

K-42509

BY-LAWS

OF

SHIELD CREST CONDOMINIUM UNIT OWNERS' ASSOCIATION
An Oregon Non-Profit Corporation

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1: IDENTIFICATION AND STATUS

1.1 Name. The name of this corporation is SHIELD CREST CONDOMINIUM UNIT OWNERS' ASSOCIATION, and Oregon nonprofit corporation ("Association").

1.2 Status. The Association is formed and shall be operated to qualify as a "homeowners association" under Section 528 of the Internal Revenue Code, or subsequent laws of similar effect, and pursuant Chapter 100 of the Oregon Revised Statutes for Condominiums.

2: MEMBERS.

Members and Memberships are defined in the Declaration of Shield Crest Condominiums. The rights, powers and duties of Members are more fully described in these Bylaws.

2.1 Joint Membership. When two (2) or more persons jointly hold a membership, any proxy, ballot or communication which requires the signature of a Member, must be signed by all such persons or their agent designated on the books of the Association. All such persons may attend meetings, but no vote of such membership shall be cast without the unanimous consent of all persons present at such meeting holding such membership unless cast by their designated agent. In the event joint holders of a membership cannot agree among themselves how their vote shall be cast, their vote shall be lost.

2.2 Voting. Each membership carries the power to vote in the Association. Each unit carries one vote per issue. Except as otherwise provided by law, only Members in whose names memberships entitled to vote stand on the records of the Association on the record date for voting purposes, as provided herein, and Declarant (except as otherwise specifically excluded), shall be entitled to vote as any meeting or by written ballot without a meeting.

2.3 Membership Approval. A requirement in the Articles, Bylaws, or Declaration for approval of the Members means the affirmative vote or written assent of a majority of the votes represented at a meeting, or cast in an election by written ballot, where a quorum is represented or responds, respectively, unless a different number or portion is specifically prescribed.

2.4 Proxies. Every Member entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such Member or his duly authorized agent and filed with the Secretary of the Association; provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless the person executing it specifies therein the length of time for which such proxy is to continue in force, which in no event shall exceed three (3) years from the date of its execution. Such proxy shall be valid as to the following matters only if the general nature of the matter is described in the proxy: removal of director or filling a vacancy on the Board, approving transactions involving directors, amending proxy rights, amending the Articles, selling substantially all Association assets, mergers, dissolution and distributions.

2.5 Quorum. The presence or participation in person, by written ballot, and/or by proxy of the holders of twenty percent (20%) of the voting Power shall constitute a quorum for the transaction of business. The Members present at a duly called or held meeting at which a quorum is present shall be deemed to constitute a quorum until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum. Every act or decision done or made by a majority of Voting Power voting on an issue at a meeting duly held at which a quorum is present shall be deemed the act of the membership unless a greater number proportion is specifically required. If any meeting is adjourned for lack of a quorum, the quorum requirement at the adjourned meeting shall still be twenty percent (20%) of the Voting Power of the Association.

2.6 Meetings.

2.6(a) Place. Any meeting of the Members shall be held in Klamath County, Oregon at such particular place as is determined by the Board.

2.6(b) Annual Meeting. The annual meeting of the Members for the election of Directors and for the transaction of such other business as may properly come before the Members, shall be held each year at 6:00 p.m. on a day in May, chosen by the Board.

2.6(c) Transitional Meeting. The Declarant shall call a meeting of the members to be held within sixty days after the last conveyance to persons other than the Declarant of a total of 17 units. At the transition meeting, a transitional committee consisting of one member selected by Declarant and two members selected by Unit owners other than the Declarant shall be selected. The transitional committee shall be advisory only and shall serve until the turnover meeting. If the Declarant fails to call the transitional meeting, within the time specified, the meeting may be called and notice given by any Unit owner. Notice of the transitional meeting shall be given not less than seven nor more than 50 days prior to the meeting.

2.6(d) Turnover Meeting. The Declarant shall call a turnover meeting within seven years and 90 days after the conveyance of the first Unit to a person other than the Declarant or within 90 days after the date of the last conveyance to persons other than the Declarant of a total of 25 Units. If the turnover meeting is not called by the Declarant within the time specified, any Unit owner or first Mortgagee may call the meeting and give notice. Notice shall be given to each Unit Owner not less than seven nor more than 50 days prior to the meeting.

2.6(e) Special Meetings. Special meetings of the Members for any lawful purpose and at any time, shall be scheduled in response to a call by the President, by the Board, or upon receipt of a written request signed by any Member. Such meetings must be duly noticed and held not less than ten (10) days nor more than fifty (50) days after request therefor is received by the President or Secretary. If notice is not given by the Secretary within twenty (20) days of such receipt by the Association of a request for special meeting, then the person(s) requesting the meeting may give notice.

2.6(f) Notice. Except as otherwise provided above, written notice of each meeting of the Members shall be given to each Member who, on the date

notice of the meeting is given, is entitled to vote there at, either by personal delivery or by mail charges prepaid, addressed to such Member at the record address appearing on the books of the Association or given to the Association by the Member for notice purposes. All such notices shall be sent to each Member entitled thereto no less than ten (10) and not more than fifty (50) days before the subject meeting, and shall specify the place, the date and the time of such meeting, shall also state the general nature of each item of business or proposal to be considered or acted upon at such meeting, and if directors are to be elected, shall include the names of all those in nomination at the time notice is given.

2.6(g) Consent of Absentees. Any defects in the call, notice, time or location of a meeting, shall not affect the validity of transactions at the meeting which are otherwise valid, if a quorum is present, either in person or by proxy, and if each Member entitled to vote, not present in person or by proxy, signs a written approval of the minutes. Such approvals shall be made a part of the minutes of the meeting. Nothing in this Subsection shall be construed as requiring the consent of absentees to transactions as a properly called, noticed and held meeting at which a quorum is present.

2.6(h) Adjourned Meetings. Any Members' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the voting power present in person or by proxy, but in the absence of a quorum no other business may be transacted at any such meeting. When (i) any Members' meeting is adjourned for not less than five (5) days and not more than thirty (30) days, (ii) announcement of the time and place of the adjourned meeting is made prior to adjournment, and (iii) there is no change in the record date, then no additional notice need be given. Otherwise, notice of the adjourned meeting shall be given as in the case of an original meeting.

2.7 Discipline. The Board may establish uniform fines and temporary suspensions which shall be imposed for violation of the Articles, Declaration, Bylaws or Rules. Determination of responsibility, such as for maintenance or repairs of damage, or determination of what constitutes a nuisance, shall be only by the following procedures, or by a court or arbitration proceeding. Violations shall be determined and penalties imposed by the Association only after thirty (30) days' written notice to the offending Member served personally or by mail, first class postage prepaid, return receipt requested, mailed to the latest address for such Member shown on the Association records, specifying the possible action and the alleged reasons therefor, and an opportunity for the Member to be heard before a quorum of the Board at least five (5) days before the effective date of any possible action. Provided, however, that no Owner shall be deprived of the right to full use and enjoyment of his unit, including access thereto, except (a) by the judgment of a court, or (b) on account of a sale under a power of sale for failure to pay duly levied annual or special assessments.

3: BOARD OF DIRECTORS

3.1 Powers and Duties. Subject to the provisions of the Articles, the Declarations, these Bylaws, and the laws of Oregon, all corporate powers of the Association shall be exercised by or under the authority of, and the

business and affairs of the Association shall be controlled by, the Board of Directors.

3.1(a) Responsibilities. Without prejudice to its general powers, but subject to the same limitations, the Board shall have the power and responsibility to perform the following duties:

(i) Officers and Agents. To select all officers, agents and employees of the Association and prescribe powers and duties for them;

(ii) Management. To conduct, manage and control the affairs and business of the Association, including contracting for such insurance, goods, services, professional management, legal and accounting services as is required by the Declarations, Articles or these Bylaws, provide that any management agreement shall not exceed a term of one (1) year and shall be terminable by the Association for cause at a meeting of the Members or upon thirty (30) days' written notice;

(iii) Rules. To promulgate rules and regulations regarding conduct of Association business, behavior of members and guests, and use of the Common Area;

(iv) Places. To prescribe the location of the principal office for the transaction of the business of the Association and to designate the place for the holding of any Members meeting.

(v) Enforcement and Discipline. To enforce the Articles, Declarations, Bylaws, Rules, and any other instruments affecting ownership, management and control of the common elements; and to initiate and execute disciplinary proceedings against Members for violation of the Articles, Declarations, Bylaws or Rules, in accordance with the "Discipline" section of these Bylaws.

(vi) Payments and Reports. To pay any taxes, assessments or charges which are or could become a lien on the common elements and to prepare and file any and all reports required by law;

(vii) Maintenance. To provide for maintenance of the common elements including all Structures.

(viii) Issue Vouchers. The issuance of any voucher shall occur only after approval of the voucher by a majority of the members of the board.

3.1(b) Discretionary Powers. In addition to the foregoing mandatory duties, the Board shall have the power to:

(i) Remove officers, agents or employees of the Association, with or without cause;

(ii) Change the location of the principal office of the Association within the County;

(iii) Appoint committees composed of Members to assist it in its duties.

3.1(c) Limitation of Powers. The Board must obtain the approval of a majority of the Members present at a duly called meeting of the members for taking any of the following actions:

(i) Contracts. Entering into a contract with a third person for goods or services for a term greater than one (1) year, except a contract with a public utility for the shortest possible term and at rates regulated by the Oregon Public Utilities Commission, or a contract for prepaid casualty and/or liability insurance not to exceed two (2) years and which allows short rate cancellation by the insured;

(ii) Compensating directors or officers other than reimbursements for expenses incurred in pursuing the business of the Association;

(iii) Capital Expenses. Incurring during any fiscal year aggregate capital expenditures in excess of five percent (5%) of the budgeted gross expenses of the Association for that year; or

(iv) Selling during any fiscal year units or other non-condominium property owned by the Association having an aggregate fair market value in excess of five percent (5%) of the budgeted gross expenses of the Association for that year.

3.2 Number. There shall be five (5) directors of the Association.

3.3 Qualifications. After turnover of control by the Declarant all directors must be or represent Members of the Association.

3.4 Election and Removal. Directors shall be chosen, hold office and be removed as follows:

3.4(a) Election. The Directors of the Association shall be appointed by the Declarant until turnover of control by the Declarant. Thereafter, all Directors shall be elected at each annual meeting of the Members. If for any reason any such annual meeting is not held, or not all the authorized number of directors are elected there at, or it is necessary for the Members to fill a vacancy on the board, directors may be elected at any special meeting of Members held for that purpose.

3.4(b) Nomination. The Board shall prescribe reasonable procedures and opportunities for nomination of directors, communication by nominees with the Members as to qualifications and reasons for candidacy and solicitation of votes, and for elections.

3.4(c) Term of Office. Terms of office for directors shall begin at the conclusion of the meeting at which directors are elected, and shall expire at the conclusion of the next succeeding meeting at which directors are voted upon, other than a special meeting to fill a vacancy on the Board.

3.4(d) Vacancies.

(i) Causes. A vacancy or vacancies in the Board shall be deemed to exist in case of the death, resignation or removal of any director, or if the authorized number of directors be increased, or if at any annual or special meeting of Members at which any director or directors are to be elected, the Members fail to elect the full authorized number of directors to be elected at that meeting, or if a vacancy is declared by the Board for any reason permitted by law.

(ii) Filling. Vacancies in the Board may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, or by the Members; provided, however, that a vacancy on the Board created by the removal of a director can only be filled by the Members. If the Board accepts the resignation of a director tendered to take effect at a future time, the Board or the Members shall have power to elect a successor, pursuant to the provisions hereof, to take office when the resignation is to become effective. Each director so elected shall hold office for the remainder of the term of the position to which he was elected.

3.4(e) Removal. The Board may remove a director who has been declared of unsound mind by a final court order or convicted of a felony while in office. Removal for any other reason must be approved by a majority of the Members present at a meeting called for that purpose. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

3.5 Meetings.

3.5(a) Regular Meetings. Immediately following each annual meeting of Members, the Board shall hold an annual regular meeting for the purpose of organization, election of officers, and the transaction of other business. The Board shall also hold a regular meeting approximately six (6) months from such annual meeting, and more often if deemed necessary.

3.5(b) Special Meetings. Special meetings of the Board may be held at any time, at a place designated by the Board in accordance with these Bylaws, upon call by the President, by any Vice President, by the Secretary, or by any two (2) directors.

3.5(c) Notice. Notice of the time and place of Board meetings, including notice of any special business to be considered, shall be given to each director at least ninety-six (96) hours prior to the meeting by personal delivery, telephone or by mail or other form of written communication, first class postage or charges prepaid, addressed to him at his address as shown upon the records of the Association. Notice of Board meetings shall be posted in prominent places in the Common Area at least ninety-six (96) hours prior to the meeting. If the Board takes any action by unanimous written consent or at a meeting for which notice was not posted, other than action in executive sessions or disciplinary hearings, then an explanation of such action shall be posted at a prominent place or places within the Common Area within three (3) days after such resolution is adopted.

3.5(d) Attendance. Directors may participate in any emergency meeting, and shall be deemed present, through the use of conference or speaker telephone equipment, so long as all participants in the meeting can hear one another. Members shall be permitted to attend Board meetings, but may not participate in discussions or deliberations unless authorized by a majority of a quorum of the Board.

3.5(e) Consent of Absentees. Any defects in the call, notice, time or location of a meeting, shall not affect the validity of transaction at the meeting which are otherwise valid, if a quorum is present, and if, either before or after the meeting, each of the directors not present signs a written approval of the minutes thereof. All such approvals shall be made a part of the minutes of the meeting. Nothing in this Subsection shall be construed as requiring the consent of absentees to transactions at a properly called, noticed and held meeting at which a quorum is present.

3.5(f) Quorum. A majority of the authorized 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 meeting duly held at which a quorum is present shall be regarded as the act of the Board unless a greater number be required by law or by the Articles or Declaration. A meeting at which a quorum is present may continue to transact business, notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of a quorum or such greater number as may be required by law, the Articles, Bylaws or Declaration.

3.5(g) Adjournment. A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place; provided, however, that in the absence of a quorum a majority of the directors present at any directors' meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Board. Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place be fixed at the meeting adjourned.

3.6 Action Without Meeting. Any action required or permitted by the Board may be taken without a meeting if all the directors shall individually or collectively consent, in writing, to such action. Such action by written consent shall have the same force and effect as a unanimous vote of the Board. Such written consent shall be filed with the minutes of the proceedings of the Board.

4: OFFICERS

4.1 Election/Term. Each officer shall be elected by the Board and shall hold his office until he shall resign, shall be removed or otherwise disqualified to serve, or his successor shall be elected and take office, provided, however, that no officer shall serve more than three (3) years without being re-elected.

4.2 Qualifications. Officers, other than the President, need not be directors or Members. One person may hold two (2) or more offices, except those of President and Secretary.

4.3 Removal/Resignation. Any officer may be removed, either with or without cause, by a majority of the Board at any regular or special meeting of the Board. Any officer may resign at any time by giving written notice to the Board. Any such resignation shall take effect at the date of the 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. Removal or resignation shall not prejudice the rights of the Association or the officer under any contract of employment or the position on the Board of an officer who is also a director.

4.4 Offices. The Association shall have the following officers, and such other officers, including one (1) or more Assistant Secretaries, as may be appointed by the Board. The duties of officers shall be as prescribed in the Articles, Restrictions or Bylaws, or as assigned from time to time by the Board and, as to other officers, the President:

4.4(a) President. The President, who shall be chosen from the Board, shall be the chief executive officer of the Association and shall, subject to the control of the Board, have general supervision, direction and control of the business and officers of the Association. He shall preside at all meetings of the Members and of the Board of Directors.

4.4(b) Vice President. In the absence or disability of the President, the Vice President shall perform all the duties of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President.

4.5(c) Secretary. The Secretary shall keep or cause to be kept, at the principal office, or at such other place as the Board may order, a book of minutes of all meetings of directors and Members or a duplicate thereof, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of memberships present or represented at Members' meetings, and the proceedings thereof.

The Secretary shall keep or cause to be kept, in any form permitted by law, at the principal office or such other place as the Board may order, a membership register, or a duplicate thereof, showing the names of the Members and their addresses, the description and number of units, if more than one, upon which such membership is based, the number and date of membership certificates issued, if any, and the number and date of cancellation of membership certificates surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the Members and of the Board required by these Bylaws or by law to be given, and shall keep the seal of the Association in safe custody.

4.4(d) Chief Financial Officer. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Association, including accounts of its assets, liabilities, receipts, disbursements, gains or losses. The books of account shall at all times be open to inspection by any directors.

The Chief Financial Officer shall deposit all moneys and other valuables in the name of and to the credit of the Association with such depositaries as may be designated by the Board, shall disburse the funds of the Association as may be ordered by the Board, and shall render to the President and directors, whenever they request it, an account of all of his transactions as Chief Financial Officer and of the financial condition of the Association.

5: Assessments and Special Charges.

5.1 Annual Assessment. Each year the Board shall consider the current and future needs of the Association as to its operation, the operation and maintenance of the common elements, the Roads and any personal property maintained by the Association, including reasonable reserves for capital improvements and replacements, payment of taxes not allocated to units, and protecting and promoting the common interest of the Members pursuant to the Articles, Declarations, Bylaws and Rules, and, in light of such needs, determine the annual budget of the Association, and fix by resolution the amount of annual assessments to be levied against the units in the Development for the coming year.

5.1(a) Components. The budget and annual assessments shall include the following elements:

- (i) General Association administration and annual maintenance expenses; and
- (ii) Reserves for capital improvements.

5.1(b) Reserves. The Association shall maintain reserve funds adequate to cover maintenance, repair and replacement of the roads, buildings and other common elements for which the Association is responsible, which are subject to major maintenance or repair or replacement on a periodic basis. Such reserves shall be funded from the payments of assessments, charges, and other income, and shall be segregated from the general operating assessments.

5.2 Special Assessments. Special assessments may be levied at any time upon determination by the Board that such assessments are necessary for capital improvements or major expenses, repairs or acquisitions for which no reserves have been established or for deficiencies in such reserves, or for any purposes related to the mutual health, safety and welfare of the Members pursuant to the Articles, Declarations, Bylaws and Rules.

5.2(a) Limitation. No special assessments shall in the aggregate exceed five percent (5%) of the budgeted gross expenses of the Association for the current fiscal year without the approval of a majority of the Voting Power held by Members other than Declarant.

5.2(b) Form of Levy. Special assessments shall be levied upon the same basis as annual assessments, except special charges levied against a particular Member for reimbursement to the Association, for fines, or to bring individually owned property into compliance with provisions of the governing documents or architectural or design standards set by the Board.

5.3 Statement. The Secretary shall mail to each Member, first class postage prepaid, at such Member's record address, a written statement of each annual or special assessment or special charges at least thirty (30) days prior to the date such assessment or charge shall become due and payable. Such statement shall set forth:

(a) Amount of the installment or payment of assessments, fines or charges due from that Member;

(b) Date such payment or installment is due;

(c) Date such payment or installment becomes delinquent (thirty (30) days past due);

(d) Where and to whom payment is to be made;

(e) Purpose for the charge or levy; and

(f) Dates when late charges and interest begin to accrue and are payable, when membership rights will be suspended as to annual and special assessments, and when collection costs and attorneys' fees must be paid.

5.4 Payment. Every such assessment shall be paid to the Association or its designated agent for collection in lawful money of the United States, on or before the date or period established by the Board pursuant to the resolution adopted by the Board fixing the amount of such assessment. Annual assessments shall be paid in equal monthly installments.

5.5 Late Charges/Costs. Any such assessment not paid within thirty (30) days of its due date, shall be subject to the following: (a) a late charge in the amount of ten dollars (\$10.00) to compensate the Association generally for the added cost of collection, plus (b) interest at the rate of one percent (1%) per month on any such unpaid installment, which interest shall accrue from the day after the due date. A late charge may be imposed only once for a particular payment. A Member shall also be liable to the Association for actual costs and attorney fees incurred in collecting assessments not paid within thirty (30) days of when due, including attorney's fees incurred on appeal

5.6 Suspensions. The Association shall not transfer a membership on its books, or allow the exercise of any rights or privileges of membership on account thereof, other than access to his unit, by any Member or any person claiming under him, unless and until all delinquent annual and special assessments to which such membership is subject are paid, provided the procedures of Bylaw 3.4 regarding "Discipline" have been followed.

5.7 Lien/Foreclosure. The Board shall enforce collection of assessments by suit at law, by foreclosure of the lien rights provided by the Oregon Condominium Act or by exercise of any other lawful right.

5.8 Disposition of Funds. The funds arising from assessments, insofar as possible, shall be applied toward the payment of expenses pursuant to the annual budget adopted by the Board. Excess assessments, after making

allowance for budgeted reserves for replacement, may be returned to the Members on an equitable basis or held in trust budgeted needs.

5.9 Statement of Charges. The Board, on not less than twenty (20) days prior written request, shall execute, acknowledge and deliver to the party making such request, a written statement whether or not to the knowledge of the Association, a particular Owner is in default as to his Assessments, and disclosing the amount of delinquent assessments, late charges, attorneys fees and other penalties assessed against such Owner's unit, and further stating the dates to which installments of Assessments, regular or special, have been paid as to his unit. Any such certificate may be relied on by any prospective purchaser or mortgagee of the unit but reliance on such certificate may not extend to any default not involving the payment of Assessments of which the signer had no actual knowledge. The Association may charge a fee reasonably related to the cost of preparing such statement.

6: RECORDS AND REPORTS

6.1 Inspections.

6.1(a) Members. The Articles, Bylaws, Declarations, Rules, membership register or duplicate membership register, the books of account and minutes of proceedings of the Members, the Board and any committees, shall be made available for inspection and copying, upon written demand and reasonable notice, by any Member or his duly appointed representative, at any reasonable time and for a purpose reasonably related to his interests as a Member. An original or copy of the Declarations, Articles and Bylaws, as amended to date, shall be kept at the principal office of the Association and shall be open to inspection by the Members at all reasonable times during office hours.

6.1(b) Directors. Each director shall have the absolute right at any reasonable time to inspect all books, records and physical properties owned or controlled by the Association, and to make copies and extracts thereof.

6.1(c) Rules. The Board shall establish reasonable rules regarding notice to be given the custodian of the records by a Member desiring to make an inspection, times at which records are available, and payment of costs of reproduction.

6.2 Accountings and Reports. The Board shall cause to be prepared and distributed to the Members the following:

6.2(a) Budget. A pro forma operating budget, distributed not less than forty-five (45) days before the beginning of each fiscal year, containing the following:

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

(ii) The amount of the total cash reserves of the Association currently available for replacement or major repair of the Common Area facilities and for contingencies.

(iii) An itemized estimate of the remaining life of, and the methods of funding to defray repair, replacement or additions to major components of the Common Area and facilities for which the Association is responsible.

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

6.2(b) Annual Report. Thereafter, within ninety (90) days after the last day of the Association's fiscal year, an Annual Report containing the following:

- (i) A balance sheet as of the last day of the fiscal year;
- (ii) An operating (income) statement for the fiscal year;
- (iii) A statement of changes in financial position for the fiscal year;
- (iv) A statement of where the names and addresses of current Members are located;
- (v) A description of any transaction or series of transactions by the Association involving \$40,000 or more in which a director, officer or holder of ten percent (10%) or more of the Voting Power had a direct or indirect financial interest;
- (vi) A description of any indemnifications or advances aggregating more than \$10,000 paid during the fiscal year to any officer or director of the Association; and
- (vii) If not prepared by an independent accountant, a certificate by an authorized officer that the Annual Report was prepared from the books and records of the Association without independent audit or review.

6.2(c) Enforcement Policies. Within 60 days prior to the beginning of the fiscal year, a statement of the Association's policies and practices in enforcing its remedies against Members for defaults in the payment of regular and special assessments, including the recording and foreclosing of liens against units.

7: INSURANCE

7.1 Generally. Where practicable, insurance policies shall be blanket policies covering the Common Area properties, any properties located within the Development owned or administered by the Association, activities of the Association and its employees and agents, within or without the Development, and any property or activities of Declarant, located within or nearby the Development, in which case the Association and Declarant shall each pay their proportionate share of the premium. With respect to insurance proceeds paid in connection with a loss of Association property only, the Board shall be deemed trustee of the interests of all Members in any insurance proceeds paid

to it under any such policies, and shall have full power to receive and to receipt for their interest in such proceeds and to deal therewith as set forth in the Restrictions and Bylaws. The limits and coverage should be reviewed at least every two (2) years.

Every policy of insurance obtained by the Association shall contain (a) an express waiver, if available, of any and all rights of subrogation against Declarant, Declarant's agents and representatives, any person, firm or corporation affiliated with Declarant in the development of the Development, the Board and individual members of the Board, and individual Owners and Members of the Association; (b) a severability of interest endorsement, as applicable; and (c) a cross-liability endorsement, as applicable.

7.2 Policies. The Board shall obtain and maintain in force the following policies of insurance:

7.2(a) Fire an extended coverage insurance on all personal property, Structures and Improvements, including building service equipment, insuring one hundred percent (100%) of the aggregate full insurable value, meaning actual replacement value, exclusive of the cost of land, excavations, foundations and footings from an insurance carrier designated Class A or better in Best's Key Rating Guide, or any successor or similar guide. Such insurance shall insure the Association, shall contain a deductible clause of no more than \$500, shall contain an inflation guard endorsement, and shall insure against loss or damage by fire, theft and other hazards covered by the standard extended coverage endorsement, and by sprinkler leakage, debris removal, cost of demolition, vandalism, malicious mischief, windstorm, water damage and other risks customarily insured against in similar projects.

7.2(b) Public liability insurance, with limits of not less than Five Hundred Thousand Dollars (\$500,000) per person, One Million Dollars (\$1,000,000) per occurrence, and a deductible of not more than One Thousand Five Hundred Dollars (\$1,500), insuring against liability for bodily injury, death and property damage, including water damage, arising from the activities of the Association or with respect to property under its jurisdiction or used for its benefit or business, such as nonowned and hired automobiles, and for such other risks as are customarily covered in similar projects.

Liability insurance shall name as separately protected insureds the Declarant, the Association and the Board, and their representatives, members and employees, with respect to any liability arising out of the maintenance or use of any Common Area or Association property.

7.2(c) Workers' compensation insurance to the extent necessary to comply with any applicable law.

7.2(d) Such other insurance, including indemnity and other bonds, as the Board shall deem necessary or expedient to carry out the Association's functions as set forth in the Restrictions, Articles and Bylaws.

8: GENERAL BYLAWS

8.1 Principal Office. The principal office of the Association shall be in the County, at such specific location therein as may from time to time be designated by the Board of Directors.

8.2 Approval Procedures. Any proposed action which requires approval or consent of the Board or Association shall be submitted to the Board in duplicate writing. The Board shall thereafter review such proposal and respond to the applicant setting forth a request for additional information or documentation, its approval, its approval subject to conditions, or its denial of the proposal, and setting forth generally the reasons for such denial. If the Board does not respond with its request or decision within forty-five (45) days of receipt of a proposal, such proposal shall be deemed approved without conditions. Neither the Association, the Board nor any member thereof shall be liable to any person submitting plans, or to any other person for approval or denial of any proposal.

8.3 Liability of Agents. No director, officer, employee agent or representative (collectively "agent") of the Association shall be personally liable in any action or proceeding to any Owner, person, or the Association for any damage, loss or prejudice suffered or claimed on account of any act, negligence, error or omission of the Association, the Board or any agent of the Association or any committee, provided that such agent has acted in good faith and without willful or intentional misconduct upon the basis of such information as may be possessed by him or available to him upon reasonable inquiry.

8.4 Indemnification. If any action or proceeding is brought against any agent because such person if or was an agent of the Association, then upon approval of (a) a majority of a quorum of directors who are not parties to such proceeding; (b) the members, excluding those who are parties to such action; or (c) the court in which such action is or was pending; the Association shall indemnify such person against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding or action, if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Association and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the Association or that the person had reasonable cause to believe that the person's conduct was unlawful. If the Association is required to incur any cost or expense hereunder, the Association shall be entitled to levy a special assessment for the amount so expended.

8.5 Distributions. There shall be no distribution of gains, profits or dividends to any Member except upon dissolution.

8.6 Dissolution. Upon termination of the condominiums and the corresponding dissolution and winding up of the Association, the Board shall, after payment of making provision for the payment of all liabilities of the

Association, distribute all of the remaining assets to the Members in the manner provided by the Oregon Condominium Act.

8.7 Amendments. New Bylaws may be adopted, or these Bylaws may be amended or repealed, only by the affirmative vote or written assent of fifty (50%) percent of the members of the Association. Any unit owner may propose an amendment to the Bylaws by providing the written text of the proposed amendment to each unit owner, in the manner provided for giving notice of membership meetings to unit owners, not less than five (5) days prior to any annual membership meeting. Any amendment of bylaws is subject to the requirements of the Oregon Condominium Act.

9: ADDITION OF UNITS:

9.1 Assessment. The Declarant has reserved the right to construct a total of 10 buildings containing not more than three units each on the withdrawable variable property. When a unit may be legally conveyed, it shall become subject to assessment pursuant to section 5, above. The annual and any special assessments shall be prorated based on the Association's fiscal year and the unit shall thereafter commence making payments in the manner set forth in the bylaws and subject to the provisions of Sections 10 and 11 and 10 of the Declaration of Shield Crest Condominiums.

10: CERTIFICATION

I, the undersigned, do hereby certify:

10.1 That I am the duly elected and acting Secretary of SHIELD CREST CONDOMINIUM UNIT OWNERS' ASSOCIATION, an Oregon nonprofit corporation.

10.2 That the foregoing Bylaws, comprising sixteen (16) pages, including this page, constitute the Bylaws of said corporation as duly adopted by the Declarant on the 24th day of January, 1991.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said corporation this 24th day of January, 1991.

Helen J. Cheyne
Secretary

STATE OF OREGON)
) ss.
County of Klamath)

On this 24th day of January, 1991, before me, a Notary Public, personally appeared Helen J. Cheyne, to be the person who executed the within instrument as Secretary, and acknowledged that she executed it.

WITNESS my hand and official seal.

Debra Butingham
Notary Public for Oregon
Commission Expires 12-19-92

BYLAWS OF SHIELD CREST CONDOMINIUM UNIT OWNERS' ASSOCIATION - Page 16

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Klamath County Title Co. the 25th day of Jan. A.D., 19 91 at 9:35 o'clock A M., and duly recorded in Vol. M91 of Deeds on Page 1606.

FEE \$83.00

Evelyn Biehn County Clerk

By Debra Butingham

Return: KCTC