

BY-LAWS
OF
HANSEN MEADOWS HOMEOWNERS ASSOCIATION

- TABLE OF CONTENTS -

	Page
Article 1 Name, Principal Office, and Definitions	1
1.1. Name.....	1
1.2. Principal Office.	1
1.3. Definitions.....	1
Article 2 Membership: Meetings, Quorum, Voting, Proxies	1
2.1. Membership.....	1
2.2. Place of Meetings.....	1
2.3. Association Meetings.....	1
2.4. Notice of Meetings.	2
2.5. Waiver of Notice.	2
2.6. Adjournment of Meetings.....	2
2.7. Voting.	2
2.8. Proxies.....	3
2.9. Quorum.	3
2.10. Conduct of Meetings.....	3
2.11. Action Without a Meeting.....	3
2.12. Voting by Mail and Electronic Transmission.	3
Article 3 Board of Directors: Selection, Meetings, Powers	4
A. Composition and Selection.	4
3.1. Governing Body; Qualifications.	4
3.2. Number of Directors.	4
3.3. Selection of Directors; Term of Office.	4
3.4. Nomination and Election Procedures.	5
3.5. Removal of Directors and Vacancies.....	6
B. Meetings.	6
3.6. Organizational Meetings.	6
3.7. Regular Meetings.....	6
3.8. Special Meetings.	6
3.9. Notice; Waiver of Notice.	7
3.10. Telephonic Participation in Meetings.	7
3.11. Quorum of Board.....	7
3.12. Conduct of Meetings.....	8
3.13. Open Meetings; Executive Session.	8
3.14. Action Without a Formal Meeting.....	8
C. Powers and Duties.....	8
3.15. Powers.	8
3.16. Duties.....	8
3.17. Conflicts of Interest.	9

3.18.	Mandatory Arbitration of Certain Claims.	10
Article 4 Transition from Founder to Owner Control.....		10
4.1.	Transition Process.	10
4.2.	Education and Communication.....	10
4.3.	Transition Committee.	10
4.4.	Professional Assistance.....	11
Article 5 Officers		12
5.1.	Officers.	12
5.2.	Election and Term of Office.....	12
5.3.	Removal and Vacancies.....	12
5.4.	Powers and Duties.....	12
5.5.	Resignation.....	12
Article 6 Committees.....		12
6.1.	General.	12
6.2.	Covenants Committee.....	13
Article 7 Standards of Conduct; Liability, and Indemnification.....		13
7.1.	Standards for Directors and Officers.	13
7.2.	Liability.	13
7.3.	Indemnification.....	14
7.4.	Advancement of Expenses.....	14
7.5.	Board and Officer Training	15
Article 8 Management and Accounting		15
8.1.	Compensation of Directors and Officers.....	15
8.2.	Right of Founder Member to Disapprove Actions	15
8.3.	Managing Agent.	16
8.4.	Accounts and Reports	16
8.5.	Borrowing.	17
8.6.	Right to Contract.	17
8.7.	Agreements, Contracts, Deeds, Leases, Checks, Etc.	17
Article 9 Enforcement Procedures		18
9.1.	Notice and Response.....	18
9.2.	Hearing.	18
9.3.	Appeal.....	19
Article 10 Miscellaneous		19
10.1.	Fiscal Year.	19
10.2.	Parliamentary Rules.....	19
10.3.	Conflicts.....	19
10.4.	Books and Records.....	19
10.5.	Notices.	20
10.6.	Amendment.....	21

BY-LAWS OF HANSEN MEADOWS HOMEOWNERS ASSOCIATION

Article 1 Name, Principal Office, and Definitions

1.1. Name.

The name of the corporation is Hansen Meadows Homeowners Association (the "Association").

1.2. Principal Office.

The Association may have such offices in the Clark County, Washington area as the Board may determine or as the Association's affairs may require.

1.3. Definitions.

The words used in these By-Laws shall be given their normal, commonly understood definitions. Capitalized terms shall have the meaning ascribed to them in the Community Charter for Hansen Meadows recorded by Kimball Hill Homes Washington, Inc., a Washington corporation ("Founder"), in the Recording Division of the Clark County, Washington Auditor's Office, as it may be amended (the "Charter"). The term "majority," as used in these By-Laws, means those votes, Owners, or other group, as the context may indicate, totaling more than 50% of the total eligible number.

Article 2 Membership: Meetings, Quorum, Voting, Proxies

2.1. Membership.

The Association shall have two classes of membership, Owner Membership and Founder Membership, as more fully described in the Charter. Provisions of the Charter pertaining to membership are incorporated by this reference.

2.2. Place of Meetings.

The Association shall hold meetings at the Association's principal office or at such other suitable place the Board may designate.

2.3. Association Meetings.

(a) *General.* The first meeting of the Association Members, whether a regular or special meeting, shall be held within one year after the Association's incorporation.

(b) *Annual Meetings.* The Board shall schedule regular annual meetings of the Members to occur during the third quarter of the Association's fiscal year, on such date and at such time and place as the Board shall determine.

(c) *Special Meetings.* The President may call special meetings of the Members. In addition, the President or the Secretary shall call a special meeting if so directed by Board resolution or within 30 days after receipt of a petition stating the purpose of the meeting and signed by Members holding at least 10% of the total votes in the Association.

2.4. Notice of Meetings.

At least 14 but not more than 50 days before any Association meeting, the President, the Secretary, or the officers or other persons calling the meeting shall deliver or cause to be delivered to each Member a written notice stating the place, day, and hour of the meeting and the purpose(s) for which the meeting is called, including the general nature of any proposed amendment to the Charter, By-Laws, or Articles of Incorporation, any new budget or budget change that would result in a change in the assessment obligation, or any proposal to remove a director. In the case of a meeting to consider removal of a director, the merger, consolidation, or dissolution of the Association, or the sale, lease, or exchange of its assets, such notice shall be given at least 20 days prior to the meeting. If proxies are permitted, the notice shall also state the procedures for appointing proxies. No business shall be transacted at a special meeting except as stated in the notice. Such notice shall be delivered by such means as permitted under Section 10.5.

2.5. Waiver of Notice.

Waiver of notice of an Association meeting shall be deemed the equivalent of proper notice. Any Member may waive, in writing, notice of any Association meeting, either before or after such meeting. Attendance at a meeting by a Member or the Member's proxy shall be deemed a waiver by such Member of notice of the time, date, and place thereof, unless the Member or proxy specifically objects to lack of proper notice at the time the meeting is called to order. Attendance at a special meeting also shall be deemed a waiver of notice of all business transacted at such meeting unless an objection on the basis of lack of proper notice is raised before the business is put to a vote.

2.6. Adjournment of Meetings.

If any Association meeting cannot be held because a quorum is not present, persons entitled to cast a majority of the votes represented at such meeting may adjourn the meeting to a time at least 14 but not more than 30 days from the scheduled date of the original meeting. At the reconvened meeting, if a quorum is present, any business may be transacted which might have been transacted at the meeting originally called. If those in attendance at the original meeting do not fix a time and place for reconvening the meeting, or if for any reason a new date is fixed for reconvening the meeting after adjournment, the Board shall provide notice of the time and place for reconvening the meeting in the manner prescribed for regular meetings.

2.7. Voting.

Members shall have such voting rights as are set forth in the Charter, which provisions are specifically incorporated by this reference.

2.8. Proxies.

Any Member may vote in person or by proxy, subject to the limitations of Washington law and subject to any specific provision to the contrary in the Charter or these By-Laws. Every proxy shall be in writing, shall identify the Unit for which it is given, shall be signed by the Member or the Member's duly authorized attorney-in-fact, and shall be dated and filed with the Association's Secretary prior to the meeting for which it is to be effective. Unless the proxy specifically provided otherwise, a proxy shall be presumed to cover all votes which the Member giving such proxy is entitled to cast, and in the event of any conflict between two or more proxies purporting to cover the same voting rights, the later dated proxy shall prevail, or if dated as of the same date, both shall be deemed invalid.

Every proxy shall be revocable and shall automatically cease upon (a) conveyance of any Unit for which it was given, (b) the Secretary's receipt of written notice of revocation of the proxy or of the death or judicially declared incompetence of a Member who is a natural person, or (c) 11 months from the date of the proxy, unless a different period is specified in the proxy, except that no proxy shall be effective for longer than three years.

2.9. Quorum.

Except as these By-Laws or the Charter otherwise provide, the presence of Members or their proxies representing at least a majority of the total votes in the Association shall constitute a quorum at all meetings of the Association membership.

Members or their proxies present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the departure of attendees during the meeting leaving less than a quorum; however, at least a majority of the votes required to constitute a quorum, or such larger percentage as may be required under the Charter or applicable law for specific actions, must approve any action taken.

2.10. Conduct of Meetings.

The President or a Board-approved designee shall preside over all Association meetings. The Secretary shall ensure that minutes of the meetings are prepared, reflecting all resolutions adopted and all other transactions occurring at such meetings. The minutes shall be kept with the Association's books and records.

2.11. Action Without a Meeting.

Any action that the Charter, the Articles, or applicable law requires to or may be taken at a meeting of the Members may be taken without a meeting, without prior notice and without a vote, if all Members entitled to vote on such matter sign a written consent specifically authorizing the proposed action. Such consents shall be signed within 180 days after receipt of the earliest dated consent, dated, and delivered to the Association. Such consents shall be filed with the Association's minutes and shall have the same force and effect as a vote of the Members at a meeting.

2.12. Voting by Mail and Electronic Transmission.

A Member may submit a vote by mail or electronic transmission to the Association on any matter for consideration at any meeting of the Membership if: (1) the name of each candidate or the text of each

proposal to be voted upon is set forth in a record accompanying or contained in the notice of the meeting prepared by the Association; (2) the Association has designated an address, location, or system to which the ballot may be mailed or electronically transmitted; and (3) the executed ballot is mailed to the designated address or electronically transmitted to the designated address, location, or system in an executed electronically transmitted record. Members voting by mail or electronic transmission are present for purposes of the quorum, count of votes, and percentages of total voting power present at such meeting.

Article 3

Board of Directors: Selection, Meetings, Powers

A. Composition and Selection.

3.1. Governing Body; Qualifications.

The Board shall govern the Association's affairs. Each director shall have one vote. Except with respect to directors appointed by the Founder Member, directors shall be Owners or residents. However, no Owner and resident representing the same Unit may serve on the Board at the same time. A "resident" shall be any natural person 18 years of age or older whose principal residence is a Unit within Hansen Meadows.

If an Owner is not an individual, any officer, director, partner, or any trust officer of such Owner shall be eligible to serve as a director unless a written notice to the Association signed by the Owner specifies otherwise. However, no Owner may have more than one such representative on the Board at a time, except in the case of directors that the Founder Member appoints.

3.2. Number of Directors.

The Board shall consist of three to five directors, as provided in Section 3.3.

3.3. Selection of Directors; Term of Office.

(a) *Initial Board.* The initial Board shall consist of the three directors identified in the Articles of Incorporation, who shall serve until their successors are appointed or elected as provided in this Section.

(b) *Directors During Founder Control Period.* Except as otherwise provided in this subsection (b), the Founder Member may appoint, remove, and replace Board members until termination of the Founder Control Period. During such period, the Owner Members shall be entitled to elect a minority of the total number of directors as follows (directors elected by the Owner Members are referred to as "Owner Directors").

Within 60 days after the time that Owners other than the Founder, Founder Affiliates, or Builders own 50% of the maximum number of Units permitted by the Charter or whenever the Founder earlier determines, the Board shall be increased to five directors and the President shall call for an election by which the Owner Members shall be entitled to elect two of the five directors. The Founder shall appoint the remaining three directors. The Owner Directors shall be elected for a term of two years or until the

happening of the event described in subsection (c) below, whichever is shorter. If such directors' terms expire prior to the happening of the event described in subsection (c) below, successors shall be elected for a like term.

(c) *Directors After the Founder Control Period.* Within 30 days after termination of the Founder Control Period, the Founder shall call for an election by which the membership shall be entitled to elect all five directors. Three directors shall be elected to serve until the second annual meeting following their election and two directors shall be elected to serve until the third annual meeting following their election, as such directors determine among themselves.

Thereafter, upon expiration of the term of office of each director, the Owner Members shall be entitled to elect a successor to serve a term of two years. Such directors shall hold office until their respective successors have been elected. Directors may serve any number of consecutive terms.

The diagram below illustrates the concept of transition of control of the Board during and after the Founder Control Period. The "Founder" designation in such diagram represents a director appointed by the Founder during the Founder Control Period and the "Owner" designation represents a director elected by the Owner Members.

TRANSITION OF CONTROL OF BOARD OF DIRECTORS		
Initial Board	50% of Total Units Conveyed	Termination of Founder Control Period
Founder	Owner	Owner
Founder	Owner	Owner
Founder	Founder	Owner
	Founder	Owner
	Founder	Owner

3.4. Nomination and Election Procedures.

(a) *Nomination of Candidates.* At least 30 days prior to any election of directors by the Members, the Board shall appoint a Nominating Committee consisting of a chairman, who shall be a Board member, and three or more Owners or representatives of Owners. The Nominating Committee shall serve until the close of the election for which they were appointed. The names of the Nominating Committee members shall be announced in the notice of each election.

In preparation for each election, the Nominating Committee shall meet and make as many nominations for election to the Board as it shall in its discretion determine, but in no event less than the number of positions to be filled at such election. In making its nominations, the Nominating Committee shall use reasonable efforts to nominate candidates representing the diversity that exists within the pool of potential candidates. Nominations shall also be permitted from the floor at the meeting at which any election is held. All candidates shall have a reasonable opportunity to communicate their qualifications to the Members and to solicit votes.

(b) *Election Procedures.* At each election, the vote may be taken by written ballot at a meeting of the Members, by mail or by electronic transmission, as more specifically provided in Section 10.5. A Member may cast that number of votes equal to the number of Units the Member owns times the number of positions to be filled by such election. If more than one position is to be filled by such election, the Member may cast all such votes for a single candidate or may allocate such votes among different candidates, in the Member's discretion; however, no fractional votes may be cast. The vote may be taken by mail or by electronic transmission if the name of each candidate to be voted upon is set forth in a record accompanying or contained in the notice of the meeting.

3.5. Removal of Directors and Vacancies.

Any Owner Director may be removed, with or without cause, by the vote of Members holding at least a majority of the votes entitled to be cast for the election of such director. Any director whose removal is sought shall be given at least 20 days' notice prior to any meeting called for that purpose, and such notice shall also be delivered to all Members, informing them of the purpose of such meeting. Upon removal of an Owner Director, the Members shall elect a successor for the remainder of the term of such director.

At any meeting at which a quorum is present, a majority of the directors may remove any Owner Director who has three consecutive unexcused absences from Board meetings. The Board may appoint a successor to fill the vacancy for the remainder of the term.

In the event of the death, disability, or resignation of an Owner Director, the Board may declare a vacancy and appoint a successor to fill the vacancy for the remainder of the term.

This Section shall not apply to directors that the Founder appoints. The Founder may appoint a successor to fill any vacancy on the Board resulting from the death, disability, or resignation of a director appointed by the Founder.

B. Meetings.

3.6. Organizational Meetings.

The Board shall hold an organizational meeting within 10 days following each annual meeting of the membership, at such time and place as the Board shall fix.

3.7. Regular Meetings.

The Board shall hold regular meetings at such time and place as a majority of the directors shall determine, but the Board shall meet at least four times during each fiscal year with at least one meeting per quarter.

3.8. Special Meetings.

The President, Vice President, or any two directors may call a special meeting of the Board.

3.9. Notice; Waiver of Notice.

(a) Notices of Board meetings shall specify the time and place of the meeting and, in the case of a special meeting, the nature of any special business to be considered. The Board shall notify each director of meetings by: (i) personal delivery; (ii) first class mail, postage prepaid; (iii) telephone communication, either directly to the director or to a person at the director's office or home who would reasonably be expected to communicate such notice promptly to the director; or (iv) facsimile, electronic mail, or other electronic communication device, with confirmation of transmission. All such notices shall be given at or sent to the director's telephone number, fax number, electronic mail address, or sent to the director's address as shown on the Association's records. Notices may be sent by electronic transmission only if the director has consented to receipt of notice by electronic transmission as provided in Section 10.5. The Board shall deposit notices sent by first class mail into a United States mailbox at least five business days before the day of the meeting. The Board shall give notices by personal delivery, telephone, or electronic communication at least 72 hours before the time set for the meeting.

(b) The Board shall give notice to the Members of the date, time, and place of Board meetings by posting notice at least 48 hours prior to the Board meeting in a location in Hansen Meadows reasonably accessible to the Members that the Board has designated for the posting of such notices.

(c) Transactions of any Board meeting, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice if (i) a quorum is present, and (ii) either before or after the meeting each director not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. Notice of a meeting also shall be deemed given to any director who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

3.10. Telephonic Participation in Meetings.

Members of the Board or any committee the Board designates may participate in a Board or committee meeting by conference telephone or similar communications equipment through which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence at such meeting.

3.11. Quorum of Board.

At all Board meetings, a majority of the directors shall constitute a quorum for the transaction of business, and the votes of a majority of the directors present at a meeting at which a quorum is present shall constitute the Board's decision, unless Washington law, these By-Laws, or the Charter specifically provide otherwise. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the departure of directors, if at least a majority of the required quorum for that meeting approves any action taken. If the Board cannot hold a meeting because a quorum is not present, a majority of the directors present may adjourn the meeting to a time not less than 5 nor more than 30 days from the date of the original meeting. At the reconvened meeting, if a quorum is present the Board may transact, without further notice, any business it might have transacted at the original meeting.

3.12. Conduct of Meetings.

The President or any designee the Board approves by resolution shall preside over all Board meetings. The Secretary shall ensure that minutes of the meetings are kept and that all resolutions and all transactions occurring at such meetings are included in the Association's records.

3.13. Open Meetings; Executive Session.

(a) Subject to the provisions of subsection 3.13(b) and Section 3.14, all Board meetings shall be open to attendance by all Members or their representatives, but only directors may participate in any discussion or deliberation unless a director requests that attendees be granted permission to speak. In such case, the President may limit the time any such individual may speak. The Board shall make agendas for its meetings reasonably available for examination by all Members or their representatives prior to the meeting.

(b) Notwithstanding the above, the President may adjourn any Board meeting and reconvene in executive session, and may restrict attendance to directors and such other persons as the Board may specifically invite and announce during the open portion of the Board meeting, to discuss pending or threatened litigation, personnel matters, violations of the Governing Documents, delinquencies in assessments owed to the Association, and such other matters for which Washington law may specifically authorize restricted attendance; provided, any vote on such matters shall be taken in open session unless otherwise permitted by law.

3.14. Action Without a Formal Meeting.

Any action to be taken or which may be taken at a Board meeting may be taken without a meeting if a written consent setting forth the action so taken is signed by the number of directors that would be required to approve the same action at a Board meeting at which all of the directors were present. Such consent shall have the same force and effect as a vote at a meeting. The Board shall promptly notify all directors of any action so approved and the effective date of such action and provide each director with a copy of the signed written consent.

C. Powers and Duties.

3.15. Powers.

The Board shall have the power to administer the Association's affairs, perform the Association's responsibilities, and exercise the Association's rights as set forth in the Governing Documents and as provided by law. The Board may do, or cause to be done on the Association's behalf, all acts and things except those which the Governing Documents or Washington law require to be done and exercised exclusively by the Owners, or the membership generally.

3.16. Duties.

The Board's duties shall include, without limitation:

(a) preparing and adopting, in accordance with the Charter, an annual budget establishing each Owner's share of the Common Expenses;

(b) levying and collecting assessments from the Owners;

(c) providing for the operation, care, upkeep, and maintenance of the Area of Common Responsibility consistent with the Community-Wide Standard;

(d) designating, hiring, and dismissing personnel necessary to carry out the Association's rights and responsibilities and, where appropriate, providing for compensation of such personnel and for the purchase of equipment, supplies, and materials to be used by such personnel in the performance of their duties;

(e) opening bank accounts on the Association's behalf and designating the signatories required;

(f) depositing all funds received on the Association's behalf in a bank depository which it shall approve and using such funds to operate the Association; however, in the Board's business judgment any reserve funds may be deposited in depositories other than banks;

(g) making or contracting for the making of repairs, additions, and improvements to or alterations of the Common Area in accordance with the Governing Documents;

(h) determining when action to enforce the Governing Documents is appropriate and the nature of any sanctions to be imposed, and bringing any proceedings which may be instituted on behalf of or against the Owners concerning the Association; however, the Association's obligation in this regard shall be conditioned in the manner provided in the Charter and Section 3.18 below;

(i) obtaining and carrying property and liability insurance and fidelity bonds, as provided in the Charter, paying the cost thereof, and filing and adjusting claims, as appropriate;

(j) paying the cost of all services rendered to the Association;

(k) keeping a detailed accounting of the Association's receipts and expenditures;

(l) making available to any prospective purchaser of a Unit, any Owner, and the holders, insurers, and guarantors of any Mortgage on any Unit, current copies of the Governing Documents and all other books, records, and financial statements of the Association as provided in Section 10.4; and

(m) indemnifying a director, officer or committee member, or former director, officer or committee member of the Association to the extent such indemnity is required by Washington law, the Articles, or these By-Laws.

3.17. Conflicts of Interest.

Unless otherwise approved by a majority of the other directors, no Owner Director may transact business with the Association or any Association contractor during his or her term as director or within two years after the term expires. A director shall promptly disclose to the Board any actual or potential conflict of interest affecting the director relative to his or her performance as a director.

Notwithstanding the above, directors appointed by the Founder may be employed by or otherwise transact business with the Founder or its affiliate, and the Founder may transact business with the Association or its contractors.

3.18. Mandatory Arbitration of Certain Claims.

The Association shall submit any claim or dispute arising out of construction of the Common Area or the Area of Common Responsibility to mandatory, binding arbitration as provided in the Charter.

Article 4

Transition from Founder to Owner Control

4.1. Transition Process.

Transition is a process by which control of the Board gradually shifts from the Founder to the Owners, as described in Section 3.3. The process concludes upon termination of the Founder Control Period, when the Members will elect the entire Board. At that time, the Owners, through their newly-elected Board, will take responsibility for fulfilling the Association's responsibilities and exercising the Association's authority under the Governing Documents without the direct guidance or involvement of the Founder or Founder-appointed directors.

4.2. Education and Communication.

In anticipation of termination of the Founder Control Period, the Founder Member shall communicate with the Owners regarding the transition process, the anticipated timeline for transition, what to expect during and after the transition, and opportunities for Owner participation. Such communication shall be in writing and through one or more "town hall" meetings at which Owners have the opportunity to ask and obtain answers to questions in order to gain a better understanding of the transition process.

4.3. Transition Committee.

If requested by written petition signed by a majority of the Members and delivered to the Founder, the Founder Member shall establish a Transition Committee comprised of 5 to 7 members, all of whom shall be Owners, and the following shall apply:

(a) *Appointment; Purpose.* The Transition Committee shall be established at least six months prior to termination of the Founder Control Period or within 30 days after receipt of the Members' petition, whichever is later. The purpose of the Transition Committee shall be (i) to involve the Owners in facilitating a smooth transition of control of the Board from directors appointed by the Founder Member to directors elected by the Members, and (ii) to help prepare the Board and the Owners to assume responsibility for carrying on Association operations once the Founder and its representatives are no longer directly involved.

(b) *Organizational Meeting.* The Founder shall call for a meeting of the Transition Committee within 30 days after its appointment. At such meeting, the Founder shall explain the transition process, advise the Transition Committee of its responsibilities, and facilitate the election of a chairperson from among the members of the Transition Committee. The Transition Committee shall establish a meeting schedule and a schedule for completing necessary tasks prior to the termination of the Founder Control Period. It may appoint such subcommittees as it deems appropriate to assist it in performing its responsibilities. Each subcommittee shall be chaired by a member of the Transition Committee and shall consist of at least two Owners.

(c) **Responsibilities.** The Transition Committee, with the assistance of such subcommittees as it may appoint pursuant to subsection (b), shall conduct a review and analysis of Association properties, facilities, records, and operations to familiarize itself with the history and status of such matters and make recommendations as to matters requiring future action. It shall prepare a report setting forth its findings and recommendations for distribution to the Owners and presentation to the newly-elected Board upon termination of the Founder Control Period. The Board will use such report to assist in understanding the scope of its responsibilities and as a planning tool. Specific areas to be addressed in the report shall include:

(i) the condition of Association property and facilities, identifying any immediate maintenance, repairs, or improvements needed and suggesting a proposed schedule for short and long-term maintenance, repairs, and replacements;

(ii) the financial condition of the Association, including the status of any outstanding accounts receivable and actions being taken to collect them, the adequacy of the Association's budgets and sufficiency of reserves, and the status of the Association's tax filings, tax liability, if any, and tax reporting responsibilities;

(iii) the nature and extent of insurance policies which the Association is required to maintain, the adequacy of current coverage and limits, renewal dates for all insurance policies, and the status of any pending insurance claims; and

(iv) the status of Association records and legal matters, identifying all existing contracts, permits, licenses, and warranties, if any, noting their expiration dates and making any recommendations as to their renewal; reporting on the status of ownership of all Common Areas; reporting on the status of any pending lawsuits; and making recommendations as to any proposed changes or amendments to the Governing Documents that the Transition Committee feels are appropriate or advisable.

(d) **Communication.** The Transition Committee shall report to the Board at least monthly on the status of its work.

(e) **Board Action.** Upon termination of the Founder Control Period and election of a new Board pursuant to Section 3.3(c), the Board shall review the Transition Committee's report and meet with the Transition Committee to discuss the Committee's findings and recommendations. It shall then use the Transition Committee's report as a planning tool in carrying out its responsibilities under the Governing Documents.

4.4. Professional Assistance.

The Board may, as a Common Expense, retain industry professionals, including association managers, attorneys, engineers, and accountants, as it deems necessary or appropriate to assist the Board in preparing for transition and to assist the Transition Committee in conducting its review.

Article 5 Officers

5.1. Officers.

The Association's officers shall be a President, Secretary, and Treasurer. The President and Secretary shall be elected from among the Board members; other officers may, but need not, be Board members. The Board may appoint such other officers, including one or more Vice-Presidents, Assistant Secretaries and Assistant Treasurers, as it shall deem desirable, such officers to have such authority and perform such duties as the Board prescribes. Any two or more offices may be held by the same person, except the offices of President and Secretary.

5.2. Election and Term of Office.

The Board shall elect the Association's officers at the first Board meeting following each annual meeting of the membership, to serve until their successors are elected.

5.3. Removal and Vacancies.

The Board may remove any officer whenever in its judgment the Association's best interests will be served, and may fill any vacancy in any office arising because of death, resignation, removal, or otherwise, for the unexpired portion of the term.

5.4. Powers and Duties.

The Association's officers shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as the Board may specifically confer or impose. The President shall be the Association's chief executive officer. The Treasurer shall have primary responsibility for preparing the Association's budgets as provided for in the Charter, and may delegate all or part of the preparation and notification duties to a finance committee, management agent, or both.

5.5. Resignation.

Any officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Such resignation shall take effect on the date of the receipt of such notice or at a later time specified therein. Unless the resignation specifies, acceptance of such resignation shall not be necessary to make it effective.

Article 6 Committees

6.1. General.

In addition to the Transition Committee appointed pursuant to Article 4 and such committees as the Founder or Board may appoint pursuant to the Charter, the Board may appoint such other committees as it deems appropriate to perform such tasks and to serve for such periods as the Board may designate by resolution. Each committee shall operate in accordance with the terms of such resolution.

6.2. Covenants Committee.

In addition to any other committees that the Board may establish pursuant to Section 6.1, the Board may appoint a Covenants Committee consisting of at least three and no more than seven Owners. Acting in accordance with the provisions of the Charter, these By-Laws, and resolutions the Board may adopt, the Covenants Committee, if established, shall be the hearing tribunal of the Association and shall conduct all hearings held pursuant to Article 9 of these By-Laws. The Covenants Committee shall have no responsibility for seeking out violations of the Governing Documents.

Article 7

Standards of Conduct; Liability, and Indemnification

7.1. Standards for Directors and Officers.

The Board shall exercise its powers in a reasonable, fair, nondiscriminatory manner and shall adhere to the procedures established in the Governing Documents.

In performing their duties, directors and officers shall be insulated from liability as provided for directors of corporations under Washington law and as otherwise provided by the Governing Documents. Directors and officers shall discharge their duties as directors or officers, and as members of any committee to which they are appointed, in a manner that the director or officer believes in good faith to be in the best interest of the corporation and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. A director is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, prepared or presented by others to the extent authorized under Washington law.

7.2. Liability.

(a) A director or officer shall not be personally liable to the Association, any Member, or any other Person for any action taken or not taken as a director or officer if he or she has acted in accordance with Section 7.1. Owner Directors shall not be liable for actions taken or omissions made in the performance of their duties except for wanton or willful acts or omissions.

(b) Pursuant to the business judgment rule, a director also shall not be personally liable for any action taken or not taken as a director if the director:

(i) acts within the expressed or implied scope of the Governing Documents and his or her actions are not *ultra vires*;

(ii) affirmatively undertakes to make decisions which the director reasonably believes are necessary for the Association's continued and successful operation and, when decisions are made, makes them on an informed basis;

(iii) acts on a disinterested basis, promptly disclosing any real or potential conflict of interests (pecuniary or other), and avoiding participation in decisions and actions on matters as to which he has a conflict of interest (beyond that which all directors have by virtue of their ownership or occupancy of a Unit); and

(iv) acts in a non-fraudulent manner and without reckless indifference to the Association's affairs.

(c) The Association's officers, directors, and committee members shall not be liable for any mistake of judgment, negligent or otherwise, except for their own individual willful misfeasance, malfeasance, misconduct, or bad faith. The officers and directors shall have no personal liability with respect to any contract or other commitment made or action taken in good faith on the Association's behalf (except to the extent that such officers or directors may also be Members).

7.3. Indemnification.

Subject to the limitations of Washington law, the Association shall indemnify every present and former officer, director, and committee member against all damages and expenses, including counsel fees and expenses, reasonably incurred in connection with any action, suit, or other proceeding (including settlement of any suit or proceeding, if approved by the then Board) to which he or she may be a party by reason of being or having been an officer, director, or committee member, except that the Association shall have no obligation to indemnify any individual against liability or expenses incurred in connection with a proceeding:

(a) brought by or in the right of the Association, although it may reimburse the individual for reasonable expenses incurred in connection with the proceeding if it is determined, by the court or in the manner provided above, that the individual met the relevant standard of conduct under Washington law; or

(b) to the extent that the individual is adjudged liable for conduct that constitutes:

(i) appropriation, in violation of his or her duties, of any business opportunity of the Association; or

(ii) intentional misconduct or knowing violation of the law; or

(iii) an unlawful distribution to members, directors or officers; or

(iv) receipt of an improper personal benefit.

This right to indemnification shall not be exclusive of any other rights to which any present or former officer, director, or committee member may be entitled. The Association shall, as a Common Expense, maintain adequate general liability and officers' and directors' liability insurance to fund this obligation, if such insurance is reasonably available.

7.4. Advancement of Expenses.

In accordance with the procedures and subject to the conditions and limitations set forth in Washington law, the Board may authorize the Association to advance funds to pay for or reimburse the reasonable expenses incurred by a present or former officer, director or committee member in any proceeding to which he or she may be a party by reason of being or having been an officer, director, or committee member of the Association.

7.5. Board and Officer Training.

The Board may conduct or provide for seminars and continuing educational opportunities designed to educate and inform its officers and directors of their responsibilities as officers and directors. Such programs may include instruction on applicable Washington corporate and fiduciary law principles, other issues relating to administering community affairs, and upholding and enforcing the Governing Documents. The Board may retain industry professionals, which may include property managers, attorneys, and accountants, as appropriate or necessary for such purpose. Each newly elected officer and director shall be encouraged to complete a training seminar within the first six months of assuming such position. The seminar may be live, video or audiotape, or in other format. The cost of such seminar shall be a Common Expense.

The Board may also provide, or provide for, Owner and resident education designed to foster a better understanding of Hansen Meadows' governance and operations, and leadership training classes designed to educate Owners as to the nomination, election, and voting processes and the duties and responsibilities of directors and officers.

The Board may apply for and maintain, as a Common Expense, membership for the Association, its officers and directors, in the Community Associations Institute or any similar nonprofit organization that provides educational opportunities for community association directors, officers and managers in operation and management of community associations.

Article 8

Management and Accounting

8.1. Compensation of Directors and Officers.

The Association shall not compensate directors and officers for acting as such unless Members entitled to cast a majority of the total votes in the Association approve such compensation at an Association meeting. The Association may reimburse any director or officer for expenses he or she incurs on the Association's behalf upon approval of a majority of the other directors. Nothing herein shall prohibit the Association from compensating a director or officer, or any entity with which a director or officer is affiliated, for services or supplies he or she furnishes to the Association in a capacity other than as a director or officer pursuant to a contract or agreement with the Association. However, such director must make known his or her interest to the Board prior to entering into such contract, and a majority of the Board, excluding any interested director, must approve such contract.

8.2. Right of Founder Member to Disapprove Actions.

So long as there is a Founder Membership, the Founder Member shall have a right to disapprove any action, policy, or program of the Association, the Board and any committee which, in the Founder Member's sole judgment, would tend to impair rights of the Founder or Builders under the Charter or these By-Laws, interfere with development or construction of any portion of Hansen Meadows, or diminish the level of services the Association provides. The Board shall not implement any action, policy, or program subject to the right of disapproval set forth herein until and unless the requirements of this Section have been met.

(a) *Notice.* The Association shall give the Founder Member written notice of all meetings of the membership, the Board, and committees, and any actions proposed to be taken by any of them by written consent in lieu of a meeting. The Association shall give such notice by certified mail, return receipt requested, or by personal delivery at the address the Founder Member has registered with the Association. Such notice shall comply, as to Board meetings, with Section 3.9, and shall, except in the case of regular Board meetings pursuant to these By-Laws, set forth with reasonable particularity the agenda to be followed at such meeting.

(b) *Opportunity to be Heard.* At any such meeting, the Association shall give the Founder Member the opportunity to join in or to have its representatives or agents join in discussion from the floor of any prospective action, policy, or program which would be subject to the right of disapproval set forth herein. The Founder Member, its representatives, or its agents shall make its concerns, thoughts, and suggestions known to the Board and/or the members of the subject committee.

The Founder Member, acting through any officer or director, agent, or authorized representative, may exercise its right to disapprove at any time within 10 days following the meeting at which such action was proposed or, in the case of any action taken by written consent in lieu of a meeting, at any time within 10 days following receipt of written notice of the proposed action.

The Founder Member may use this right to disapprove to block proposed actions but shall not use it to require any action or counteraction of any committee, the Board, or the Association. The Founder Member shall not use its right to disapprove to reduce the level of services the Association is obligated to provide or to prevent capital repairs or any expenditure required to comply with applicable laws and regulations.

8.3. Managing Agent.

The Board may employ for the Association professional management agents at such compensation as the Board may establish, to perform such duties and services as the Board shall authorize. The Board may delegate such powers as are necessary to perform the manager's assigned duties but shall not delegate policy-making authority or ultimate responsibility for those duties set forth in Section 3.16. The Board may employ the Founder or its affiliate as managing agent or manager.

The Board may delegate to one of its members the authority to act on its behalf on all matters relating to the duties of the managing agent or manager which might arise between Board meetings.

The managing agent shall not accept remuneration from vendors, independent contractors, or others providing goods or services to the Association, whether in the form of commissions, finder's fees, service fees, prizes, gifts, or otherwise; any thing of value received shall benefit the Association. The managing agent shall promptly disclose to the Board any financial or other interest which it may have in any firm providing goods or services to the Association.

8.4. Accounts and Reports.

(a) The Board shall follow the following accounting standards unless the Board by resolution specifically determines otherwise:

(i) accounting and controls should conform to generally accepted accounting principles; and

(ii) the Association's cash accounts shall not be commingled with any other accounts.

(b) Commencing at the end of the quarter in which the first Unit is sold and closed, financial reports shall be prepared for the Association at least quarterly containing:

(i) an income statement reflecting all income and expense activity for the preceding period;

(ii) a statement reflecting all cash receipts and disbursements for the preceding period;

(iii) a variance report reflecting the status of all accounts in an "actual" versus "approved" budget format;

(iv) a balance sheet as of the last day of the preceding period; and

(v) a delinquency report listing all Owners who are delinquent in paying any assessments at the time of the report (any assessment or installment thereof shall be considered to be delinquent on the 15th day following the due date unless the Board specifies otherwise by resolution).

(c) An annual report consisting of at least the following shall be made available for Members' review within 180 days after the close of the fiscal year: (i) a balance sheet; (ii) an operating (income) statement; and (iii) a statement of changes in financial position for the fiscal year. Such annual report shall be prepared on an audited, reviewed, or compiled basis, as the Board determines, except that if the annual Base Assessments levied by the Association are \$50,000 or more for any year, the financial statements for such year shall be audited at least annually by an independent Certified Public Accountant unless the Members entitled to cast at least 67% of the total votes in the Association vote to waive the audit at a meeting of the Association at which a quorum is present.

8.5. Borrowing.

The Association shall have the power to borrow money for any legal purpose. However, the Board shall obtain Member approval in the same manner provided in the Charter for Special Assessments if the proposed borrowing is for the purpose of making discretionary capital improvements and the total amount of such borrowing, together with all other debt incurred within the previous 12-month period, exceeds or would exceed 20% of the Association's budgeted gross expenses for that fiscal year.

8.6. Right to Contract.

The Association shall have the right to contract with any Person for the performance of various duties and functions. This right shall include, without limitation, the right to enter into common management, operational, or other agreements with other owners or residents associations.

8.7. Agreements, Contracts, Deeds, Leases, Checks, Etc.

All Association agreements, contracts, deeds, leases, checks, and other instruments shall be executed by at least two officers or by such other person or persons as the Board may designate by resolution. Any contract, lease, or other agreement entered into prior to termination of the Founder Control Period which extends for a period of more than two years after recording of the Charter shall be subject to cancellation by the Association within 90 days prior to expiration of such 2-year period upon the direction of

Owners holding a majority of the total votes of Owners other than the Founder cast at a special meeting of the membership called for such purpose. At least 60 days prior to expiration of such 2-year period, the Board shall send notice to every Owner notifying them of this right of cancellation, identifying all contracts, leases and agreements which are subject to cancellation, and describing the procedure for petitioning for a special meeting to consider cancellation, should the Owners desire to call such a meeting. During such 90-day cancellation period, any other party to such contracts, leases or agreements shall also have the right to cancel.

Article 9

Enforcement Procedures

The Association shall have the power, as provided in the Charter, to impose sanctions for any violation of the Governing Documents. To the extent specifically required by the Charter or Washington law, the Board shall comply with the following procedures prior to imposition of sanctions:

9.1. Notice and Response.

The Board or its delegate shall serve the alleged violator with written notice, by certified mail, return receipt requested, (a) describing the alleged violation or property damage which is the basis of the proposed sanction or amount due to the Association, as applicable; (b) describing the proposed sanction to be imposed; and (c) informing the alleged violator that he or she has 30 days after receipt of the notice to present a written request for a hearing to the Board or the Covenants Committee, if one has been appointed pursuant to Article 6; and (d) informing the alleged violator that he or she may avoid the proposed sanction by curing the violation within a reasonable cure period stated in the notice, except that the Association shall have no obligation to provide a cure period if the alleged violator has been given notice of a similar violation within the preceding six months. If the hearing is to be held before a Covenants Committee, the notice shall also state that the alleged violator has the right to appeal the decision of the Covenants Committee to the Board.

The alleged violator shall respond to the notice of the alleged violation in writing within such 30-day period, regardless of whether the alleged violator is challenging the imposition of the proposed sanction, or the proposed sanction shall be imposed. If the alleged violator cures the alleged violation and notifies the Board in writing within such 30-day period the Board may, but shall not be obligated to, waive the sanction. Such waiver shall not constitute a waiver of the right to sanction future violations of the same or other provisions and rules by any Person.

Prior to the effectiveness of sanctions imposed pursuant to this Article, proof of proper notice shall be placed in the minutes of the Board or Covenants Committee, as applicable. Such proof shall be deemed adequate if a copy of the notice, together with a statement of the date and manner of delivery, is entered by the officer, director, or agent who delivered such notice. The notice requirement shall be deemed satisfied if the alleged violator or its representative requests and appears at the hearing.

9.2. Hearing.

If a hearing is requested within the allotted 30-day period, the hearing shall be held before the Covenants Committee, or if one has not been appointed, then before the Board in executive session within 30 days after receipt of the alleged violator's request. Either the Board or the alleged violator may request a postponement of up to 10 days and such postponement shall be granted. Additional postponements may

be granted upon agreement of both the Association and the alleged violator. The Board shall notify the alleged violator at least 10 days prior to the hearing of the time, date, and place of the hearing. At the hearing, the alleged violator shall be afforded a reasonable opportunity to be heard and shall be entitled to make an audio recording of the hearing. The minutes of the meetings of the Board or Covenants Committee, as applicable, shall contain a written statement of the results of the hearing (i.e., the Board's or Committee's decision) and the sanction, if any, to be imposed. Written notice of the decision shall be mailed to the violator within three days after the hearing.

If a timely request for a hearing is not made, the sanction stated in the notice shall be imposed unless the violation is cured within the cure period stated in the notice.

9.3. Appeal.

Following a hearing before the Covenants Committee, the violator shall have the right to appeal the decision to the Board. To exercise this right, the violator must deliver a written notice of appeal to the Association's manager, President, or Secretary within 10 days after the hearing date.

Article 10 Miscellaneous

10.1. Fiscal Year.

The Association's fiscal year shall be the calendar year unless the Board establishes a different fiscal year by resolution.

10.2. Parliamentary Rules.

Except as may be modified by Board resolution, *Robert's Rules of Order* (current edition) shall govern the conduct of Association proceedings when not in conflict with Washington law or the Governing Documents.

10.3. Conflicts.

If there are conflicts among the provisions of Washington law, the Articles of Incorporation, the Charter, and these By-Laws, the provisions of Washington law, the Charter, the Articles of Incorporation, and the By-Laws (in that order) shall prevail.

10.4. Books and Records.

(a) *Turnover of Books and Records.* Within 60 days after termination of the Founder Control Period, the Founder shall deliver to the Board all items required by Washington law and any other property, books, and records of the Association in the Founder's possession.

(b) *Inspection by Members and Mortgagees.* The Board shall make available for inspection and copying by any holder, insurer or guarantor of a first Mortgage on a Unit, any Member, or the duly appointed representative of any of the foregoing at any reasonable time and for a purpose reasonably related to his or her interest in a Unit: (i) the Governing Documents, (ii) the membership register, (iii) detailed and accurate books of account, (iv) copies of all contracts, leases and other agreements to which the

Association is a party, (v) the minutes of meetings of the Members, the Board, and committees for the previous seven years, or such shorter period as the Association has been in existence, (vi) ballots and proxies for any election or other matter put to a membership vote within the previous 12-month period; and (vii) such other records as Washington law may require to be made available for inspection. The Board shall provide for such inspection to take place at the Association's office or at such other place within Hansen Meadows as the Board shall designate.

(c) *Rules for Inspection.* The Board shall establish rules with respect to:

- (i) notice to be given to the custodian of the records; and
- (ii) hours and days of the week when such an inspection may be made; and
- (iii) payment of the cost of reproducing documents requested.

(d) *Inspection by Directors.* Every director shall have the absolute right at any reasonable time to inspect all Association books, records, and documents and the physical properties owned or controlled by the Association. A director's right of inspection includes the right to make a copy of relevant documents at the Association's expense.

10.5. Notices.

(a) *Form of Notice and Method of Delivery.* Except as otherwise provided in the Charter or these By-Laws or by Washington law, all notices, demands, bills, statements, or other communications under the Charter or these By-Laws shall be in writing and may be delivered in person, by United States mail, by private carrier, or if the intended recipient has given its prior written authorization to use such method of delivery, by facsimile or electronic mail with written confirmation of transmission.

(b) *Delivery Address.* Notices shall be delivered or sent to the intended recipient as follows:

(i) if to a Member, at the address, telephone facsimile number, or e-mail address which the Member has designated in writing and filed with the Secretary or, if no such address has been designated, at the address of the Unit of such Member;

(ii) if to the Association, the Board, or a committee of either, at the address, facsimile number, or e-mail address of the principal office of the Association or its managing agent, or at such other address as the Association shall designate by notice in writing to the Members pursuant to this Section; or

(iii) if to the Founder, at the Founder's principal address as it appears on the Secretary of State's records, or at such other address as the Founder shall designate by notice in writing to the Association pursuant to this Section.

(c) *Effective Date.* Notice sent in accordance with subsections (a) and (b) shall be deemed to have been duly given and effective:

(i) if sent by United States mail, when deposited with the U. S. Postal Service, correctly addressed, with first class or higher priority postage prepaid;

(ii) if delivered personally or by private carrier, when actually delivered to the address of the intended recipient, as evidenced by the signature of the person at such address who accepts such delivery; or

(iii) if sent by telephone facsimile or electronic mail, upon transmission, as evidenced by a printed confirmation of transmission.

(d) *Electronic Notices.* Notices may be transmitted electronically pursuant to *Rev. Wash. Code* § 24.03.009 to any Member if the Member consents, in the form of a record, to receipt of electronically transmitted notices and designates in the consent the message format accessible to the Member and the address, location, or system to which notices may be electronically transmitted. The electronic notice must contain any information or material required by the Washington Nonprofit Corporation Act, *Rev. Code Wash.* § 24.03, *et seq.*, *Rev. Code Wash.* § 24.03.085, these By-Laws, or the Charter. A Member who has consented to receipt of electronically transmitted notices may revoke the consent by delivering a revocation to the Association in the form of a record. The consent of any Member is revoked if the Association is unable to electronically transmit two consecutive notices given by the Association in accordance with the consent and this inability becomes known to the Secretary or other Person responsible for giving the notice.

10.6. Amendment.

Until termination of the Founder Control Period, the Board of Directors may unilaterally amend these By-Laws for any purpose. Thereafter, these By-Laws may be amended only by the affirmative vote or written consent, or any combination thereof, of Members entitled to cast at least 67% of the total votes in the Association, and the consent of the Founder Member, if such exists. Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause. Any amendment adopted pursuant to this subsection (b) shall be prepared and signed by the President or Vice President and by the Secretary or Treasurer of the Association certifying that the requisite approval was obtained.

Amendments to these By-Laws shall become effective upon recordation unless a later effective date is specified therein. Any procedural challenge to an amendment must be made within one year of its recordation, or such amendment shall be presumed to have been validly adopted. In no event shall a change of conditions or circumstances operate to amend any provisions of these By-Laws.

No amendment may remove, revoke, or modify any right or privilege of Founder or the Founder Member without the written consent of Founder, the Founder Member, or the assignee of such right or privilege.

CERTIFICATION

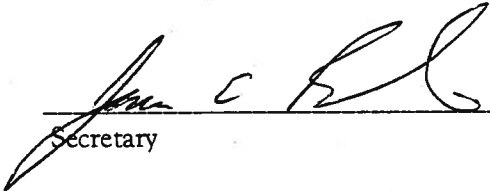
I, the undersigned, do hereby certify:

That I am the duly elected and acting Secretary of Hansen Meadows Homeowners Association, a Washington nonprofit corporation;

That the foregoing By-Laws constitute the original By-Laws of the Association, as duly adopted by resolution of the Board of Directors thereof on the ____ day of _____, 20__.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Association this ____ day of _____, 20__.

[SEAL]



Secretary

