



BYLAWS OF

THE KNOLLS ESTATES PUD OWNERS' ASSOCIATION, INC.

ARTICLE 1

PLAN OF LOT OWNERSHIP; DEFINITIONS

1.1 Bylaws Applicability. These Bylaws apply to the Lots and Common Areas in The Knolls Estates P.U.D., a planned community in Douglas County, Oregon, developed in three phases and described in the plat maps recorded as instrument numbers 93-17212, 95-15185, 96-15115, 96-15116 and 2005- 00776, Official Records of Douglas County, Oregon, that has been subjected to the Bylaws and Declaration of Covenants and Restrictions, A Consolidated Plan of The Knolls Estates Planned Unit Development Owners' Association, Inc., recorded January 24, 1994, as instrument number 94-14486, Official Records of Douglas County, Oregon, (the "Declaration"), as well as to The Knolls Estates PUD Owners' Association, Inc., an Oregon nonprofit corporation, (the "Association") and the entire management structure thereof.

1.2 Definitions.

1.2.1 Common Expenses. "Common Expenses" means expenditures made by or financial liabilities incurred by the Association and includes any allocations to a reserve account.

1.2.2 Common Property. "Common Property" means any real property or interest in real property within The Knolls Estates PUD, including, but not limited to, Common Areas, Private Ways, Cart Paths, Open Spaces and the Parking Area, which is owned, held or leased by the Association or designated in the Declaration or a Plat for transfer to the Association or to be maintained by the Association pursuant to section 7.04 of the Declaration.

1.2.3 Lots; Property. The Lots, Common Areas, Private Ways, Cart Paths, Open Spaces, Parking Area and other real property within The Knolls Estates PUD may be collectively referred to in these Bylaws as the "Property" or "Project" and the Lots individually as a "Lot" or collectively as the "Lots".

1.2.4 Other Terms. Capitalized terms used but not defined herein shall have meanings attributed to them in Section 1 of the Declaration.

1.2.5 Plat. "Plat" shall mean and refer collectively to the plat entitled Knolls Estates P.U.D. recorded as instrument number 93-17212, Official Records of Douglas County, Oregon; the plat entitled Replat of Lots 1 - 25 & 30 -32 "Knolls Estates P.U.D" recorded as instrument number 95-15185, Official Records of Douglas County, Oregon; the plat entitled Knolls Estates P.U.D. Phase 2 recorded as instrument number 96-15115, Official Records of Douglas County, Oregon; the plat entitled Knolls Estates P.U.D. Phase 3 recorded as instrument number 96-

15116, Official Records of Douglas County, Oregon; and the plat entitled Replat of Lot 138, Lot 139 & Lots 155 thru 165, Knolls Estates PUD Phase 3 recorded as instrument number 2005-007776, Official Records of Douglas County, Oregon.

1.3 Oregon Planned Community Act. The Property, all Lots and Owners thereof, the Association and all Members thereof, shall be subject to the Oregon Planned Community Act, ORS 94.550 et seq. (the "PCA").

1.4 Personal Application. All present or future Owners, Residents, tenants or guests of an Owner and their employees, and any other person that might occupy any portion of the Property in any manner, shall be subject to the provisions set forth in these Bylaws. The acquisition, rental, or occupancy of any of the Lots shall constitute acceptance and ratification of these Bylaws and agreement to comply with all the provisions hereof.

ARTICLE 2

ASSOCIATION MEMBERSHIP, VOTING,

MAJORITY OF OWNERS, QUORUM, PROXIES

2.1 Majority of Owners. As used in these Bylaws, the term *majority* shall mean those Owners holding over fifty percent (50%) of the voting rights allocated to the Owners in accordance with the Declaration. *Majority of Owners present* shall mean Owners holding over fifty percent (50%) of the votes present at any legal meeting.

2.2 Quorum. Except as otherwise provided in these Bylaws, the presence in person or by proxy of Owners holding twenty percent (20%) or more of the outstanding votes in the Association, as defined in Section 2.2, shall constitute a quorum.

2.3 Voting; Proxies. Owners may cast votes in person, by written ballot, or by proxy. Proxies must be filed with the Secretary of the Association ("Secretary") before or during the appointed meeting. A proxy shall expire one year after the date it was signed unless a shorter period is specified in the proxy. The proxies may require the holder to cast a vote for or against any special proposal set out in the notice calling the meeting. Unless withdrawn, a proxy given to another person to vote at a specific meeting shall also be valid at an adjourned meeting called under the provisions of Section 3.6. The Association must retain proxies and ballots for one year from the date of the determination of the vote.

2.4 Authority to Vote. All Owners, including those who have leased their Lot to a third party, shall be entitled to vote. An Owner's right to vote may not be revoked. A purchaser under a land sale contract entitled to immediate possession of the Lot shall be deemed the Owner thereof, unless otherwise provided in such contact.

2.5 Fiduciaries and Joint Owners. An executor, administrator, guardian, or trustee may vote, in person or by proxy, at any meeting of the Association with respect to any Lot owned or held by such person in such capacity, whether or not the same shall have been transferred to

such person's name, provided that such person has satisfied the Administrator that such person is the executor, administrator, guardian, or trustee holding such Lot in such capacity.

ARTICLE 3

ADMINISTRATION

3.1 Association Responsibilities. The Owners shall constitute the Members of the Association. Except as otherwise provided in the Declaration or these Bylaws, decisions and resolutions of the Association shall require approval by a majority of the Owners present at any legal meeting. A legal meeting is one duly called pursuant to these Bylaws at which a quorum is present, in person or by proxy at a formal gathering or, if a vote is taken by written ballots, when ballots are returned representing more than 50% of the vote, unless a larger vote is required to approve a ballot item, in which case the quorum requirements shall be the number of votes required to approve the proposal.

3.2 Place of Meetings. Formal meetings of the Association shall be held at suitable places convenient to the Owners as may be designated by the Board of Directors of the Association (the "Board"). If a vote is taken by written ballot, the Board shall count the returned written ballots within seventy-two (72) hours of the ballot return deadline. Each Owner shall be notified by mail or other delivery of written notice of the results of the ballot meeting or that a quorum of ballots was not returned within 15 days after the ballot return deadline.

3.3 Annual Meetings. The Board, by a Board action, shall cause the Association to hold an annual meeting each calendar year. The Board, at its discretion, from time to time, may change the meeting date, provided that the meeting is held annually. At such meetings, the Owners shall elect new members of the Board in accordance with the requirements of Section 4.6 of these Bylaws to replace those Directors whose terms have expired. The Owners also may transact such other business of the Association as may properly come before them. Annual meetings of the Association may not be conducted by written ballot.

3.4 Special Meetings. The President shall call a special meeting of the Owners if so directed by a resolution of the Board or a petition, presented to the Secretary and signed by fifty percent (50%) or more of the Owners. All meetings called because of petition of Owners shall be held at a formal gathering, and not by written ballot, within 60 days after the Secretary's receipt of the petition. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business other than that stated in such notice shall be transacted at a special meeting unless by consent of all the Owners of the Lots or as otherwise set out in these Bylaws.

3.5 Notice of Meetings. The Secretary shall mail or hand deliver a notice of each annual and special meeting, stating the items on the agenda, including the general nature of any proposed amendment to the Declaration or Bylaws, any budget changes or any proposal to remove a director or officer and the time and place where such meeting is to be held, to each Owner of record at least 10 but not more than 50 days before such meeting or the date on which ballots for a ballot meeting are required to be returned. The Board of Directors may, if permissible under the provisions of the PCA and the Oregon Nonprofit Corporation Act, propose

that the Owners take an action by written ballot without a meeting. Such notices shall be mailed to the Owner's address last given to the Secretary in writing by the Owner. If Lot ownership is split or the Lot has been sold on a contract, notice shall be sent to a single address, of which the Secretary has been notified in writing by such parties. If no address has been given to the Secretary in writing, then mailing to the Project Lot shall be sufficient. The mailing of a notice in the manner provided in this Section 3.5 shall be considered notice served.

3.6 Adjourned Meetings. As permitted by ORS 65.234, if any gathering of Owners is not a legal meeting because a quorum has not attended, the Owners who are present, either in person or by proxy, may adjourn the meeting to a time not less than forty-eight (48) hours nor more than 10 days from the time of the original meeting. The adjournment provisions of this Section 3.6 do not apply to actions proposed to be taken by written ballot.

3.7 Order of Business. The order of business at all annual meetings shall be as follows:

- (a) Roll call.
- (b) Proof of notice of meeting or waiver of notice.
- (c) Reading of minutes of the preceding meeting.
- (d) Reports of officers.
- (e) Reports of committees.
- (f) Election of inspectors of election.
- (g) Election of Directors.
- (h) Unfinished business.
- (i) New business.
- (j) Adjournment.

3.8 Ballot Meetings. Except as prohibited by the PCA, any action that may be taken at any annual or special meeting of the Owners may be taken without a meeting if the Association delivers a written ballot to every Owner entitled to vote on the matter as provided in ORS 94.647. Such ballot shall set forth each proposed action and provide an opportunity to vote for or against each proposed action. A proposed action shall be deemed to be approved by written ballot when the number of votes cast by ballot equals or exceeds any quorum required to be present at a meeting authorizing the action, and the number of approvals equals or exceeds the number of votes that would be required to approve the matter at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot. The Board must provide Owners with at least 10 days' notice as required by ORS 94.647(2)(b) and (c) before written ballots are mailed or otherwise delivered. If, at least three days before written ballots are

scheduled to be mailed or otherwise distributed, at least 10% of the Owners petition the Board requesting secrecy procedures, a written ballot must be accompanied by a secrecy envelope, a return identification envelope to be signed by the Owner and instructions for making and returning the ballot. Written ballots that are returned in secrecy envelopes may not be examined or counted before the deadline for returning ballots has passed.

ARTICLE 4

BOARD OF DIRECTORS

4.1 Number and Qualification. The Board shall be composed of five (5) persons, all of whom must be an Owner or a co-owner of a Lot; provided, however, that if a Lot is owned by more than one owner, only one owner of that Lot may serve on the Board of Directors at any one time. An officer or employee of a corporation, the trustee of a trust, the personal representative of an estate, or an employee of a trust or estate may serve on the Board if the corporation, trust, or estate owns a Lot.

4.2 Powers and Duties. The Board shall have the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law, by the Declaration or by these Bylaws directed to be done by the Owners.

4.3 Other Duties. In addition to duties imposed by these Bylaws or by resolutions of the Association, the Board shall have authority to carry out and be responsible for the following matters:

4.3.1 Upkeep of Common Areas and other Common Property. Care, upkeep, and supervision of the Common Areas, Private Ways, Open Areas, Cart Paths, Parking Area, and all other Common Property.

4.3.2 Reserves. Establishment and maintenance of replacement Reserve Accounts that the Board deems prudent for replacement of improvements or facilities located on a Common Area, Private Way, Open Area, Cart Path, Parking Area or other Common Property.

4.3.3 Assessment Collection. Designation and collection of assessments from the Owners in accordance with these Bylaws and the Declaration.

4.3.4 Budget; Voucher System. Establishment of a budget and payment of all expenses of the Association and institution and maintenance of a voucher system for such payments, which shall require a sufficient number of signatories thereon as may be reasonably necessary to prevent any misuse of Association funds, in accordance with these Bylaws and the Declaration.

4.3.5 Insurance. Procurement and maintenance of insurance policies and payment of premiums therefore out of the Maintenance Fund provided for in the Declaration, as more specifically provided in Article 8 of these Bylaws.

4.3.6 Personnel. Hiring and dismissal of the personnel necessary for the maintenance and operation of the Project.

4.3.7 Financial Statements. Causing the preparation and distribution of annual financial statements of the Association to each of the Owners, as required by the PCA.

4.3.8 Approval of Rules. Review and approval, in its unfettered discretion, of any Rules and Regulations proposed for adoption by the Administrator pursuant to Section 6 of the Declaration or by the Design Committee pursuant to Section 8 of the Declaration.

4.3.9 Copies of Documents; Bank Accounts. Causing the Association to comply with ORS 94.670 relating to maintenance within the state of Oregon of documents delivered to the Association by Declarant and all other records of the Association, depositing all assessments in a separate federally insured account at a financial institution, other than an extranational institution, in the name of the Association, payment of all expenses of the Association from the Association's financial institution account, and maintenance and distribution of financial statements and to maintain copies suitable for duplication of the following: the Declaration, the Articles of Incorporation, the Bylaws, the Association rules and regulations and any amendments thereto, the most recent annual financial statement, and the current operating budget of the Association. Further, the Board of Directors shall cause to be maintained and kept current the information required to enable the Association to comply with ORS 94.670.

4.3.10 Tax Returns. Causing the Association to file the necessary tax returns of the Association.

4.3.11 Mailing Address. Establishing and maintaining a current mailing address for the Association.

4.3.12 Professional Services. Employment of legal, accounting, and other personnel or consultants for reasonable compensation to perform such services as may be required for the proper administration of the Association, and preparing and filing the required income tax returns or forms.

4.3.13 Administrator. Appointment and removal, with or without cause, of the Administrator provided for in the Declaration.

4.4 Limitations on Boards Authority. The Board shall not take any of the following actions, except with the vote or written assent of a majority of the voting power of the Owners:

4.4.1 Capital Expenditures. Incur aggregate expenditures for capital improvements (as opposed to maintenance, repair and replacement costs) to the Common Property, during any fiscal year in excess of 5% of the budgeted gross expenses of the Association for that fiscal year.

4.4.2 Compensating Board Members. Pay compensation to members of the Board or officers of the Association for services performed in the conduct of the Association's business; provided, however, that the Board may cause a member or officer to be reimbursed for expenses incurred in carrying on the business of the Association.

4.5 Manager. Any Manager which the Administrator proposes to retain pursuant to Section 9.02 of the Declaration must be approved by the Board before being hired. The salary and any other compensation which the Administrator proposes to pay to such a Manager, and the terms of the proposed contract with the Manager, must also be approved by the Board before the Administrator may enter into a contract with a Manager.

4.6 Election and Term of Office. The term of office of three Directors shall be fixed for two years. The term of office of two Directors shall be fixed at one year. Should the number of Directors serving on the Board be increased, the same sequential election terms shall apply as nearly as is practicable. Upon expiration of the initial term of office of each respective Director, such Director's successor shall be elected to serve a term of two years. The Directors shall hold office until their successors have been elected and hold their first meeting.

4.7 Vacancies. Vacancies on the Board caused by any reason other than the removal of a Director by a vote of the Association shall be filled for the balance of the term of each directorship by vote of a majority of the remaining Directors, even though they may constitute less than a quorum. Each person so elected shall be a Director until a successor is elected upon expiration of the term for which such person was elected to serve by the other Directors.

4.8 Removal of Directors. At any legal annual or special meeting (not including actions proposed to be taken by written ballot without a meeting), any one or more of the Directors may be removed with or without cause, by a majority vote of the total voting power of the Owners and a successor may be then and there elected to fill the vacancy thus created; provided, however, that the notice of meeting shall specifically indicate that the removal of one or more named Directors is an agenda item for such meeting. Any Director whose removal has been proposed by the Owners shall be given an opportunity to be heard at such meeting.

4.9 Organizational Meeting. The first meeting of a newly elected Board shall be held at such place as shall be fixed by the Directors at the Association meeting at which such Directors were elected, and no notice shall be necessary to the newly elected Directors in order to hold such meeting legally, providing a majority of the newly elected Directors are present.

4.10 Regular Meetings. Regular meetings of the Board may be held at such time and place as shall be determined, from time to time, by a majority of the Directors. Notice of regular meetings of the Board may be called by the President on at least three days' notice to each Director, given personally or by mail, telephone, e-mail, or facsimile, which notice shall state the time, place (as hereinabove provided), and purpose of the meeting.

4.11 Special Meetings. Special meetings of the Board may be called by the President or Secretary or on the written request of at least two Directors. Special meetings of the Board may be called on at least three days' notice to each Director, given personally or by mail, telephone, e-mail, or facsimile, which notice shall state the time, place (as hereinabove provided), and purpose of the meeting.

4.12 Waiver of Notice to Directors. Before, at, or after any meeting of the Board, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. The waiver must be signed by the Director, specify the

meeting for which notice is waived and be filed with the minutes or corporate records. Attendance by a Director at any meeting of the Board shall be a waiver of notice by such Director of the time and place thereof unless the Director, at the beginning of the meeting, or promptly upon the Director's arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote or assent to any action taken at the meeting. If all the Directors are present at any meeting of the Board, no notice to Directors shall be required and any business may be transacted at such meeting.

4.13 Board of Directors' Quorum. At all meetings of the Board, a majority of the existing Directors shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors shall be the acts of the Board. If quorum requirements are not met at any meeting of the Board, the majority of those present may adjourn the meeting from time to time. At any such adjourned meeting, any business that might have been transacted at the meeting as originally called may be transacted without further notice.

4.14 Board Meetings Open to All Association Members. Except for executive sessions, all meetings of the Board shall be open to any and all Members of the Association; provided, however, that no Association Member shall have a right to participate in the Board's meetings unless such Member is also a member of the Board. The President shall have authority to exclude any Association Member who disrupts the proceedings at a meeting of the Board. At the discretion of the Board, the following matters may be considered in executive sessions:

- (a) consultation with legal counsel concerning rights and duties of the Association regarding existing or potential litigation or criminal matters;
- (b) personnel matters, including salary negotiations and employee discipline;
- (c) negotiations of contracts with third parties;
- (d) collection of assessments; and
- (e) for any other purpose permitted by the PCA.

Except in the case of an emergency, the Board shall vote in an open meeting whether to meet in executive session. If the Board votes to meet in executive session, the presiding officer of the Board shall state the general nature of the action to be considered and, as precisely as possible, when and under what circumstances the deliberations can be disclosed to owners. The statement, motion, or decision to meet in executive session must be included in the minutes of the meeting. A contract or an action considered in executive session does not become effective unless the Board, following the executive session, reconvenes in open meeting and votes on the contract or action, which must be reasonably identified in the open meeting and included in the minutes.

4.15 Notice to Association Members of Board Meetings. For other than emergency meetings, notice of special Board meetings shall be posted at a place or places on the Property at least three days prior to the meeting or notice shall be mailed to each Owner at least seven days before the meeting by first-class mail or at least three days' notice by hand-delivery to each Lot

Owner's address or by email or facsimile transmission. The Board shall give Owners notice of regular Board meetings at the beginning of each year by first class mail or other reasonable means setting out the time and place of the regular meetings. For any changed time or place, the notice requirements for special meetings shall apply.

4.16 Emergency Meetings. In the event of an emergency, Board of Directors meetings may be conducted by telephonic communication or by the use of a means of communication that allows all Board members participating to hear each other simultaneously or otherwise to be able to communicate during the meeting. No notice to either Directors or Association members shall be required for such meetings of the Board of Directors to be held for any emergency action if the reason for the emergency is stated in the minutes of the meeting. Provided, however, that no such meeting shall occur unless at least 60% of the Board of Directors participate in the same and after an attempt has been made to reach each Director.

4.17 Compensation of Directors. No Director shall be compensated in any manner, except for out-of-pocket expenses, unless such compensation is approved by vote of the Owners.

ARTICLE 5

OFFICERS

5.1 Designation. The principal officers of the Association shall be a President, a Secretary/Treasurer and an Administrator, all of whom shall be elected by the Directors. The Directors may appoint an assistant treasurer and an assistant secretary, and any such other officers as in their judgment may be necessary. The same person may simultaneously hold more than one office, except for the offices of president and secretary.

5.2 Election of Officers. The officers of the Association may be elected by the Board at the organizational meeting of each new Board or any Board meeting thereafter, and shall hold office at the pleasure of the Board.

5.3 Removal of Officers. Upon an affirmative vote of a majority of the Board, any officer may be removed, either with or without cause, and such officer's successor may be elected at any regular or special meeting of the Board.

5.4 President. The President shall be the chief executive officer of the Association and shall preside at all meetings of the Association and of the Board. The President shall have all of the general powers and duties which are usually vested in the office of president of an association, including, but not limited to, the power to appoint committees from among the Owners from time to time as the President may, in the President's discretion, decide is appropriate to assist in the conduct of the affairs of the Association, and such other powers and duties that may be prescribed by the Board or these Bylaws.

5.5 Secretary. The Secretary shall keep the minutes of all meetings of the Board and the minutes of all meetings of the Association and shall have charge of such books and papers as the Board may direct; and shall, in general, perform all the duties incident of the office of

secretary. The secretary also shall have other powers and perform other duties that may be prescribed by the Board or these Bylaws.

5.6 Treasurer. The Treasurer shall have responsibility for Association funds and securities not otherwise held by the Administrator and shall be responsible for keeping full and accurate accounts of all receipts and disbursements in books belonging to the Association. The Treasurer shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit, of the Association in such depositories as may from time to time be designated by the Board. The treasurer also shall have other powers and perform other duties that may be prescribed by the Board or these Bylaws.

5.7 Administrator. The Administrator shall have the powers and duties provided for in the Declaration and such other powers and duties that may be prescribed by the Board or these Bylaws.

5.8 Directors as Officers. Any Director may be an officer of the Association.

ARTICLE 6

OBLIGATIONS OF THE OWNERS

6.1 Assessments. All Owners are obligated to pay assessments imposed by the Association to meet all the Association's Common Expenses, as more particularly set forth in the Declaration. Assessments shall be payable on a periodic basis, not more frequently than monthly, as determined by the Board. The Board may, but shall not be required to, impose interest as provided in Section 12.06 of the Declaration or a service charge for late installment payments or allow a discount for payment of the annual assessment or any installment in advance.

6.2 Investment of Reserve Account Funds. Assessments paid into Reserve Accounts shall be kept with a safe and responsible depository, shall be accounted for separately, and, if invested, the obligation or security shall be fully guaranteed as to principal by the United States of America or one of its agencies. Assessments paid into the Reserve Accounts are the property of the Association and are not refundable to sellers of Lots. However, nothing contained herein shall prevent sellers of Lots from treating their outstanding allocable share of Reserve Accounts as a separate or reimbursable item in a sales agreement. No Owner shall have any individual rights in any of these reserves, although it is understood that the value of an Owner's Lot may increase in proportion to such Lot's right to receive repair, maintenance, and replacement therefrom.

6.3 Maintenance Plan. The Board shall prepare a maintenance plan for the maintenance, repair and replacement of all property for which the Association has maintenance, repair or replacement responsibility under the Declaration, these Bylaws or the PCA.

6.4 Income Tax Returns; Determination of Fiscal Year.

6.4.1 Fiscal Year. The fiscal year of the Association shall be the calendar year unless otherwise determined by the Board.

6.4.2 Tax Returns. The Board, in its sole discretion, shall determine the manner in which all necessary income tax returns are filed and of selecting any and all persons to prepare such tax returns.

6.5 Statement of Assessments.

6.5.1 The Association shall provide, within 10 business days of receipt of a written request from an owner, a written statement that provides:

6.5.1.1 The amount of assessments due from the owner and unpaid at the time the request was received, including:

- (a) regular and special assessments;
- (b) fines and other charges;
- (c) accrued interest; and
- (d) late payment charges.

6.5.1.2 The percentage rate at which interest accrues on assessments that are not paid when due.

6.5.1.3 The percentage rate used to calculate the charges for late payment or the amount of a fixed charge for late payment.

6.5.2 The Association is not required to comply with Section 6.5.1 if the Association has commenced litigation by filing a complaint against the owner and the litigation is pending when the statement would otherwise be due.

6.6 Default. Failure by an Owner to pay any assessment of the Association shall be a default by such Owner of such Owner's obligations pursuant to these Bylaws and the Declaration. The Association shall be entitled to the remedies set forth in the Declaration.

6.7 Maintenance and Repair.

6.7.1 Lots. Except as otherwise specifically provided in the Declaration and these Bylaws, every Owner must promptly perform all maintenance and repair work to such Owner's Lot and the exterior of the improvements thereon (which do not constitute Commonly Maintained Property) and keep the same in good repair and sanitary and neat condition.

6.7.2 Common Property. The Association shall repair and maintain the Common Property in accordance with Section 7.04 of the Declaration.

6.7.3 Reimbursement of Association. An Owner shall reimburse the Association for any expenditures incurred in repairing or replacing any portion of the Common Property that was damaged through such Owner's fault and that is not otherwise covered by insurance policies carried by the Owner or the Association for the Owner's and the Association's benefit. In such circumstances, the insurance obtained by the Owner shall be deemed to be the primary coverage. The Board of Directors shall have the unfettered discretion to refuse to make a claim on the Association's policy even though coverage may pertain. Such discretion is for the purpose of maintaining the Association's insurability and controlling the amount of the premiums for the Association's insurance. Such charge shall be collectible as an assessment as provided in the Declaration.

6.8 Right of Entry in Emergencies. Present and future Owners, tenants, Occupants, and any other persons that occupy any portion of the Property, by virtue of acquisition, rental, or occupancy of any of the Lots, grant to the Administrator or to any other person authorized by the Board or the Association the right to enter on such Lot in the event of an emergency originating in or threatening any Owner's Lot.

ARTICLE 7

USE AND OCCUPANCY RESTRICTIONS;

RULES OF CONDUCT

In addition to the restrictions and rules of conduct set forth in the Declaration, the following shall apply:

7.1 Use of the Common Property. No Owner shall place or cause to be placed on any portion of the Common Property any trash, structure, equipment, improvement, furniture, package, or object of any kind. Common Property shall be used for no purpose other than what is customary for such areas.

7.2 Appearance of Lots. Owners shall keep their Lots and the improvements thereon in good repair, clean, and with painted, stained, or other finished exteriors compatible with the Declaration, Rules and Regulations adopted by the Administrator, as provided in Section 6 of the Declaration, and the Rules and Regulations adopted by the Design Committee as provided in Section 8 of the Declaration.

7.3 Insurance Cost. No Owner shall make or permit any use of such Owner's Lot or of the Common Property that will increase the cost of insurance on the Common Property.

7.4 Improper, Offensive, or Unlawful Use. No Owner or Occupant shall make any improper, offensive, or unlawful use of any part of the Property. Owners and Occupants shall observe all valid laws, zoning ordinances, and regulations of governmental bodies having jurisdiction over the Property. The responsibility for meeting the requirements of governmental bodies for maintenance, modification, or repair of the Property shall be carried out and paid for in the same manner as the responsibility for the maintenance and repair of the Property concerned.

7.5 Rules and Regulations. In addition to the rules set forth in this Article 7, the Administrator, pursuant to Section 6 of the Declaration, may promulgate and amend, from time to time, Rules and Regulations concerning the manner in which the Property may be used and the Design Committee, pursuant to Section 8 of the Declaration, may promulgate and amend from time to time, Rules and Regulations governing the use and maintenance of the Property. The Administrator shall furnish copies of such Rules and Regulations to any Owner or Occupant requesting such copies. Any such Rules and Regulations must be approved by the Board of Directors before taking effect.

7.6 Enforcement. The Association, through its Board of Directors, shall have the power to enforce the covenants and restrictions in these Bylaws and in the Declaration. Owners shall also have the right to bring actions or suits regarding covenants and restrictions, but shall have no right or power to require the Association or Board of Directors to take any enforcement action.

7.7 Fines. The Board of Directors may, after giving written notice and an opportunity to be heard, levy reasonable fines for violations of the Declaration, Bylaws, and Rules and Regulations of the Association, provided that fines levied are based on a schedule recommended by the Administrator and previously adopted by a Board resolution that is mailed to the mailing address of each Lot or mailed to the mailing address designated in writing by the Owner(s).

ARTICLE 8

INSURANCE

8.1 General. The Board shall obtain and maintain at all times insurance of the type and kind and in the amounts hereinafter provided and additional insurance for such other risks of a similar or dissimilar nature as are now or as shall be hereafter customarily covered by insurance obtained by other planned communities similar in construction and design. Such additional insurance shall be governed by this Article 8.

8.2 Types of Insurance Policies Maintained by the Association. For the benefit of the Association and the Owners, the Board shall obtain and maintain at all times, and shall pay for out of the Maintenance Fund, the following insurance to the extent that it is available at reasonable cost:

8.2.1 Property Insurance. A policy or policies of property insurance, including, but not limited to, fire, extended coverage, vandalism, and malicious mischief, for the full insurable replacement value of all substantial improvements on the Common Property to the extent such insurance is available at a reasonable cost.

8.2.2 Liability. A policy or policies insuring the Association, its Board, the Owners individually, the Administrator and the Manager against any liability to the public or the Owners and their invitees or tenants, incident to the ownership, supervision, control, or use of the Property. Limits of liability under such insurance shall be not less than \$1 million per occurrence for bodily injuries and property damage liability. Such limit and coverage shall be reviewed at least annually by the Board, which may increase the limit of and/or coverage, in its discretion.

Said policy or policies shall be issued on a commercial General Liability form and shall provide cross-liability endorsements wherein the rights of the named insured under the policy or policies shall not be prejudiced as respects his, her, or their action against another named insured.

8.2.3 Workers' Compensation. Workers' compensation insurance to the extent that it is necessary to comply with any applicable laws.

8.3 Fidelity Bond. For the benefit of the Association and Owners, the Board may obtain a fidelity bond naming such persons as may be designated by the Board as principals and the Association and the Owners as obligees, for the amount determined by the Board. The Board may pay for such bond out of the Maintenance Fund of the Association. In addition, the Board shall require that all officers and employees of the Association handling or responsible for Association funds to obtain adequate fidelity bonds and may pay for the premiums thereon.

8.4 Insurance Companies Authorized. All policies obtained under this Article 8 shall be written by a company licensed to do business in Oregon and holding a "Commissioner's Rating" of "A+" and a size rating of "AAA" or better, by Best's Insurance Reports, or as may be otherwise acceptable to all mortgagees and Directors.

8.5 Provisions in Insurance Policies. The Board shall make every reasonable effort to secure insurance policies that will provide for the following:

8.5.1 Waiver of Subrogation. A waiver of subrogation by the insurer as to any claims against the Board, the officers, the Administrator, the Manager, the Owners, and their respective servants, agents, guests, and tenants.

8.5.2 Noncancellation for Owner Conduct. A provision that the master policy on the Property cannot be canceled, invalidated, or suspended on account of the conduct of any one or more individual Owners.

8.5.3 Noncancellation Without Opportunity to Cure. A provision that the master policy on the Property cannot be canceled, invalidated, or suspended on account of the conduct of any officer or employee of the Board or the Administrator without prior demand in writing that the Board or Administrator cure the defect.

8.5.4 No Other Insurance Clauses. A provision that any "no other insurance" clause in the master policy exclude individual Owners' policies and not otherwise prevent such individual policies from providing coverage for damage to Homes, Lots, or Common Property.

8.6 Home and Lot Insurance Maintained by Each Owner. The Association shall have no responsibility to procure or to assist Owners or Occupants in procuring property loss insurance or liability insurance other than as expressly stated in this Article 8. Owners and Occupants shall procure all other insurance coverage that they deem necessary or prudent for their protection, and shall be obligated to carry property insurance with extended coverage endorsements in the amount of the replacement value of such Owners' homes.

8.7 Review of Insurance Policies. At least annually, the Board shall review all insurance carried by the Association, which review shall include a consultation with a representative of the insurance carrier writing the master policy.

ARTICLE 9

AMENDMENT

Except as otherwise provided in the Declaration and this Article, and the restrictions set forth elsewhere herein, these Bylaws may be amended at any time by an instrument approved by at least a majority of Owners present, in person or by proxy, at a duly constituted meeting or by written ballot in lieu of a meeting as provided in the PCA. Any amendment must be executed, recorded and certified as provided by law.

ARTICLE 10

RECORDS AND AUDITS

10.1 General Records. The Board and the Administrator or Manager, if any, shall preserve and maintain minutes of the meetings of the Association, the Board, and any Board committees as required by ORS 94.670. The Board shall maintain a list of Owners entitled to vote at meetings of the Association. The minutes of the Association, the Board, and Board committees, and the Association's financial records shall be reasonably available for review and copying by the Owners. A reasonable charge may be imposed by the Association for providing copies. Proxies and ballots must be retained by the Association for one year from the date of determination of the vote.

10.2 Assessment Roll. The Board and the Administrator or Manager, if any, shall maintain the assessment roll in a set of accounting books in which there shall be an account for each Lot. Such account shall designate the name and address of the Owner or Owners, the amount of each assessment against the Owner, the dates on which and the amounts in which the assessment comes due, the amounts paid upon the account and the balance due on the assessments.

10.3 Payment of Vouchers. The Treasurer or Administrator shall pay all expenses authorized by the Board. The Treasurer or Administrator shall maintain and follow reasonable procedures to assure the accounts and records are proper, and to assure that all expenditures are proper. Except in cases when an emergency exists (e.g., a repair must be made immediately to prevent further damage), any voucher for nonbudgeted items shall require the signature of the President; provided, however, that any withdrawal from Reserve Accounts shall require the signature of two Board members or one Board member and an officer of the Association who is not a Board member.

ARTICLE 11

COMPLIANCE WITH THE PLANNED

COMMUNITY ACT; CONFLICTS

These Bylaws are intended to comply with the provisions of the PCA and to supplement the bylaws included in the Declaration. In case of any conflict among the provisions of the PCA, the Articles of Incorporation, the Declaration, or these Bylaws, the provisions of the PCA shall control over those of the Articles of Incorporation and the Declaration, and the provisions of the Declaration shall control over those of the Articles of Incorporation and these Bylaws.

ARTICLE 12

INDEMNIFICATION OF DIRECTORS, OFFICERS,

EMPLOYEES, AND AGENTS

The Association shall indemnify any Director, officer, employee, or agent who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding. Indemnification will be made regardless of whether the action is civil, criminal, administrative, or investigative (other than an action by the Association) by reason of the fact that such person is or was a Director, officer, employee, or agent of the Association or is or was serving at the request of the Association as a Director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorney fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by said person in connection with such suit, action, or proceeding. This applies if such person acted in good faith and in a manner that such person reasonably believed to be in, or not opposed to, the best interest of the Association, and, with respect to any criminal action or proceedings, had no reasonable cause to believe that such person's conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or with a plea of nolo contendere or its equivalent, is not of itself determinative that a person did not act in good faith and in a manner that such person reasonably believed to be in, or not opposed to, the best interest of the Association, and, with respect to any criminal action or proceedings, had reasonable cause to believe that such person's conduct was unlawful. Payment under this clause may be made during the pendency of such claim, action, suit, or proceeding as and when incurred, subject only to the right of the Association to reimbursement of such payment from such person, should it be proven at a later time that such person had no right to such payments. All persons who are ultimately held liable for their actions on behalf of the Association as a Director, officer, employee, or agent shall have a right of contribution over and against all other Directors, officers, employees, or agents and Members of the Association who participated with or benefited from the acts that created said liability.

ARTICLE 13

ASSESSMENT COLLECTION COSTS;

SUITS AND ACTIONS

An Owner shall be obliged to pay reasonable fees and costs (including, but not limited to, attorney fees) and actual administrative costs incurred in connection with efforts to collect any delinquent unpaid assessments from such Owner, whether or not suit or action is filed.

Assessments against Owners may include fees, late charges, fines, and interest imposed by the Board, in addition to amounts owed toward operating expenses and the funding of reserves. If the Association brings against any Owner or Owners a suit or action for the collection of any amounts due pursuant to or for the enforcement of any provisions of the Declaration, the Articles of Incorporation, or these Bylaws, such Owner or Owners, jointly and severally, shall pay, in addition to all other obligations, the costs of such suit or action, including actual administrative expenses incurred by the Association because of the matter or act which is the subject of the suit, reasonable attorneys' fees to be fixed by the trial court and, in the event of an appeal, the cost of the appeal, together with reasonable attorneys' fees in the appellate court to be fixed by such court.

ARTICLE 14

MISCELLANEOUS

14.1 Notices. All notices to the Association or to the Board shall be sent in care of the Administrator or, if there is no Administrator, to the principal office of the Association or to such other address as the Board hereafter may designate from time to time. All notices to any Owner shall be sent to such address as may have been designated by such Owner from time to time, in writing, to the Board, or if no address has been designated, then to such Owner's Lot.

14.2 Waiver. No restriction, condition, obligation, or provision contained in these Bylaws shall be deemed to have been abrogated or waived by reason of any failure to enforce the same, irrespective of the number of violations or breaches thereof that may have occurred and the number of times that the pertinent restriction, condition, obligation, or provision was not enforced.

14.3 Invalidity; Number; Captions. The invalidity of any part of these Bylaws shall not impair or affect in any manner the validity, enforceability, or effect of the balance of these Bylaws; provided, however, that if any of the provisions of these Bylaws would violate the rule against perpetuities or any other limitation on the duration of the provisions herein contained imposed by law, then such provision shall be deemed to remain in effect only for the maximum period permitted by law, or in the event the rule against perpetuities applies, until 21 years after the death of the last survivor of the now living descendants of Ralph M. Perkins. As used herein, the singular shall include the plural, and the plural the singular. The masculine and neuter shall each include the masculine, feminine, and neuter, as the context requires. All captions used herein are intended solely for convenience of reference and shall in no way limit any of the provisions of these Bylaws.

ARTICLE 15

ADOPTION

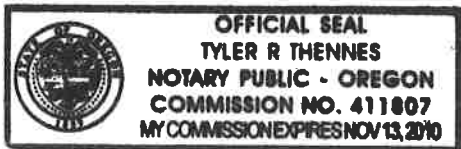
It is hereby certified that these Bylaws have been adopted by The Knolls Estates PUD Owners' Association, Inc., an Oregon nonprofit corporation, in accordance with the Declaration and ORS 94.625 and shall be recorded in the Deed Records of Douglas County, Oregon.

DATED: 08/05, 2009.

John Lakey
John Lakey, President
Patricia Klassen
Patricia Klassen, Secretary/Treasurer

STATE OF OREGON)
) ss.
County of Douglas)

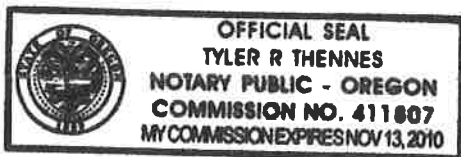
Personally appeared John Lakey, who, being duly sworn, did say that he is the President of The Knolls Estates PUD Owners' Association, Inc., an Oregon nonprofit corporation, and that the foregoing instrument was signed in behalf of said corporation; in accordance with the Declaration and ORS 94.625, and acknowledged said instrument to be its voluntary act and deed.



Tyler R. Thennes
Notary Public for Oregon
My commission expires: Nov 13, 2010

STATE OF OREGON)
) ss.
County of Douglas)

Personally appeared Patricia Klassen, who, being duly sworn, did say that she is the Secretary/Treasurer of The Knolls Estates PUD Owners' Association, Inc., an Oregon nonprofit corporation, and that the foregoing instrument was signed in behalf of said corporation; and acknowledged said instrument to be its voluntary act and deed.



Tyler R. Thennes
Notary Public for Oregon
My commission expires: Nov 13, 2010