

**BYLAWS
of
HERRON ISLAND WATER UTILITY**

WHEREAS, Herron Island Water Utility was created under the terms of Articles of Incorporation filed with the Washington Secretary of State on October 19, 2011; and

WHEREAS, at a meeting of the Members of the Herron Island Water Utility duly called and held on the ____ day of _____, 2011, at which a quorum was present, after not less than fourteen (14) days prior notice to all of the Members entitled to vote thereon duly given, not less than a majority of the Members in Good Standing who were either present in person at the meeting or voting by absentee ballot, voted to approve these Bylaws of Herron Island Water Utility.

NOW THEREFORE, these Bylaws of Herron Island Water Utility are hereby certified to have been duly adopted as the initial Bylaws of Herron Island Water Utility.

**ARTICLE I.
INTERPRETATION**

1.1. Liberal Construction. The provisions of these Bylaws shall be liberally construed in accordance with the laws of the State of Washington to achieve its purpose of creating a uniform plan for the development and operation of the Herron Island Water Utility.

1.2. Covenants Running with Land. The covenants, restrictions, reservations and conditions contained in these Bylaws shall function as a set of covenants running with the land, or equitable servitudes, shall be binding upon the Properties and each portion thereof, and on all Owners, Lenders, Tenants, and other Residents of the Lots, together with their families, Guests, grantees, successors, heirs, executors, administrators, devisees and assigns, and every other person acquiring or owning an interest in a Lot or any part thereof. All Lots shall be held, conveyed, encumbered, used, occupied, improved, leased, subleased, and rented subject to the covenants, conditions, restrictions, easements, and reservations contained in these Bylaws. Acceptance of an interest in a Lot shall be deemed acceptance of the terms and provisions of these Bylaws.

1.3. Plurals; Gender. Whenever the context so requires, the use of the singular shall include and be construed as including the plural and vice versa. The necessary grammatical changes required to make any provision hereof apply either to corporations or individuals, or to men or women, shall in all cases be assumed as though in each case fully expressed.

1.4. Headings. Article, Section, and Paragraph headings are inserted for convenience only and are not intended to be part of this document or, in any way, to define, limit, or describe the scope or intent of the particular provision to which they refer.

1.5. Cross-references. References in these Bylaws to any Article, Section, or Paragraph shall refer to the correspondingly numbered Articles, Sections, or Paragraphs of the Bylaws unless otherwise stated.

1.6. Definitions. As used herein, the following capitalized terms shall have the following assigned meanings:

1.6.1. To the extent that they are not inconsistent with the terms and phrases as defined herein, and to the extent they are not otherwise defined herein or clear by the context in which they are used in these Bylaws, the terms and phrases as set forth in the Second Amended and Restated Bylaws of HMC Management, F/K/A Herron Maintenance Co., recorded May 20, 2005, under Auditor's File No. 200505200134 in Pierce County, Washington, as amended (the "HMC Bylaws") shall be incorporated herein by this reference.

1.6.2. *Articles:* The Utility's Articles of Incorporation filed with the Washington Secretary of State, as they may be amended from time to time.

1.6.3. *Assessment:* All sums chargeable by the Utility, including without limitation regular water bills and special assessments; loan payments; fines imposed; interest and late charges on any delinquent account; costs of collection, including reasonable attorneys' fees, incurred by the Utility in connection with the collection of a delinquent Member's account; costs, including reasonable attorneys' fees, incurred in connection with the enforcement of the Governing Documents; User Fees; and all other sums payable by a Member to the Utility pursuant to the Governing Documents, unless the context clearly indicates otherwise.

1.6.4. *Board or Board of Directors:* The Board of Directors of the Utility.

1.6.5. *Board Decision:* A decision of the Utility's Board of Directors adopted pursuant to the Governing Documents.

1.6.6. *Bylaws:* These Bylaws of the Utility, as they may hereafter be amended.

1.6.7. *Common Assessment:* An Assessment levied against all of the Assessable Units in proportion to the Common Assessment Liabilities of the respective Assessable Units.

1.6.8. *Common Assessment Liability:* The liability for Common Assessments allocated to each Assessable Unit pursuant to Article VII.

1.6.9. *Common Expenses:* The actual and estimated expenses incurred by the Utility for administration, operation, maintenance, repair, replacement, addition to or improvement of the Water System or for the general benefit of the Owners with respect to the Water System; and all expenditures found necessary or appropriate by the Board pursuant to the Governing Documents.

1.6.10. *Connection:* A water service connection that has a tie to the Herron Island Water Distribution System.

1.6.11. *Director*: A member of the Utility's Board of Directors.

1.6.12. *Governing Documents*: The Utility's Articles, Bylaws, Policies, and Rules, adopted and or amended pursuant to the Bylaws.

1.6.13. *Manager*: The person who the Board has employed or has retained under a written agreement to perform those management and administrative functions and duties delegated to that person with respect to the Utility.

1.6.14. *Member*: An Owner of a Lot or Lots that make up an Assessable Unit. Membership shall be appurtenant to and may not be separated from ownership of any said Lot that is subject to assessment by the Utility.

1.6.15. *Membership*: A group comprised of all Members of the Utility.

1.6.16. *Rules*: Rules as hereinafter may be adopted by the Board or the Members.

1.6.17. *User Fees*: The Utility's fees and charges for the use of the Herron Island Water System and for services provided to Members pursuant to the terms of the Governing Documents.

1.6.18. *Utility*: The Herron Island Water Utility, a Washington non-profit corporation, its successors and assigns.

1.6.19. *Water System*: All equipment, fixtures, installations, and property of any sort used or intended for use in the acquisition, storage, and distribution of water on Herron Island, along with any legal rights appurtenant thereto.

1.6.20. *Votes*: The votes allocated to Members in the manner set forth in these Bylaws.

1.6.21. *Votes Cast*: The Votes cast by those Members in Good Standing present and voting, in person, by mail, or by proxy, at a meeting of the Members at which a quorum is present, or by written ballot held.

ARTICLE II. PURPOSE AND POWERS

2.1. General. The Utility shall be conducted as a nonprofit corporation in accordance with RCW Chapter 24.06 for the purposes set forth in the Articles. The purpose and powers of this Utility shall be as set forth in the Articles.

2.2. Limitation on Expenditures. Except in an emergency in the exercise of its powers, the Board shall not make an expenditure of over Ten Thousand Dollars (\$10,000.00) that has not been already included in an annual or special budget ratified by the Members,

without first obtaining the approval of the Membership at an annual or special meeting of the Members of the Utility at which a quorum is present or by written ballot held as provided herein.

**ARTICLE III.
MEMBERSHIP – VOTING – REGISTRATION MATTERS**

3.1. Membership. The Membership of the Utility shall consist at all times exclusively of the Owners of Lots. Each Owner shall automatically become a Member of the Utility upon acquisition of ownership of a Lot. Each Member is entitled to participate personally or through a designated representative in the affairs of the Utility, as provided in the Governing Documents. If a Lot has been sold on Recorded contract, the contract purchaser shall exercise the rights of the Member for purposes of the Utility, and the Governing Documents, except as limited in the Governing Documents, and shall have authority of a voting representative unless otherwise specified. Ownership of a Lot shall be the sole qualification for membership in the Utility. Notwithstanding the foregoing, no Member shall have more than one membership in the Utility, but shall have one vote for each Assessable Unit owned.

3.2. Transfer of Membership. An Owner's membership in the Utility shall be appurtenant to the Lot giving rise to the membership, and shall not be assigned, transferred, pledged, hypothecated, conveyed, or alienated except upon the transfer of title to the Lot and then only to the transferee of title to the Lot. Any attempt to make a prohibited transfer shall be void. Any transfer of title to a Lot shall operate automatically to transfer the membership in the Utility appurtenant to the Lot to the new Owner of the Lot. No Owner may withdraw from Membership except upon the transfer of title to all Lots to which the membership is appurtenant. No compensation shall be paid by the Utility upon any transfer of membership and no person whose membership is transferred shall be entitled to share or participate in any of the property of assets of the Utility.

3.3. Required Conveyance Language. Each Member shall cause the following language to be included in any instrument of conveyance or contract for conveyance or instrument of encumbrance of an interest in a Lot:

Grantee covenants and agrees that the herein described real property shall be subject to the Articles of Incorporation and the Bylaws of Herron Island Water Utility, a Washington nonprofit corporation, the regulations, restrictions, reservations, charges and Assessments as contained therein, any restrictions, reservations and easements of record, and any Rules set forth by the Board of the Utility and published to the Membership of the Utility.

3.4. Voting.

3.4.1. *Number of Votes.* Each Member who is a Member in Good Standing shall be entitled to exercise one vote for each Assessable Unit owned by that Member, except as otherwise limited in the Articles or by these Bylaws. Members may exercise their votes as they determine, but in no event shall more than one vote from any Member or group of Members be cast or honored with respect to any Assessable Unit.

3.4.2. *Voting Member.* There shall be one (1) voting representative of each Assessable Unit. If a Member owns more than one Assessable Unit, that Member shall have the Votes for each Assessable Unit owned. The voting representative shall be designated by the Owner of each Assessable Unit by written notice to the Board, and need not be an Owner. The designation shall be revocable at any time by actual notice to the Board from a party having an ownership interest in an Assessable Unit, or by actual notice to the Board of the death or judicially declared incompetence of any person with an ownership interest in the Assessable Unit. This power of designation and revocation may be exercised by the guardian of a Member, and the administrators or executors of a Member's estate. Where no designation is made, or where a designation has been made but is revoked and no new designation has been made, the voting representative of an Assessable Unit shall be the group composed of all of the Owners of that Assessable Unit.

3.4.3. *Joint Owner Disputes.* The Vote for an Assessable Unit must be cast as a single vote. The division of the Votes allocated to an Assessable Unit shall not be allowed. If joint Owners are unable to agree among themselves as to how their Vote or Votes shall be cast, they shall lose their right to vote on the matter in question. If more than one (1) Vote on a matter is cast by different Owners of a particular Assessable Unit at a meeting of the Members, or by written ballot and there is any conflict among the Votes so cast, none of the Votes cast for the Assessable Unit shall be counted and the Votes shall be deemed void; provided that the Vote of the Assessable Unit shall be counted for the purpose of constituting a quorum; and further provided, that multiple Votes cast for one Lot in a consistent manner shall be counted only once.

3.4.4. *Pledged Votes.* If a Member has pledged his or her Vote regarding special matters to a Lender under a duly Recorded Mortgage or to the seller under a duly Recorded real estate contract, only the Vote of the Lender or seller will be recognized in regard to the special matters upon which the Vote is pledged if a copy of the instrument creating this pledge has been filed with the Board.

3.4.5. *Proxies.* Members' Votes may be cast in person, by mail, or by proxy. Proxies shall be in writing, shall be dated as of the date of execution, and shall be signed by the Member or voting representative of the Lot. Proxies must be filed with the Secretary of the Utility at or before the appointed time of each meeting of Members. No proxy shall be valid for a period longer than eleven (11) months after its date unless it specifically provides for a longer duration. Every proxy shall be revocable and shall automatically cease upon conveyance by the Member of his lot.

3.4.6. *Restrictions on Members Not in Good Standing.* Only Members in Good Standing may exercise any right or privilege of membership in the Utility, including participating in the business of the Utility and voting on any matter presented to the Membership. Any Vote(s) cast by or on behalf of a Member who is not current in the payment of all Assessments levied against that Member and/or against the Lots that are owned by that Member shall not be counted for any purpose.

3.5. Registration of Members. The Board shall maintain a register containing the names and addresses of the Members, their designated representatives and the holders or

assignees of any voting rights or proxies that have been filed with the Utility. A Member who sells or conveys his or her interest in a Lot shall promptly report to the Board the name(s) and address(es) of the new Owner of the Lot.

3.6. Evidence of Ownership. Any person becoming an Owner of a Lot, or acquiring an interest in a Lot entitling that person to exercise voting rights as, or on behalf of, a Member of the Utility, shall furnish to the Secretary of the Utility a copy of the Recorded deed or other Recorded instrument vesting that person with title to the Lot or an original or certified copy of the instrument vesting that person with the voting rights pertaining to the Lot if the person is not an Owner. The instrument establishing the right to vote shall remain in the files of the Utility. If there is a challenge to the right of a person to vote in any matter before the Membership, that person shall not be entitled to exercise those voting rights until that person has complied with the requirements of this Section.

3.7. Registration of Mailing Address. Each Member shall notify the Utility of an address to be used by the Utility for purposes of notice and for billing, which shall be the Registered Address for the Lot. Multiple Owners of a Lot shall designate a single Registered Address to be used by the Utility. The Registered Address shall be used for mailing of periodic financial statements, notices, demands and all other communications. Use of the Registered Address by the Utility for giving of notice shall be sufficient to constitute notice to any person, firm, corporation, partnership, association, or other legal entity, or any combination thereof, which owns the Lot or any interest in the Lot. The Registered Address shall be provided by the Member to the Secretary of the Utility within five (5) days after receipt of title or interest in a Lot. The registration shall be in written form and signed by the Owners of the Lot or by the person(s) authorized by law to represent the interests of all of the Owners. If no Registered Address is provided or if all of the Owners cannot agree, then the address of the Lot shall be the Registered Address until the Registered Address is furnished as required under this Section. The Registered Address may be changed from time to time by similar designation. Upon request of the Utility an Owner shall provide the names and addresses of all persons holding a joint or several ownership interest in the Lot.

ARTICLE IV.

MEETINGS OF MEMBERS OF THE UTILITY

4.1. Meeting Place. All meetings of the Members shall be held at the principal place of business of the Utility or at any other reasonable place within the State of Washington set by the Board. The place for any meeting shall be stated in the notice of the meeting.

4.2. Annual Meeting. The annual meeting of the Members shall be held at a reasonable place, date and time set by the Board and designated by written notice of the Board delivered to the Members no less than fourteen (14) nor more than fifty (50) days prior to the date fixed for said meeting. The first annual meeting shall be held within one year from the date of incorporation of the Utility. Subsequent annual meetings shall be held at an interval not to exceed one year thereafter.

4.3. Order of Business. At the annual meeting of Members, the order of business, unless suspended by a majority of Votes Cast, shall be as follows:

- (a) Call to Order
- (b) Proof of notice of meeting (or filing of waiver)
- (c) Announcement of voting power present
- (d) Approval of minutes of last Members' meeting
- (e) Reports of Officers
- (f) Reports of Committees
- (g) Selection of inspectors of election (if necessary)
- (h) Election of Directors (annual or special meeting called for that purpose)
- (i) Unfinished business
- (j) New business
- (k) Adjournment

4.4. Special Meetings. Special meetings of the Members may be called at any time for the purpose of considering matters that, by the terms of the Governing Documents, require the approval of all or some of the Members, or for any other reasonable purpose. Special meetings shall be called by written notice of the Secretary of the Utility, at such time and place as shall be determined by the President or by a majority of the Board, upon the decision of the President, or after request signed by at least two (2) Directors, or by written request by at least ten percent (10%) of Members. Notice shall be given to all Members in the manner otherwise specified herein. If the President or Secretary shall fail or refuse within fourteen (14) days after receipt of a request from at least Ten Percent (10%) of Members, as provided in this Section, to give written notice of a special meeting of the Members to be held not less than fourteen (14) nor more than thirty (30) days after such receipt, the Members making the request may give such notice, stating the time, place and purpose for such meeting.

4.5. Notice of Meetings. Written notice of any meeting of the Members shall be given by, or at the direction of, the Secretary or person authorized to call the meeting, by either personal delivery or regular mail with postage prepaid, not less than fourteen (14) days nor more than fifty (50) days in advance of such meeting, to each Member entitled to vote thereat, to the Member's physical address or postal address last appearing on the books of the Utility, or supplied by such Member to the Utility for the purpose of notice. Such notice shall specify the place, day and hour of the meeting and in the case of a special meeting, the purpose of the meeting and the business to be placed on the agenda by the Board or any Members requesting the meeting for a vote of the Members, including the text of any proposed amendment to the Governing Documents, any budget or changes in the previously approved budget that result in a change in Assessment obligations, and any proposal to remove a Director. Except to the extent that the Bylaws specifically require the notice of meeting for the adoption or amendment of any Governing Document to contain a statement of the text of the provision(s) being proposed, the failure of the notice of an annual meeting to specify a particular item of business shall not act as a bar to the consideration of any matter that may properly be brought before the meeting by a Member in Good Standing.

4.6. Quorum. At any regular or special meeting of the Members, the presence, either personally or by proxy, of Members in Good Standing entitled to cast Ten Percent (10%) of the Votes in the Utility shall constitute a quorum for any action except as otherwise provided in the Articles of Incorporation or these Bylaws, and any amendments thereto. Except to the extent that a greater number is required by the Governing Documents or by the laws of the State of Washington, the affirmative vote of a Majority of Votes Cast on any matter properly before the Membership shall be the act of the Members of the Utility. With respect to the election of persons to the Board of Directors, the person(s) receiving the largest number of Votes shall be deemed elected. If, however, a quorum is not present or represented at any meeting, the Members entitled to vote thereat shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum as aforesaid shall be present or be represented.

4.7. Voting List. At least ten (10) days before each meeting of Members, a list of all Members in Good Standing entitled to vote at the meeting and a list of all Members who are not entitled to vote at the meeting shall be made, arranged in alphabetical order, with the address of and number of votes held by each. The voting and non-voting lists shall be kept on file with the Utility for a period of ten (10) days prior to the meeting. The lists shall be kept open at the time and place of the meeting for the inspection of any Member.

4.8. Waiver of Notice. Attendance of a Member at a meeting shall constitute a waiver of notice of the meeting, except where a Member attends for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. A waiver of any notice required to be given any Members, signed by the person or persons entitled to the notice, whether before or after the time stated in the waiver for the meeting, shall be equivalent to the giving of notice.

4.9. Actions Without a Meeting.

4.9.1. *Written Ballot Authorized.* Any action that may be taken by the Members at a meeting of the Members may likewise be taken without a meeting after notice sent to all Members not less than thirty (30) nor more than sixty (60) days in advance of the date set for the counting of the ballots, if (a) the written ballot of every Member is solicited specifying the proposed action and providing an opportunity to specify approval or disapproval of any proposal; (b) the number of ballots cast within the time period specified equals or exceeds the quorum required to be present at a meeting authorizing the action, and (c) the number of written approvals, signed by Members in Good Standing or their proxies, setting forth the action to be approved, received by the Utility, equals or exceeds the number of Votes that would be required to approve the measure at a meeting at which the total number of Votes Cast was the same as the number of Votes Cast by ballot.

4.9.2. *Ballot Solicitations.* Ballots shall be solicited in a manner consistent with the requirements of law. All solicitations shall indicate the number of responses needed to meet the quorum requirement and shall state the percentage of approvals necessary to pass the measure submitted. The solicitation must specify the time by which the ballot must be received in order to be counted.

4.9.3. *Revocation of Ballots.* Subject to any applicable provisions of law, any Member or other person entitled to cast a ballot, may revoke the ballot, or substitute another, by a writing received by the Utility prior to the time specified in the solicitation for the counting of ballots, but may not do so after that time unless that time has been extended as provided in Paragraph 4.9.4. A revocation is effective upon receipt by the Utility at the address specified for return of the ballots.

4.9.4. *Extension of Time for Balloting.* If a sufficient number of ballots is not received by the Utility by the date specified in the solicitation to either constitute a quorum or to approve the proposal, the Board may extend the date for the solicitation of ballots on further notice to all Members, of not less than ten (10) nor more than thirty-five (35) days of the new date set for the counting of ballots.

4.9.5. *Election of Directors By Mail Ballot.* In case of election of Directors by mail, the Board by majority vote shall select a slate consisting of the names of proposed Directors who are willing to serve, sufficient in number to fill any positions on the Board that are up for election, and shall set a date at least fifty (50) days after selection by which all votes are to be received. The Secretary, within five (5) days after the selection is made, shall give written notice of the number of Directors to be elected and of the names of the Board's nominees to all Members at their registered addresses. The notice shall state that any Member in Good Standing may nominate an additional candidate or candidates, not to exceed the number of Directors to be elected, by notice in writing to the Secretary at the address specified in the notice.

The notice shall specify a date for the closing of nominations fourteen (14) days from the date the notice is given by the Secretary, by which the nominations must be received. Within five (5) days after the date of closing the nominations, the Secretary shall give written notice to all Members, stating the number of Directors to be elected and the names of all nominees, stating that each Member in Good Standing may cast a Vote by mail and stating the date established by the Board, which shall be not less than ten (10) nor more than fifty (50) days after the date of notice, by which the Votes must be received by the Secretary at the address of the principal office of the Utility, which shall be specified in the notice. Votes received after that date shall not be effective except as provided in Paragraph 4.9.4. All persons elected as Directors by mail election by receipt of the number of Votes required by the Bylaws shall take office effective on or within ten (10) days after the date that the Votes are counted.

4.10. Parliamentary Authority. In the event of dispute, the parliamentary authority for the meeting shall be Rules of Order for Association Boards, Edition 1.1, by Jeffrey A. Goldberg.

4.11. Audits. An annual audit of the financial statements of the Utility for the preceding fiscal year shall be presented at the annual meeting or a special meeting of the Members. The Board at any time may, and by written request of Members with more than twenty percent (20%) of the Votes of all Members in the Utility shall, require that a special audit of the Utility books and financial statements be made for that fiscal year and presented at a special meeting of the Members. A Member, at his or her own expense, may at any reasonable time cause an audit of the books and financial statements of the Utility to be made.

**ARTICLE V.
THE BOARD OF DIRECTORS**

5.1. Management by Board. Administrative power and authority to manage the affairs of the Utility shall be vested in a Board elected from among the Members. Except as otherwise provided in the Governing Documents or as otherwise required by law, the Board shall act in all instances on behalf of the Utility. The Board shall have power and authority to make all rules and to take all actions necessary to effectively manage the Utility, to the greatest extent granted and permitted by the Governing Documents and applicable laws so as to fulfill and give full effect to the purposes that are set forth in the Articles and otherwise set forth in these Bylaws. The Board shall have power to suspend water service to any Member in accordance with all applicable regulations during any period in which such Member shall be in default in the payment of any Assessment due and owing to the Utility. In addition to the powers and authority expressly conferred upon it by these Bylaws and the Articles, the Board may exercise all powers of the Utility according to law and do all lawful acts and things not directed or required to be exercised or done by the Members by the Governing Documents. To assist in the fulfillment of its duties, the Board may employ a Manager, an independent contractor, or such other employees as they deem necessary and, in such event, shall prescribe their duties.

The Board shall not act on behalf of the Utility to amend the Articles, to take any action that requires the vote or approval of the Members, to terminate the Utility, to elect members of the Board, or to determine the qualifications, powers, and duties, or terms of office of members of the Board. Notwithstanding the foregoing, the Board may appoint Directors to fill vacancies on the Board as provided in Section 5.5. The Board may employ a Manager, an independent contractor, or such other employees as the Board deems necessary, and may delegate all or any portion of its administrative duties to such Manager or to an Officer or Officers of the Utility, or in any other lawful manner provided by the Bylaws or by resolution of the Board; provided, however, that any management contract or delegation shall be terminable with or without cause upon thirty (30) days' notice by either party, and no such management contract shall have a duration longer than one year. The Board shall elect a President from among its members, who shall preside over meetings of the Board and the meetings of the Utility.

5.2. Number, Qualifications, Term, and Election. The Utility shall be administered and managed by a Board consisting of an uneven number of Directors, which shall be not less than three (3) or more than nine (9). The members of the Board of Directors for the Utility shall be the same as the members of the Board of Directors for HMC Management, a Washington Non-Profit Corporation. Directors and candidates for Director positions must be Members in Good Standing. No paid employee of the Utility shall be eligible to be a Director of the Utility. Positions to be filled on the Board shall be filled by those candidates for the Board of Directors who receive the greatest number of Votes. Solely for the purpose of determining a person's qualification to serve on the Board, the term "Member" shall include a director, trustee, officer, manager, agent or employee appointed by an Owner that is a corporation or limited liability company as its voting representative, a partner, agent or employee appointed by a partnership Owner as its voting representative, or a trustee or beneficiary appointed by a trust Owner as its voting representative. No more than one (1) person who owns an interest in any Lot shall serve as a Director at the same time. Directors shall be elected for staggered two (2) year terms such

that the terms of approximately half the Directors expire each year. Each Director shall serve for a term until the second annual meeting of the Members following his or her election and until his or her successor is elected. No person who has served as a Director for four (4) consecutive years, and no person who owns an interest in a Lot in common with such Director, shall be elected to serve on the Board by either the Members or the Board until at least one (1) year has expired since that Director last served in that capacity.

5.3. Change of Number. The number of Directors may at any time be increased or decreased by a vote of the Members at any annual or special meeting duly called for that purpose, but no decrease shall have the effect of shortening the term of any incumbent Director.

5.4. Duties of a Director. A Director shall perform the duties of a Director, including the duties as a member of any committee of the Board upon which the Director may serve, in good faith, in a manner such Director believes to be in the best interests of the Utility, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. In performing the duties of a Director, a Director shall be entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by: (1) one or more Officers or employees of the Utility whom the Director believes to be reliable and competent in the matter presented; (2) counsel, public accountants, or other persons as to matters which the Director believes to be within such person's professional or expert competence; or (3) a committee of the Board upon which the Director does not serve, duly designated in accordance with a provision in the Articles or Bylaws, as to matters within its designated authority, which committee the Director believes to merit confidence; so long as, in any such case, the Director acts in good faith, after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

5.5. Vacancies. If a Director has missed three (3) consecutive meetings of the Board without the Board having excused the absences, and noted its action to that effect in the minutes of the meetings that were missed, his or her office shall be declared vacant by the Board; provided, however, that the Board may, in its sole discretion, by vote of a majority waive this provision with respect to any Director for good cause shown. If a Director ceases to be a Member in Good Standing for a period of thirty (30) days after written notice thereof or otherwise ceases to meet the qualifications for being appointed as a Director during his or her term, he or she shall automatically cease to be a Director and his or her office shall be declared vacant by the Board by the vote of a majority of the Directors present and voting, and the Secretary shall note the vacancy in the minutes of the Board meeting. If a Director's position is declared vacant by the Board pursuant to this Section, and the Director is not present at the meeting at which the vacancy is declared, the Board shall provide written notice of the vacancy to the Director. Except in cases of removal of a Director by the Members pursuant to Section 5.6, any vacancies in the Board to serve out an unexpired term of office, whether caused by resignation, death, delinquency, conveyance of a Lot or otherwise, may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board. A Director elected to fill any vacancy shall hold office until the next annual meeting of the Members of the Utility and until his or her successor is elected and qualified to serve the remaining term of the vacated position, if any.

5.6. Removal of Directors by Members. Any Director may be removed with or without cause at a regular or special meeting of the Members called for that purpose by the affirmative vote of a Majority of Votes Cast, and the vacancy created by that removal may then and there be filled by a qualified person selected by the remaining Directors for the balance of the remaining term of the removed Director. Any Director whose removal is proposed may speak to the meeting on that subject.

5.7. Order of Business. At all regular and special meetings of the Board, and unless suspended by a majority of the Directors present and voting, the order of business shall be as follows:

- (a) Call to Order
- (b) Proof of notice of meeting (or filing of waiver)
- (c) Roll call of Directors
- (d) Membership input
- (e) Approval of minutes of last Board meeting
- (f) Communications/correspondence
- (g) Treasurer's Report and Bills of the Utility
- (h) Reports of committees
- (i) Unfinished business
- (j) New business
- (k) Adjournment

5.8. Parliamentary Authority. In the event of dispute, the parliamentary authority for the meeting shall be Rules of Order for Association Boards, Edition 1.1, by Jeffrey A. Goldberg.

5.9. Regular Meetings. Regular meetings of the Board may be held without notice quarterly, on the second Saturday of the months of March, June, September, and December, typically in conjunction with or immediately following the meeting of the Board of Directors for HMC Management. Regular meetings of the Board shall be held at the principal place of business of the Utility or at any other place or places within the State of Washington, as the Board may from time to time designate. The annual meeting of the Board shall be held without notice immediately after the adjournment of the annual meeting of Members for the purpose of election of Officers and for transaction of such other business as may come before the meeting.

5.10. Special Meetings. Special meetings of the Board may be called at any time by the President, or by a majority of the Directors, to be held at the principal place of business of the Utility or at any other reasonable place within the State of Washington, as the persons calling the meeting may designate, upon not less than three (3) days' notice to each Director, unless such notice is otherwise waived by all of the Directors.

5.11. Quorum. A majority of the number of Directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

5.12. Notice. Notice of time and place of all special meetings of the Board shall be given to each Director by delivering personally, by fax, email or other means of written electronic communications or by mailing a written notice of the meeting, at least seven (7) days prior to the meeting; provided that, in an emergency, the Secretary, or the President if the Secretary is not available, shall give notice in person or by telephone, email, or fax at least twenty-four (24) hours prior to the meeting.

5.13. Open Meetings. Except as otherwise provided in this Section, all meetings of the Board shall be open to Members, Tenants, employees, and others who have matters of business with the Board. Upon affirmative vote in open meeting, the Board may convene in closed executive session to consider personnel matters, consult with legal counsel, consider communications with legal counsel, or to discuss likely or pending litigation, matters involving possible violations of the Governing Documents of the Utility, and matters involving possible liability of a Member to the Utility. The motion to convene in closed session shall state the purpose for the session and specify matters to be considered. The closed session shall be restricted to only those specific matters. No motion or other action adopted, passed, or agreed to in closed session shall be effective unless the Board, following the closed session, reconvenes in open meeting and votes on such motion or other action which is reasonably identified. The requirements of this Section shall not require disclosure of information in violation of the law or that is otherwise exempt from disclosure.

5.14. Quorum. A majority of the members of the Board shall constitute a quorum. Except as provided in Section 5.19, the Board shall act by majority vote of those Directors present at its meetings where a quorum exists.

5.15. Waiver of Notice. Attendance of a Director at a meeting shall constitute a waiver of notice of that meeting, except where a Director attends for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. A waiver of notice signed by the Director or Directors, whether before or after the time stated for the meeting, shall be equivalent to the giving of notice.

5.16. Registering Dissent. A Director who is present at a meeting of the Board at which action on a matter is taken shall be presumed to have assented to an action unless his or her dissent shall be entered in the minutes of the meeting, or unless he or she shall file his or her written dissent to that action with the person acting as the secretary of the meeting, before the adjournment of the meeting, or shall forward the dissent by certified mail, return receipt requested, to the Secretary of the Utility immediately after the adjournment of the meeting. The right to dissent shall not apply to a Director who voted in favor of the action.

5.17. Committees. The Board shall have the power to establish standing or temporary committees and may appoint or accept Members to serve on committees as it shall deem appropriate in carrying out its purposes. The Board may from time to time invest the committees with any reasonable powers as it may see fit, subject to any conditions prescribed by the Board. Any committees that exercise the powers of the Board shall keep regular minutes of the transactions of their meetings and shall cause them to be inserted in books kept for that purpose.

in the office of the Utility. The designation of any committee and the delegation of authority to that committee shall not relieve the Board, or any Director, of any responsibility imposed by law.

5.18. Compensation. No Director shall receive compensation for any service that a Director may render to the Utility as Director. However, any Director may be reimbursed for the actual expenses incurred by that Director in the performance of duties as a Director.

5.19. Conflicts of Interest. Nothing in the Governing Documents shall be construed to authorize the Utility or Board to enter into any contract, employment or other transaction between the Utility and one or more of its Directors or any other corporation, firm, Utility or entity in which one or more of its directors are Directors or Officers of the Utility or are financially interested, and any such contract, employment or other transaction shall be void unless, after the fact of such relationship or interest is disclosed or known to all of the Members, such contract, employment or transaction has been authorized or approved by vote or written ballot by a Majority of Votes Cast, excluding the interested Director or Directors and the votes appurtenant to any Lot of which they are Owners, and the contract, employment or transaction is fair and reasonable to the Utility.

5.20. Action by Board Without a Meeting. Any action required or permitted to be taken at a meeting of the Board, or of a committee of the Board, may be taken without a meeting if a consent in writing, setting forth the action to be taken, shall be signed before the action by all of the Directors, or all of the members of the committee, as the case may be. Such consent shall have the same effect as a unanimous vote.

5.21. Action of Board by Communications Equipment. Any action required or permitted to be taken at a meeting of the Board, or of a committee of the Board, may be taken by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time.

ARTICLE VI. OFFICERS

6.1. Designations. The Officers of the Utility shall be a President, a Vice President, a Secretary, and a Treasurer, who shall be appointed or elected by the Board. The President, Vice President, Secretary, and Treasurer must be Directors. The Board may also from time to time appoint or elect an Assistant or Executive Secretary and/or an Assistant Treasurer, who need not be Directors. The Board shall appoint or elect Officers annually at the first meeting of the Board after the annual meeting of Members. The Officers of this Utility shall hold office for one (1) year from the date of appointment or election, until their successors are elected and qualify, unless they shall sooner resign, be removed, or be otherwise disqualified to serve. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary.

6.1.1. *President.* The President shall preside at all meetings of Members and of the Board, shall have general supervision of the affairs of the Utility, and shall perform all other duties incident to the office or properly required by the Board.

6.1.2. *Vice-President.* During the absence or disability of the President, the Vice-President shall exercise all the functions of the President. The Vice-President shall have the powers and discharge the duties assigned from time to time by the Board.

6.1.3. *Secretary.* The Secretary shall issue notices for all meetings, except for notices for special meetings of the Members and special meetings of the Board that are called by the requisite number of Members or Directors, shall keep minutes of all meetings, shall have charge of the corporate books and records, including all correspondence, insurance policies and warranties, and excluding only those corporate records required to be kept by the Treasurer, and shall make all reports and perform all other duties normally incident to the office, or properly required by the Board. An Assistant Secretary, if any, shall perform all of the duties of the Secretary during the absence or disability of the Secretary, and at other times may perform any duties directed by the Board.

6.1.4. *Treasurer.* The Treasurer shall have the custody of moneys and securities of the Utility and shall keep regular books of account. The Treasurer shall disburse the finds of the Utility in payment of the just demands against the Utility or as ordered by the Board, taking proper vouchers for all disbursements, and shall render to the Board from time to time as required, an account of all his or her transactions as Treasurer and of the financial condition of the Utility. All financial records and statements of the Utility shall be kept and prepared in accordance with generally accepted accounting principles. The Treasurer shall not receive any correspondence or other mail of the Utility directly. The Treasurer shall not destroy or discard any records in his or her custody or control without the prior approval of the Board. The Treasurer shall perform all other duties normally incident to the office or that are properly required by the Board. An Assistant Treasurer, if any, shall perform all of the duties of the Treasurer in the absence or disability of the Treasurer, and at other times may perform any other duties directed by the Board.

6.2. Delegation. In the case of absence or inability to act of any Officer of the Utility or the Manager and of any person authorized in the Bylaws to act in his or her place, the Board may from time to time delegate the powers or duties of that officer to any other Officer or any Director or other person whom the Board may select. In addition, the Board may direct any Manager it appoints as authorized above, to perform the functions of the Secretary and/or the Treasurer under the direction of that Officer or Officers.

6.3. Vacancies. Vacancies in any office arising from any cause may be filled by appointment by the Board at any regular or special meeting of the Board. The Officer appointed to such vacancy shall serve for the remainder of the term of the Officer he or she replaces.

6.4. Other Officers. The Board may appoint any other Officers and agents as it shall deem necessary or expedient, who shall hold their offices for the terms and shall exercise the powers and perform the duties determined from time to time by the Board.

6.5. Compensation. No Officer shall receive compensation for any service that an Officer may render to the Utility as Officer. However, any Officer may be reimbursed for the actual expenses incurred by that Officer in the performance of duties as an Officer.

6.6. Term - Removal. The Officers of the Utility shall hold office until their successors are chosen and qualify. Any Officer or agent elected or appointed by the Board may be removed at any time, with or without cause, by the affirmative vote of a majority of the whole Board. Any Officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

**ARTICLE VII.
ALLOCATED INTERESTS**

The Allocated Interests for each Lot for the purposes of Common Assessment Liability and Votes in the Utility are determined without reference to the size, location, or value of the Lot. Members will have at least one Common Expense Liability for each Assessable Unit they own.

**ARTICLE VIII.
(RESERVED)**

**ARTICLE IX.
BUDGET AND ASSESSMENTS**

9.1. Purpose of Assessments. All Assessments levied by the Utility shall be used exclusively to promote the health, safety, and welfare of the Owners and Residents of the Lots, the proper operation, maintenance, repair, replacement, and administration of the Water System, and the performance of the duties of the Utility as set forth in the Governing Documents.

9.2. Budget. Not less than sixty (60) days prior to the beginning of each calendar year or other fiscal year adopted by the Board by resolution, the Board shall estimate the charges for Common Expenses to be paid during the year, establish loan repayment amounts, shall make provision for creating, finding and maintaining reasonable reserves for contingencies, operations, maintenance, repair and replacement of the Water System, shall take into account any expected income and any surplus available from the prior year's operating fund, shall determine what portion of the Common Expenses are to be funded through Common Assessments and what portion shall be funded through User Fees, shall set the level of User Fees in a fair and equitable manner, shall apportion the estimated Common Assessments among the Connections in accordance with their respective allocated Common Assessment Liabilities, and shall assess each Connection and Owner such amount in accordance therewith. If the sum estimated and budgeted at any time proves inadequate for any reason (including nonpayment for any reason of any Owner's Assessment), the Board may at any time levy a further Common Assessment, which shall be assessed to the Owners in like manner.

9.3. Ratification of Budget. Within thirty (30) days after adoption by the Board of any proposed regular annual budget or special assessment supplemental budget of the Utility, the Board shall set a date for a meeting of the Owners to consider ratification of the budget. The date of the meeting shall be not less than fourteen (14) nor more than fifty (50) days after mailing of the notice of meeting and a copy or summary of the budget. Unless at that meeting a Majority

of Owners rejects the budget, the budget is ratified, whether or not a quorum is present. If the proposed budget is rejected or the required notice is not given, the periodic budget last ratified by the Owners shall be continued until such time as the Owners ratify a subsequent budget proposed by the Board.

9.4. Rate of Assessments. Except for User Fees and for certain special Assessments and other items that may be levied against particular Lots under the provisions of the Governing Documents, all Common Assessments for Common Expenses shall be assessed to the Lots and the Owners in proportion to their respective allocated Common Assessment Liabilities.

9.5. Borrowing Authority. In discharging its duties and exercising its powers as set forth in this Article, but subject to the limitations set forth in the Bylaws, the Board may borrow funds on behalf of the Utility and, to secure the repayment of those funds, may levy a special Assessment (the "Loan Special Assessment") against each Assessable Unit and the Owner thereof for that Assessable Unit's *pro rata* share of the funds borrowed, together with interest payable thereon, and may assign the Utility's right to future income, including the right to receive the Loan Special Assessment, to banks, other financial institutions, lenders, and/or contractors as security for such loans. The Owner of an Assessable Unit may remove the Assessable Unit from the lien of the Loan Special Assessment by payment of the proportional amount attributable to that Owner's Assessable Unit. The individual payments for each Connection shall be computed in proportion to their respective allocated Common Assessment Liabilities. After any payment, satisfaction, or discharge of the Loan Special Assessment, the Assessable Unit shall be free and clear of the lien so paid, satisfied, or discharged. A partial payment, satisfaction, or discharge shall not prevent the lienor from proceeding to enforce the lienor's rights against any Assessable Unit not so paid, satisfied, or discharged, and the Owner thereof. Notwithstanding anything herein to the contrary, the Assessable Unit shall remain liable for its share of any additional special Assessments levied against the Assessable Units to pay a portion of the Loan Special Assessment against an Assessable Unit or Units uncollectible by reason of the nonpayment thereof.

9.6. Assessments for Misconduct. Notwithstanding any other provision of these Bylaws, each Owner shall be liable to the Utility for any expenses resulting from damages done to the any portion of the Water System by that Owner or a Tenant occupying the Owner's Lot, or by the family, servants, employees, agents, visitors, licensees, or household pet of that Owner or Tenant, or as a result of the failure to maintain, repair or replace any fixture, equipment, appliance or appurtenance that the Owner is responsible to maintain. The charges for repair or replacement of any damage and the expenses resulting from any such misconduct caused thereby shall be specially assessed to the responsible Owner's Lot, shall be a lien upon that Lot, and shall be collectable in the same manner as other Assessments.

9.7. Date of Commencement of Annual Assessments. The annual and special Common Assessments provided for in the Bylaws shall become due and payable in equal periodic installments, or in any other manner as the Board may reasonably require. Written notice of each Assessment shall be sent to every Owner subject thereto. Each Owner shall be obligated to pay Assessments made pursuant to the Bylaws to the Utility in equal installments on or before the due date or in any other reasonable manner as the Board shall designate, and any

unpaid Assessments shall bear interest and accrue late charges at the rates specified in an Approved Fee Schedule.

9.8. Omission of Assessment. The omission by the Board before the expiration of any year to fix the estimate and Assessments for that or the next year shall not be deemed a waiver or modification in any respect of the provisions of the Bylaws or a release of an Owner from the obligation to pay the Assessments or any installment thereof for that or any subsequent year, but the Assessment fixed for the preceding year shall continue until a new Assessment is fixed.

9.9. Certificate of Assessment. A certificate executed and acknowledged by the Treasurer or the President of the Board, or the Manager, or another authorized agent of the Utility if neither the President nor Treasurer nor Manager is available, stating the indebtedness, if any, for Assessments secured by the Utility's lien upon any Lot shall be conclusive upon the Board and the Owners as to the amount of indebtedness on the date of the certificate in favor of all persons who rely thereon in good faith. A certificate of Assessments, in Recordable form, shall be furnished to any Owner or any Lender within a reasonable time after request at a reasonable fee to be set by the Board. Unless otherwise prohibited by law, any Lender may pay any unpaid Assessments payable with respect to that Lot and, upon payment, that Lender shall have a lien on the Lot for the amounts paid of the same rank as the lien of that Lender's Mortgage.

9.10. Creation of Lien and Personal Obligation of Assessments.

9.10.1. Each Owner of a Lot or Lots, for himself or herself, and for his or her heirs, personal representatives, successors and assigns, hereby covenants and agrees, and each subsequent Owner of a Lot by acceptance of a deed therefor, whether or not it shall be so expressed in the deed, is deemed to covenant and agree, for each Lot owned, to pay to the Utility any and all Assessments charged by the Utility pursuant to these Bylaws.

9.10.2. The amount of any Assessment assessed to any Lot and the Owner of any Lot shall be a charge on the land and shall be a continuing lien upon the Lot against which the Assessment is made from the time that the Assessment is due. Recording of the Bylaws constitutes Record notice and perfection of the lien for Assessments. While no further Recording of any claim of lien for Assessment shall be required to perfect the Utility's lien, the Utility may Record a notice of claim of lien for Assessments in the real property records of Pierce County. Any current or prospective Owner or Lender of a Lot may request a certificate of Assessments from the Board pursuant to Section 9.9, and the certificate shall be conclusive against the Utility as to the amount of any lien against the Lot at the time of issuance.

9.10.3. In addition to constituting a lien on the Lot and all its appurtenances, each Assessment, including without limitation interest, late charges, costs and attorneys' fees in the event of delinquency, shall be the joint and several personal debt and obligation of each Owner of Lots for which the same are assessed as of the time the Assessment is made, and, except as provided in Section 9.11 to that Owner's successors in title. Suit to recover personal judgment for any delinquent Assessments shall be maintainable without foreclosing or waiving the liens securing them.

9.10.4. Any payment on an Owner's Assessment account shall be applied first to outstanding fines, then to costs of collection, including attorneys' fees, chargeable to an Owner pursuant to the Bylaws, then to interest and late fees, then to regular Common Assessments, and finally to special Assessments.

9.10.5. No Owner may waive or otherwise escape liability for the Assessments provided for in the Bylaws by nonuse, or abandonment of his or her Lot. No Owner shall be entitled to assert as a setoff or defense against his or her obligation to pay Assessments the amount of any obligation or liability due from, or claim asserted against, the Utility or any other person.

9.11. Priority of Assessments. The lien for payment of Assessments under these Bylaws shall have priority over all other liens and encumbrances, Recorded or unrecorded, to the greatest extent permitted by law, except that the liens created under the Bylaws upon any Lot for Assessments shall be subject to tax liens on the Lot in favor of any assessing unit and/or special district and shall be subject to the rights of a Lender in the case of any indebtedness secured by a first Mortgage or Deed of Trust upon the Lot. Where a Lender or other purchaser of a Lot becomes entitled to possession of a Lot as a result of a Mortgage Foreclosure of a first Mortgage or Deed of Trust, that possessor and his or her successors and assigns shall not be liable for the share of the Assessments by the Utility chargeable to that Lot that became due prior to the Mortgage Foreclosure sale. That prior unpaid share of Assessments shall, at the discretion of the Board, be deemed to be Common Expenses collectable from all of the Owners, including the possessor, his or her successors and assigns.

9.12. Late Charges and Interest on Delinquent Assessments. The Board may from time to time establish late charges and a rate of interest to be charged on Assessments that may become or remain delinquent. In the absence of other established non-usurious rates, the late fee on delinquent Assessments shall be thirty dollars (\$30.00), which shall be added on the first day of the month to any account that is not paid in full on the last day of the prior month, and the interest rate applicable to any account that is delinquent for more than thirty (30) days shall be twelve percent (12%) per annum, imposed on the entire delinquent balance, compounded monthly.

9.13. Recovery of Attorneys' Fees and Costs. In addition to any attorneys' fees and costs recoverable in an action brought under Paragraph 9.10.3 or Section 9.16, the Utility shall be entitled to recover any costs and reasonable attorneys' fees incurred in connection with the collection of delinquent Assessments, whether or not those collection activities result in suit being commenced or prosecuted to judgment. In addition, the prevailing party shall be entitled to recover costs and reasonable attorneys' fees on appeal and in the enforcement of a judgment, whether in the State of Washington or any other state.

9.14. Acceleration. If any Assessment chargeable to a particular Lot remains delinquent for more than thirty (30) days, the Board may, upon fifteen (15) days written notice to the Unit Owner, accelerate and demand immediate payment of all or any portion set by the Board, of the Assessments and special charges that the Board reasonably determines will become due during the next twelve (12) months with respect to the Lot. If the Board exercises the right

to accelerate the Assessments, the Board shall not also demand a security deposit as provided in Section 9.15. The right of acceleration under this Section is solely for the benefit of the Utility. If the Board has exercised its right of acceleration under this Section, it may, in its sole discretion, reverse the acceleration. If a Mortgage Foreclosure takes place after acceleration under this Section but before payment of all accelerated amounts due, the Lender or other person who obtains possession of the Unit as a result of the foreclosure, and not the former Owner, shall be responsible for payment of all unpaid Assessments that would, in the absence of acceleration, have come due after the Mortgage Foreclosure.

9.15. Security Deposit

9.15.1. If any Assessment attributable to a particular Lot remains delinquent for more than ninety (90) days, an Owner may be required, by the Board or by the Manager, from time to time, to make and maintain a security deposit not in excess of one (1) year's estimated Assessments and other charges, which may be collected as are other Assessments. The security deposit shall be held in a separate fund, credited to the Owner, and resort may be had to the security deposit at any time when the Owner is ten (10) days or more delinquent in paying his or her Assessments. The security deposit shall not be considered as advance payment of Assessments.

9.15.2. If the Board should draw upon the security deposit as a result of the Owner's delinquency in payment of any Assessments, the Owner shall continue to be responsible for the immediate and full payment of the delinquent Assessment (including without limitation all interest, late fees, costs and attorneys' fees on the Assessment) and thus the full restoration of the security deposit, and the Board shall continue to have all of the rights and remedies for enforcing the Assessment payment and deposit restoration as provided in the Bylaws and by law.

9.15.3. All or any portion of the security deposit may at any time be refunded to the Owner by the Utility in the discretion of the Board, the refund being made as a cash refund or a credit against Assessments subsequently to become due or a combination of cash and credit.

9.16. Foreclosure of Assessment Lien. The Utility may foreclose the lien of any Assessment by appropriate action in Pierce County Superior Court in the manner that a Mortgage is foreclosed or in any other manner provided by the laws of the State of Washington as they may from time to time be changed or amended. In any action to foreclose a lien against any Lot for nonpayment of delinquent Assessments, any judgment rendered against the Owner of the Lot in favor of the Utility shall include a reasonable sum for attorneys' fees and all costs and expenses reasonably incurred in preparation for or in the prosecution of the action in addition to taxable costs permitted by law. The Utility shall have the power to bid in at any resulting sale and to purchase, acquire, lease, hold, mortgage, and convey any Lot.

9.17. Reserved.

9.18. Rental Lots. If a Lot is rented by its Owner, the rent is hereby pledged and assigned to the Utility as security for the payment of all Assessments and, if the Assessments on the Lot are delinquent, the Utility may collect, and the Tenant shall pay over to the Utility, so

much of the rent for the Lot as is required to pay any amounts due to the Utility under the Governing Documents. The Tenant shall not have the right to question payment over to the Utility, and payment to the Utility will discharge the Tenant's duty of payment to the Owner for rent, to the extent of rent received by the Utility. No demand or acceptance of rent under this Section shall be deemed to be a consent or approval of the Lot rental or a waiver of the Owner's obligations under the Governing Documents. The Board shall not exercise this power where a receiver has been appointed with respect to the Lot or its Owner; nor in derogation of any rights that a Lender may have with respect to the rents. If a Tenant shall fail or refuse to pay rent to the Utility as provided for in this Section, the Utility shall have the right to bring an action for unlawful detainer for nonpayment of rent under Title 59 RCW, and the costs and attorneys' fees incurred by the Utility in connection with that action shall be an Assessment collectable in the same manner as any other Assessment under the Bylaws.

9.19. Remedies Cumulative. The remedies provided in the Bylaws are cumulative, and the Board may pursue them concurrently and may pursue any other remedies that may now or in the future be available under law although not expressed in the Bylaws.

ARTICLE X. FINANCE - HANDLING OF FUNDS

10.1. Depositories. The monies of the Utility shall be deposited in the name of the Utility in federally insured deposit or U.S. Treasury money market accounts or other brokerage money market accounts designated by the Board ("Deposit Accounts"), and shall be drawn out only by check or other order for payment of money signed by the persons and in the manner determined by resolution of the Board. The Treasurer shall deposit all funds of the Utility to the account of the Utility promptly, and in all events within five (5) days of the receipt of thereof.

10.2. Accounts. The Utility shall maintain separate Deposit Accounts for current operations, and for reserves for major repairs or replacement of capital items, to properly provide for the operation and maintenance of the Water System, as required by the Governing Documents. The funds of the Utility shall not be commingled with the funds of any other entity, nor with the funds of any Manager of the Utility or any other person responsible for the custody of such funds. Subject to the direction of the Board, overall management of these Deposit Accounts and the funds in the accounts shall be the responsibility of the Treasurer. The Treasurer shall be authorized by resolution of the Board to open those Deposit Accounts and adopt any procedures the Board deems advisable to properly secure the accounts and funds of the Utility. The accounts required under Section 10.3 and Section 10.4 and all other Reserve Accounts of the Utility shall be maintained in segregated Deposit Accounts. Any transaction involving funds in a Reserve Account, including the issuance of checks, shall require the signature of two (2) Officers or Directors of the Utility.

10.3. Reserve Accounts. At the direction of the Board, the Treasurer shall establish one or more interest-bearing Deposit Accounts, to be known as the "Reserve Accounts." The purpose of the Reserve Accounts is to provide for major repairs, replacements, or renovations of the Water System, for financial stability during periods of special stress, and to meet deficiencies in the general funds that may occur from time to time as a result of delinquent payment of

assessments, and for other contingencies. A portion of the periodic Common Assessments chargeable to the Owners shall be allocated to the Reserve Accounts. The amount of the allocations shall be determined in the discretion of the Board, and may be adjusted from time to time by the Board.

10.4. General Account. At the direction of the Board, the Treasurer shall establish a checking account in a commercial bank to be known as the “General Account.” This account will be the working capital account for the current operations of the Utility and will normally receive all periodic Common Assessments, all User Fees, and all income and other funds received by the Utility. Checks and other forms of payment shall be issued from this account for all management, maintenance, and operation expenditures necessary for the Water System. Funds for the Reserve Accounts will normally be received and deposited in the General Account and checks issued to the other accounts immediately so that an overall accounting of the funds received by the Utility is centralized in the check register of the General Account.

10.5. Records. The Board shall cause to be kept complete, detailed, and accurate records of all receipts, expenditures, assets, and liabilities of the Utility. Financial records of the Utility shall be kept in accordance with generally accepted accounting principles and in a form sufficient to enable the Utility to comply with the requirements of any applicable Washington statute. Annual financial statements prepared in accordance with generally accepted accounting principles shall be furnished to each Owner, together with the report of an audit by an independent Certified Public Accountant prepared as provided Section 4.11. Except to the extent exempted from disclosure under applicable law, the books and records of the Utility, including the records and resolutions authorizing payments by the Utility and all contracts, documents, minutes, resolutions, papers, and other records of the Utility, shall be available for examination and copying upon prior request by any Owner, Lender, prospective purchaser of a Lot, or prospective Lender, personally or by an authorized representative, during normal business hours at the place at which the records are normally kept or at another reasonable time and location established by the Board. The Utility may assess reasonable charges against an Owner and the Owner’s Lot to cover the direct and indirect costs of examination and copying of Utility records by an Owner or an Owner’s representative and may require any other requesting party to pay a like charge.

ARTICLE XI. (RESERVED)

ARTICLE XII. NOTICES

12.1. Method of Giving Notice. Except as may otherwise be required by law or be specifically provided otherwise in the Governing Documents, any notice to any Member, Officer or Director shall be delivered personally, by electronic means of written communications, or by United States mail, first class postage prepaid, and shall be deemed given when personally or electronically delivered or deposited in the mail addressed to the Registered Address of that person. The address for purposes of notice to an Owner shall be designated or changed as provided in Section 3.7. Notices to a Tenant or Resident shall be given at the address of the Lot

occupied. Notice to be given to the Utility may be given to the President or Secretary of the Board at that person's Registered Address, or at the principal address of the Utility or to the registered agent of the Utility at the Registered Address on file with the Secretary of State. The Utility may designate a different address for notices, upon the decision of the Board, by giving written notice of change of address to all Owners and by Recording an amendment to these Bylaws setting forth the change of address in the office of the Pierce County Auditor. Any Owner may designate a different address for notices to him or her by giving written notice of change of address to the Utility. Upon written request to the Utility, any Lender shall be given a copy of all notices permitted or required by these Bylaws to be given to the Owner whose property is subject to the Mortgage held by that Lender.

12.2. Notification of Sale of Lot. Concurrently with the execution of any escrow instructions, purchase and sale agreement, contract of sale, or other agreement for the sale or transfer of a Lot, under circumstances whereby the transferee will become the Owner of the Lot, the transferor shall notify the Utility in writing of the sale. The notification shall set forth:

12.2.1. The names and mailing addresses of the transferor and the transferee;

12.2.2. The street address of the Lot purchased by the transferee;

12.2.3. The name and address of the escrow holder or closing agent, if any, for the sale and the escrow number;

12.2.4. The scheduled date of sale or transfer.

Concurrent with the consummation of the sale or transfer, or within five (5) business days after Recording of any deed or instrument of conveyance, the transferor shall notify, in writing, the Utility of consummation of the sale or transfer. The notification shall set forth the information called for in Paragraph 12.2.1, Paragraph 12.2.2, and Paragraph 12.2.3, and the date on which the sale or transfer was consummated. Unless and until the notice is given and any unpaid Assessments have been paid on behalf of the transferor, the Utility shall not be required to recognize the transferee for any purpose. Prior to receipt of the notification of consummation of the sale or transfer, any and all communications required or permitted to be given by the Utility or the Board shall be deemed to be duly given and made to the transferee if duly and timely made and given to the transferee's transferor. In addition, until the notice of consummation of the sale or transfer has been given to the Utility, the transferor shall remain jointly and severally liable with the transferee for all Assessments against the Lot so transferred.

ARTICLE XIII. LIMITATION OF LIABILITY

13.1. Liability for Utility Failure, Etc. Neither the Utility nor the Board shall be liable for any failure of any utility or other service to be obtained, provided, or paid for by the Utility or by the Board; or for injury or damage to person or property caused by the elements or resulting from electricity, water, rain, or sand that may leak or flow from outside or from any pipes, drains, conduits, appliances, or equipment or from any other place; or from injury or damage due

to invasion or infestation by birds, animals, insects or other vermin; or for inconvenience or discomfort resulting from any action taken to comply with any law, ordinance, or order of a governmental authority, or resulting from exercise of the Utility's right of access to or through a Home or Lot for the purpose of performing any work or other obligation for which the Utility is responsible under the Governing Documents; or for injury or damage suffered as a result of the failure of any Owner or Resident to comply with a provision of the Governing Documents; or for injury or damage suffered as a result of the failure of the Utility or its Manager to enforce any provision of the Governing Documents against a noncomplying Owner or Resident. Notwithstanding the foregoing, to the extent that any claim may be made against the Utility and/or the Board arising from any of the aforementioned events or circumstances, the ultimate liability of the Utility and/or the Board arising from such claim shall be strictly limited to and shall not exceed the applicable coverage limits set forth in any insurance policy obtained by the Utility or the Board. No diminution or abatement of Assessments shall be claimed or allowed for the failure of any such utility or service, or for such injury or damage, or for such inconvenience or discomfort. This Section shall not be interpreted to impose any form of liability by implication upon the Board or the Utility.

13.2. No Personal Liability. So long as a Board member, Utility committee member, Utility Officer, or the Manager for the Utility, exercising the powers of the Board, has acted in good faith, without willful or intentional misconduct, or self-dealing, upon the basis of the information possessed by that person, then that person shall not be personally liable to any other Owner, to any Tenant or Resident, or to any other party, including the Utility, for any damage, loss, or prejudice suffered or claimed on account of any act, omission, error, or negligence of that person. Notwithstanding the foregoing, to the extent that any claim may be made against such persons under the aforementioned circumstances, the ultimate liability of such persons arising from such claim shall be strictly limited to and shall not exceed the applicable coverage limits set forth in any insurance policy obtained by the Utility or the Board.

ARTICLE XIV. INDEMNIFICATION

14.1. The Utility shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Utility) by reason of the fact that he or she is or was a Director, Officer, employee or agent of the Utility, or is or was serving at the request of the Utility as a director, trustee, officer, employee or agent of another association, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Utility, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not of itself create a presumption that a) the person did not act in good faith; b) the person did not have reasonable cause to believe that his or her conduct was in the best

interests of the Utility; or c) with respect to any criminal action or proceeding, the person did not have reasonable cause to believe that his or her conduct was unlawful.

14.2. The Utility shall indemnify any person who was or is threatened to be made a party to any threatened, pending, or completed action or suit by or in the right of the Utility to procure a judgment in its favor by reason of the fact that he or she is or was a Director, Officer, employee or agent of the Utility, or is or was serving at the request of the Utility as a director, trustee, officer, employee or agent of another association, corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of the action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Utility, *provided that*, no indemnification shall be made in respect to any claim, issue, or matter as to which that person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the Utility unless and only to the extent that the court in which the action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, the person is firmly, equitably and reasonably entitled to indemnity for those expenses that the court shall deem proper.

14.3. To the extent that a Director, Officer, employee or agent of the Utility has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 14.1 or Section 14.2, or in defense of any claim, issue or matter therein, the Utility shall indemnify that person against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with that action, suit or proceeding, subject to the remaining conditions of this Article XIV.

14.4. Any indemnification under Section 14.1 or Section 14.2 (unless ordered by a court) shall be made by the Utility only as authorized in the specific case upon a determination that indemnification of the Director, Officer, employee or agent is proper in the circumstances because he or she had met the applicable standard of conduct set forth in Section 14.1 or Section 14.2. The determination shall be made (a) by the Board by a majority vote of a quorum consisting of Directors who were not parties to the action, suit or proceeding; (b) if that quorum is not obtainable, or even if obtainable, a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion; or (c) by the affirmative vote of a Majority of Votes Cast.

14.5. Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit or proceeding may be paid by the Utility in final disposition of an action, suit or proceeding as authorized in the manner provided in Section 14.4 upon receipt of an undertaking by or on behalf of the Director, Officer, employee, or agent to repay that amount, unless it shall ultimately be determined that he or she is entitled to be indemnified by the Utility as authorized in this Article.

14.6. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any other bylaw, agreement, vote of Members or disinterested Directors, or otherwise, both as to action in his or her official

capacity and as to action in another capacity while holding that office, and shall continue as to a person who has ceased to be a Director, Officer, employee, or agent, and shall inure to the benefit of the heirs, executors and administrators of that person.

14.7. The Board may, by majority vote, cause the Utility to purchase and maintain insurance on behalf of any person who is or was a Director, Officer, employee or agent of the Utility, or is or was serving at the request of the Utility as a director, officer, trustee, employee, or agent of another association, corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against him or her and incurred by him or her in any capacity, or arising out of his or her status as such, whether or not the Utility shall have indemnified him or her against that liability under the provisions of this Article.

ARTICLE XV. ADOPTION AND AMENDMENT OF BYLAWS

15.1. These Bylaws may be amended from time to time for purposes not inconsistent with the intent of the Articles, at either a regular or special meeting of the Members called for that purpose, by the affirmative vote of a Majority of Votes Cast. A Bylaw or an amendment to existing Bylaws may be proposed by the Board, by written request signed by Ten Percent (10%) of the Members, or by inclusion by Ten Percent (10%) of the Members in a request for a special Members' meeting. Notice of the time, place and purpose of the meeting shall be delivered to each Member at least thirty (30) days prior to the meeting, and notice of any mail vote shall be given to each Member at least thirty (30) days prior to the date set for counting the vote. Notice shall include the text of the proposed Bylaw or amendment(s). The requirement that the text of the proposed Bylaw or amendment(s) be included with the notice shall preclude the adoption of Bylaws language that has been amended by the Owners at the meeting without further notice to all of the Owners. Amendments to the Bylaws may be adopted by the same vote at a regular or special meeting similarly called or by mail ballot similarly held.

15.2. In the case of any conflict between the Articles of Incorporation and these Bylaws, the Articles shall control.

ARTICLE XVI. - RULES (RESERVED)

ARTICLE XVII. COMPLIANCE WITH GOVERNING DOCUMENTS

17.1. Strict Compliance. Each Owner, Tenant, other Resident, and Guest shall comply strictly with the provisions of the Governing Documents and with all Board Decisions. The acceptance of a deed, conveyance, or lease, or the entering into occupancy or use of any Lot shall constitute an agreement that the provisions of the Governing Documents, as they may be amended from time to time, are accepted and ratified by that Owner, Tenant, or other Resident, and all provisions of the Governing Documents shall be deemed and taken to be covenants running with the land and shall bind any person having at any time any interest or estate in the

Lot, as though the provisions were recited and stipulated at length in each and every deed, conveyance or lease of the Lot.

17.2. Failure to Insist on Strict Performance - No Waiver. The Board or Manager shall exercise its business judgment in determining what actions to take in the enforcement of the Governing Documents. The failure of the Utility in any one or more instances to insist upon the strict performance of any of the terms, covenants, conditions or restrictions of the Governing Documents, or to exercise any right or option contained in the Governing Documents, or to serve any notice or to institute any action, shall not be construed as a waiver or relinquishment for the future of that term, covenant, condition or restriction, but the term, covenant, condition or restriction shall remain in full force and effect. The receipt by the Utility of any Assessment from an Owner with knowledge of any Violation shall not be deemed a waiver of a Violation, and no waiver by the Utility of any provision of the Governing Documents shall be deemed to have been made unless expressed in writing and signed by the appropriate Officers on behalf of the Board.

17.3. Judicial Enforcement. Failure to comply with a provision of the Governing Documents or a Board decision shall be grounds for an action to recover sums due for damages, which shall include any fines levied by the Board and any costs, including reasonable attorney's fees, incurred by the Utility in connection with the matter. Such failure shall further be sufficient grounds for the issuance of injunctive relief in such an action and a showing of irreparable harm shall not be a prerequisite to issuance of such injunctive relief. Nothing contained in the Bylaws shall be deemed or construed as a waiver of the Utility's right to bring an action as provided in this Section without first exhausting the Utility's internal enforcement procedures in cases where the Board deems immediate legal action to be necessary or appropriate. If the Board fails or refuses, after demand by an aggrieved Owner, to take appropriate action to enforce compliance with any provision of the Governing Documents or any Board Decision, an aggrieved Owner on his or her own may maintain an action for damages or injunctive relief against the party (including an Owner or the Utility) failing to comply. In any action brought by the Utility or by an Owner as provided in this Section, the prevailing party shall be entitled to recover as part of its judgment a reasonable sum for attorneys' fees incurred in connection with the action, in addition to taxable costs permitted by law.

17.4. Enforcement Against Tenants and Residents. The occupancy of a Lot by a Tenant and every lease shall be subject to the Governing Documents of the Utility. By entering into occupancy of a Lot, a Tenant agrees to be bound by the Governing Documents. A breach of the Governing Documents by a Tenant shall be deemed to be a breach of his or her lease. In the event of a Violation by a Tenant or other non-Owner Resident, then, in addition to all other remedies that it may have, the Board may notify the Owner, and the Tenant or other Resident, of the Violation and demand that the Violation be remedied through the Owner's efforts within twenty (20) days' after the notice. Said notice shall contain the particulars of the Violation, the name and address of any witness thereto, and the written statement(s) of each witness, if any. The Owner shall, within five (5) days of such notice, serve upon the Tenant in the manner provided by law, a notice to comply or quit. If the Violation is not remedied within the twenty (20) day period, then the Owner shall immediately thereafter, at his or her own cost and expense, institute and diligently prosecute an unlawful detainer action under the Washington Residential Landlord Tenant Act or any successor statute on account of the Violation(s). The unlawful

detainer action shall not be compromised or settled without the prior written approval of the Board. If the Owner fails to fulfill the foregoing obligation, then the Board shall have the right, but not the duty, to institute and prosecute an unlawful detainer action as attorney-in-fact for the Owner and at the Owner's sole cost and expense, and shall be entitled to recover from the Owner all legal fees incurred by the Utility with respect to such action. The costs and expenses of the action shall be deemed to constitute Assessments secured by a lien on the Lot involved, and shall also be the personal obligation of the Owner. Collection thereof may be enforced by the Board in the manner described in Article IX. Each and every Owner does hereby automatically and irrevocably name, constitute, appoint and confirm the Utility as his or her attorney-in-fact for the purposes described in this Section.

ARTICLE XVIII. DISSOLUTION

Upon dissolution or final liquidation of the Utility, any assets of the Utility remaining after settlement of all debts, obligations and liabilities of the Utility shall be granted, conveyed and assigned as set forth in the Articles, provided, however, that each Member's share of the distributable assets shall be subject to the setoff of any debts, obligations and liabilities of the Member to the Utility.

ARTICLE XIX. GENERAL PROVISIONS

19.1. Fiscal Year. The fiscal year of the Utility shall begin on the first day of October and end on the last day of September of every year.

19.2. Books and Records. The Articles of Incorporation, Bylaws, and corporate minutes of the Utility shall at all times, during reasonable business hours, be subject to inspection by any Member. Other books, records, and papers of the Utility may be made available for inspection by any Member upon written request and approval by the Board. Copies may be purchased at reasonable cost.

19.3. Severability. If any provision of these Bylaws or any Section, sentence, clause, phrase, or word, or the application thereof in any circumstance, is held invalid, the validity of the remainder of the Bylaws, and of the application of that Section, sentence, clause, phrase, or word in any other circumstances shall not be affected thereby.

19.4. Violation and Nuisance. Every act or omission whereby any provision of these Bylaws is violated in whole or in part is hereby declared to be a nuisance and may be enjoined or abated, whether or not the relief sought is for negative or affirmative action by the Utility or any Member or Members.

19.5. Violation of Law. Any violation of any federal, state, municipal, or local law, ordinance, or regulations, pertaining to the ownership, occupancy, or use of any of the Lots is hereby declared to be a violation of these Bylaws and subject to any or all of the enforcement procedures set forth in the Bylaws.

19.6. Effective Date. These Bylaws shall take effect on upon Recording.

Bylaws adopted this ____ day of _____, 2011.

Mark B. Anderson, President

Dianne DeGood, Secretary