

AFTER RECORDING, RETURN TO:

Ms. Karen Smith
Resort Resources, Inc.
PO Box 1466
Bend, OR 97709

DECLARATION ANNEXING THE SPORTS AND FITNESS CENTER
TO
RUNNING Y RANCH RESORT

THIS DECLARATION is made this 9th day of June, 1997, by RUNNING Y RESORT, INC., an Oregon corporation ("Declarant").

RECITALS

A. Declarant is the Declarant under that certain Declaration of Protective Covenants, Conditions, Restrictions and Easements for Running Y Ranch Resort, dated August 2, 1996 and recorded August 2, 1996 in the records of Klamath County, Oregon, in Volume M96 at page 23548 (the "Master Declaration").

B. The Master Declaration provides that additional properties may be annexed to Running Y Ranch Resort pursuant to the provisions of Section 2.2 of the Master Declaration. Declarant wishes to annex Lot 86 of RUNNING Y RESORT, PHASE 1, Klamath County, Oregon (the "Sports and Fitness Center") to the Master Declaration upon the terms and conditions set forth in this Declaration.

NOW, THEREFORE, Declarant does hereby declare and provide as follows:

1. DEFINITIONS. As used in this Declaration, the terms set forth below shall have the following meanings:

1.1 CPI. CPI means the Consumer Price Index published by the Bureau of Labor Statistics of the United States Department of Labor for the Portland, Oregon Metropolitan Area, All Urban Consumers, All Items, or any successor to such index as selected by the Association.

1.2 Master Declaration. Master Declaration means the Declaration of Protective Covenants, Conditions, Restrictions and Easements for Running Y Ranch Resort, dated

August 2, 1996, and recorded August 2, 1996, in the records of Klamath County, Oregon, in Volume M96 at page 23548.

1.3 Net Operating Budget. Net Operating Budget means projected expenses (including reserves and contingency) less projected income from operations (not including Unit Fees, Ownership Interest Fees, Hotel Fees or Declarant Subsidy).

1.4 Ownership Interest. Ownership Interest means a whole ownership interest in an unimproved Residential Lot or in a Living Unit, any fractional or co-ownership interest in an unimproved Residential Lot or in a Living Unit under a recorded Co-Ownership or Tenancy in Common Agreement, and any timeshare interest in an unimproved Residential Lot or in a Living Unit. In the case of a Living Unit owned by a vacation club, such unit shall be considered to contain 48 timeshare interests.

1.5 Sports and Fitness Center. Sports and Fitness Center means Lot 86 of RUNNING Y RESORT, PHASE 1, Klamath County, Oregon, including the sports, fitness and other recreational facilities now or hereafter located on such lot.

1.6 Subsidy Period. Subsidy Period means the period between the date of recording of this Declaration and January 1, 2001.

1.7 Incorporation by Reference. Except as otherwise specifically provided in this Declaration, each of the terms defined in Article 1 of the Master Declaration shall have the meanings set forth in such Article.

2. ANNEXATION. The Sports and Fitness Center is hereby annexed to Running Y Ranch Resort and made subject to the Master Declaration on the terms and conditions set forth in this Declaration.

3. LAND CLASSIFICATION. The Sports and Fitness Center shall be a Common Area.

4. MASTER DECLARATION. The Sports and Fitness Center shall be subject to all of the terms and provisions of the Master Declaration as supplemented by this Declaration.

5. SPECIAL ALLOCATION OF COSTS. Pursuant to the last sentence of Section 11.3 of the Master Declaration, the costs of operating and maintaining the Sports and Fitness Center shall be specially allocated as set forth in this Section 5:

5.1 During Subsidy Period. During the Subsidy Period, the costs of operating and maintaining the Sports and Fitness Center, net of operating income, shall be allocated as follows:

(a) Unit Fee. Each unimproved Residential Lot and each Living Unit subject to assessment under Section 11.3 of the Master Declaration shall be assessed \$215 per year ("Unit Fee").

(b) Ownership Interest Fee. Each Ownership Interest shall be assessed \$22.60 per year ("Ownership Interest Fee").

(c) Hotel Fee. In the event any hotel or similar transient lodging facility is constructed and operating within or in connection with the Resort, guests of the hotel may use the Sports and Fitness Center if the hotel pays a fee ("Hotel Fee") of \$2,000 per month for up to 100 guest rooms, increased pro rata for guest rooms in excess of 100.

(d) Declarant Subsidy. Declarant shall pay the difference, if any, between the actual costs of operating and maintaining the Sports and Fitness Center and the total income from Unit Fees, Ownership Interest Fees, Hotel Fees and all other sources of income arising out of the Sports and Fitness Center during the year in question ("Declarant Subsidy").

5.2 After Subsidy Period. For calendar years after the Subsidy Period, the Declarant Subsidy shall terminate and the Unit Fees, Ownership Interest Fees and Hotel Fees shall be adjusted each year as follows:

(a) Unit Fee. The Unit Fee paid for the prior calendar year shall be adjusted by the percentage change in the Net Operating Budget for the Sports and Fitness Center adopted by the Association for the calendar year in question compared to the Net Operating Budget for the prior calendar year, not to exceed the percentage change in the CPI for the first half of the year preceding the prior calendar year compared to the CPI for the first half of the prior calendar year.

(b) Ownership Interest Fee. The Ownership Interest Fee shall be adjusted as necessary so that the aggregate Ownership Interest Fees shall equal the difference between the Sports and Fitness Center budget of expenditures for the year in question less the projected total income from Unit Fees, Hotel Fees and other sources of income arising out of the Sports and Fitness Center.

(c) Hotel Fee. The Hotel Fee paid for the prior year shall be adjusted by the percentage change in the CPI for the first half of the year preceding the prior calendar year compared to the CPI for the first half of the prior calendar year, not to exceed the percentage change in the Net Operating Budget for the Sports and Fitness Center adopted by the Association for the prior calendar year compared to the Net Operating Budget for the calendar year in question.

6. USE BY DECLARANT. Declarant shall have the right to use the Sports and Fitness Center for marketing and sales purposes.

7. **POLICIES AND PROCEDURES.** The Board of Directors of the Association shall adopt Policies and Procedures regarding use of the Sports and Fitness Center, including, without limitation, policies regarding use by family members and guests and day use by fractional or timeshare owners and procedures for identification.

8. **BINDING EFFECT.** The Sports and Fitness Center shall be held, conveyed, hypothecated, encumbered, used, occupied, and improved only in accordance with the provisions of the Master Declaration, as modified by this instrument, which easements, covenants, restrictions, and charges shall run with the Sports and Fitness Center and shall be binding upon all parties having or acquiring any right, title or interest in the Sports and Fitness Center, or any part thereof.

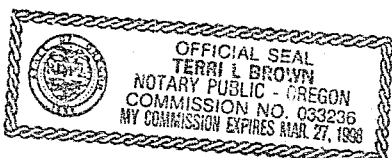
IN WITNESS WHEREOF, Declarant has executed this Declaration as of the day and year first set forth above.

RUNNING Y RESORT, INC., an Oregon corporation

By Terol E Andres
Its President

STATE OF OREGON)
)ss.
County of Deschutes)

The foregoing instrument was acknowledged before me this 9th day of June, 1997, by Terol E Andres, President of Running Y Resort, Inc., an Oregon corporation, on its behalf.



Terri L Brown
Notary Public for Oregon
My commission expires: 3/27/98

PDX1A-78363.3 26997-0001

-4-

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Karen Smith the 10th day of June A.D., 19 97 at 1:42 o'clock P. M., and duly recorded in Vol. M97 of Deeds on Page 17757.

FEE \$25.00

By Bernetha G. Letsch County Clerk
Bernetha G. Letsch