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FIRST AMERICAN TITLE INS. CO.

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**FIRST AMENDMENT TO
DECLARATION OF
COVENANTS, CONDITIONS AND RESTRICTIONS
FOR
SURFCREST ONE
TRACT 14647
ORANGE COUNTY, CALIFORNIA**

This First Amendment to Restatement of the Declaration of Covenants, Conditions and Restrictions for Surfcrest One, Tract 14647, Orange County, California ("First Amendment") is executed by Surfcrest One, Inc., a California non-profit mutual benefit corporation ("Association").

P R E A M B L E

A. Association is the association of owners of certain real property ("Properties") located in the County of Orange, State of California, described on Exhibit "A" attached hereto and incorporated herein by this reference.

B. The Properties are subject to a Declaration of Covenants, Conditions and Restrictions for Surfcrest One, Tract 14647, Orange County, California ("Declaration"), which was recorded on September 30, 1994, as Instrument No. 94-0590771, in the Official Records of Orange County, California.

C. Article XVII, Section 7 of the Declaration authorizes amendment of the Declaration upon approval of seventy-five percent (75%) of the Owners and fifty-one percent (51%) of "eligible holders" (as such term is defined in Article XII, Section 1 of the Declaration). A Statement of Names of Owners, as required by Section 27288.1 of the California Government Code, is attached hereto as Exhibit "B" and incorporated herein by this reference.

THIS INSTRUMENT IS RECORDED IN THE
COUNTY OF ORANGE AT THE REQUEST OF
FIRST AMERICAN TITLE INSURANCE COMPANY
AS AN ACCOMMODATION ONLY. IT HAS

NOW, THEREFORE, the Association hereby amends the Declaration as follows:

1. Article VIII, Section 1(b)(i) of the Declaration is hereby amended to read as follows:

(i) All Separately Owned Building Structures, and all wrought iron and acoustical wall aluminum improvements in the Properties installed either by Declarant or by the Association, or as installed by an Owner if the Association agrees to perform such maintenance. Such agreement may be on such terms as the Association requires, including without limitation that the Owner of the Lot on which the wrought iron or acoustical wall aluminum is installed reimburse the Association for the cost of maintaining and reserving for such improvements.

2. Article XI, Section 1 of the Declaration is hereby amended by adding the following to the end thereof:

Notwithstanding the foregoing or anything else in this Article XI, the Association shall be responsible for maintaining, repairing and replacing the wrought iron portions of any party wall.

3. Article XV, Section 4 of the Declaration is hereby amended to read as follows:

Section 4. Maintenance of all building surfaces, including any wrought iron and acoustical wall aluminum portions thereof, but excluding glass surfaces, of a patio shall be, and remain, the obligation of the Association as provided in Section 1 of Article XVI hereof, except for ordinary cleaning, such as sweeping and mopping, which shall be the obligation of the Owner of the Lot. Owners shall maintain the patio slab, including any over-lay, on such Owner's Lot.

4. Article XVI, Section 1 of the Declaration is hereby amended to read as follows:

Section 1. Exterior Maintenance of Dwelling. In addition to maintenance upon the Common Areas and the other matters to be maintained by Association pursuant hereto, the Association shall provide exterior maintenance upon each building which is located on a Lot which is subject to assessment hereunder, as follows: paint, repair, replace and care for roofs (including skylights, if any), gutters, downspouts, exterior building surfaces (including the floor, railings and wall surfaces of the balconies), exterior surfaces of air conditioning equipment whether or not located in the Common Area, trees, shrubs, grass, walks and other exterior improvements, including fencing, driveways, wrought iron and

acoustical wall aluminum as installed by Declarant or the Association, or as agreed to by the Association pursuant to Article VIII, Section 1(b)(i) of this Declaration. Such exterior maintenance shall not include glass surfaces other than skylights constituting a portion of the roof of the structure in which the dwelling is located or window screens.

In the event that any need for maintenance or repair is caused through the willful or negligent acts of the Owner, his family or guests, or invitees, such Owner shall be liable to the Association for the costs of such maintenance or repairs, together with interest thereon at twelve percent (12%) per annum and all costs of collection, including actual attorneys' fees.

5. Except as expressly modified herein, the capitalized terms in this First Amendment shall have the same meanings as are given such terms in the Declaration. Except as amended herein, the Declaration is hereby ratified and confirmed by the Association.

This First Amendment has been executed on 12/2/97, 1997.

The undersigned officers of the Association hereby certify that the requisite approvals for this First Amendment, as described in Paragraph C hereof, have been obtained.

SURFCREST ONE, INC.,
a California non-profit mutual benefit corporation

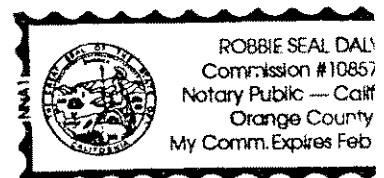
By: [Signature]

Its: President

By: [Signature]

Its: Vice President

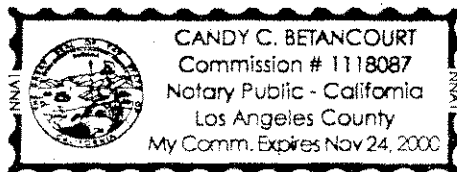
"Association"



STATE OF CALIFORNIA)
) ss.
COUNTY OF ~~ORANGE~~ ^{CL} Los Angeles)

On February 17, ^{1998 CB} 1997, before me, Candy C. Betancourt, Notary Public
personally appeared T. L. Sizle and _____
~~personally known to me~~ (or proved to me on the basis of satisfactory evidence) to be the
person(s) whose name(s) (is) (are) subscribed to the within instrument and acknowledged to me
that (he) (she) (they) executed the same in (his) (her) (their) authorized capacity(ies), and that by
(his) (her) (their) signature(s) on the instrument the person(s), or the entity upon behalf of which
the person(s) acted, executed the instrument.

WITNESS my hand and official seal.



Candy C. Betancourt
Notary Public in and for said State

(SEAL)

RECORDING REQUESTED BY:
FIRST AMERICAN TITLE INS. CO.
WHEN RECORDED, RETURN TO:

RICHARDS, WATSON & GERSHON
Attorneys at Law
333 South Hope, 38th Floor
Los Angeles, CA 90071-1469
Attn: Mark L. Lamken, Esq.

FA 150206M PSC ②

P301
WE HEREBY CERTIFY THIS TO BE
A TRUE AND CORRECT COPY.

First American Title Insurance Company

Recorded: 9-30-94

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By: F.S. 20443

Book 707

Pg# 1

DECLARATION OF COVENANTS, CONDITIONS

AND RESTRICTIONS

SURFCREST ONE

TRACT 14647

Orange County, California

THIS INSTRUMENT FILED FOR RECORD BY
FIRST AMERICAN TITLE INSURANCE COMPANY AS AN
ACCOMMODATION ONLY. IT HAS NOT BEEN EXAMINED AS TO
ITS EXECUTION OR AS TO ITS EFFECT UPON THE TITLE

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EXHIBITS

- A Property Which May Be Annexed Pursuant
to Section 2 of Article IX

DECLARATION OF COVENANTS, CONDITIONS
AND RESTRICTIONS

TRACT 14647

Orange County, California

THIS DECLARATION, made on the date hereinafter set forth, by Seacliff Partners, a California general partnership, (hereinafter referred to as "Declarant"),

W I T N E S S E T H:

WHEREAS, Declarant is the owner of certain property in the City of Huntington Beach, County of Orange, State of California, which is more particularly described as:

Parcel 1: Lots 1 through 19, inclusive, of Tract 14647, as per map recorded on February 7, 1994, in Book 707, pages 1 through 4, inclusive, of Miscellaneous Maps, in the office of the County Recorder of Orange County, California, referred to hereinafter as "Residential Lots" or "Lots."

Parcel 2: Lots B and C of Tract 14647, as per map recorded on February 7, 1994, in Book 707, pages 1 through 4, inclusive, of Miscellaneous Maps, in the office of the County Recorder of Orange County, California, referred to hereinafter as "Common Area."

NOW, THEREFORE, Declarant hereby declares that all of the properties described above, and such additions thereto as may hereafter be made pursuant to Article IX hereof, shall be held, sold and conveyed subject to the following easements, restrictions, covenants and conditions which are for the purpose of protecting the value and desirability of, and which shall run with, the real property and be binding on all parties having any rights, title or interest in the described properties or any part thereof, their heirs, successors and assigns, and shall inure to the benefit of each Owner thereof.

ARTICLE I
DEFINITIONS

Section 1. "Association" shall mean and refer to Surfcrest One, Inc., a California mutual benefit, non-profit corporation, its successors and assigns.

Section 2. "Board of Directors" shall mean the board of directors of the Association.

Section 3. "Owner" shall mean and refer to the record owner, whether one or more persons or entities, of a fee simple title to any Lot which is a part of the Properties, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

Section 4. "Properties" shall mean and refer to that certain real property hereinbefore described, and such additions thereto as may hereafter be brought within the jurisdiction of the Association. The Properties constitute a Planned Development as defined by California Civil Code §1351(k).

Section 5. "Common Area" shall mean all real property owned by the Association for the common use and enjoyment of the Owners. The Common Area to be owned by the Association at the time of the conveyance of the first Lot is described as follows:

Lots B and C of Tract 14647 in the County of Orange, State of California, as per map recorded on February 7, 1994, in Book 707, pages 1 through 4, inclusive, of Miscellaneous Maps, in the office of the County Recorder of Orange County, California.

Section 6. "Lot" shall mean and refer to any plot of land shown upon any recorded subdivision map of the Properties, but excepting the Common Area.

Section 7. "Declarant" shall mean and refer to Seacliff Partners, a California general partnership, its successors and assigns, if such successors or assigns should acquire more than four undeveloped lots from the Declarant for the purpose of development.

Section 8. "Mortgage" shall mean the conveyance of any Lot or other portion of the Properties to secure the performance of an obligation, which conveyance shall be void upon the due performance of said obligation.

Section 9. "Mortgagee" shall mean a person or entity to whom a mortgage is made; "first mortgagee" shall mean the holder of a mortgage which is senior in priority to any other

consensual liens; "Mortgagor" shall mean a person or entity who mortgages his or its property to another, i.e., the maker of a mortgage.

Section 10. Wherever the word "Deed of Trust" is used herein, it shall mean and be synonymous with the word "Mortgage", and the same may be used interchangeably with the same meaning; and likewise, the word "Beneficiary" shall be synonymous with the word "mortgagee".

Section 11. "Declaration" shall mean this Declaration of Covenants, Conditions and Restrictions, together with any amendments, supplements or modifications hereto.

Section 12. "Member" shall mean and refer to any person or entity which holds membership in the Association.

Section 13. "Maintenance" shall mean the exercise of reasonable care to keep buildings, landscaping, lighting, and other related improvements and fixtures in a state similar to their original condition; normal wear and tear excepted. Maintenance of landscaping shall further mean the exercise of regular fertilization, irrigation, and other garden management practices necessary to promote a healthy, weed free environment for optimum plant growth.

Section 14. "Reserve Accounts" shall mean moneys that the Association's Board of Directors has identified for use to defray the costs of future repair or replacement of, or additions to, those major components which the Association is obligated to maintain.

Section 15. "Reserve Account Requirements" shall mean the estimated funds which the Association's Board of Directors has determined are required to be available at a specific point in time to repair, replace, or restore those major components which the Association is obligated to maintain.

Section 16. "Separately Owned Building Structures" shall mean the foundations, roofs, exterior walls (including demising walls between residential units within a single building) and supporting structural members of the residential buildings located on the Lots.

Section 17. "Recreation Association" shall mean Surfcrest Corporation, a California mutual benefit, non-profit corporation, the members of which are the Owners of Lots within the Properties, including any properties annexed thereto in accordance with Article IX hereof.

Section 18. "Recreation Association Common Area" shall mean any parcel of real property and the facilities thereon, if

any, owned by, or controlled and managed by, the Recreation Association for the use and benefit of all of the members of the Recreation Association.

Section 19. "Exclusive Use Common Area" shall mean (i) those portions of the Common Area, the rights of use of which are reserved to one or more Owners in accordance with the provisions hereof and (ii) internal and external wiring designed to serve only such Lot.

The aforesaid definitions shall be applicable to this Declaration and also to any Declaration of Annexation (unless the context shall prohibit) filed pursuant to Article IX hereof.

ARTICLE II PROPERTY RIGHTS

Section 1. Owners' Easements of Enjoyment. Every Owner shall have a right and easement of enjoyment in and to the Common Area, subject to the provisions hereof and of any rules and regulations which may be adopted by the Association pursuant hereto, which shall be appurtenant to and shall pass with the title to every Lot, subject to the following provisions:

(a) An easement in favor of the Recreation Association for ingress and egress and for the purposes of carrying out its maintenance obligations.

(b) The right of the Association to impose fines and suspend voting rights for nonpayment of assessments or other breaches of the Declaration, the Association By-Laws or its published rules and regulations after due notice and hearing before the Board of Directors, at which hearing such Owner is given the opportunity to be heard in his own defense.

(c) The right of the Association to dedicate or transfer all or any part of the Common Area to any public agency, authority, or utility for such purposes and subject to such conditions as may be agreed to by the members. No such dedication or transfer shall be effective unless an instrument signed by two-thirds (2/3) of each class of members (so long as there are two classes of Members, and two-thirds of all Members, excluding Declarant, thereafter) agreeing to such dedication or transfer has been recorded, provided however, that if any such dedication or transfer shall constitute a transfer of all or substantially all of the Association's assets, a unanimous vote of the members shall be required.

(d) The right of the Association to limit the number of guests of members.

(e) The right of the Association to establish uniform rules and regulations pertaining to the use of the Common Area.

(f) The right of Declarant (and its sales agents and representatives) to the nonexclusive use of the Common Area for display and exhibit purposes, which right Declarant hereby reserves; provided, however, that such use shall not be for a period of more than five (5) years after the conveyance of the Common Area to the Association, or the sale of all the residential Lots within the aforesaid real property, and any real property annexed thereto in accordance with Article IX, whichever is the earlier, provided, further that no such use by Declarant or its sales agents or representatives shall impair or otherwise restrict the members in their use and enjoyment of the Common Area or facilities thereon.

(g) That, subject to consent of the Association, which consent shall not be unreasonably withheld, and to such other conditions as the Association shall determine to be reasonable, each Owner shall be entitled to reasonable access to the Common Areas for the purpose of maintaining internal and external telephone wiring or other utility services. The Association shall have the right (but not the obligation) to consent to installation of telephone wiring on the exterior of the Common Areas in appropriate circumstances.

(h) The exclusive rights of use in the Exclusive Use Common Areas, as reserved to particular Owners pursuant to Section 19 of Article I hereof.

Section 2. Transfer of Control of Common Area.

Management and control of the Common Areas shall be vested in the Association immediately upon the transfer of title to such Common Areas, provided, however, that Declarant shall have the right to enter into the Common Area, for a period of five (5) years from the date of conveyance thereof to Association, for the purpose of completing or repairing (including regrading) of any part of the Common Area and facilities. The Association shall have no right, power, or authority to refuse to accept the Common Areas (or the Common Areas of any area being annexed pursuant to Section 2 of Article IX of this Declaration) and/or the improvements thereon or the obligation for the management, control or maintenance thereof, but the Association shall have the full power to exercise all rights under any express or implied warranty with respect to such Common Areas or the improvements thereon. At least thirty (30) days prior to commencing any action to enforce any such express or implied warranty or to seek recovery for negligent design or construction of the Common Areas, the Board of Directors shall give written notice of its intent to do so to all members by registered or certified mail, return receipt requested. The net proceeds of any judgment against, or

settlement entered into with, Declarant, after payment of costs of litigation, including attorney's fees, may be used only for the purposes of repairing, replacing, or mitigating the defects with respect to which the judgment was entered or the settlement made.

Section 3. Access Rights of Government Authorities.

The City of Huntington Beach, the County of Orange, the State of California and the Government of the United States, and any department, bureau, agency, officer or agent thereof shall have the right of immediate access to the Common Area when required for reasons of public health, safety and welfare, except to the extent that such Common Area is accessible only through a privately owned lot or unit.

Section 4. Delegation of Use. Any owner may delegate, in accordance with the By-Laws, his right of enjoyment of the Common Area and facilities to the members of his family, his tenants, or contract purchasers who reside on the property.

Section 5. Waiver of Use. No member may exempt himself from personal liability for assessments duly levied by the Association, nor release the Lot owned by him from the liens and charges hereof, by waiver of the use and enjoyment of the Common Area and the facilities thereon or by abandonment of his Lot.

Section 6. No Right to Limit Transferability. The Association shall have no right to restrict an Owner's right to sell, transfer or convey his or her Lot. This includes any restriction that would require the Association to be given a right of first refusal before the Lot can be sold.

ARTICLE III
MEMBERSHIP AND VOTING RIGHTS

Section 1. Every Owner of a Lot which is subject to assessment shall be a member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any Lot which is subject to assessment.

Section 2. The Association shall have two (2) classes of voting membership:

(a) Class A. Class A members shall be all Owners with the exception of the Declarant and shall be entitled to one (1) vote for each Lot owned. When more than one (1) person holds an interest in any Lot, all such persons shall be members. The vote for such Lot shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any Lot.

(b) Class B. Class B members shall be the Declarant and shall be entitled to three (3) votes for each Lot owned. The Class B membership shall forever cease and be converted to Class A membership on the happening of either of the following events, whichever occurs earlier:

(1) Two (2) years from the date of the conveyance of the first lot to be conveyed to an Owner in the most recent phase of the overall development, or

(2) Four (4) years from the date of the conveyance of the first of the Lots described on page 1 hereof to be conveyed on an Owner.

Section 3.

(a) Wherever in the Declaration, or in the Articles of Incorporation or the By-Laws of the Association, the vote or written assent of the membership is required for any action to be taken by the Association or as a prerequisite to the initiation of any action by or in the name of the Association, the vote or written consent of the prescribed percentage of each class of membership shall be required.

(b) Any requirement in said documents that the vote of Declarant shall be excluded from any such determination shall be applicable only if there has been a conversion of the Class B membership to Class A membership and such requirement shall be interpreted to require the vote of the prescribed percentage of all members, including the vote of the prescribed percentage of the members other than the Declarant.

(c) The foregoing provisions shall not be applicable to any vote taken in accordance with Section 11 of Article XVII hereof, and the vote of Declarant shall, at all times, be excluded from such votes.

Section 4. No voting rights shall vest in any Owner with respect to any Lot until such time as that Lot is subject to assessment pursuant to Article IV hereof.

Section 5. Anything herein or in the Articles of Incorporation or the Bylaws of the Association to the contrary notwithstanding, Declarant or a duly authorized agent of Declarant shall have the right to attend all meetings of the Association and all meetings of its Board of Directors which are open to Owners and to be heard in such meetings in the same manner and to the same extent as would be an Owner. Such rights shall expire ten (10) years after the completion of the last residence to be completed in the Properties, including any properties annexed hereto pursuant to Section 2 of Article IX hereof.

ARTICLE IV
COVENANT FOR MAINTENANCE ASSESSMENTS

Section 1. Creation of the Lien and Personal Obligation of Assessments. The Declarant, for each Lot owned within the Properties, hereby covenants, and each Owner of any Lot by acceptance of a deed therefor, whether or not it shall be so expressed in such deed, is deemed to covenant and agree to pay to the Association (a) regular assessments or charges, and (b) special assessments for capital improvements, such assessments to be established and collected as hereinafter provided. The regular and special assessments, together with interest, costs and reasonable attorneys' fees, shall be a charge on the land and shall be a continuing lien upon the property against which each such assessment is made from and after the time that a notice of delinquent assessment is recorded in accordance with Section 2 of Article VIII hereof. Each such assessment, together with interest, costs and reasonable attorneys' fees, shall also be the personal obligation of the person who was the Owner of such property at the time when the assessments fell due.

Section 2. Purpose of Assessments. The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety and welfare of the residents in the Properties and for the improvement and maintenance of the Common Area, and of the other matters required to be undertaken by the Association, and the regular assessments shall include adequate reserves for the periodic repair or replacement of the Common Area facilities and other matters required to be maintained by the Association.

Section 3. Basis and Maximum of Regular Assessment. The basis and maximum amount of the regular assessments shall be as follows:

(a) Until July 1 of the year immediately following conveyance of the first Lot to an Owner, the maximum regular assessment shall not exceed \$108.00 per Lot per month.

(b) From and after July 1 of the year immediately following the conveyance of the first Lot to an Owner, the maximum monthly assessment may not be increased by the Board of Directors of the Association nor may a special assessment be imposed by the Board of Directors unless the Board of Directors shall, prior to any increase in assessments, either:

(i) Prepare and distribute, or shall cause to be prepared and distributed, to all members and to Declarant, a pro forma operating budget for immediately ensuing fiscal year, consisting of at least the following information and which shall be distributed not less than forty-five (45) days nor

more than sixty (60) days prior to the beginning of such fiscal year:

(A) Estimated revenue and expenses on an accrual basis.

(B) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to Section 4 of this Article VIII, which shall be printed in bold type and shall include all of the following:

(x) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component.

(y) As of the end of the fiscal year for which the study was prepared:

(1) The current estimate of the amount of cash reserves necessary to repair, restore, or maintain the major components.

(2) The current amount of cash reserves actually set aside to repair, restore, or maintain the major components.

(z) The percentage that the amount determined for sub-section 3(b)(i)(B)(y)(2) is of the amount determined for sub-section 3(b)(i)(B)(y)(1).

(C) A statement as to whether the Board of Directors has determined or anticipates that the levy of one or more special assessments will be required to repair, restore, or maintain any major component or to provide adequate reserves therefor.

(D) A general statement setting forth the procedures used by the governing body in the calculation and establishment of reserves to defray the costs of repair, replacement or additions to major components of the common areas and facilities for which the association is responsible, or

(ii) Obtain the approval of the owners constituting a majority of Owners voting in person or by proxy at a duly called meeting of Owners at which quorum of not less than 50% of all Owners is present in person or by proxy.

(c) Anything in sub-section 3(b) hereinabove to the contrary, the Board of Directors may not, without the vote or written assent of members meeting the requirements of subparagraph (b)(ii) impose an annual assessment which is more than

twenty per cent (20%) greater than the previous year's assessment.

(d) Such monthly assessment shall continue in effect for the following twelve (12) calendar months, which period shall be deemed to be the assessment period. No increase in Regular Assessments may be imposed by the Board of Directors for any fiscal year without a vote of the Members, as provided in sub-section 3(b)(ii) hereinabove, unless the Board shall have complied with the requirements of Section 3(a) of Article VIII hereof (dealing with the distribution of a pro forma operating budget) for that fiscal year.

(e) Notwithstanding any limitation herein contained, the Board of Directors may increase regular assessments or impose a special assessment without a vote of the members or other compliance with sub-section 3(b) in the event of an emergency situation. For purposes hereof, an emergency situation is any one of the following:

(i) An extraordinary expense required by an order of a court.

(ii) An extraordinary expense necessary to repair or maintain the Property or any part thereof for which the Association is responsible where a threat to personal safety or the Property is discovered.

(iii) An extraordinary expense necessary to repair or maintain the Property or any part thereof for which the Association is responsible that could not have been reasonably foreseen by the Board of Directors in preparing and distributing the pro forma operating budget for the Association.

(f) After consideration of current maintenance costs and future needs of the Association, the Board of Directors may fix the regular monthly assessment at a lesser amount than provided for above.

(g) The Association shall provide notice by first class mail to each Owner of any increase in the regular or special assessments not less than thirty (30) days nor more than sixty (60) days prior to the increased assessment becoming due.

Section 4. Special Assessments For Capital Improvements. In addition to the regular assessments authorized above, the Board of Directors may levy, in any assessment year, a special assessment applicable to that year only for the purpose of defraying, in whole or in part, the cost of any construction, reconstruction, repair or replacement of a capital improvement upon the Common Areas and facilities, including fixtures and personal property related thereto, provided that any such assessment

which, in and of itself or when aggregated with other such assessments levied within the same calendar year, exceeds a sum equal to 5% of the budgeted gross expenses of the Association for that year, shall have the vote or written assent of Owners casting a majority of the votes at a meeting or in an election of the Association at which a quorum, as defined in Section 5 of this Article IV, is present in person or by proxy or has submitted a written ballot.

Section 5. Notice and Voting for Any Action Authorized Under Sections 3 and 4. Any action authorized under Sections 3 and 4 shall be taken at a meeting called for that purpose, written notice of which shall be sent to all members not less than ten (10) days nor more than ninety (90) days in advance of the meeting. Such meeting or election shall be conducted in accordance with Chapter 5 (commencing with Section 7510) of Part 3, Division 2 of Title 1 of the California Corporations Code and Section 7613 of the California Corporations Code. For purposes of any such meeting or election, a quorum shall mean Owners holding, in the aggregate, more than fifty percent of the voting power of the Association.

Section 6. Uniform Rate of Assessment. Regular and special assessments must be fixed at a uniform rate for all Lots and shall be collected on a monthly basis.

Section 7. Date of Commencement of Regular Assessments and Fixing Thereof.

(a) The regular assessments provided for herein shall commence as to all Lots covered by this Declaration on the first day of the month following the closing of the sale of the first Lot to an individual owner. Declarant shall pay the regular and special assessments on all unsold Lots. The regular assessments as to Lots which shall have become subject to assessment by the Association by annexation, shall commence with respect to all Lots within each such area, on the first day of the month following the closing of the sale of the first Lot therein to an individual owner.

(b) Subject to the provisions of Section 3 hereof, the Board of Directors shall determine and fix the amount of the regular assessment for each Lot at least thirty (30) days in advance of each assessment period. An assessment period shall be deemed to be for the twelve (12) months of each fiscal year beginning on July 1 and ending on June 30 of the following year, provided that if the month of the commencement of the initial assessments shall be a month other than July, the assessment period shall be deemed to be to the end of such fractional fiscal year. Written notice of the assessment shall be sent to every Owner subject thereto. The due dates shall be established by the Board of Directors.

(c) Anything herein to the contrary notwithstanding, with respect to any Lots owned by Declarant which do not include a structural improvement for human occupancy, Declarant shall not be obligated to pay that portion of any assessment which is for the purpose of defraying expenses and reserves directly attributable to the existence and the use of structural improvements, including, but not be limited to, expenses and reserves relating to roof replacement, exterior maintenance, walkway and carport lighting, refuse disposal, cable television, and domestic water supplied to the living units.

This exemption shall be in effect only until the earliest of the following events:

(i) A notice of completion for the structural improvements has been recorded.

(ii) Occupancy or use of the dwelling unit.

(iii) Completion of all elements of the residential structures which Association is obligated to maintain.

(d) Anything herein to the contrary notwithstanding, with respect to any Lots owned by Declarant, Declarant shall not be obligated to pay that portion of any assessment which is for the purpose of defraying expenses and reserves directly attributable to the existence and the use of a common facility that is not complete at the time assessments commence. Such exemption shall be in effect until the earlier of:

(i) Recordation of a notice of completion for the common facility.

(ii) The common facility being placed in use.

Section 8. Certificate of Payment. The Association shall, upon demand, furnish to any Owner liable for said assessment, a certificate in writing signed by an officer of the Association, setting forth whether the assessments on a specified Lot have been paid, and the amount of the delinquency, if any. A reasonable charge may be made by the Board for the issuance of these certificates. Such certificate shall be conclusive evidence of payment of any assessment therein stated to have been paid.

Section 9. Working Capital Fund. The Association shall establish a working capital fund to insure that the Association will have cash available for the periodic maintenance, repair and replacement of improvements to the common areas, to meet unforeseen expenditures, or to acquire additional equipment or services deemed necessary or desirable to the Board of Directors of the Association. This fund shall be maintained

out of regular assessments for common expenses. Each first Owner of a Lot shall be obligated to make a one time contribution to such fund equal to two (2) month's regular assessments at the date the particular lot is conveyed to such Owner. In the event that Declarant makes such contribution with respect to any unsold Lot or Lots, the purchaser thereof shall be obligated to reimburse Declarant for such contribution at the date of conveyance of the Lot to such purchaser. Such contribution shall not be considered an advance payment of regular assessments.

At such time as control of the Properties is transferred to the Association, the then existing working capital funds shall be transferred to the Association for deposit to a segregated fund or account. While Declarant is in control of the Association, Declarant shall have no right to utilize the working capital funds to defray its expenses, reserve contributions or construction costs or to make up any budget deficits.

ARTICLE V REMEDIES OF THE ASSOCIATION FOR NONPAYMENT OF ASSESSMENTS

Section 1. Delinquency. Any assessment which term, as used in this Article V, shall include regular and special assessments, and each and every type of assessment authorized by Article IV hereof or otherwise provided for in this Declaration, which is not paid when due, shall be delinquent. With respect to each assessment not paid within fifteen (15) days after its due date, the Association may, at its election, require the Owner to pay a "late charge" in a sum to be determined by the Association, but not to exceed the greater of ten percent (10%) of the delinquent assessment or \$10.00 per each delinquent assessment. If any such assessment is not paid within thirty (30) days after the due date, the assessment shall bear interest thereafter at the rate of twelve percent (12%) per annum, and the Association may, at its option, bring an action at law against the Owner personally obligated to pay the same, or, upon compliance with the notice provisions set forth in Section 2 hereof, to foreclose the lien (provided for in Section 1 of Article IV hereof) against the Lot, and there shall be added to the amount of such assessment the late charge, the costs of preparing and filing the complaint in such action, and in the event a judgment is obtained, such judgment shall include said interest and reasonable attorneys' fees, together with costs of action. Each Owner vests in the Association, or its assigns, the right and power to bring all actions at law or lien foreclosures against such Owner or other Owners for the collection of such delinquent assessments.

Section 2. Notice of Lien. No action shall be brought to foreclose said assessment lien or to proceed under the power of sale herein provided less than thirty (30) days after the date

a notice of delinquent assessment is deposited in the United States mail, certified or registered, postage prepaid, to the Owner of said Lot, and a copy thereof is recorded by the Association in the office of the County Recorder in the county in which the Properties are located; said notice must recite a good and sufficient legal description of any Lot, the record Owner or reputed Owner thereof, the amount claimed (which may, at Association's option, include interest on the unpaid assessment at the rate of twelve percent (12%) per annum, plus reasonable attorneys' fees and expenses of collection in connection with the debt secured by said lien), and the name and address of the claimant.

Section 3. Foreclosure Sale. Any such sale provided for above is to be conducted in accordance with the provisions of Sections 2924, 2924b and 2924c of the Civil Code of the State of California, applicable to the exercise of powers of sale in mortgages and deeds of trust, or in any manner permitted by law. The Association, through duly authorized agents, shall have the power to bid on the Lot at foreclosure sale, and to acquire and hold, lease, mortgage and convey the same.

Section 4. Curing of Default. Upon the timely curing of any default for which a notice of claim of lien was filed by the Association, the officers of the Association are hereby authorized to file or record, as the case may be, an appropriate release of such notice, upon payment by the defaulting Owner of a fee, to be determined by the Association, but not to exceed \$50.00, to cover the costs of preparing and filing or recording such release.

Section 5. Cumulative Remedies. The assessment lien and the rights to foreclosure and sale thereunder shall be in addition to and not in substitution for all other rights and remedies which the Association and its assigns may have hereunder and by law, including a suit to recover a money judgment for unpaid assessments, as above provided.

Section 6. Subordination of Assessment Liens. If any Lot subject to a monetary lien created by any provision hereof shall be subject to the lien of a first mortgage or deed of trust: (a) the foreclosure of any lien created by anything set forth in this Declaration shall not operate to affect or impair the lien of such mortgage or deed of trust; and (b) the foreclosure of the lien of such mortgage or deed of trust by the mortgagee shall not operate to affect or impair the lien hereof, except that the lien hereof for said charges as shall have accrued up to the foreclosure shall be subordinate to the lien of the mortgage or deed of trust, with the foreclosure-purchaser taking title free of the lien hereof for all said charges that have accrued up to the time of the foreclosure, but subject to the lien hereof for all said charges that shall accrue subsequent to the foreclosure.

ARTICLE VI
ARCHITECTURAL AND LANDSCAPE REVIEW

Section 1. Architectural and Landscape Review

Required. No building, fence, wall or other structure or landscaping shall be commenced, erected or maintained upon the Properties, nor shall any exterior addition to or change (including change of external paint, paneling, major relandscaping and the like) or alteration therein be made until the plans and specifications showing the nature, kind, shape, height, materials, exterior colors and the location of the same shall have been submitted to and approved in writing as to harmony of external design and location in relation to surrounding structures and topography by the Architectural Committee provided for in Section 2 hereof. All such submissions shall be forwarded to the Architectural Committee by deposit thereof, postage prepaid, in the U.S. Mails, certified mail, return receipt requested, and any submissions not so delivered shall be wholly ineffective. Nothing herein shall preclude personal delivery in addition to delivery by certified mail, but the effective date of such delivery shall be the date of delivery by the U.S. Postal Service. In the event said Committee, or its designated representatives, fails to approve or disapprove such design and location within thirty (30) days after said plans and specifications have been submitted to it, approval will not be required, and this Article will be deemed to have been fully complied with. Neither Association, its officers or directors, the Architectural Committee, nor any member thereof, shall be responsible for structural or other defects of any kind, type or nature in plans or specifications submitted for approval or in the structures or improvements erected in accordance therewith.

Section 2. Appointment of Architectural Committee.

The Declarant shall initially appoint the Architectural Committee, consisting of five (5) members; provided, however, that after one (1) year from the date of original issuance of the first Final Subdivision Public Report for the Properties, the Board shall appoint one member of the Architectural Committee, which appointee shall be a member of the Association. Said member shall remain in office until: (a) five (5) years from the date of original issuance of the first Final Subdivision Public Report for the Properties; or (b) ninety per cent (90%) of the Lots in the Properties and the Lots in the real property annexed hereto, pursuant to Section 2 of Article IX hereof, have been conveyed, whichever shall first occur. From and after such time or event, as the case may be, the Architectural Committee shall be composed of the Board of Directors of the Association or of five (5) representatives appointed by the Board, who shall be members of the Association. In the event of the death or resignation of any member of the Committee prior to the time when the Board of Directors of the Association is vested with authority,

the Declarant shall have the right to appoint such member's successor; provided, however, that if the resigned or deceased member is one appointed by the Board, then the Board shall have the right to appoint the successor member.

Section 3. Review Fees. The Board of Directors may establish a schedule of reasonable fees payable to the Association to reimburse it for any out-of-pocket costs incurred in reviewing plans submitted in accordance with Section 1 of this Article VI. Payment of such fees, when and if established, shall be made at the time of such submission and shall be a condition precedent to approval of such plans.

Section 4. Exceptions. Nothing herein shall be deemed to be applicable to, or to inhibit in any manner, the Declarant named herein in the development and construction of lots and residences within Tract 14647 and properties annexed thereto pursuant to Article IX hereof. Anything in this Declaration to the contrary notwithstanding, Declarant shall have the right to modify the original design of the incomplete portions of the Project, including without limitation, modifying the plan mix, the size of the residences, the design of the buildings, including size, shape, color materials, and floor plans, and all other matters whatsoever, provided, however that such right to redesign shall not include the rights to decrease the size of any residences to less than sixty percent (60%) of the size of the smallest residence designed for the Project prior to such redesign.

Section 5. Handicapped Access. Nothing herein shall be deemed to prohibit the installation in the Common Areas or on any Lot of wheel chair ramps or other devices or mechanisms designed to permit access to any unit or to the Common Areas and facilities by a handicapped person, provided that (i) Association shall not be obligated to pay for any such installation, (ii) any such installation shall be designed and made in a manner and using materials which are aesthetically consistent with the balance of the Project and in accordance with plans and specifications submitted to and approved by the Architectural Committee in the manner provided in Section 1 of this Article, and (iii) Association may require that, at such time as the installation is no longer required, it will be removed at the expense of the party installing the same, and Association may require the giving of assurances, including but not limited to the posting of security, that such removal will be accomplished.

ARTICLE VII USE RESTRICTIONS

In addition to all other covenants contained herein, the use of the Properties and each Lot therein is subject to the following:

Section 1. None of the Lots shall be used except for residential purposes. No building shall be erected, altered, placed or permitted to remain on any such Lot other than one used for single-family common interest dwelling purposes.

Section 2. No part of the Properties shall ever be used or caused to be used or allowed or authorized in any way, directly or indirectly, for any business, commercial, manufacturing, mercantile, storing, vending or other such non-residential purposes, except Declarant, its successors or assigns, may use the Properties for a model home site, and display and sales office during the construction and sales period, which period shall not exceed the limitation established by Section 1(f) of Article II hereof.

Section 3. No sign or billboard of any kind shall be displayed to the public view on any portion of the Properties or any Lot, except one (1) sign for each building site, of not more than eighteen (18") inches by twenty-four (24") inches, advertising the property for sale or rent, or except signs used by Declarant, its successors or assigns, to advertise the property during construction and sales period.

Section 4. No noxious or offensive activity shall be carried on upon any Lot or any part of the Properties, nor shall anything be done thereupon which may be, or may become, an annoyance or nuisance to the neighborhood, or which shall in any way interfere with the quiet enjoyment of each of the Owners of his respective dwelling unit, or which shall in any way increase the rate of insurance.

Section 5. No structure of a temporary character, trailer, basement, tent, shack, garage, barn or other outbuilding shall be used on any Lot at any time as a residence, either temporarily or permanently.

Section 6. No animals, livestock or poultry of any kind, shall be raised, bred or kept on any Lot, except that dogs, cats or other household pets, and no more than two (2) of any of them, may be kept on the Lots subject to such rules and regulations as may be adopted by the Association and provided they are not kept, bred or maintained for any commercial purpose or in unreasonable numbers. Notwithstanding the foregoing, no animals or fowl may be kept on the Properties which result in an annoyance or are obnoxious to residents in the vicinity.

Section 7. No screens, athletic equipment, sunshades or awnings (other than patio covers approved by the Architectural Committee) shall be installed on any residential building. The foregoing shall not apply to such matters installed by the Declarant, including substantially identical replacements thereof.

Section 8. No trailer, camper, motor home or other recreational vehicle, mobile equipment, boat, commercial truck or inoperative automobile shall be parked on any street within the Properties, in any part of the Common Area, or on any Lot, unless, and only in the last instance, such trailer, camper, motor home or other recreational vehicle, mobile equipment, boat, truck or inoperative automobile is located in a private garage or is otherwise screened from public view, provided, however, that boats may not be stored, even within a garage, unless all automobiles owned by the Owner can also be stored within the garage at the same time. The foregoing shall not apply to temporary parking of two hours or less of a house trailer, camper or motor home solely for the purposes of loading and unloading.

Section 9. All rubbish, trash and garbage shall be regularly removed from the Properties, and shall not be allowed to accumulate thereon. All clotheslines, refuse containers, wood piles, storage areas and machinery and equipment shall be prohibited upon any Lot, unless obscured from view of adjoining Lots and streets by a fence or appropriate screen approved by the Architectural Committee.

Section 10. No radio or television receiving or transmitting antennae or external apparatus or satellite dish antenna shall be installed on any Lot. Normal radio and television installations wholly within a building are excepted.

Section 11. The rights and duties with respect to sanitary sewer and water, cable television, electricity, gas and telephone lines and facilities shall be governed by the following:

(a) Whenever water (including fire sprinkler), sanitary sewer, electricity, gas, cable television or telephone connections, lines, cables or any portion thereof, are or have been installed within the Properties, the Owner of any Lot, or Association in the case of Common Area, served by said installation shall have the right, and are hereby granted an easement to the extent necessary therefor, to enter upon or have a utility company enter upon any portion of the Properties in which said installations lie, to repair, replace and generally maintain said installations.

(b) The right granted in (a), above, shall be only to the extent necessary to entitle the Owner or Association served by said installation to its full and reasonable use and enjoyment, and provided further that anyone exercising said right shall be responsible for restoring the surface of the easement area so used to its condition prior to such use.

(c) In the event of a dispute between Owners with respect to the repair or rebuilding of said connections, or with

respect to the sharing of the cost thereof, upon written request of one of such Owners addressed to the Association, the matter shall be submitted to its Board of Directors, who shall decide the dispute, and the decision of the Board shall be final and conclusive on the parties.

Section 12. Easements over the Properties for the installation and maintenance of electric, telephone, cable television, water, fire sprinkler, gas, drainage, reclaimed water (if installed by Declarant), and sanitary sewer lines and facilities and the like are hereby reserved by Declarant, together with the right to grant and transfer the same.

Section 13. No Owner shall in any way interfere with the established drainage pattern over his Lot from adjoining or other Lots or the Common Area, and each Owner will make adequate provisions for proper drainage in the event it is necessary to change the established drainage over his Lot. For the purposes hereof, "established" drainage is defined as the drainage existing at the time that a Certificate of Occupancy or similar document is issued for the particular Lot by the local agency having jurisdiction to do so.

Section 14. Nothing which is of a sufficient weight to exceed the reasonable load capacity of the structure shall be kept or maintained within any residence or Exclusive Use Common Area.

Section 15. Garages shall be used only for the purpose of storing motor vehicles and such other uses as shall not interfere with or preclude their use for such purpose, provided, however, where the rights of an Owner includes covered parking for two or more cars, and fewer automobiles are regularly parked within the Properties by the Owner (or anyone claiming under such Owner) than can be accommodated by such garage, then one of the parking spaces may be used for other legally permissible purposes.

ARTICLE VIII DUTIES AND POWERS OF THE ASSOCIATION

Section 1. Duties and Powers. In addition to the duties and powers enumerated in its Articles of Incorporation and By-Laws, or elsewhere provided for herein, and without limiting the generality thereof, the Association shall:

(a) Own, maintain, in a good and workmanlike manner and to industry standards for such matters, and otherwise manage all of the Common Area, all facilities, improvements, and storm drains and other drainage devices, and landscaping thereon and all other property acquired by the Association. Association shall not permit

the Common Areas or any other commonly maintained areas or the landscaping or other facilities thereon to deteriorate or become subject to erosion or other damage arising, in whole or in part, from improper or inadequate maintenance and repair. Anything herein to the contrary notwithstanding, Association shall be obligated to maintain landscaping and irrigation systems and Common Area lighting within the Common Area and to provide water and electrical power therefor only to the extent that the Recreation Association fails to carry out its obligations to do so, and Association shall have the right and the duty to enforce the obligations of the Recreation Association to do so.

(b) Maintain all other properties, maintenance of which is required of Association hereunder. In particular, and without limitation, Association shall maintain:

[see Amend 1]

(i) All Separately Owned Building Structures.

(ii) All fire sprinkler systems located within the residential building except for the sprinkler heads, the inspection, repair and replacement of which shall be the obligation of the Owner of the Lot in which such heads are installed. There is created and reserved to Association hereby easements for the installation, inspection, repair, and replacement of all such fire sprinkler systems.

(iii) All horizontal ducting running between Lots or structures on the Lots.

(iv) For purposes of this Declaration, the obligation to maintain shall include but not be limited to:

(x) Maintenance of certain elements of the Common Areas and facilities (including the structural portions of buildings) and maintenance of Separately Owned Building Structures, including any such Common Areas and facilities and Separately Owned Building Structures on Lots annexed hereto, in accordance with the maintenance standards set forth in the Common Area Landscape Manual and the Common Area Maintenance Manual provided to Association and to each initial Lot purchaser and otherwise in accordance with commonly accepted maintenance standards.

(y) Contracting for regular inspections, on a periodic basis, of the Common Areas and facilities and other matters to be maintained by Association (including the Separately Owned Building Structures), including any such Common Areas and facilities and Separately Owned Building Structures on Lots annexed hereto, by qualified experts (such as agronomists, in the case of landscaping, painting, roofing, water and weather proofing, plumbing, and grading contractors or engineers, soils engineers, and the like). Such contracts shall provide for the inspector's submission of written reports of such inspections,

and the Association shall review all such reports and shall cause copies thereof to be provided to Declarant within ten days after the Association's receipt thereof. In the event that Association fails to obtain such inspections or provide copies of the inspection reports to Declarant in a timely manner, Declarant or its consultants shall have the right, but not the obligation, to enter onto the Project for the purpose of making such inspections. Association shall, further, provide Declarant with copies of its annual budgets and operating statements at the same time they are provided, or made available, to the members of the Association.

Any inspection made by Declarant or its consultants, and any review of the annual budgets and operating statements shall be for the sole benefit of Declarant, provided that Association may obtain a copy of any inspection report made by or at the instance of Declarant upon reimbursing Declarant for its out of pocket costs and expenses incurred in obtaining such reports. The right of Declarant to enter into the Project and make such inspections and to receive copies of the annual budgets and operating statements shall terminate at such time as all obligations of Declarant for the condition of the Common Areas and facilities and other matters to be maintained by the Association (including the exteriors of Separately Owned Building Structures), including any such Common Areas and facilities and Separately Owned Building Structures on Lots annexed hereto, or for the repair or replacement thereof, whether under a theory of warranty (express or implied), strict liability, or otherwise, shall have expired.

(c) Pay any real and personal property taxes and other charges assessed against the Common Area or the facilities or equipment thereon or other property owned by the Association.

(d) Have the authority to obtain, for the benefit of the Common Area and any other areas to be maintained by Association, all water, gas, sewer and electric service and refuse collection and to pay for such services.

(e) Grant permits, licenses and easements over the Common Areas where necessary for utilities, sewer facilities, and other purposes necessary for the proper operation of the Project.

(f) Have the authority and obligation to employ a professional manager or other persons and to contract with independent contractors or managing agents to perform all or any part of the duties and responsibilities of the Association, provided that any contract with a person or firm appointed as a manager or managing agent shall provide for the right of the Association to terminate the same at the first annual meeting of the members of the Association.

(g) Insurance.

(i) Maintain such blanket or master policies of insurance covering loss or damage by fire, extended coverage, vandalism, malicious mischief, and special extended perils ("all risk" as such term is used in the insurance industry), covering the buildings, the Common Areas and facilities, fixtures, building service equipment, supplies, commonly owned personal property, and the Association's personal property, and such other items as the Board of Directors of the Association deems necessary or desirable in furthering the purposes of, and protecting the interests of, the Association and its members. Such insurance coverage shall carry limits of not less than 100% of the then current replacement value of the improvements and the Project facilities (excluding the land, foundations, excavations, and other items usually excluded from insurance coverage). The deductible limits on such policies shall not exceed the lesser of \$10,000 or one percent (1%) of the policy face amount. The Association shall also maintain a policy or policies of general comprehensive liability insurance with combined single limit coverage of not less than \$1,000,000.00. The Association may, if desired by the Owners, maintain blanket policies covering the interiors of the residences on the Lot and their contents. The Association, by resolution of its Board of Directors, may elect to arrange for each Owner to be billed separately by the insurance carriers for such Owner's share of the costs of such insurance so as to afford each Owner the opportunity to expand the scope and coverage of both liability and casualty coverage. Should master policies become unavailable in the future, the Association may require each Owner to procure his own liability and casualty coverage and to provide the Association with a certificate of such insurance. Under such circumstances, should any Owner fail to provide evidence of such insurance, the Association may procure such insurance at the Owner's expense and levy upon such Owner a special assessment to reimburse the Association for the cost thereof. All casualty insurance purchased shall be for the benefit of the Association, and the Owners and their respective mortgagees, and shall contain the following additional provisions:

(A) Agreed Amount and Inflation Guard Endorsements, where it can be obtained;

(B) Construction Code endorsements, if there is a construction code provision that requires changes to undamaged portions of the buildings even when only part of the Project is destroyed by an insured hazard. Typical endorsements include Demolition Cost endorsements, Contingent Liability from Operation and Building Laws endorsements, and Increased Cost of Construction endorsement;

(C) If the Project has a steam boiler, a steam boiler coverage endorsement, which shall provide that the insurer's minimum liability per accident equals at least the lesser of Two Million Dollars (\$2,000,000) or the insurable value of the buildings housing the boiler or machinery;

(D) An endorsement that an insurance trust agreement, if any, will be recognized;

(E) A waiver of the right of subrogation against the Owners;

(F) A provision that the insurance will not be prejudiced by any act or omission of individual Owners that are not under the control of the Association and that the policy will be primary even if an Owner has other insurance that covers the same loss.

(ii) All insurance policies shall show the following as the named insured: "Surfcrest One, Inc., for the use and benefit of the individual Owners." The loss payable clause shall show the Association (or the insurance trustee) as the trustee for each Owner and the holder of each Lot's mortgage. The policies shall also contain standard mortgage clauses that will name as mortgagee either the Federal National Mortgage Association or the servicers for the mortgages which the Federal National Mortgage Association holds on Lots in the Project. When a servicer is named as the mortgagee, its name shall be followed by the phrase "its successors or assigns."

(iii) Each insurance policy maintained by the Association shall provide that the policy cannot be canceled or substantially modified without ten (10) days' prior written notice to the Association (or its insurance trustee) and to each holder of a first mortgage listed as a holder of a first mortgage in any insurance policy.

(iv) If any part of the Project is in a special flood hazard area, the Association shall also maintain a master or blanket policy of flood insurance, as well, if commercially available or available under the appropriate national flood insurance program. The amount of such insurance shall be at least equal to the lesser of 100% of the insurable value of the improvements, or the maximum coverage available under the appropriate national flood insurance program.

(v) Liability insurance which the Association shall carry shall provide coverage for:

(A) Bodily injury and property damage that results from the operation, maintenance or use of the Project's Common Areas; and

(B) Any legal liability that results from lawsuits related to employment contracts which the Association is a party.

If a liability policy does not include "severability of interest" in its terms, there shall be included a specific endorsement to preclude the insurer's denial of an Owner's claim because of negligent acts of the Association or other Owners.

(vi) At the option of the Association, the Association may also purchase host liquor liability insurance, employer's liability insurance, comprehensive automobile liability insurance and contractual and all written contract insurance.

(vii) In addition, the Association shall maintain blanket fidelity insurance for all officers, directors, employees, and agents for the Association, in an amount equal to at least the maximum amount of funds that are from time to time in the custody of the Association, but in no event less than an amount equal to three (3) months aggregate assessments on all Lots in the Project plus an amount equal to the total of all reserve funds held by the Association. The bonds must include a provision that calls for ten (10) days prior written notice to the Association (or its insurance trustee) before the bond can be canceled or substantially modified for any reason. The same notice must be given to each servicer that services a mortgage owned by the Federal National Mortgage Association in the Project. Any management agent that handles funds for the Association should be covered by its own fidelity bond, which must provide the same coverage required of the Association. The Association shall be named as an additional obligee in the management agent's bond.

(viii) All insurance coverages shall be reviewed annually by the Board of Directors to determine that coverage is adequate.

(h) Contract for and pay maintenance, gardening, utilities (including irrigation water for the Common Area and any other areas to be maintained by Association), materials and supplies, and services relating to the Common Area and to employ personnel necessary for the operation of the project, including legal and accounting; provided, however, that any such service contract shall be limited to a duration of one (1) year unless a longer term is approved by a majority of the members of this Association other than Declarant, and in no case shall the term exceed three (3) years.

(i) Should any contract or agreement of the type referred to in this Article VIII, Section 1, be entered into, then upon such contract or agreement shall provide for termina-

tion, upon ninety (90) days written notice by either party without cause and without fee, penalty or termination charge.

(j) Formulate and adopt rules and regulations for the operation of the Common Area and facilities owned or controlled by the Association.

(k) Enforce the provisions of this Declaration and the Articles of Incorporation, By-Laws and rules and regulations of the Association.

(l) Delegate its powers, other than the powers (i) to hold disciplinary hearings with respect to violations of the Declaration, By-Laws and rules and regulations of the Association and (ii) to impose disciplinary measures therefor, to its committees, officers and employees.

(m) Have the right to enter upon any Lot as necessary in connection with construction, maintenance or emergency repair for the benefit of the Common Area.

(n) To the maximum extent permitted by law, indemnify each of its agents against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that any such person is or was an agent of the Association, and shall have the power to advance to each such agent expenses incurred in defending any such proceeding to the maximum extent permitted by law; provided, however, that such indemnification shall not extend an action by or in the right of the Association to procure a judgment in its favor. As used herein, an "agent" of the Association includes any person who is or was a director, officer, employee or other agent of the Association.

(o) Be responsible for the preventative maintenance and repair of the structural members of separately owned residences with respect to damage occasioned or threatened by the presence of wood-destroying pests or organisms. The Association shall have the right to:

(i) Cause periodic inspections of any structures within the Project to be made by qualified pest control personnel,

(ii) Levy a special assessment to defray the cost of such repair and maintenance, and

(iii) Require temporary relocation of the occupants of any affected Lot, at the expense of the Owner of the Lot, for such periods and at such times as may be necessary for the prompt, effective treatment of the wood-destroying pests or organisms, provided that, not less than 15 days nor more than

30 days prior notice of the need to vacate temporarily is given by personal service or first class mail, postage prepaid, to occupants and to the Owner of the Lot, if other than the occupant. Such notice shall state:

- (A) The reason for the temporary relocation;
- (B) The date and time for the commencement of the treatment;
- (C) The anticipated date and time of the completion of the treatment; and
- (D) That the occupants will be responsible for their own accommodations during the temporary relocation.

Such notice will be deemed complete when a copy of thereof has been personally delivered or mailed, by first class mail, postage prepaid, to the occupant and mailed to any nonoccupying Owner, first class mail, postage prepaid, at the most current address for such Owner shown on the records of the Association.

Section 2. Limitation on Powers. The Association shall not, without the vote or written assent of a majority of the voting power of the Association, excluding the votes of Declarant:

- (a) Enter into a contract for the providing of goods and services for a term longer than one year, other than:
 - (i) a management contract, the terms of which have been approved by the Federal Housing Administration or the Veterans Administration.
 - (ii) a contract with a public utility company if the rates charged for the materials or services are regulated by the Public Utilities Commission, provided however that the term of the contract shall not exceed the shortest term for which the supplier will contract at the regulated rate.
 - (iii) prepaid casualty or liability insurance policies of not more than three (3) years duration provided that such policy provides for short rate cancellation by the insured.
 - (iv) lease agreements for laundry room equipment, agreements for cable or satellite television services and equipment, and agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services, provided that, in each such instance, the duration of the agreement shall not exceed five (5) years and lessor or supplier is not an entity

in which the Declarant has a direct or indirect ownership interest of ten percent (10%) or more.

(b) Incur aggregate expenditures for capital improvements to the Common Area in any fiscal year in excess of 5% of the budgeted gross expenses of the Association for that fiscal year.

(c) Sell, during any fiscal year, property of the Association having an aggregate fair market value greater than 5% of the budgeted gross expenses of the Association for that fiscal year.

(d) Pay compensation to directors or to officers of the Association for services performed in the conduct of the Association's business provided, however, that the Board of Directors may cause a director or officer to be reimbursed for expenses incurred in carrying on the business of the Association.

(e) Fill a vacancy on the Board of Directors created by removal of a director.

Section 3. Financial Reports and Budgets. The Association shall regularly prepare and distribute, or shall cause to be prepared and distributed, to all members and to Declarant, financial statements and budgets as follows:

(a) A pro forma operating budget for the immediately ensuing year, consisting of at least the following information and which shall be distributed not less than forty-five (45) days nor more than sixty (60) days prior to the beginning of such fiscal year:

(i) Estimated revenue and expenses on an accrual basis.

(ii) A summary of the Associations's reserves based upon the most recent review or study conducted pursuant to Section 4 of this Article VIII, which shall be printed in bold type and shall include all of the following:

(A) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component.

(B) As of the end of the fiscal year for which the study was prepared:

(x) The current estimate of the amount of cash reserves necessary to repair, restore, or maintain the major components.

(y) The current amount of cash reserves actually set aside to repair, restore, or maintain the major components.

(C) The percentage that accumulated cash reserves actually set aside is of the current estimate of cash reserves necessary.

The summary of the Association's reserves disclosed pursuant to this Section 3(a)(ii) shall not be admissible in evidence to show improper financial management of the Association, provided that other relevant and competent evidence of the financial condition of the Association is not made inadmissible by this provision.

(iii) A statement as to whether the Board of Directors has determined or anticipates that the levy of one or more special assessments will be required to repair, restore, or maintain any major component or to provide adequate reserves therefor.

(iv) A general statement setting forth the procedures used by the governing body in the calculation and establishment of reserves to defray the costs of repair, replacement or additions to major components of the common areas and facilities for which the association is responsible.

(b) A balance sheet, as of an accounting date which is the last day of the month closest in time to six (6) months from the closing of the first sale of a lot within the Properties, and an operating statement for the period from the date of the first closing to said accounting date, which shall be distributed within sixty (60) days after the accounting date. This operating statement shall include a schedule of assessments received and receivable, identified by the number of the lot and the name of the entity assessed.

(c) An annual report consisting of the following shall be distributed within 120 days after the close of the fiscal year:

(i) A balance sheet as of the end of the fiscal year.

(ii) An operating (income) statement for the fiscal year.

(iii) A statement of changes in financial position for the fiscal year.

(iv) Any information required to be reported under Section 8322 of the Corporations Code.

(v) For any fiscal year in which the gross income to the Association exceeds \$75,000, a copy of the review of the annual report prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy.

(d) If the report referred to in (c)(v) above is not prepared by a independent accountant, it shall be accompanied by the certificate of an authorized officer of the Association that the statement was prepared from the books and records of the Association without independent audit or review. In addition, the holder of any first mortgage encumbering a Lot shall be entitled to have an audited statement prepared at its request, provided that, so long as there are less than fifty (50) Lots within the Properties, such request includes the written covenant to pay all of the costs of preparation of such statement. Any such audited statement shall be delivered to the requesting party within 120 days after such request.

(e) In lieu of the distribution of the pro forma operating budget required by Sub-section 3(a) of this Article VIII, the Board of Directors may elect to distribute a summary of the pro forma operating budget to all of its members with a written notice that the pro forma operating budget is available at the business office of the Association or at another suitable location within the Properties and that copies will be provided upon request and at the expense of the Association. If any Member requests a copy of the pro forma operating budget required by Sub-section 3(a). to be mailed to the Member, the Association shall provide the copy to the Member by first-class United States mail at the expense of the Association and delivered within five days of the receipt of the request. The written notice that is distributed to each of the Association Members shall be in at least 10-point bold type on the front page of the summary of the statement.

(f) In addition to financial statements, the Board of Directors shall annually distribute within 60 days prior to the beginning of the fiscal year a statement of the Association's policies and practices in enforcing its remedies against members for defaults in the payment of regular and special assessments including the recording and foreclosing of liens against members' subdivision interests.

Section 4. Reserves.

(a) The Association shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components which the Association is obligated to repair, restore, replace, or maintain and for which the reserve

fund was established. However, the Board of Directors may authorize the temporary transfer of money from a reserve fund to the Association's general operating fund to meet short-term cash-flow requirements or other expenses. The transferred funds shall be restored to the reserve fund within three years of the date of the initial transfer, except that the Board of Directors may, upon making a finding supported by documentation that a delay would be in the best interests of the Properties, delay the restoration until the time the Board of Directors reasonably determines to be necessary. The Board of Directors shall exercise prudent fiscal management in delaying restoration of these funds and in restoring the expended funds to the reserve account and shall, if necessary, levy a special assessment to recover the fund amount of the expended funds within the time limits required by this Section 4(a). This special assessment shall not be subject to the limitation imposed by Section 4 of Article IV of this Declaration. The provisions of this Section 4(a) shall be applicable only to reserves established for the purposes stated above and not to any other, special reserves established for other purposes.

(b) At least once every three years, the Association shall cause a study of the reserve account requirements of the Properties to be conducted if the current replacement value of the major components which the Association is obligated to repair, replace, restore or maintain is equal to or greater than one-half of the gross budget of the Association for the current fiscal year. The Board of Directors shall review this study annually and shall consider and implement necessary adjustments to the Board of Directors' analysis of the reserve account requirements as a result of that review.

(c) The study required by Section 4(b) shall, at a minimum, include:

(i) Identification of the major components which the Association is obligated to repair, replace, restore or maintain which as of the date of the study, have a remaining useful life of less than thirty years.

(ii) Identification of the probable remaining useful life of the components identified in Section 4(c)(i) as of the date of the study.

(iii) An estimate of the cost of repair, replacement, restoration, or maintenance of each major component identified in the study pursuant to Section 4(c)(i) during and at the end of its useful life.

(iv) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore or maintain each major component during and at the end of

its useful life, after subtracting total reserve funds as of the date of the study.

(d) For purposes of this Section 4, the term "reserve account requirements" shall mean estimated funds which the Board of Directors has determined are required to be available at a specified point in time to repair, replace or restore those major components which the Association is obligated to maintain.

ARTICLE IX ANNEXATION

Section 1. Additional residential property and Common Area may be annexed to the Properties with the consent of two-thirds (2/3) of members other than Declarant, either directly or by merger or consolidation with any other similar Association.

Section 2. The properties described in Exhibit A hereto, or portions thereof, may be annexed, from time to time, to the Property and added to the scheme of this Declaration and subjected to the jurisdiction of the Association without the assent of the Association or its members, provided and on condition that:

(a) Any annexation pursuant to this Section 2 shall be made prior to three (3) years from the date of original issuance of the most recently issued Subdivision Public Report for a phase of the Project.

(b) A Declaration of Annexation, as described in Section 3 of this Article, shall be recorded covering the applicable portion of said real property, to which Declaration shall be appended the written agreement of Declarant to pay to Association, concurrently with the closing of the escrow for the first sale of a Lot in an annexed phase, appropriate amounts for reserves for replacement or deferred maintenance of common area improvements in the annexed phase necessitated by or arising out of the use and occupancy of Lots in the annexed phase under a rental program conducted by Declarant which has been in effect for a period of at least one year as of the date of closing of the escrow for the first sale of a Lot in the annexed phase.

(c) The improvements on the annexed areas shall be consistent with the initial improvements in the first phase of development as to structure type (i.e., single family attached residences) and quality of construction.

(d) The total number of Residential Lots in the Project after all annexations is presently estimated to be sixty-eight (68).

Section 3. The additions authorized under the foregoing paragraphs shall be made by filing of record a Declaration of Annexation or similar instrument, with respect to the additional properties which shall extend the scheme of this Declaration to such properties.

Such Declarations of Annexation contemplated herein may contain such complementary additions and modifications of the covenants and restrictions contained in this Declaration as may be necessary to reflect the different character, if any, of the added properties and as are not inconsistent with the scheme of this Declaration. In no event, however, shall any such Declarations of Annexation, merger or consolidation revoke, modify or add to the covenants established by this Declaration.

Section 4. With respect to the annexations pursuant to Section 2 hereof, all assessments authorized in Article IV hereof shall begin on the first day of the month following the first closing of a sale of a Lot within the area annexed to an Owner other than Declarant; provided, however, that Declarant shall pay all costs of maintaining any Common Area within the area annexed incurred up to the date maintenance assessments are so commenced. The Common Area within an Area to be annexed shall be conveyed to the Association, free of liens, concurrently with or prior to the closing of the sale of the first Lot within the Area annexed. The Association shall have no right, power or authority to refuse to accept either the Common Area and improvements within the area being so annexed or the obligation for the maintenance and control thereof, but the Association shall have the full power to exercise all rights under any express or implied warranty with respect to such Common Area or the improvements thereon.

Section 5. Declarant, or any mortgagee of Declarant who acquires title by foreclosure or a deed in lieu thereof, may delete all or a portion of the Properties from coverage of this Declaration and the jurisdiction of the Association, so long as Declarant is the Owner of all such portion previously added to the Properties and provided that a Notice of Deletion of Territory is recorded in the office of the County Recorder of the county in which the Project is located in the same manner as the applicable Declaration of Annexation was recorded.

ARTICLE X OBLIGATIONS OF OWNERS

Section 1. Each Owner shall fully comply with said Covenants and with such By-Laws and Rules and Regulations governing the use of the Project as are adopted by the Board.

Section 2. Each Owner shall maintain and keep in a state of good repair and attractive condition his Lot, the land-

scaping thereon and the exterior surfaces of the improvements thereon, including without limitation any fences facing on a public street or the Common Area (except to the extent that such matters are to be maintained by Association hereunder) and, except as may be provided to the contrary herein, any Exclusive Use Common Areas appurtenant to such Owner's Lot. Every Owner must perform promptly all maintenance, replacement and repair work within his Lot, which if omitted would adversely affect the Properties in its entirety or in part. Each Owner is expressly responsible for the damages and liabilities that his failure to do so may engender.

Section 3. [Omitted]

Section 4. Should any Owner make any installation or change, or permit to be created or maintained, any condition on or abutting his Lot in violation of Article VI hereof, then the Association, its agents and employees, may, upon due notice to such Owner, and after a hearing at which such Owner shall have the opportunity to appear in his own defense, and upon express resolution adopted by the Board of Directors, enter onto the Lot for the purposes of performing such repair or rectifying such condition. All such actions shall be taken at the expense of such Owner.

Section 5. Each Owner shall reimburse Association for the cost of repairing or replacing any part of the Common Area or the facilities thereon, or any other matters to be maintained by the Association hereunder, which is injured or damaged through the negligence or wilful act of the Owner, members of the owner's family or guests or invitees of the Owner.

Section 6. Should any Owner fail to reimburse the Association for costs incurred by it pursuant to Sections 4 and 5 hereof, the Association shall be entitled to recover against the Owner or Owners for whose account any such maintenance or repair is made, all costs of such maintenance and repair together with interest at twelve percent (12%) per annum and costs of collection including actual attorneys' fees.

ARTICLE XI
PARTY WALLS

The rights and duties of the Owners of Lots with respect to party walls shall be governed by the following:

[see amend 1]

Section 1. Each wall or fence which is constructed and which is placed on the dividing line between separate Lots, shall constitute a party wall, and with respect to such wall, each of the adjoining Owners shall assume the burdens, and be subject to an easement for that portion of a party wall on his land, and be

entitled to the benefits of these restrictive covenants and, to the extent not inconsistent herewith, the general rules of law regarding party walls and of liability for property damage due to negligence or willful acts or omissions, shall apply thereto.

Section 2. Except to the extent the Association is obligated to maintain the demising wall between residential units on the Lots, if any such party wall is damaged or destroyed by fire, soil settlement or movement, or other casualty or by some cause other than the act of one of the adjoining Owners, his agents, or family (including ordinary wear and tear and deterioration from lapse of time), then, in such event, both such adjoining Owners shall proceed forthwith to rebuild or repair the same to as good condition as formerly, in proportion to their respective use of the party wall.

Section 3. If any such party wall is damaged or destroyed through the act of one adjoining Owner or any of his agents or guests or members of his family (whether or not such act is negligent or otherwise culpable) so as to deprive the other adjoining Owner of the full use and enjoyment of such wall, then the first of such Owners shall forthwith proceed to rebuild and repair the same to as good condition as formerly, without cost to the adjoining Owner.

Section 4. In addition to meeting the other requirements of these restrictive covenants and of any building code or similar regulations or ordinances, any Owner proposing to utilize, modify, make additions to or rebuild the party wall in any manner which requires the extension or other alteration thereof, shall first obtain the written consent of the adjoining Owner.

Section 5. The right of any Owner to contribution from any other Owner under this Article shall be appurtenant to the land and shall pass to such other Owner's successors in title.

Section 6. In the event of a dispute between Owners with respect to the use, repair or rebuilding of a party wall or with respect to the sharing of the cost thereof, then, upon written request of one of such Owners addressed to the Association, the matter shall be submitted to its Board of Directors who shall decide the dispute, and the decision of such Board of Directors shall be final and conclusive upon the parties.

ARTICLE XII MORTGAGEE PROTECTION

Section 1. Association shall give notice in writing to any first mortgagee of a Lot requesting such notice ("eligible holder" herein) or to any insurer or guarantor of a first mort-

gage requesting such notices ("eligible insurer or guarantor" herein) of:

(a) Any condemnation or casualty loss which affects a material portion of the Project or any Lot or if the loss or taking to the Common Areas exceeds \$10,000.00 or if the damage to an individual Lot exceeds \$1,000.00.

(b) Any delinquency in the payment of any assessment or charge owed, or any default by the Owner of the Lot encumbered by such mortgage of such Owner's nonmonetary obligations under the Planned Development documents, where such delinquency or default remains uncured for a period of sixty (60) days.

(c) Any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association.

(d) Any proposed action to amend this Declaration in a manner which would require the consent of a specified percentage of eligible mortgagees pursuant to Section 7 of Article XVII hereof.

To obtain this information, the mortgage holder, insurer or guarantor should send a written request to the Association stating both its name and address and the Lot number or address of the Lot it holds a mortgage on.

Section 2. Any first mortgagee who obtains title to a Lot in the Properties pursuant to the remedies provided in the mortgage, by foreclosure of the mortgage, or by Deed (or assignment) in Lieu of Foreclosure, shall be exempt from any "right of first refusal" which may hereafter be adopted.

Section 3. Any first mortgagee who obtains title to a Lot pursuant to the remedies provided in the mortgage or foreclosure of the mortgage shall not be liable for such Lot's unpaid dues or charges which accrue prior to the acquisition of title to such Lot by the mortgagee.

Section 4. Unless at least sixty-seven percent (67%) of the first mortgagees (based upon one vote for each first mortgage owned), or Owners (other than the Declarant) of the individual Lots in the Properties have given their prior written approval, the Association shall not be entitled to:

(a) By act or omission seek to abandon, partition, subdivide, encumber, sell or transfer real estate or improvements thereon which are owned, directly or indirectly, by such Association for the benefit of the Lots in the Properties ("Common Property").

The granting of easements for public utilities or for other public purposes consistent with the intended use of such property by the Association shall not be deemed a transfer within the meaning of this clause;

(b) Change the method of determining the obligations, assessments, dues or other charges which may be levied against an Owner;

(c) By act or omission change, waive or abandon any scheme of regulations, or enforcement thereof, pertaining to the architectural design or the exterior appearance of Lots, the maintenance of party walls or common fences, or the upkeep of lawns and plantings in the Properties;

(d) Fail to maintain Fire and Extended Coverage on insurable common property on a current replacement cost basis in an amount not less than one hundred percent (100%) of the insurable value (based on current replacement cost);

(e) Use hazard insurance proceeds for losses to any common property for other than the repair, replacement or reconstruction of such improvements.

Section 5. Each first mortgagee and insurer and guarantors of first mortgages secured by a Lot shall have the right to examine the current copies of this Declaration and all amendments thereto, the By-Laws, the Rules and Regulations concerning the Project, and the books and records of the Association, during reasonable business hours or under other reasonable circumstances.

Section 6. First mortgagees of Lots in the Properties may, jointly or singly, pay taxes or other charges which are in default and which may or have become a charge against any common property and may pay overdue premiums on hazard insurance policies, or secure new hazard insurance coverage on the lapse of a policy, for such property and first mortgagees making such payments shall be owed immediate reimbursement therefor from the Association.

Section 7. The monthly maintenance assessments provided for in Article IV hereof shall include an adequate reserve fund for maintenance, repair and replacement of those portions of the Common Areas, and the facilities thereon, which must be replaced on a periodic basis.

Section 8. No breach of the covenants, conditions or restrictions herein contained, nor the enforcement of any lien provisions herein, shall defeat or render invalid the lien of any mortgage or deed of trust made in good faith and for value, but all of said covenants, conditions and restrictions shall be bind-

ing upon and effective against any Owner whose title is derived through foreclosure or trustee's sale, or otherwise.

Section 9. No amendment of this Declaration or the Articles of Incorporation or the By-Laws of the Association, shall affect the rights of any Mortgagee whose lien was recorded prior to recordation of such amendment unless such Mortgagee shall have consented thereto in writing.

ARTICLE XIII DAMAGE, DESTRUCTION OR CONDEMNATION OF COMMON AREAS

Section 1. Damage or Destruction; Insurance Proceeds. In the event of a casualty loss to the Common Areas or the facilities thereon, the proceeds of any insurance against such loss shall be paid to the Association, which shall cause all damages to be repaired. In the event that the insurance proceeds are insufficient to cover the cost of repair, the Association may levy a special assessment for the difference between the proceeds and the actual cost, pursuant to, and subject to the limitations of, Section 4 of Article IV hereof. Should the insurance proceeds exceed the cost of repair, the difference shall be retained by the Association as part of its general revenues.

Section 2. Condemnation. Should all or any part of the Common Areas be taken by right of eminent domain (or sold under threat of condemnation), the damages or purchase price shall be paid to the Association. The Association shall utilize such proceeds to repair any injury to that portion of the Common Areas not so taken or sold, and the balance of such proceeds, if any, shall be distributed, equally among the Owners and their respective mortgagees, as their interests may appear.

Section 3. Termination of Status. Any election to terminate the legal status of the Project after a substantial taking in condemnation of the Project shall require the approval of eligible holders holding mortgages on Lots which have at least fifty one percent (51%) of the votes of Lots subject to eligible mortgages.

ARTICLE XIII A DAMAGE AND DESTRUCTION OF SEPARATELY OWNED BUILDINGS

Section 1. Single Lot. If the residence building is damaged by fire or other casualty and said damage is limited to a single Lot, all insurance proceeds payable by reason thereof shall be paid to the Owner or mortgagee of such Lot, as their respective interests may appear, and such Owner or mortgagee shall use said proceeds to rebuild or repair the damaged struc-

ture, including any Separately Owned Building Structure, in accordance with the original plans and specifications therefor.

Section 2. Damage to More Than One Lot. If any residence building is damaged by fire or other casualty and such damage extends to two or more Lots, the insurance proceeds shall be paid to a bank or trust company, as insurance trustee, which shall receive the proceeds for the benefit of the Owners and their mortgagees as their respective interests may appear. The Association shall thereupon contract to repair or rebuild the damaged elements of the Project in accordance with the original plans and specifications therefor and the funds held by the insurance trustee shall be used for that purpose. If the insurance proceeds are insufficient to defray the costs of repairing or rebuilding, the Association shall levy a special assessment on the Owners of the affected Lots to make up any deficiency.

Section 3. Power of Attorney. Each Owner hereby makes, constitutes and appoints the Association as his or her true and lawful attorney-in-fact to act and represent him or her, in his or her name, place and stead, in any proceedings, negotiations, settlements or agreements with any insurance companies, contractors, architects or other parties concerning claims arising out of a casualty damage to more than one Lot in the Project. This power of attorney is (i) a special power of attorney and is coupled with an interest, (ii) is irrevocable, (iii) shall survive the death or incapacity of the granting Owner, and (iv) is limited to the matters set forth in this Section 2 of Article XIII A.

ARTICLE XIV BALCONIES AND DECKS

Section 1. A portion of the exterior of residences on certain Lots will be balconies and/or decks, the interior surfaces (floor, walls, railings etc.) of which are an exterior surfaces of the residential building.

Section 2. Maintenance of all surfaces, other than glass surfaces, of a balcony or deck shall be, and remain, the obligation of the Association as provided in Section 1 of Article XVI hereof, except for ordinary cleaning, such as sweeping and mopping, which shall be the obligation of the Owner.

Section 3. No Owner shall affix anything to or otherwise modify, the surfaces of the balcony or deck without the prior approval of the Architectural Committee. Except as provided herein to the contrary, the Owner shall have the sole right of use of the balcony or deck, subject to the rights of the Association set forth in Section 3 of Article XVI hereof, including the right to maintain thereon patio furniture, potted plants

and similar amenities which are not affixed to any part of the building, provided, however, that protection of the surface of the balcony or deck from leakage from potted plants or from penetration from furniture or from damage from barbecues or other physical damage shall be the sole responsibility of the Owner.

ARTICLE XV PATIOS

Section 1. The residence on certain Lots will include a patio which will be delivered with a hard surface. No hard surface may be altered or cut into except for repairs, provided, however, the Owner may overlay the hard surface with the prior approval of the Architectural Committee so long as the overlay is designed to direct surface water away from the residential building on the Lot and on adjoining Lots.

Section 2. Each Owner shall have the right to install sprinklers and hose bibs and to install patio furniture, barbecues and other similar matters within the patio on such Owner's Lot.

Section 3. No Owner shall affix anything to any patio wall, fence or railing, nor shall such Owner place any of the matters listed in Section 2 of this Article XV outside of such wall, fence or railing, nor shall the Owner permit any of the landscaping to grow over or through such wall, fence or railing.

[see amend 1] Section 4. Maintenance of all building surfaces, other than glass surfaces, of a patio shall be, and remain, the obligation of the Association as provided in Section 1 of Article XVI hereof, except for ordinary cleaning, such as sweeping and mopping, which shall be the obligation of the Owner of the Lot. Owners shall maintain the patio slab, including any over-lay, on such Owner's Lot.

ARTICLE XVI MAINTENANCE

[see amend 1] Section 1. Exterior Maintenance of Dwelling. In addition to maintenance upon the Common Areas and the other matters to maintained by Association pursuant hereto, the Association shall provide exterior maintenance upon each building which is located on a Lot which is subject to assessment hereunder, as follows: paint, repair, replace and care for roofs (including skylights, if any), gutters, downspouts, exterior building surfaces (including the floor, railings and wall surfaces of the balconies), exterior surfaces of air conditioning equipment whether or not located in the Common Area, trees, shrubs, grass, walks and other exterior improvements, including

fencing and driveways. Such exterior maintenance shall not include glass surfaces other than skylights constituting a portion of the roof of the structure in which the dwelling is located or window screens.

In the event that any need for maintenance or repair is caused through the willful or negligent acts of the Owner, his family or guests, or invitees, such Owner shall be liable to the Association for the costs of such maintenance or repairs, together with interest thereon at twelve percent (12%) per annum and all costs of collection, including actual attorneys' fees.

Section 2. Owners' Failure to Maintain or Repair.

The Association shall have the right to maintain and repair any Lot, dwelling or any portion of the Project required to be maintained or repaired by an Owner, if the Board of Directors determines that such is necessary to protect the Common Areas or preserve the appearance and value of the Project, and the Owners thereof have failed or refused to actually commence such maintenance or repair within a reasonable time after written notice of the necessity thereof shall have been given them by the Board of Directors; provided, however, that the Association shall be entitled to recover against the Owner or Owners for whose account any such maintenance or repair is made all costs thereof, together with interest thereon at twelve percent (12%) per annum and all costs of collection, including actual attorneys' fees.

Section 3. Access at Reasonable Hours. For the purpose solely of performing the maintenance, reconstruction, or repair authorized by this Article, the Association's agents or employees shall have the right, after reasonable notice to the Owner, to enter any Lot or the building thereon or upon any portion of the Common Areas at reasonable hours, or in the event of an emergency, to enter at any time without prior notice to the Owner.

ARTICLE XVII
GENERAL PROVISIONS

Section 1. Nuisance. The result of every action or omission whereby any covenant, condition, restriction, easement, reservation, lien or charge herein contained is violated in whole or in part is hereby declared to be and to constitute a nuisance, and every remedy allowed by law or equity against an Owner, either public or private, shall be applicable against every such result and may be exercised by the Association or any Owner, including Declarant, subject to this Declaration.

Section 2. Enforcement. The Association, Declarant and any Owner, shall have the right to enforce by any proceeding at law or in equity, all restrictions, conditions, covenants,

reservations, liens and charges now or hereafter imposed by the provisions of this Declaration or any amendment thereto; provided, however, that with respect to assessment liens, the Association shall have the exclusive right to the enforcement thereof. Failure by the Association, by Declarant, or by any Owner to enforce any covenant or restriction herein contained shall in no event be deemed a waiver of the right to do so thereafter. Should any action be filed pursuant hereto, the prevailing party shall be entitled to recover, in addition to any other relief, all costs of suit, including reasonable attorneys' fees.

Section 3. Dispute Resolution. Anything herein to the contrary notwithstanding, in the event it becomes necessary to enforce any provision of this Declaration or in the event of any dispute between the Association, on one hand, and any of (i) the Declarant, or (ii) an Owner, or (iii) the Recreation Association, or (iv) any other Sub-association, on the other hand, the matter shall be submitted to binding arbitration in accordance with the rules of the American Arbitration Association. In the event the dispute is one involving a construction matter, the Construction Industry Rules of the American Arbitration Association shall apply. Upon confirmation of the arbitrator's award, a court of competent jurisdiction may order relief in accordance with that award including but not limited to injunctive or other equitable relief. The foregoing provision requiring arbitration shall not apply to the collection of general and special assessments, including late charges, interest and costs of collection with respect thereto.

Section 4. Severability. Invalidity of any one of these covenants or restrictions by judgment or court order shall in no way affect any other provisions, which shall remain in full force and effect.

Section 5. Term. The Covenants and Restrictions of this Declaration shall run with and bind the Properties, and shall inure to the benefit of and shall be enforceable by the Association or the Owner of any land subject to this Declaration, their respective legal representatives, heirs, successors and assigns, for a term of forty (40) years from the date this Declaration is recorded, after which time said Covenants and Restrictions shall be automatically extended for successive periods of ten (10) years, unless an instrument, signed by a majority of the then Owners of the Lots, has been recorded within a six (6) months prior to the termination of the forty (40) year period or any successive ten (10) year period, agreeing to terminate said Covenants and Restrictions.

Section 6. Construction. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for the development of a residential planned unit development and for the maintenance of

the Common Areas. The Article and section headings have been inserted for convenience only, and shall not be considered or referred to in resolving questions of interpretation or construction.

Section 7. Amendments.

(a) This Declaration of Covenants and Restrictions may be amended only by an affirmative vote of the Owners of not less than seventy-five per cent (75%) of the Lots including at least a majority vote of Owners other than Declarant, provided, however, that no part of Article XII may be amended without the concurrence in writing of sixty-seven percent (67%) of the eligible holders (as that term is defined hereinbefore) of first mortgage liens upon Lots within the Project; and provided further that, so long as there are two classes of members, that affirmative vote shall be 75% of each class. The provisions hereof requiring the consent of sixty-seven percent (67%) of eligible holders of first mortgage liens to any amendment to Article XII shall not be amended without the consent of a like number of such eligible holders. An eligible holder shall be deemed to have consented to a proposed amendment if such eligible holder shall have failed to respond to a written proposal for such amendment within thirty (30) days after it receives proper notice of such proposal, provided that such notice shall have been delivered by certified or registered mail with a "return receipt" requested. No amendment of Section 2 of Article II, Section 1(b) of Article VIII or Sections 3 or 7(a) of Article XVII which impairs any right or power granted or reserved to Declarant may be made without the prior written consent of Declarant.

(b) The termination of the legal status of the Project shall require the affirmative vote of not less than sixty-seven percent (67%) of the Owners and of eligible holders holding mortgages on Lots which have at least sixty-seven percent (67%) of the votes of Lots subject to eligible holder mortgages.

(c) Anything herein to the contrary notwithstanding, the approval of eligible holders holding mortgages encumbering Lots which represent at least fifty-one percent (51%) of the votes of all Lots subject to eligible holder mortgages, shall be required to add to or amend any material provisions of this Declaration and the Articles and By-Laws of the Association, including but not limited to provisions which establish, provide for, govern or regulate any of the following:

(i) Voting rights;

(ii) Increases in assessments that raise the previously assessed amount by more than 25%, assessment liens or the priority of such liens;

(iii) Reduction in reserves for maintenance, repair and replacement of the common areas (or Lots if applicable);

(iv) Responsibility for maintenance and repairs;

(v) Reallocation of interests in the general or Exclusive Use Common Areas, or rights to their use;

(vi) A decision by the Association to establish self management when professional management had been required previously by an eligible mortgage holder.

(vii) Restoration or repair of the Project (after a hazard damage or partial condemnation) in a manner other specified in this Declaration, the Articles or the By-Laws of the Association;

(viii) Any action to terminate the legal status of the Project after substantial destruction or condemnation occurs;

(ix) Expansion or contraction of the Project or the addition, annexation or withdrawal of property to or from the Project;

(x) Redefinition of boundaries of any Lot;

(xi) The interests in the Common Area;

(xii) Convertibility of Lots into Common Area or of Common Area into Lots;

(xiii) Insurance or fidelity insurance;

(xiv) Imposition of any restriction on the leasing of Lots;

(xv) Imposition of any restriction on the right of an Owner to sell, transfer, or otherwise convey such Owner's Lot;

(xvi) Any provisions which are for the express benefit of mortgage holders, insurers or guarantors of first mortgages encumbering Lots.

(d) Any holder of a first mortgage lien which fails to submit a response to any written proposal for an amend-

ment within thirty (30) days after receipt of a proper notice of such proposal, delivered by certified or registered mail, return receipt requested, shall be deemed to have approved the proposed amendment.

(e) An addition or amendment to this Declaration, the Articles, or the By-Laws of the Association shall not be considered material if it is for the purpose of correcting technical errors, or for clarification only. Any eligible holder who receives a written request to approve a non-material addition or amendment who does not submit to the requesting party a response within thirty (30) days after the proposal is made shall be deemed to have approved such request.

(f) Any such amendment shall be recorded in the office of the County Recorder for the County in which the Properties are located and any such instrument must bear a certificate of the Association's President, attested to by the Association's Secretary, that there has been compliance with this Section 7.

Section 8. Easement for Encroachments. Each Lot within the Properties is hereby declared to have an easement over all adjoining property (including Lots and Common Area) for the purpose of accommodating any minor encroachment due to original engineering or surveying errors, errors in original construction, or settlement or shifting of a building or other structure, and for the purpose of maintaining such encroachment.

Section 9. Leasing. Any lease executed by an Owner pertaining to his Lot must let the entire Lot. No Lot shall be leased or rented for a period of less than seven (7) days. Any lease or rental agreement shall be in writing and any tenant shall abide by and be subject to all terms and provisions of this Declaration, the Articles, the By-Laws, and the Association Rules; and any lease or rental agreement shall comply with the requirements of Article VII and shall specify that failure to abide by such provisions shall constitute a default under the lease or rental agreement. Any lease covering less than the whole Lot shall be void and a violation of said Covenants. Each Owner shall be personally responsible for assuring compliance by such Owner's tenant and such tenant's family and guests with all provisions of the Declaration, the By-Laws of the Association and all rules and regulations adopted by the Association or its Board of Directors, and for all acts of such tenant and such tenant's family and guests. Neither an Owner who has leased his or her Lot to a third party nor any family member or guest of such an Owner shall have any right to utilize the Common Area facilities so long as the lessee is occupying such Owner's Lot, such rights being deemed to be vested in such lessee during the term of the lease.

Section 10. Conflicts in Documents. In the event of any conflict between the terms of this Declaration and either the Articles of Incorporation of the Association or its By-Laws, the provisions of this Declaration shall control. In the event of a conflict between the Association's Articles of Incorporation and its By-Laws, the Articles shall control.

Section 11. Special Provision for Enforcement of Certain Bonded Obligations. In the event that (1) the Common Area improvements located on the Properties are not completed, prior to the issuance of a Final Subdivision Public Report for the Properties by the California Department of Real Estate ("DRE"), and (2) the Association is obligee under a bond or other arrangement ("Bond") required by the DRE to secure performance of the commitment of Declarant to complete the improvements, the following provisions of this Section will be applicable:

(1) The Board shall consider and vote on the question of action by the Association to enforce the obligations under the Bond, with respect to any such improvement for which a Notice of Completion has not been filed, within sixty (60) days after the completion date specified for that improvement in the Planned Construction Statement appended to the Bond. If the Association has given an extension in writing for the completion of any Common Area improvement, the Board shall be directed to consider and vote on the aforesaid question, if a Notice of Completion has not been filed, within thirty (30) days after the expiration of the extension.

(2) A special meeting of Members for the purpose of voting to override a decision by the Board not to initiate action to enforce the obligations under the Bond or on the failure of the Board to consider and vote on the question, shall be held no fewer than thirty-five (35) days nor more than forty-five (45) days after receipt by the Board of a petition for such a meeting signed by Members representing five percent (5%) or more of the total voting power of the Association. A vote by Members of the Association other than Declarant shall be taken at such special meeting. A vote of a majority of the voting power of the Association residing in Members other than Declarant to take action to enforce the obligations under the Bond shall be deemed to be the decision of the Association, and the Board shall

thereafter implement this decision by initiating and pursuing appropriate action in the name of the Association.

IN WITNESS WHEREOF, the undersigned, being the Declarant herein, has executed this Instrument this ____ day of SEP 29 1994, 19__.

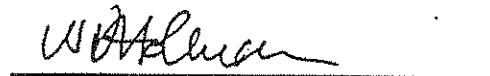
SEACLIFF PARTNERS, a California general partnership

By: PACIFIC COAST HOMES,
a California corporation, Partner

By



By



By: UWC-SEACLIFF, L.P.,
a California Limited Partnership,
Partner

By: NEW URBAN WEST, INC.,
a California corporation,
its general partner

By



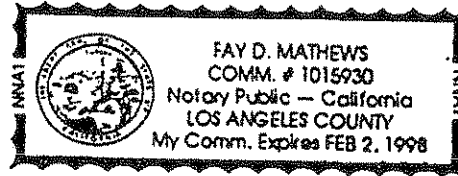
STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On SEPTEMBER 27, 1994, before me, FAY D. MATHEWS,
personally appeared STEPHEN GUNTHER

personally known to me (~~or proved to me on the basis of satis-
factory evidence~~) to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that
he/~~she/they~~ executed the same in his/~~her/their~~ authorized
capacity(ies), and that by his/~~her/their~~ signature(s) on the
instrument, the person(s), or the entity upon behalf of which the
person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature [Signature]



Signature of Notary

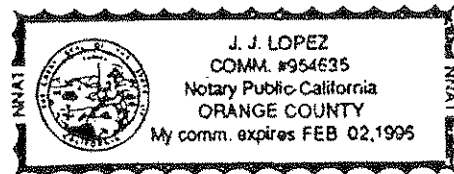
STATE OF CALIFORNIA)
) ss.
COUNTY OF ORANGE)

On SEP 29 1994, 1994, before me, J.J. LOPEZ, Notary Public,
personally appeared DL O'CONNOR and W.D. HOLMAN

personally known to me (~~or proved to me on the basis of satis-
factory evidence~~) to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that
he/~~she/they~~ executed the same in his/~~her/their~~ authorized
capacity(ies), and that by his/~~her/their~~ signature(s) on the
instrument, the person(s), or the entity upon behalf of which the
person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature [Signature]



Subordination

The undersigned, Beneficiary under that certain deed of trust recorded on July 31, 1992, as Instrument No. 92515507 in Book 166, page 10, Official Records of ORANGE County, California, hereby consents to the within said Declaration of Covenants, Conditions and Restrictions for Tract 14647 and hereby subordinates the lien of said deed of trust to the said Declaration.

Chercon Corporation

BY M.F. Ring

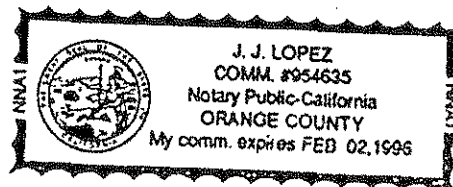
STATE OF CALIFORNIA)
COUNTY OF Orange) ss.

On SEP 29 1994, 19, before me, J.J. LOPEZ Notary Public, personally appeared M.F. RING

[Signature]
personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person(~~s~~) whose name(~~s~~) is/~~are~~ subscribed to the within instrument and acknowledged to me that he/~~she/they~~ executed the same in his/~~her/their~~ authorized capacity(~~ies~~), and that by his/~~her/their~~ signature(~~s~~) on the instrument, the person(~~s~~), or the entity upon behalf of which the person(~~s~~) acted, executed the instrument.

WITNESS my hand and official seal.

Signature [Signature]



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PROPERTIES WHICH MAY BE ANNEXED PURSUANT TO
SECTION 2 OF ARTICLE IX HEREOF

Legal Description

Being a portion of Fractional Section 4, Township 6 South, Range 11 West, as shown on the Map recorded in Book 51, Page 14 of Miscellaneous Maps, and a portion of Parcel 4, as shown on the map filed in Parcel Map Book 166, Pages 10 and 11 of Parcel Maps, all in the City of Huntington Beach, County of Orange, State of California, more particularly described as follows:

Beginning at the southeast corner of said Parcel 4, said corner being the northeasterly terminus of that certain course shown as "N 43°56'32" E 67.02 feet" for the southeast line of said Parcel 4, said corner also being a point on the westerly line of Palm Avenue, 100.00 feet in width, as shown on said Parcel Map; thence South 46°03'28" East 12.00 feet along said westerly line; thence leaving said westerly line at right angles South 43°56'32" West 77.49 feet to the beginning of a non-tangent curve concave southwesterly having a radius of 1528.00 feet, a radial line to said curve bears North 36°20'11" East; thence northwesterly 167.94 feet along said curve through a central angle of 06°17'50"; thence North 59°57'39" West 385.04 feet to the beginning of a tangent curve concave northeasterly having a radius of 1522.00 feet; thence northwesterly and northerly 699.82 feet along said curve through a central angle of 26°20'41" to the beginning of a non-tangent curve concave southerly having a radius of 750.00 feet, a radial line to said curve bears North 34°56'02" West; thence northeasterly 332.82 feet along said curve through a central angle of 25°25'31" to the beginning of a reverse curve having a radius of 1150.00 feet, a radial line to said curve bears South 09°30'31" East; thence northeasterly 243.74 feet along said curve through a central angle of 12°08'37"; thence North 68°20'52" East 91.25 feet to the beginning of a tangent curve concave southwesterly having a radius of 32.00 feet; thence northeasterly, easterly and southeasterly 50.71 feet along said curve through a central angle of 90°47'22" to a point on the aforementioned westerly line of said Palm Avenue; thence along said westerly line the following courses: South 20°51'46" East 45.28 feet to the beginning of a tangent curve concave westerly having a radius of 850.00 feet, 248.97 feet along said curve through a central angle of 16°46'55" to the beginning of a reverse curve concave northeasterly having a radius of 950.00 feet, a radial line to said curve bears South 85°55'09" West and southwesterly and southerly 696.00 feet along said curve through a central angle of 41°58'37" to the point of beginning.

Excepting therefrom all of Tract No. 14647 as shown on the Map recorded in Book 707, Pages 1 through 4, inclusive, of Miscellaneous Maps, records of Orange County, California.

Exhibit A