process such submittals. The Architectural Review Committee will have the right to establish and amend, from time to time, a schedule of fees which the Architectural Review Committee may charge in connection with requests for the approval of plans and specifications;
- f) Such other limitations and restrictions as the Board or Architectural Review Committee in its reasonable discretion may adopt.

C. Delegation. The Architectural Review Committee may delegate its plan review responsibilities, as specified in the Design Guidelines, to one or more of its members or architectural consultants retained by the Architectural Review Committee. Upon such delegation, the approval or disapproval of plans and specifications by such member or consultants will be equivalent to approval or disapproval by the entire Architectural Review Committee.

D. Non-Liability for Approval of Plans. Plans and specifications for buildings and other structures will be reviewed by the Architectural Review Committee as to style, exterior design, appearance and location. Development Plans (including but not limited to grading, drainage and landscaping plans) will be reviewed for appearance, location, conformance with building envelope requirements and impact on other Lots within the Association. Although the Architectural Review Committee has the right to reject plans and specifications because of their failure to comply with zoning or building ordinances, or other governmental regulations or restrictions, or on the basis that such plans and specifications are defective or not prepared in accordance with

sound engineering practices, the approval of plans and specifications will not constitute a representation, warranty or guarantee that such plans and specifications comply with good engineering design or with zoning or building ordinances, or other governmental regulations and restrictions. By approving such plans and specifications neither the Architectural Review Committee, the members thereof, the Association, any member, nor the Board assumes any liability or responsibility thereof, or for any defect in any structure constructed from such plans and specifications. Neither the Architectural Review Committee, any member thereof, the Association, nor the Board, will be liable to any Member, Owner, Occupant or other Person for any damage, loss or prejudice suffered or claimed on account of: (a) the approval or disapproval of any plans, drawings and specifications, whether or not defective, (b) the construction or performance of any work, whether or not pursuant to approved plans, drawings and specifications, or (c) the development, or manner of development, of any Lot within the Property; provided, however, that such action, with the actual knowledge possessed by him, was taken in good faith.

E. Inspection and Approval. Any member or authorized consultant of the Architectural Review Committee, or any authorized officer, director, employee or agent of the Association, may at any reasonable time enter, without being deemed guilty of trespass, upon any Lot or after reasonable notice is provided to the

Owner or Occupant thereof in order to inspect improvements constructed or being constructed on the Lot and to ascertain that such improvements have been or are being built in compliance with the Design Guidelines and this Declaration. The Architectural Review Committee will cause such an inspection to be undertaken in accordance with the Design Guidelines.

F. Additional Powers of the Board. The Board may promulgate as part of the Design Guidelines, such additional architectural and landscape standards, rules and regulations as it deems are appropriate and are not in conflict with this Declaration. WITHOUT LIMITING THE GENERALITY OF THE PRECEDING SENTENCE, THE BOARD MAY FIX A FINE OF UP TO \$2,000 FOR FAILURE TO OBTAIN THE REQUIRED APPROVAL FROM THE ARCHITECTURAL REVIEW COMMITTEE. Such fine will be a Reimbursement Assessment and will also be the personal obligation of the Owner of the Lot on which the fine is assessed. The imposition of the fine will not limit the damages any Person, including Declarant, may recover as a result of any violation of the provisions of this section. The Board may establish a performance/clean up bond to cover costs of clean up of a lot or to repair damages to the infra structure and improvements on the property committed by a lot owner or contractor other than Declarant, Declarant's affiliates, its agents or contractor(s). Such Bond: shall be in cash; not more than \$1,000.00; shall be posted with the Association and it shall not draw interest for the benefit of the party posting it. If not charged against for repairs or clean up, such bond shall be returned within 30 days after completion of the improvements.

G. Waiver of Design Guidelines. The Architectural Review Committee has the right, at any time, to amend these Design Guidelines and to waive or modify any rules, regulations or restrictions contained in the Design Guidelines or this section provided that no such amendment, waiver or modification will be effective unless it is in writing and signed on by an officer of the Association after adoption by the Board. No such waiver or modification will be, or be deemed to be, a waiver of the right to strictly enforce any such rule, regulation or restriction in the future.

ARTICLE IV
OPERATION OF THE HOMEOWNERS ASSOCIATION FOR APPALOOSA MEADOWS PHASE II

Section 4.01. Organization.

A. Association. The Association will be formed as a nonprofit Arizona corporation charged with the duties set forth in the Articles, Bylaws, and this Declaration. The name of the Association will be chosen based upon name availability.

B. Board of Directors and Officers. The affairs of the Association will be conducted by the Board of Directors and such officers and committees as the Board may elect or appoint, in accordance with the Articles and Bylaws, as amended from time to time. The composition of the Board will be defined in the Bylaws.

C. Personal Liability. No member of the Board or any Committee of the Association or any officer or employee of the Association will be personally liable to any Owner, or to any other party, including the Association, for any damage, loss or prejudice suffered or claimed on account of any act, omission, error, or negligence of the Association, provided that such person has, upon the basis of such information as may be possessed by him, acted in good faith, without willful or intentional misconduct.

Section 4.02. Membership.

A. Qualification. Each Owner of a Lot (which is subject to assessment) will be a member of the Association. No Owner will have more than one membership for each Lot owned.

B. Transfer of Membership. Membership of each Owner in the Association will be appurtenant to ownership of the Lot and will not be transferred, pledged, or alienated in any way except upon the transfer of ownership to the Lot, and then only to the transferee. Any attempt to make a prohibited transfer will be void. Any transfer of ownership of a Lot will automatically transfer said membership to the new Owner thereof.

Section 4.03. Voting Rights. The Association will have two (2) classes of voting membership.

A. Class A. Class A Members are all the Owners, except the Class B Member. Each Owner (whether one or more Persons) as a Class A Member will be entitled to one vote for each Lot owned.

The vote for any Member that is held by more than one Person may be exercised by any one of them, unless any objection or protest by any co-holder of such membership is made prior to the completion of a vote, in which case the vote for such Member will not be counted.

B. Class B. The Class B Member is the Declarant, and Declarant's Affiliate(s) which will have seven (7) votes for each Lot owned. The Class B membership and the Class B voting rights will cease and be converted to Class A membership and Class A voting rights upon the earlier to occur of the following events:

- (1) when Declarant and Declarant's Affiliates own less than 10 of the lots' total in the property;
- (2) on December 31, 2008; or

(3) upon written notice from the Class B Member, including the Declarant and its Affiliates, to the Association relinquishing Class B membership.

C. Suspension of Voting Rights by Association. The Association may suspend the voting rights of any Member for any period during which any assessment against a Lot remains unpaid and delinquent. The Association may also suspend the voting rights of any Member for a period specified by the Board when, in the Board's discretion, such Member is in violation of this Declaration, the Bylaws and/or the Rules and Regulations of the Association.

Section 4.04. Maintenance, Repair And Upkeep.

A. Responsibilities of Owner. Maintenance, repair and upkeep of the Lots and Dwelling Units, including landscaping, except as otherwise specifically provided for in Paragraph C of this section, will be the sole responsibility of each Owner. All fixtures and equipment installed in or located within a Lot will be maintained and kept in repair by the Owner of the Lot. Termite control will be the responsibility of the Owner. All maintenance and repair of Lot including but not limited to driveways, sidewalks, utilities, landscaping, fencing and the Dwelling Unit itself will be the sole obligation and at the expense of the individual Owners.

B. Failure to Maintain Standard of Upkeep. No Owner will commit any act or do any work which will impair the structural soundness or integrity of the Lot and Dwelling Unit or impair any easement, nor do any act, nor allow any condition to exist, which will adversely affect the other Lots and Dwelling Unit or their Owners. In the event any Owner fails to maintain or correct maintenance on the Lot or improvements including its landscaping and fencing, or the exterior of his Dwelling Unit in a manner in keeping with the standards in the neighborhood and except in recurrent or emergency situations after 30 days written notice, then the Association, after approval by a majority vote of the Board, has the right, but not the duty, through its agents and employees, to enter on a Lot, and to repair, maintain, and restore the Lot, and the exterior of the Dwelling Unit, and any other improvements erected on the Lot and the expense of such action will become an assessment on the Lot and will be collected in the same manner as Annual Assessments. The Board, in its sole discretion has the right to determine whether a Lot, or the exterior of a Dwelling Unit or other improvements, is in need of maintenance, repair and upkeep in order to conform to the standards of the general neighborhood. The Board will use a reasonably high standard in determining whether such maintenance, repair and upkeep is required so that the Lots as a whole will reflect a high pride of ownership.

C. Responsibilities of the Association. The Association shall be responsible for the enforcing of the provisions of this Declaration and the Rules and Regulations. It shall also be responsible for managing and operating the corporation and doing all things necessary for the efficient management of the Properties. The Association shall also maintain any designated Common Areas and shall maintain all drainage easements, even those located on individual lots, which are shown on the Plat.

Section 4.05. Insurance Requirements. The Association shall obtain the following types of insurance:

A. Fidelity Insurance. If required by any federal agency or entity insuring or guaranteeing loans in the Subdivision, fidelity insurance coverage against dishonest acts on the part of the directors, managers, trustees, employees or volunteer responsible for handling funds belonging to or administered by the Association. The fidelity insurance policy must name the Association as the insured and will be written to provide protection which is not less than one and one-half (1½) times the Association's estimated annual operating expenses and

reserve fund balances. In connection with such coverage, an appropriate endorsement to the policy to cover any person who serves without compensation will be added if the policy would not otherwise cover volunteers.

B. Worker's Compensation. A worker's compensation policy, if necessary, to meet the requirements of law.

C. Other. Such other insurance as the Board determines from time to time to be necessary including, but not limited to, Directors and Officers coverage.

D. Dwelling Units. It will be the individual responsibility of each Owner to provide as he/she sees fit, at his/her own expense, insurance for his/her Dwelling Unit against loss or damage by fire or other hazards, Owner's liability insurance, theft and other insurance covering personal property damage and loss.

E. Annual Review of Policies. All insurance policies will be reviewed at least annually by the Board in order to ascertain whether the coverage contained in the policies is sufficient to make any necessary repairs or replacement of the property which may have been damaged or destroyed.

Section 4.06. Committees. The Association may establish a Covenants Committee, an Elections and Nomination Committee, an Architectural Committee, and any other committees the Board may, from time to time, deem necessary. By resolution, the Board shall adopt such policies and procedures for the operation of these committees and prescribe the duties of such committees.

ARTICLE V ASSESSMENTS

Section 5.01. Creation of the Lien and Personal Obligation to Pay Assessments. Except as otherwise provided herein, each Owner, upon the recordation of a deed to any Lot, whether or not it is stated in the deed, is deemed to covenant and agree to pay the Association: (1) Annual Assessments or charges, (2) Reimbursement Assessments and (3) Special Assessments. Such assessments will be established and collected as provided in this Article. All Assessments, together with the interest, late fees, costs, and reasonable attorneys' fees, will be made a charge on the Lot and will be a continuing lien upon the property against which each easement is made. Delinquent assessments, together with interest, late fees, costs, and reasonable attorneys' fees, will also be the personal obligation of the person who was the Owner of the Lot at the time when the assessment was levied or, as to reimbursement assessments only, at the time the activity leading to such assessments transpired. The personal obligation for delinquent assessments will not pass to his successors in title unless specifically assumed by them.

Declarant and Declarant's Affiliates shall be subject to assessment and payment of only annual assessments and special assessments which shall cease effective at the time Declarant and Declarant's Affiliates together own less than 60 lots. Should Declarant or its Affiliates ever become liable by operation of law or amendment to this Declaration for any additional assessments, then all sums contributed or paid by Declarant and Declarant's affiliates in establishing this Declaration, the Homeowners' Association or contributed to or for the benefit of such association shall be credited and offset against any such assessments.

Section 5.02. Purpose of Annual Assessments. The Annual Assessments levied by the Association will be used exclusively to promote the recreation, health, safety, and welfare of the Members and their guests and

for all other purposes set forth in the Articles, Bylaws and this Declaration. In the event the roads within the Subdivision are not maintained by a governmental entity, the Annual Assessments shall also be used for road maintenance.

Section 5.03. Annual Assessment.

A. Rate of Assessment. The amount of the annual assessment for each Lot shall be the amount obtained by dividing the total budgeted expense of the Association for the assessment period for which the Annual Assessment is levied, divided by the total number of Lots subject to assessment at the time the Annual Assessment is levied by the Board.

B. Assessment Period. The Assessment Period shall run from January 1 to December 31 of each calendar year, except that the first Assessment Period shall commence when a Lot becomes subject to assessment as provided in Section 5.07 and shall terminate on December 31 of such year. The effective date of any change in the Annual Assessments shall be January 1 of each year.

C. Notification to Owners of Annual Assessments. The Board will provide notification to the Owners of any change to the actual Annual Assessments for the following year at least thirty (30) days prior to January 1 of each year.

D. Increase in Assessments above the Maximum. From and after January 1, 2007, the Annual Assessment may be increased each Assessment Period by no more than ten percent (10%) of the previous Assessment Period except that the Annual Assessment may be increased above the allowed ten percent (10%) increase, provided that any such change is approved by the vote of two-thirds (2/3) vote of the Membership who are voting in person or by proxy at a meeting duly called for this purpose.

The limitations on increases in assessments will not apply to any change in the Annual Assessment if incident to a merger or consolidation in which the Association is authorized to participate under its Articles of Incorporation or pursuant to Arizona Law.

Section 5.04. Special Assessments. Subject to any limitations in the Bylaws, Special Assessments may be levied in addition to Regular Assessments for (1) constructing capital improvements; (2) correcting an inadequacy in the current operating account; (3) defraying, in whole or in part, the cost of any construction, reconstruction, unexpected repair or replacement of improvements in the Common Areas, if created; or (4) paying for such other matters as the Board may deem appropriate for the Project. Special Assessments must be approved by the vote of two-thirds (2/3) of the Members who are voting in person or by proxy at a meeting duly called for this purpose.

Section 5.05. Notice and Quorum for Any Action Authorized Under Sections 5.03 and 5.04. Written notice of any meeting called for the purpose of taking any action authorized under Sections 5.03 or 5.04 will be sent to all Members not less than twenty (20) days prior to the date set for the meeting. The presence of Members or of proxies entitled to cast twenty-five percent (25%) of all votes of the Association will constitute a quorum at this meeting. If the required quorum is not present, another meeting may be called subject to the same notice requirements.

Section 5.06. Uniform Rate of Assessment. Except as otherwise provided in this Declaration, all

Assessments must be set at a uniform rate for all Lots and may be collected on a monthly, or quarterly, or semi-annual basis as the Board may determine. All assessments shall be payable in the amount specified in the Assessment or notice of Assessment and no offsets against such amount will be permitted for any reason, including, without limitation, a claim that (a) the Association, the Board, or Declarant is not properly exercising its duties and powers as provided in this Declaration; (b) Assessments for any period exceed Common Expenses; or (c) a Member or other person has made, and effects to make, no use of the Common Areas.

Section 5.07. Date of Commencement of Annual Assessments: Due Dates. The Annual Assessments will commence on all Lots in the Property on the first day of the month following the conveyance of a Lot to an Owner other than Declarant or the Owners of Lots comprising the Owners' Property. The First Annual Assessment due for any Lot will be adjusted according to the number of months remaining in the calendar year.

The Board will set the amount of the Annual Assessment against each Lot at least thirty (30) days prior to January 1 of each year. The due dates of such assessment, partial payment for which may become due on a periodic basis, will be as established by the Board of Directors.

Section 5.08. Reimbursement Assessment. The Association will levy a Reimbursement Assessment against any Owner and his/her Dwelling Unit, except Declarant and Declarant's affiliates, if failure to comply with the Association's Governing Documents has (1) necessitated an expenditure of monies by the Association to bring the Owner or his/her Dwelling Unit into compliance or (2) resulted in the imposition of a fine or penalty. A Reimbursement Assessment will not be levied by the Association until Notice and an opportunity for a Hearing has been given to the Owner. Reimbursement Assessments may be enforced in the same manner as Annual and Special Assessments, by the filing of a Notice of Lien as provided in this Declaration.

Section 5.09. Effect of Nonpayment of Assessments: Remedies of the Association. In addition to all other remedies provided by law, the Association, or its authorized representative, may enforce the obligations of any Owner to pay each assessment provided for in this Declaration in any manner provided by law or by either or both of the following procedures:

A. By Suit. The Association may commence and maintain a suit at law against any Owner personally obligated to pay a delinquent assessment. The suit will be maintained in the name of the Association. Any judgment rendered in any action will include the amount of the delinquency, additional charges and any other amounts as the court may award, including reasonable attorneys' fees, late charges and interest. A proceeding to recover a judgement for unpaid assessments may be maintained without the necessity of foreclosing or waiving the lien established herein.

B. By Lien. To perfect its lien, the Association will record a Notice of Lien in the Office of the Yavapai County Recorder. The lien provided for in this section will be in favor of the Association and will be for the benefit of all the Owners. The Association may commence and maintain proceedings to foreclose its lien in the same manner as the foreclosure of mortgages. The lien for assessments will constitute a lien on each representative Dwelling Unit prior and superior to all other liens, except (1) all taxes, bonds, assessments and other levies which, by law, would be superior thereto, and (2) the lien or charge of any first mortgage or deed of trust.

Section 5.10. Additional Charges. In addition to any other amounts due or any other relief or remedy obtained against an Owner who is delinquent in the payments of any assessments, each Owner agrees to pay

such additional costs, fees, charges and expenditures ("Additional Charges") as the Association may incur or levy in the process of collecting monies due and delinquent from the Owner. All Additional Charges will be included in any judgement in any suit or action brought to enforce collection of delinquent assessments or may be levied against a Dwelling Unit as a Reimbursement Assessment. Additional Charges will include, but not be limited to, the following:

A. Attorneys' Fees. Reasonable attorneys' fees and costs incurred in the even an attorney is employed to collect any assessment or sum due, including the placement of the lien, or the filing of a suit or otherwise;

B. Late Charges. A late charge in an amount to be determined by the Board, to compensate the Association for additional collection costs incurred in the event any assessment or other sum is not paid when due; provided, however, that such late charge will not exceed ten percent (10%) of the delinquent assessment.

C. Cost of Suit. Costs of suit and court costs incurred as are allowed by the Court;

D. Interest. Interest on all sums imposed in accordance with this Article XIII including the delinquent assessment, reasonable costs of collection, reasonable attorneys' fees and late charges, at the annual percentage rate of twelve percent (12%) per year, and

E. Other. Any such other additional costs that the Association may incur in the process of collecting delinquent assessments or sums.

Section 5.11. Application of Payments. All payments received by the Association will first be applied to collection costs and attorney's fees, then to late charges, then to interest and then to delinquent assessments.

Section 5.12. Release of Lien. Upon payment of delinquent assessments or other satisfaction thereof, the Association will record a release of any recorded lien.

Section 5.13. Statement of Assessment Lien. Within ten (10) days of a request from an Owner liable for assessments, the Association will furnish to that Owner a written certificate signed by an officer or authorized agent of the Association stating the amount of any outstanding assessment and any Additional Charges secured by the lien upon his/her Dwelling Unit. A charge, not to exceed the reasonable cost of preparation and reproduction of the certificate, may be levied by the Board for the issuance of such certificate.

Section 5.14. No Exemption of Owner. No Owner is exempt from liability for payment of assessments by waiver of the use of enjoyment of the Common Areas, if created, by abandonment of his Lot, or for any other reason.

Section 5.15. Subordination of the Lien to Mortgages. The lien for assessments will be subordinate to the lien of any first Mortgage. Sale or transfer of any Lot will not affect the assessment lien. However, the sale or transfer of any Lot pursuant to a Mortgage foreclosure, trustee's sale or any proceeding in lieu thereof of a first Mortgage, will extinguish the lien of such assessments as to payments which became due prior to such sale or transfer of any Lot will relieve such Lot from liability for any assessments thereafter becoming due or from the lien thereof.

Section 5.16. Mortgagee Protection and Additional Assessment as Common Expense. Notwithstanding

and prevailing over any other provision of this Declaration, or the Association's Articles or Bylaws, or the Rules and Regulations, the following provisions will apply to and benefit each holder of a first Mortgage upon a Lot (called the "First Mortgagee"):

A. The First Mortgagee will not in any case or in any manner be personally liable for the payment of any assessment or charge, nor for the observation or performance of any covenant, restriction, regulation, rule, article or bylaw, except for those matters which are enforceable by injunctive or other equitable actions, not requiring the payment of money, except as hereinafter provided.

B. During the pendency of any proceeding to foreclose the first Mortgage, including any period of redemption, the First Mortgagee (or receiver appointed in such action) may, but need not, exercise any or all of the rights and privileges of the Owner of the mortgaged Lot, including but not limited to the exclusion of the Owner's exercise of such rights and privileges.

C. At such time as the First Mortgagee becomes record Owner of a Lot, said First Mortgagee will be subject to all of the terms and conditions of this Declaration and the Association Governing Documents, including, but not limited to, the obligation to pay for all assessments and charges accruing hereafter, in the same manner as any Owner.

Section 5.17. Reserves. The reserves which are collected as part of the Regular Assessments will be deposited by the Association in a separate bank account to be held in trust for the purposes for which they are collected. Such reserves will be deemed a contribution to the capital account of the Association by the Owners. The responsibility of the Board will be only to budget and provide for such reserves as the Board in good faith deems reasonable, and no Member of the Board is liable for any such reserves as the Board in good faith deems reasonable, and no Member of the Board is liable to any Owner or to the Association if the amount in the reserve account proves to be inadequate.

ARTICLE VI GENERAL PROVISIONS

Section 6.01. Term. The covenants, conditions, and restrictions of this Declaration will remain in full force and effect for a period of twenty (20) years from the date this Declaration is recorded. Thereafter, they will be renewed and automatically extended for successive periods of ten (10) years each, unless prior to the end of any ten year extension period, the Owners of not less than ninety percent (90%) of the Owners agree, in writing, to rescind or revoke the provisions of this Declaration.

Section 6.02. Amendments. This Declaration may be amended at any time during the term hereof by an instrument in writing signed and acknowledged by the President and Secretary of the Association certifying that such amendment has been approved by the vote or written consent of the Owners of not less than two-thirds (2/3) of the Lots in the Property. Such amendment will be effective upon its recordation in the Official Records of the Yavapai County, Arizona Recorder. As long as Declarant owns any Lot in the Property, any amendment to this Declaration must be approved in writing by the Declarant. The Declarant, while Declarant owns any Lot, and thereafter the Board, may amend the Association's Governing Documents and the Plat, without obtaining the approval of any Owner or First Mortgagee, in order to conform the Association's Governing Documents or the Plat as the Declarant or the Board, as applicable, elects, to the requirements or guidelines of any federal, state or local quasi-governmental agency or entity, whose approval of the Plat or the Subdivision is required by

law or requested by the Declarant or the Board.

Section 6.03. Management Agreements. All powers, duties, and rights of the Declarant, the Association or the Board, as provided by law herein, may be delegated to a managing agent under a management agreement; provided, however, that no such delegation will relieve the Association of its obligation to perform any such delegated duty. Any agreement for professional management or any other contract providing for services will not exceed a term of one (1) year, which term may be renewed by agreement of the parties for successive one year periods. Any professional management or service agreement will provide for termination by either party without cause and without payment for a termination fee upon ninety (90) days' written notice; provided, however, that the Association may terminate such agreement for cause upon thirty (30) days' written notice.

Section 6.04. Enforcement and Non-Waiver.

A. Enforcement. Except as may be otherwise provided herein, the Association, or any Owner, including Declarant, has the right to enforce, by any proceeding at law or in equity, all restrictions, conditions, covenants, reservations, liens or charges now or hereafter imposed by provision of this Declaration.

B. Violation of Law. Each and every provision of this Declaration and any amendment hereto will be applicable state, county, municipal or local ordinances and subdivision regulations and any applicable construed so as to not violate future amendments hereto.

Any violation of any state, municipal or local law, ordinance or regulation pertaining to the ownership, occupation or use of any property within the Subdivision is hereby declared to be a violation of this Declaration and subject to any or all of the enforcement procedures set forth herein or in the Bylaws.

C. Remedies Cumulative. Each remedy provided by this Declaration is cumulative and not exclusive.

D. Non-Waiver. Failure by the Board, the Association or any Owner to enforce any of the provisions of this Declaration at any time will not constitute a waiver of the right thereafter to enforce any such provision or any other provisions of this Declaration.

Section 6.05. Attorney's Fees. In the event the Association incurs attorney's fees and/or court costs in the enforcement of any of the provisions of this Declaration, or the Rules and Regulations adopted by the Association, regardless of whether a lawsuit is filed, such attorney's fees and court costs, if any, will be paid by the Owner against whom the action is taken. The Association will be entitled to collect such attorney's fees and court costs in the same manner as assessments.

Section 6.06. Mortgagee Protection. Notwithstanding any other provision of this Declaration, no amendment to this Declaration will operate to defeat and render invalid the rights of the beneficiary under any Mortgage upon a Lot made in good faith for value, and recorded prior to the recordation of such amendment, provided that after the foreclosure of any such Mortgage, such Lot will remain subject to this Declaration as amended from time to time.

Section 6.07. Annexation of Additional Property.

A. Annexation of Additional Property. Declarant may elect to annex Additional Property to the Subdivision and to subject such property to the Declaration in increments of any size whatsoever, or to annex

more than one such increment at any given time and in any given order. The Additional Property may include Common Areas for the use and enjoyment of the Owners of Lots in the Property and any Additional Property so annexed. In such event, each Owner shall have a right and easement of enjoyment to the Common Area, which is appurtenant to the title to the Lots. The Common Area cannot be mortgaged or conveyed without the consent of two-thirds of the Lots Owners (excluding the Declarant). Declarant reserves the right, in its sole discretion and without the approval, assent or vote of the Association or the Members, to annex Additional Property at any time prior to the expiration of fifteen (15) years from the date this Declaration is recorded and to subject all or any portion of such property to the plan of the Declaration. Although Declarant will have the ability to annex Additional Property as provided in this section, Declarant will not be obligated to annex all or any portion of any real property presently contemplated or intended to be included within the Property and such real property will not become subject to the Declaration unless and until a Declaration of Annexation will have been recorded as herein provided legally describing the real property so annexed. In the event the Declaration annexes Common Areas to the property, it shall be entitled to record concurrently therewith, additional covenants and restrictions governing the use, management, maintenance, and control of such Common Areas. These additional restrictions shall be binding on all Owners, their guests or tenants as though fully set forth herein.

B. Annexation Declaration. A Declaration of Annexation will be a writing in recordable form which annexes the Additional Property to the plan of the Declaration and which incorporates by reference all of the covenants, conditions, restrictions, easements and other provisions as are set forth in the Declaration relating to the Declarations of Annexation.

Declarations of Annexation may contain such complementary additions and modifications of the covenants, conditions and restrictions contained in the Declaration as may be necessary to reflect the different characteristics, if any, of the Additional Property and as are not inconsistent with the plan of the Declaration. In no event, however, will any such Declaration of Annexation revoke, modify or add to the covenants established by the Declaration with or respect to the Property already subject to the Declaration. The recordation of a Declaration of Annexation, together with any plat thereof (the "Annexation Plat"), describing the Additional Property, will constitute and effectuate the annexation of the Additional Property described herein, making said real estate property subject to the Declaration and subject to the functions, powers and jurisdiction of the Association, and thereafter said Additional Property will be part of the Property for all intents and purposes and all of the Owners of Lots and Common Areas in the Additional Property will automatically be subject to the Declaration. The effective date of Annexation shall be specified therein.

Section 6.08. Construction, Sale, and Leasing Facilities. During the period when the Lots are being sold and Dwelling Units are being constructed, the Declarant, or its agent(s), may maintain such facilities which it believes to be reasonably required, convenient or incidental to the development and sale of the Lots, including, but not limited to, a business office, storage areas, construction yards, signs, models, and sales and/or leasing offices.

Section 6.09. Miscellaneous.

A. Interpretation. The provisions of this Declaration will be literally construed to effectuate their purpose of creating a uniform plan for the development and operation of the Subdivision. This Declaration will be construed and governed by the laws of the State of Arizona. In the event of any conflict between this Declaration and the Articles, Bylaws, Association Rules and Regulations and Design Guidelines, this

Declaration shall control. In the event of any conflict between the Articles and the Bylaws, the Articles shall control. In the event of any conflict between the Bylaws and the Association Rules and Regulations or Design Guidelines, the Bylaws shall control.

B. Restrictions Severable. Notwithstanding the provisions of Section 6.09.A, each of the provisions of this Declaration will be deemed independent and severable, and the invalidity or partial invalidity of any provision or portion thereof will not affect the validity or enforceability of any other provision.

C. Rule Against Perpetuities. In the event the provisions of this Declaration are declared void by a court of competent jurisdiction by reason of the period of time herein stated for which the same will be effective, then, in that event, said periods of time will be reduced to a period of time which will not violate the rules against perpetuities as set forth in the laws of the State of Arizona, with said lives in being, for purposes of computing the period of perpetuities, designated as Chris J. Read, President of Veracen, Inc. and his issue at the time the perpetuities period begins to run on the challenged interest.

D. Singular Includes Plural. Unless the context requires a contrary construction, the singular will include the plural and the plural the singular; the masculine, feminine or neuter will each include the masculine, feminine and neuter.

E. Captions. All captions and titles used in this Declaration are intended solely for convenience or reference purposes only and in no way define, limit, or describe the intent and meaning of the provisions hereof.

Section 6.10. Delivery of Notices and Documents. Any written notice or other documents relating to or required by this Declaration may be delivered either personally or by mail. If by mail, it will be deemed to have been delivered seventy-two (72) hours after being deposited in the United States mail, postage prepaid, certified or registered mail addressed as follows: If to the Association to:

Appaloosa Meadows Phase II Homeowners Association, Inc., c/o The President or his/her designated representative at the address on record with the Arizona Corporation Commission.

If to an Owner, to the address of Lot owned by Owner within the Subdivision or to the last address furnished by an Owner to the Association; provided, however, that any such address may be changed effective 72 hours after Owner's giving notice of change of address to the Association as provided herein. Each Owner of a Lot will promptly provide his/her current mailing address to the Association and will promptly notify the Association in writing of any subsequent change of address.

Section 6.11. Binding Effect. By accepting a deed or acquiring any ownership interest in any of the Property included within this Declaration, each Person, for himself, his heirs, personal representatives, successors, transferees and assigns, binds himself, his heirs, personal representatives, successors, transferees and assigns, to all of the provisions, restrictions, covenants, conditions, rules or regulations contained herein, which shall run with the land and be binding on all subsequent and future Owners, grantees, purchasers, assignees, and transferees thereof. Furthermore, each such Person fully understands and acknowledges that this Declaration will be mutually beneficial, prohibitive and enforceable by the various subsequent and future Owners.

Section 6.12. Approval by VA or FHA. So long as there is a Class B Membership in the Association, and if the Veterans Administration and/or Federal Housing Administration have approved this Subdivision as acceptable for insured or guaranteed loans and if required by law, the following actions shall require the prior written approval of the VA or FHA: annexation of Additional Property, dedication of Common Areas and amendment of this Declaration.

Declarant, Veracen, Inc.
A California corporation

By: Chris J. Read
Chris J. Read, President

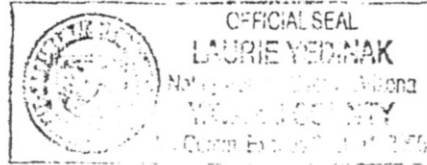
STATE OF ARIZONA)
)
County of YAVAPAI) ss.
~~Maricopa~~)

Subscribed, sworn and acknowledged before me this 6th day of March, 2003, by Chris J. Read, as such officer being authorized so to do, executed the above instrument for and on behalf of the corporation for the purposes therein set forth.

Laurie Yedinak
Notary Public

My commission expires:

9-11-06



SEAL