

**BY-LAWS
OF
HIGHLAND HILLS MAINTENANCE COMMISSION
(As Amended November 19, 2006)**

ARTICLE I

Name and Principal Office

Section 1. Name. The name of the corporation is Highland Hills Maintenance Commission. The corporation is hereinafter referred to as the "Commission."

Section 2. Principal Office. The principal office of the Commission shall be such location in or within five (5) miles of Sequim, Washington as the Board of Trustees shall designate from time to time.

ARTICLE II

Purposes

Section 1. Purposes. The Commission shall be conducted as a non-profit corporation for the purposes set forth in its Articles of Incorporation.

ARTICLE III

Definitions

Section 1. "adjourned meeting" shall mean and refer to a meeting in continuation of the immediately preceding meeting of members or the Board of Trustees.

Section 2. "Board of Trustees" or "Board" shall mean and refer to the group with primary authority to manage the affairs of the Commission, the members of which group are hereinafter referred to as the "Trustees."

Section 3. "Commission" shall mean and refer to Highland Hills Maintenance Commission, its successors and assigns.

Section 4. "common areas" shall mean and refer to property owned by the Commission, or otherwise maintained, repaired or administered by the Commission, for the common use and enjoyment of the members, including without limitation the Roadways and the Storm Water Runoff Drainage System.

Section 5. "common expense" shall mean and refer to any cost incurred by the Commission in the exercise of any of its powers.

Section 6. "Governing Documents" shall mean and refer to the Protective Covenants & Restrictions, the Articles of Incorporation of the Commission, these By-Laws, the Rules, Regulations and Policies and any other written instrument by which the Commission has the authority to exercise any of its powers.

Section 7. “Highland Hills” shall mean and refer to that certain area in Clallam County, Washington, both developed and undeveloped, commonly known as Highland Hills and such additions thereto as may hereafter be brought within the jurisdiction of the Commission by the Board of Trustees with the approval of the members.

Section 8. “member” shall mean and refer to each of those persons entitled to membership in the Commission as provided in the Articles of Incorporation of the Commission.

Section 9. “penalty” shall include without limitation a suspension of voting rights, the imposition of a fine, late charge and/or interest charge, and the assessment of any cost incurred by the Commission in responding to or correcting a violation of the Governing Documents by a member.

Section 10. “Properties” shall mean and refer to the real properties located within Highland Hills.

Section 11. “Protective Covenants & Restrictions” shall mean and refer to those protective covenants and restrictions applicable to members generally, recorded against the Properties at the office of the Clallam County Auditor.

Section 12. “RCW” shall mean and refer to the Revised Code of Washington, as amended from time to time.

Section 13. “Roadways” shall mean and refer to those roads within Highland Hills that have been paved for general ingress and egress, and such additions thereto as have been brought or may hereafter be brought within the jurisdiction of the Commission by the Board of Trustees; but shall not include driveways or (unless and until brought within the jurisdiction of the Commission by the Board) easements paved by members at their own expense. The Roadways constitute a private and exclusive road system for the sole use, benefit and enjoyment of members, their agents, lessees and invitees.

Section 14. “Rules, Regulations and Policies” shall mean and refer to rules, regulations, policies and/or procedures adopted by the Board of Trustees, however titled, for the administration and regulation of the affairs of the Commission, the use, preservation or maintenance of common areas, the use of the Properties and Commission offices or other property, or, to the extent permitted by law, the personal conduct of the members and their agents, lessees and invitees on the Properties or at Commission offices. Such rules, regulations, policies and procedures shall become effective upon being mailed or otherwise disseminated to each member. Such rules, regulations, policies and procedures shall be in addition to the restrictions contained in the Protective Covenants & Restrictions and any other restrictions of each member’s deed or contract of purchase.

Section 15. “Storm Water Runoff Drainage System” shall mean and refer to the principal system of storm water runoff ditches and detention basins throughout Highland Hills; but shall not include ditches, culverts, retention ponds, drains or the like that are part of systems installed by members for collecting and/or storing runoff from their respective Properties and releasing it into such principal system nor shall it include driveways above culverts nor the backfill for such driveways.

ARTICLE IV

Members

Section 1. Transfer of Membership. No membership may be conveyed or transferred except by transfer of fee title or (under a contract) equitable title to the real property to which membership is appurtenant.

Section 2. Death of a Member. In the event of the death of a member, membership shall pass in the same manner, and to the same person or entity, as does the real property to which such membership is appurtenant.

Section 3. Withdrawal. No member may withdraw except upon the transfer of fee title or (under a contract) equitable title to the real property to which membership is appurtenant.

Section 4. Meetings.

A. Annual Meetings. A meeting of the members shall be held at least once each year, for the election of Trustees as provided in Article V, Section 2, consideration of the budget for the following year as provided in Article X, Section 1, and such other business as the Board of Trustees shall determine to place on the agenda for the meeting.

B. Special Meetings. Special meetings of the members may be called by the President, by a majority of the Board of Trustees, or upon petition submitted to the Secretary signed by ten percent (10%) of the members eligible to vote on the date the signed petition is submitted. The calling of a special meeting by members shall not eliminate any requirement under applicable law or the Governing Documents for approval or prior approval by the Board of any matter placed on the agenda for the meeting, nor shall the ten percent threshold for such calling reduce the vote of members required under applicable law or the Governing Documents for approval of any matter placed on the agenda.

C. Place. Each meeting of the members shall be held at such time and place as the Board of Trustees shall determine.

D. Notice. Not less than fourteen (14) nor more than fifty (50) days in advance of any meeting of the members, the Secretary shall cause notice to be given to each member entitled to such notice pursuant to Section 5B of this Article IV. The notice of meeting shall state the time and place of the meeting, any business to be placed on the agenda by the Board of Trustees for a vote by members, including the general nature of any proposed amendment to the Articles of Incorporation of the Commission or these By-laws, any budget or changes in a previously-approved budget that result in a change in assessment obligation, and any proposal to remove a Trustee. If the meeting is a special meeting called upon a petition signed by members, the notice of meeting shall also state the business to be placed on the agenda by those members.

E. Order of Business. The order of business at each annual or special meeting of the members shall be established by the Board of Trustees in advance of the meeting. The order of business may be changed by the Board at the meeting.

F. Adjournment. Any meeting of the members may be adjourned from time to time to such place and time as may be determined by a majority vote of the members present, whether a quorum be present or not, without notice other than announcement at the meeting. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted by a quorum at the meeting as originally called.

Section 5. Voting at Meetings.

A. Record Date.

(1) In order that the Commission may determine the members entitled to notice of or to vote at any meeting of members, the Board of Trustees shall set a record date for each meeting of members. The record date shall be subsequent to the date on which it is set by the Board and shall be not more than seventy-five (75) nor less than twenty-nine (29) days before the date of such meeting.

(2) The members as of the record date for a meeting shall initially be determined by the Treasurer, based on information provided by Clallam County and/or title companies. Any proposed correction related to a Property must be brought to the Treasurer's attention in writing not later than fourteen (14) days after the mailing of the notice of the meeting. In the absence of a timely proposed correction, the Treasurer's initial determination related to the Property shall be final. The burden of proof in connection with any proposed correction shall be on the person proposing the correction. To expedite timely corrections, the proxy appointment form for the meeting sent with respect to each Property shall set forth the name(s) of the member(s) entitled to exercise the vote for such Property at the meeting as initially determined by the Treasurer.

B. Notice. Only the members as of the record date, determined pursuant to Section 5A(2), shall be entitled to notice of a meeting.

C. Voting. Each member as of the record date for a meeting, determined as provided in Section 5A, shall be entitled to one vote, unless it is determined by the Treasurer that any assessment, or any penalty not then being appealed, owed by such member (alone or with one or more others) has not been paid as of the time of the vote. The interest of each member shall be equal to that of any other member and no member shall acquire an interest which shall entitle such member to any greater voice, vote, authority or interest in the Commission than any other member. When more than one person holds an interest or interests in a parcel of real property, all such persons shall be members and the vote for such real property shall be exercised as they among themselves determine, but in no event shall more than one vote be cast with respect to such real property.

D. Quorum/Vote Required. A quorum is present throughout any meeting of members if members entitled to cast at least thirty-four percent (34%) of the votes entitled to be cast at the meeting are present, in person or by proxy, at the beginning of the meeting. Except when a different vote is specified in these By-laws for a particular action by the members, the affirmative vote of a majority of those members who vote in person or by proxy at a meeting at which a quorum is present shall be the act of the members.

E. Proxies. A member may appoint a proxy to vote or otherwise act for the member at a meeting by signing a proxy appointment form for the meeting provided by the Board of Trustees, provided such signed form is received in the manner and no later than the deadline set by the Board in connection with the meeting. The proxy appointment form so provided shall include, among other things, a designation of a proxy or successive proxies to vote or otherwise act for the member in the event the member does not appoint someone else. No candidate for election as a Trustee at the meeting or member of the Nominating Committee that nominates candidates for election as Trustees at the meeting, nor any member of their respective families, may be so designated. Unless otherwise provided in any proxy, a proxy shall be invalid after eleven (11) months from the date of its execution. No revocation of a proxy shall be effective unless and until written notice of it has actually been received by the Inspector of Election.

F. Inspector of Election.

(1) In advance of each meeting of members, the Board of Trustees shall appoint one or more inspectors to act at the meeting. The Board may appoint one or more alternate inspectors to replace any inspector who fails to act. The inspector(s) who actually act are referred to as the "Inspector of Election." In the event the Inspector of Election consists of more than one inspector, the act of a majority shall be the act of the Inspector of Election.

(2) Absent unusual circumstances, the Inspector of Election shall not be, to the knowledge of the Board of Trustees, (a) a Trustee, a person who has served as a Trustee at any time since the immediately preceding meeting of members, or a candidate for election as a Trustee at the meeting, (b) a person or organization with a direct economic interest in any matter being presented to the members at the meeting (different from that of members in general), (c) anyone included in the family of a person described in clause (a) or (b), or (d) an organization of which any person or organization described in clause (a), (b) or (c) is a director, officer, general partner, significant equityholder or agent. For purposes of the preceding sentence, each reference to an organization also refers to each of that organization's directors, officers, general partners, significant equityholders and agents. As used in the first sentence of this subsection, "unusual circumstances" might include, for example, the inability of the Board, after a reasonable effort, to locate an acceptable, competent person or organization that is willing to serve at no cost or at a justifiable cost and that meets the qualifications set forth in such sentence.

(3) The Secretary shall certify to the Inspector of Election the quorum requirement for the meeting, the vote to which each Property is entitled, the vote required on each issue to be submitted to the members at the meeting, the relevant requirements for proxies contained in applicable law, the Articles of Incorporation of the Commission, these By-Laws and the Rules, Regulations and Policies, the form of proxy appointment provided by the Board of Trustees for the meeting, and the manner and deadline for the receipt of proxy appointment forms set by the Board in connection with the meeting; and such other matters as the Inspector of Election may reasonably request. The Treasurer shall certify to the Inspector of Election a list of the members entitled to vote at the meeting pursuant to Section 5C; and such other matters as the Inspector of Election may reasonably request. In the event the Secretary or Treasurer is absent from or unable to act at the meeting, another officer may certify to the Inspector of Election on such officer's behalf.

(4) Based upon such certificates and the attendance sheet for the meeting, the Inspector of Election shall determine the existence of a quorum, the validity of proxies and ballots (including without limitation compliance with signature requirements), the vote on each matter presented to the members and the outcome of each such vote. The Inspector of Election shall report orally to the meeting, and promptly following the meeting in writing to the Board of Trustees, the attendance at the meeting, the existence (or not) of a quorum, and the foregoing votes and outcomes.

(5) In the event of a tie vote or very close vote on a particular matter, the Inspector of Election shall promptly following the meeting, conduct a recount and report the result orally to the Board of Trustees (c/o the President or Vice President). The Board shall promptly publish the result to the members.

G. Finality of Reported Outcomes.

(1) The certificates of the Secretary and the Treasurer, proxy appointments and revocations, ballot requests and ballots, and written report of the Inspector of Election for each meeting shall be maintained in the records of the Commission, and available for inspection by any member, during the period of forty-five (45) days beginning on the second day following the date of delivery of the written report of the Inspector of Election regarding the meeting (or, if a formal written challenge is timely filed pursuant to the next sentence, until the final resolution of

such challenge). Thereafter only the written report of the Inspector of Election need be maintained in such records. Unless a formal written challenge is filed with the Secretary within such forty-five (45) day period, which states specific grounds for believing that the reported quorum or the reported vote on any matter is incorrect to an extent that would affect the outcome of the vote on such matter reported by the Inspector of Election, the outcome of the vote on such matter reported by the Inspector of Election shall thereafter be binding and conclusive on all interested persons.

(2) To the extent permitted by law, proxy appointments shall not be subject to inspection. A member requesting inspection may inspect a copy of a proxy appointment prepared in such fashion that the identity of the member giving voting directions and/or discretion in such proxy appointment is not disclosed. A member requesting inspection may also inspect a complete copy of any proxy appointment signed by such member or appointing such member.

ARTICLE V

Board of Trustees

Section 1. Number, Classes and Terms of Office. The affairs of the Commission shall be governed by a Board of Trustees composed of nine (9) persons, each of whom must be a member. The number may be changed by amendment of these By-laws; provided, however, that any decrease shall not have the effect of shortening the term of any incumbent Trustee and the number remaining after the decrease shall not be less than three (3) persons. The fees of the Trustees, if any, shall be determined by the members at any annual meeting. The Trustees shall be divided into three classes, as equal in number as possible. The terms of office of the Trustees elected at each annual meeting shall commence the following January 1 and expire three years thereafter.

Section 2. Election. An annual general meeting of members shall be held each year for the purpose, among others, of electing Trustees to succeed those whose terms of office expire on December 31 of that year. Those nominees receiving the highest number of votes shall be elected. Each Trustee so elected shall hold office for the term for which elected and until such Trustee's successor shall have been selected and qualified. In the event of a tie vote that would affect the outcome of the election, the tie shall be decided by chance, in such equitable manner as the Board of Trustees as constituted prior to the election shall agree upon.

Section 3. Resignation/Removal. Any Trustee who shall be absent for three (3) consecutive regular meetings without being excused by the Board of Trustees shall be treated for all purposes as having resigned from the Board. The members may remove a Trustee with or without cause.

Section 4. Vacancies. Vacancies in the Board of Trustees caused by any reason other than the removal of a Trustee by the members shall be filled by vote of the majority of the remaining Trustees, even though they may constitute less than a quorum. Vacancies in the Board caused by the removal of a Trustee by the members shall be filled by the members at the meeting at which the removal occurs. Each person selected to fill a vacancy shall serve for the unexpired term of their predecessor and until their successor shall have been selected and qualified.

Section 5. Nominations. Nominations for election to the Board of Trustees shall be made by the Nominating Committee. The Nominating Committee shall make as many nominations for election as it shall, in its discretion, determine but not less, in any event, than the number of vacancies that are to be filled by the members. In considering a potential nominee, the Nominating Committee shall take into account that the Board is a working board, from which executive officers must be elected periodically. Accordingly, the Nominating Committee shall consider the willingness of the potential nominee to devote the time necessary to fulfill their duties as a trustee and, if asked by the Board, to serve as an executive officer; and shall also consider the ability of the potential nominee to serve in one or more executive offices. Nominations may also be made by any member at a regular

meeting of the Board until sixty (60) days prior to the annual meeting. The Nominating Committee shall also make recommendations to the Board with regard to vacancies on the Board that the Board is to fill.

Section 6. Meetings.

A. Organizational Meetings. On or after January 1 of each year and prior to the first regular meeting of the Board of Trustees that year, the Board shall hold an organizational meeting at such time and place as shall be fixed by the President, who shall give each Trustee at least seven (7) days' notice thereof. The matters on which action may be taken at the meeting shall be limited to the election and appointment of officers and the appointment of Nominating Committee members, matters that the Board is authorized by law to consider in closed executive session. Accordingly, members shall not be entitled to observe the meeting.

B. Regular Meetings. Regular meetings of the Board of Trustees shall be held at 7:00 p.m. on the first Wednesday of each month; provided that if any national holiday falls on the first Wednesday of a month, the regular meeting for that month shall be held one week later at the same time. The Board of Trustees may change the time or date of a regular meeting provided that notice of the change is given to each Trustee, and is mailed or otherwise disseminated to each other member, not less than ten (10) days in advance of the meeting.

C. Special Meetings. Special meetings of the Board of Trustees may be called by the President. The notice of the meeting shall state its time, place, and purpose. Special meetings of the Board may also be called by the President or Secretary on like notice upon the written request of at least three (3) Trustees.

D. Work Sessions. Work sessions (i.e., sessions between regular meetings for the purpose of administrative functioning, sharing information pertinent to a subject to be considered at a subsequent regular or special meeting of the Board of Trustees and/or identifying additional information needed for the consideration of such a subject, at which sessions no action binding on the Commission is taken by those present) shall not be considered "meetings" for purposes of this Section 6 or for any other purpose, whether or not the number of Trustees present would be sufficient to constitute a quorum for a meeting.

E. Place. All Board of Trustees' meetings shall be held at the principal office of the Commission. The Board may change the place of a meeting to another place in or within five (5) miles of Sequim, Washington provided that notice of the change is given to each Trustee, and is mailed or otherwise disseminated to each other member, not less than ten (10) days in advance of the meeting.

F. Notices. Except as provided in Section 6B with respect to notices of changes, no notice of any regular meeting other than the notice contained in such Section shall be required to be given to any Trustee or member. At least ten (10) days' notice of any special meeting shall be given to each Trustees and mailed or otherwise disseminated to each other member.

G. Quorum/Vote Required. At all meetings of the Board of Trustees, a majority of the number of Trustees fixed as provided in Section 1 shall constitute a quorum for the transaction of business. The acts of a majority of the Trustees present at a meeting at which a quorum is present shall be the acts of the Board.

H. Order of Business. The order of business at each meeting of the Board of Trustees shall be established by the Board in advance of the meeting. The order of business may be changed by the Board at the meeting.

I. Adjournment. Any meeting of the Board of Trustees may be adjourned from time to time to such place and time as may be determined by a majority vote of the Trustees present, whether a quorum be present or not,

without notice other than announcement at the meeting. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted by a quorum at the meeting as originally called.

J. Observation by Members/Executive Session. Except as otherwise provided in this Section 6, all meetings of the Board of Trustees shall be open for observation by all members of record and their authorized agents. Upon the affirmative vote in open meeting to assemble in closed session, the Board may convene in closed executive session to consider personnel matters; consult with legal counsel or consider communications with legal counsel; discuss likely or pending litigation, matters involving possible violations of the Governing Documents, and matters involving the possible liability of a member to the Commission; and address any other matters permitted by law to be addressed in closed executive session. The motion shall state specifically the purpose for the closed session. Reference to the motion and the stated purpose for the closed session shall be included in the minutes. The Board shall restrict the consideration of matters during the closed portions of meetings only to those purposes specifically exempted and stated in the motion. No motion, or other action adopted, passed, or agreed to in closed session, may become effective unless the Board, following the closed session, reconvenes in open meeting and votes in the open meeting on such motion, or other action which is reasonably identified. The requirements of this section shall not require the disclosure of information in violation of law or which is otherwise exempt from disclosure.

Section 7. Powers. The Board of Trustees shall have the power to:

A. Adopt Rules, Regulations and Policies, and establish penalties and procedures for their enforcement and procedures for the collection of such penalties;

B. Adopt, impose and collect charges for late payments of assessments and, after notice and an opportunity to be heard by the Board, and in accordance with procedures provided in these By-Laws or the Rules, Regulations and Policies, levy reasonable fines in accordance with a previously established schedule adopted by the Board and furnished to the members for violation of the Governing Documents;

C. Suspend the voting rights of a member during any period in which such member shall be in default in the payment of any assessment, fine or other amount owed to the Commission. Such rights may also be suspended, after notice and hearing, for a period not to exceed sixty (60) days for violation of the Governing Documents;

D. Make contracts and incur liabilities;

E. Hire and discharge or contract with a manager, managing agent, independent contractor, or such other employees and agents (including without limitation professional service providers such as accountants and attorneys) as it deems necessary and fix and prescribe their duties, compensation, and other terms and conditions of retention;

F. Require that any officer or employee of the Commission handling or responsible for Commission funds furnish an adequate bond, at the expense of the Commission; and

G. Subject to such limitations, if any, as may be imposed by law, exercise all other powers necessary and proper for the governance and operation of the Commission, and all other powers necessary or convenient to effect any or all of the purposes for which the Commission is organized. Without limiting the generality of the foregoing, the Board is specifically authorized to adopt Rules, Regulations and Policies relating to meetings of members provided that such Rules, Regulations and Policies are not inconsistent with Section 5 of Article IV.

The Board shall not, however, have the power to act on behalf of the Commission to amend its Articles of Incorporation, to take any action that requires the vote or approval of the members, to terminate the Commission, to

elect Trustees, or to determine the qualifications, powers and duties, or terms of office of Trustees; except that the Board may fill Trustee vacancies as contemplated in Section 4 of Article V.

Section 8. Duties.

A. Except to the extent, if any, that authority of the Board of Trustees in the management of the Commission has been delegated to a Board committee or to a managing agent in accordance with RCW 24.03 or RCW 64.38, the Board shall manage the affairs of the Commission and act in all instances on behalf of the Commission. In the performance of their duties, the Trustees shall exercise the degree of care and loyalty required of a director of a corporation organized under RCW 24.03.

B. The Board of Trustees shall cause to be kept a record of its acts and corporate affairs, including minutes of all actions taken by it. It shall present a statement thereof to the members at the annual meeting of the members, or at any special meeting of the members, when such statement is requested in writing reasonably in advance of the meeting by one-fourth of the members who are entitled to vote.

C. The Board of Trustees shall oversee all officers, committees, managing agents, other agents and employees of the Commission to see that their duties are properly performed.

D. The Board of Trustees shall provide for, maintain, repair, and supervise the care and upkeep of the common areas and property owned or leased by the Commission. The Roadways shall be maintained to historical Commission standards. The Storm Water Runoff Drainage System shall not be required to be maintained to specifications more stringent than those set forth in the Drainage Plan for Highland Hills revised October 3, 1984 authored by Gary V. East, P.E. or their equivalent.

E. The Board of Trustees shall procure and maintain general liability insurance, directors' and officers' liability insurance, and liability and hazard insurance on property owned or leased by the Commission, in each case from an insurer and in an amount the Board deems adequate.

F. Each Trustee shall perform the duties of a Trustee, including the duties as a member of any Board committee upon which the Trustee may serve, in good faith, in a manner the Trustee believes to be in the best interests of the Commission, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. In performing such duties, each Trustee shall be entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by:

- (1) One or more officers or employees of the Commission whom the Trustee believes to be reliable and competent in the matter presented;
- (2) Counsel, public accountants, or other persons as to matters which the Trustee believes to be within that person's professional or expert competence; or
- (3) A Board committee upon which the Trustee does not serve, duly designated in accordance with a provision in the Articles of Incorporation of the Commission or these By-Laws, as to matters within its designated authority, which committee the Trustee believes merits confidence;

so long as, in any such case, the Trustee acts in good faith, after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

Section 9. Conflict of Interest. No contract or other transaction between the Commission and one or more of the Trustees or between the Commission and any other organization any of the directors of which is a Trustee or officer of the Commission or in which a Trustee has any financial interest shall be void or voidable for this reason or because that Trustee is present at or participates in the meeting of the Board of Trustees or Board committee that authorizes the contract or transaction or because that Trustee's vote is counted for such purpose:

A. if the material facts as to the contract or transaction and as to the Trustee's relationship are disclosed to the Board or Board committee and the Board or Board committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of disinterested Trustees even though the disinterested Trustees are less than a quorum, or

B. if the material facts as to the contract or transaction and as to the Trustee's relationship or interest are disclosed or are known to the members entitled to vote thereon and the contract or transaction is specifically approved in good faith by vote of the members, or

C. if the contract or transaction is fair and reasonable as to the Commission at the time it is authorized, approved, or ratified by the Board, the Board committee, or the members.

Common or interested Trustees may be counted in determining the presence of a quorum at a meeting of the Board, Board committee or members that authorizes the contract or transaction.

ARTICLE VI

Officers

Section 1. Designation. The executive officers of the Commission shall be a President, Vice-President, Secretary and Treasurer. Each of the executive officers shall be elected by and from the Board. The Board may appoint such other officers, and such subordinate officers (for example, an Assistant Treasurer or Assistant Secretary), as in its judgment may be necessary, who shall have such powers and duties as are assigned to them from time to time by the Board. The Commission's executive officers, other officers and subordinate officers are referred to collectively as "officers."

Section 2. Election and Appointment. The executive officers of the Commission shall be elected annually by the Board of Trustees at the organizational meeting of each new Board and shall hold office at the pleasure of the Board and/or until their successors shall have been elected and qualified. Other officers or subordinate officers may be appointed by the Board at any time.

Section 3. Removal. Any officer may be removed by the Board of Trustees, either with or without cause, whenever in its judgment the best interests of the Commission would be served thereby. Removal of an officer, however, shall not effect a removal from their position, if any, as a Trustee.

Section 4. Vacancies. A vacancy in any office may be filled by appointment by the Board of Trustees. The officer appointed to such vacancy shall serve for the remainder of the unexpired term of the officer replaced.

Section 5. Multiple Offices. No person shall simultaneously hold more than one executive office.

Section 6. President. The President shall be the chief executive officer of the Commission. The President shall preside at all meetings of members and of the Board of Trustees. The President shall have all of the general powers and duties which are usually vested in the office of the president of a corporation.

Section 7. Vice-President. The Vice-President shall take the place of the President and perform the President's duties whenever the President shall be absent or unable to act. If neither the President nor Vice-President is able to act, the Board of Trustees shall appoint some other Trustee to do so on an interim basis. The Vice-President shall also perform such other duties as shall from time to time be assigned by the Board or the President.

Section 8. Secretary. The Secretary shall attend and keep the minutes of all meetings of the Board of Trustees or members, shall give all notices as provided by these By-Laws, and shall have such other powers and duties incidental to the office of Secretary as are given by these By-Laws or assigned from time to time by the Board. If the Secretary shall not be present at any meeting, the presiding officer shall appoint a Secretary pro tempore who shall keep the minutes of such meeting and record them in the book provided for that purpose.

Section 9. Treasurer. The Treasurer shall receive, keep faithfully, and deposit in such depositories as are designated by the Board of Trustees, all funds, securities, and liquid assets of the Commission in its name for its account; shall disburse funds of the Commission under the direction of the Board on checks signed in the manner from time to time determined by the Board; and shall propose the annual budget. The Treasurer shall keep or cause to be kept full and accurate books of account, shall make such reports of the finances and transactions of the Commission as may be required by the Board and shall prepare and present to the annual meeting of the members a full statement showing in detail the financial condition of the Commission.

Section 10. Authority with Respect to Amendments to Governing Documents. To the extent that the amendment of any Governing Document requires execution, certification or recording, any officer or officers permitted by law to do so may prepare, execute, certify and record such amendment.

Section 11. Standard of Care. In the performance of their duties, the officers shall exercise the degree of care and loyalty required of an officer of a corporation organized under RCW 24.03.

ARTICLE VII

Committees

Section 1. Committees. Pursuant to the Protective Covenants & Restrictions, the Commission has an Architectural Control Committee. The Commission shall also have such other committees as shall be designated and appointed in resolutions adopted by the Board of Trustees. Such other committees may be either member committees or Board committees.

Section 2. Architectural Control Committee. The Architectural Control Committee shall have the powers, rights, duties and obligations assigned to it in the Protective Covenants & Restrictions and such other powers, rights, duties and obligations as are assigned to it in, or necessary for its performance of the responsibilities assigned to it in, Rules, Regulations and Policies, but shall not exercise any of the authority of the Board of Trustees in the management of the Commission. The assignment of responsibility for a Rule, Regulation or Policy, including without limitation a Rule, Regulation or Policy that may result in the imposition of a fine or other action against a member, shall not constitute a delegation of any of the authority of the Board in the management of the Commission provided that such fine or action may be appealed to the Board in accordance with a Rule, Regulation and Policy. The Board shall, at its annual organizational meeting, appoint five (5) persons to serve as the members of the Committee. The

Board may remove Committee members at any time. Subject to any specifications in Rules, Regulations and Policies assigning responsibilities to it, the Committee shall establish its own operating procedures. The Committee shall keep such records of its proceedings and actions, and shall make such reports to the Board, as shall be appropriate, which at a minimum shall include records and reports sufficient to enable the Board to exercise its powers of appointment and removal on an informed basis.

Section 3. Member Committees. Member committees shall perform such administrative and/or service functions as are assigned to them in the resolutions designating and appointing them or in Rules, Regulations and Policies, but shall not exercise any of the authority of the Board of Trustees in the management of the Commission. The assignment of responsibility for a Rule, Regulation or Policy, including without limitation a Rule, Regulation or Policy that may result in the imposition of a fine or other action against a member, shall not constitute a delegation of any of the authority of the Board in the management of the Commission provided that such fine or action may be appealed to the Board in accordance with a Rule, Regulation and Policy. Each such committee shall consist of one or more Commission members, who need not be Trustees unless the Board so designates. Subject to any specific appointments as may be made by the Board, the Chair of each such committee shall select the other members of such committee from volunteers. The Board may remove committee members when, in its judgment, the best interests of the Commission would be served by such removal. Subject to any specifications in the resolutions designating and appointing it or in Rules, Regulations and Policies, each such committee shall establish its own operating procedures. Each such committee shall keep such records of its proceedings and actions, and shall make such reports to the Board, as shall be appropriate, which at a minimum shall include records and reports sufficient to enable the Board to exercise its power of removal on an informed basis. Member committees shall include but not be limited to the Nominating Committee described in Section 4 of this Article.

Section 4. Nominating Committee. The Nominating Committee shall perform the administrative functions described in Article V, Section 5. The Committee shall consist of a Chair, who must be a Trustee, and two or more others, who must be members. Neither the Chair nor any other member of the Committee may be a candidate for election to the Board of Trustees at the annual meeting of members for which the Nominating Committee will make nominations or a person designated by the Board as a proxy with respect to such meeting pursuant to Article IV, Section 5E, nor a member of their respective families. The Nominating Committee shall be appointed by the Board at each of its annual organizational meetings, to serve from the close of such meeting until the close of the next annual meeting of members.

Section 5. Board Committees. Board committees shall, to the extent provided in the resolutions designating and appointing them, have and exercise the authority of the Board of Trustees in the management of the Commission, subject to the limitations imposed by RCW 24.03.115 or otherwise by law. Each such committee shall consist of two or more Trustees designated by the Board. The Board may remove committee members when, in its judgment, the best interests of the Commission would be served by such removal. Subject to any specifications in the resolutions designating and appointing it, each such committee shall establish its own operating procedures. Each such committee shall keep records of its proceedings and actions in a form comparable to the minutes of meetings of the Board. The designation and appointment of any such committee and the delegation thereto of authority of the Board shall not operate to relieve the Board or any individual Trustee of any responsibility imposed by law.

Section 6. Committee Chairs. The President shall present a slate of committee Chairs to the Board of Trustees for ratification no later than the first regular meeting of the Board following each organizational meeting. In the event of a vacancy in any Chair, the President shall present a nominee to the Board for ratification as soon after such vacancy occurs as is reasonably practicable.

ARTICLE VIII

Books and Records

Section 1. Maintenance of Records. The Commission shall keep financial and other records sufficiently detailed to enable the Commission to fully declare to each member the true statement of its financial status. The Commission shall keep at its principal office, in the form of a record, each of the following: current copies of its articles of incorporation and by-laws; a list of members, including names and addresses; correct and adequate statements of accounts and finances; a list of officers' and Trustees' names and addresses; minutes of the proceedings of the members and the Board of Trustees; and any minutes which may be maintained by committees. All financial and other records of the Commission, including but not limited to checks, bank records, and invoices, in whatever form they are kept, are the property of the Commission.

Section 2. Examination of Records. All records of the Commission, including the names and addresses of members and other occupants of the lots included in the Properties, shall be available for examination by all members, holders of mortgages on such lots, and their respective authorized agents on reasonable advance notice during normal hours at the office of the Commission or, if any, its managing agent. The Commission shall not release the unlisted telephone number of any member or any other information the release of which is prohibited by law or these By-laws. The Commission may impose and collect a reasonable charge for copies and any reasonable costs incurred by the Commission in providing access to records.

Section 3. Financial Statements. At least annually, the Commission shall prepare, or cause to be prepared, a financial statement of the Commission. When annual assessments are fifty thousand dollars (\$50,000) or more, the financial statements shall be audited at least annually by an independent certified public accountant. But the audit of the financial statement for any year may be waived if sixty-seven percent (67%) of the votes cast by members, in person or by proxy, at a meeting of members at which a quorum is present, vote to waive such audit. Should the audit for any year be waived under provisions of this section, an independent compilation for that year will be conducted unless it would substantially duplicate work performed on a regular periodic basis for the Commission by an independent bookkeeper.

Section 4. Bookkeeping Accounts. The funds, receipts and expenditures of the Commission shall be credited and charged against various and sundry accounts as shall, from time to time, be established by the Board of Trustees. For example, accounts may be established for current expenses, for the accumulation of reserves for deferred maintenance, replacement, depreciation, and obsolescence and for additional improvements, or for accumulations for the making of improvements, additions, and betterments as are found desirable.

ARTICLE IX

Liabilities of Trustees, Officers and Committee Members

Section 1. Limitation of Trustees' Liability. A Trustee shall have no personal liability to the Commission or its members for monetary damages for conduct as a Trustee, except for acts or omissions that involve intentional misconduct by the Trustee, a knowing violation of the law by the Trustee, or a transaction from which the Trustee has personally received or will personally receive a benefit in money, property or services to which the Trustee is not legally entitled.

Section 2. Indemnification. The Commission shall, to the maximum extent permitted by law, indemnify and hold harmless any Trustee, officer or committee member acting on behalf of the Commission and within the scope of authority granted thereto, including without limitation in the manner and to the extent provided in RCW 23B.08.500

through 23B.08.600, as now existing or hereafter amended. The foregoing shall apply to any agent, employee or independent contractor retained by the Commission only if and to the extent expressly approved by the Board of Trustees. Indemnification pursuant to this Section applies to all claims made against any of the individuals covered herein whether or not the person is actually made a party to a judicial proceeding, and shall include the advance of expenses, including attorneys' fees.

ARTICLE X

Budget and the Handling of Funds

Section 1. Budget. The Board of Trustees shall adopt a budget for each fiscal year of the Commission. The budget shall include the estimated cash receipts and the estimated funds required to defray common expenses and for reserves and additions to reserves, and shall allocate funds to the various and sundry bookkeeping accounts. Within thirty (30) days after adoption of the budget, the Board shall set a date for an annual meeting of members to consider ratification of the budget not less than fourteen (14) nor more than fifty (50) days after mailing of the budget or a summary thereof to members for approval. Unless a majority in the voting power of the Commission rejects it at the annual meeting, the budget is ratified whether or not a quorum is present. In the event the proposed budget is rejected, the periodic budget last ratified by the members shall be continued until such time as the members ratify a subsequent budget proposed by the Board. The Board may also adopt special budgets or amendments to previously adopted budgets, subject to such member ratification, if any, as may be required by RCW 24.03 and RCW 64.38.

Section 2. Depositories. The depositories of the Commission shall be such bank or banks and/or brokerage firm or firms as shall be designated from time to time by the Board of Trustees and in which the monies of the Commission shall be deposited. Withdrawals from, transfers between and checks drawn on accounts at such depositories shall be only in such manner and with the approval and/or signatures of such executive officer(s) as are authorized by the Board. The Board shall, from time to time, in its discretion, advise and direct the Treasurer, or other person charged with the responsibility of investment of accumulated funds, as to the investment of such funds.

Section 3. Separation of Accounts. The funds of the Commission shall be kept in depository accounts in the sole name of the Commission, which accounts shall not be commingled with accounts of any other persons or entities.

ARTICLE XI

Assessments

Section 1. Assessments. The Board of Trustees shall establish annual and special assessments of the members upon the Properties, as deemed necessary by the Board, to be used to defray the administrative costs and expenses of the Commission; for the common benefit of the members for utilities, roadways, property protection, drainage, landscaping, insurance and improvements; for the payment of taxes imposed upon the Commission; for the holding of ownership or leasehold interests; or otherwise for reserves and other common purposes. Assessments shall be made to apply equally to each acre (any lot less than one acre in area shall be considered to be one acre for purposes of assessment); provided, however, that the Board, in its sole discretion, may make a reasonable differentiation between improved property and unimproved property. The Board shall provide means for the collection of assessments so fixed, and shall give written notice of such assessments to members at least thirty (30) days in advance of the due date thereof.

Section 2. Delinquent Assessments. Any assessment that is not paid when due shall bear interest at the rate of twelve percent (12%) per annum from the due date until paid. Each assessment shall constitute a continuing lien upon the Property against which it is levied, securing payment of such assessment and any such interest thereon. If the assessment is not paid when due, the Commission may record such lien, in which event such lien shall also secure any late fee imposed by the Commission and reimbursement of the Commission for the lien recording fee; and, whether or not such lien has been recorded, the Commission may bring an action at law against the member obligated to pay the amounts secured or may foreclose the lien against the Property. In either such event, the Commission shall be entitled to recover, in addition to the amounts secured, its expenses of title examination and insurance, costs, and attorneys' fees related thereto. No member may waive or otherwise escape liability for assessments provided for herein by non-use of any service(s) available or by abandonment of their property, or by any other means whatsoever.

Section 3. Certification of Payment. The Board of Trustees shall issue or cause the appropriate officer to issue, upon the request of any member or authorized agent thereof, a document setting forth whether each and every assessment levied against the member's Property has been paid. For this purpose any lienable charge against the Property shall be considered an assessment. Such document shall be conclusive evidence of payment or nonpayment.

Section 4. Excess Income. Members have the right to receive services substantially at cost, to receive a return of any excess of payments over losses and expenses, and to share in any assets upon dissolution. Any excess income not retained in reasonable reserves for future losses and expenses belongs to the members in proportion to their patronage or business done with the Commission. Records shall be kept as are necessary to determine at any time each member's rights and interests in the assets of the Commission. A former member's rights and interests will not be forfeited upon withdrawal or termination of membership. Upon dissolution, the assets of the Commission, after the payment of all debts and obligations, will be distributed to all members and former members in proportion to their business done with the Commission, insofar as is practicable.

ARTICLE XII

Miscellaneous Provisions

Section 1. Rules of Order. All meetings of the members and the Board of Trustees shall be conducted in accordance with applicable Rules, Regulations and Policies.

Section 2. Fiscal Year. The fiscal year of the Commission shall be the calendar year.

Section 3. Method of Giving Notices. Except as otherwise permitted by these By-laws, each notice-required to be given to a member shall be sent prepaid by first class U.S. mail to the mailing address of such member within Highland Hills (or, if none, the last mailing address of such member known to the Commission) or to any other mailing address designated in writing to the Commission for such purpose by such member. Notice may be given to a Trustee personally, by facsimile, by mail, or in any other manner allowed by law. Oral notice to a Trustee shall be sufficient only if a written record of the notice is included in the Commission's minute book. All notices given by mail shall be deemed to have been given when mailed, except notices from members of changes of address, which shall be deemed to have been given when received by the Commission.

Section 4. Waivers. Whenever any notice is required to be given to any member or Trustee under the provisions of these By-Laws, the Commission's Articles of Incorporation, or the laws of the State of Washington, a waiver of the notice in writing, signed by the person entitled to the notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. Attendance by a member at a meeting of members in person

or by proxy, or attendance by a Trustee at a meeting of the Board of Trustees in person, waives objection to lack of notice or defective notice of the meeting unless the member, or Trustee, at the beginning of the meeting objects to holding the meeting or transacting business at the meeting. Unless a member objects to considering the matter when it is presented at a member meeting, or a Trustee objects to considering the matter when it is presented at a special meeting of the Board, the member, or Trustee, waives objection to consideration of a particular matter at such meeting that is not within the purpose or purposes described in the meeting notice.

Section 5. Telephonic Meeting. At any meeting of the Board of Trustees or a committee, the Trustees or committee members entitled to participate in the meeting may participate by conference telephone or similar communications equipment so that all Trustees or committee members participating in the meeting can hear each other at the same time. Participation by this method shall constitute presence in person at the meeting.

Section 6. No Carports. No member shall build or allow to be built on their property any carport.

Section 7. Storage of Recreational Vehicles. No member shall store or allow to be stored on their property any recreational vehicle, including motor homes, campers, trailers, and boats, other than in a garage.

Section 8. Size of Parcels. No member shall build or allow to be built on their property a building of any nature, if said property contains less than one acre (43,560 square feet). Any lot or parcel of less than one acre in size and so filed with the Clallam County Assessor's Office prior to the date of December 7, 1990 is exempted from the foregoing restriction.

Section 9. Limitation on Grants of Easements or Other Interests in Properties. No member shall grant or convey any easement on, or other interest in, real property within Highland Hills in favor of any real property outside Highland Hills without the prior written and recorded consent of the Board of Trustees.

Section 10. Attorney's Fees. In connection with any controversy, claim, or dispute (including without limitation arbitration, administrative, bankruptcy and judicial proceedings and appeals therefrom) arising out of or relating to the Governing Documents or the method and manner of performance or breach thereof, the prevailing party shall be entitled to and awarded, in addition to any other relief, a reasonable sum as and for its attorney's fees. If neither party wholly prevails, the party that substantially prevails shall be awarded a reasonable sum as and for its attorney's fees.

Section 11. Invalidity. The invalidity of any part of these By-Laws shall not impair or affect in any manner the validity, enforceability, or effect of the balance hereof.

Section 12. Captions. The captions herein are inserted only as a matter of convenience and for reference and in no way confine or limit the scope of these By-Laws, or the intent of any provision thereof.

Section 13. Gender and Number. As used in these By-laws, the masculine, feminine or neuter gender and the singular or plural number shall be deemed to include the other(s) whenever the context so requires.

Section 14. No Waiver. No restriction, condition, obligation, or provision contained in these By-Laws shall be deemed to have been abrogated or waived by reason of any delay in enforcing or failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

Section 15. Conflicts. In case of any conflict between the Articles of Incorporation of the Commission and these By-Laws, such Articles shall control. In case of any conflict between such Articles or these By-laws and the Protective Covenants & Restrictions, the latter shall control.

Section 16. Corporate Seal. The Commission may adopt a corporate seal as the statutes of the State of Washington for corporations organized pursuant to RCW 24.03 permit.

Section 17. Amendment of These By-Laws. These By-Laws may be amended, modified, or revoked in any respect from time to time by a majority vote of the Board of Trustees at a regular or special meeting; provided that any such amendment, modification or revocation, prior to becoming effective, shall be submitted to the general membership for its consideration and approval or disapproval at the next annual meeting of the members, or at a special meeting of members called for that purpose, at which a quorum is present. To become effective, such amendment, modification or revocation must be approved by the affirmative vote of sixty-seven percent (67%) of the members who vote in person or by proxy at the meeting.

The members may propose an amendment to these By-Laws by a petition submitted to the Secretary signed by twenty percent (20%) of the members eligible to vote on the date the signed petition is submitted. To become effective, such proposed amendment must be approved by the affirmative vote of sixty-seven percent (67%) of the members who vote in person or by proxy at an annual meeting of members, or at a special meeting of members called for that purpose, at which a quorum is present.