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FIRST SERVICE TITLE AGENCY, INC

When recorded, return to:

Sunrise Limited Partnership
 c/o D. Randall Stokes, Esq.
 Lewis and Roca
 100 West Washington, 23rd Floor
 Phoenix, Arizona 85003-1899

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DECLARATION OF COVENANTS, CONDITIONS
 AND RESTRICTIONS
 FOR
 WARNER RANCH LANDING UNIT II

COURTESY RECORDING
 NO TITLE LIABILITY

This instrument filed for record by
 FIRST SERVICE TITLE AGENCY, INC.
 as an accommodation only. It has not
 been examined as to its execution or
 as to its effect upon the title.

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DECLARATION OF COVENANTS, CONDITIONS
AND RESTRICTIONS
FOR
WARNER RANCH LANDING UNIT II

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DECLARATION OF COVENANTS, CONDITIONS
AND RESTRICTIONS FOR
WARNER RANCH LANDING UNIT II

This Declaration of Covenants, Conditions and Restrictions is made as of the 8th day of September, 1988, by FIRST SERVICE TITLE AGENCY, INC., an Arizona corporation, as the "Declarant," and SUNRISE LIMITED PARTNERSHIP, an Illinois limited partnership doing business in the State of Arizona as S Limited Partnership, as "Developer," with reference to the following:

A. Declarant, as trustee of its Trust No. 1080, is the owner of fee title to the Property, and Developer is the sole beneficiary of said trust.

B. By virtue of the Declaration of Annexation, the Property is subject to the Master Declaration.

C. Developer and Declarant intend by this Declaration to impose upon the Property mutually beneficial restrictions under a general plan of improvement for the benefit of all owners of residential property within the Property. Developer and Declarant desire to provide a flexible (yet common) and reasonable procedure for the overall development of the Property, and to establish Unofficial Document a method for the administration, maintenance, preservation, use and enjoyment of the Property.

NOW, THEREFORE, Developer and Declarant hereby declare that the Property shall be held, sold and conveyed subject to the following easements, restrictions, covenants and conditions, which are for the purpose of protecting the value and desirability of and which shall run with the real property now and hereafter subjected to this Declaration and which shall be binding on all parties having any right, title or interest in said real property or any part thereof, and their heirs, personal representatives, successors and assigns, and shall inure to the benefit of each owner of all or any part thereof.

ARTICLE 1

DEFINITIONS

Except as otherwise expressly provided in this Declaration, the following terms shall, for purposes of this Declaration, have the meanings set forth below:

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1 1.1 "Annual Assessments" shall mean those Assessments
2 computed and levied as provided in Section 8.2 of this
3 Declaration.

4 1.2 "Articles" shall mean the articles of incorpora-
5 tion of the Association, as the same may be amended from time
6 to time in accordance with the provisions thereof and with the
7 applicable provisions of this Declaration, the Bylaws and the
8 statutes and regulations of the State of Arizona.

9 1.3 "Assessments" shall mean the Annual Assessments
10 and the Special Assessments.

11 1.4 "Association" shall mean Warner Ranch Landing
12 Unit II Association, an Arizona non-profit corporation, and its
13 successors and assigns.

14 1.5 "Board" shall mean the group or body of persons
15 elected in accordance with the provisions of the Articles, the
16 Bylaws and the statutes and regulations of the State of
17 Arizona, in which group or body is vested the management of the
18 affairs of the Association, and shall be equivalent in meaning
19 to the term "board of directors," as defined in A.R.S. Section
20 10-1002(6), as in effect at the date hereof.

21 1.6 "Bylaws" shall mean the Bylaws of the
22 Association, as the same may be amended from time to time in
23 accordance with the provisions thereof and with the applicable
24 provisions of this Declaration, the Articles and the statutes
25 and regulations of the State of Arizona.

26 1.7 "Common Area" shall mean all real property
(including the improvements thereto) owned by the Association
for the common use and enjoyment of the Owners. The Common
Area to be owned by the Association at the time of the convey-
ance of the first Lot to a retail purchaser shall be Tracts A,
C, D, J and AA, as established by and depicted on the Plat. It
is not, however, intended that Tracts B, E, F, G and H (as
established by and depicted on the Plat) are to be Common Area;
rather, said Tracts B, E, F, G and H will be transferred and
conveyed, not later than the time of the conveyance of the
first Lot to a retail purchaser, to the Master Association,
which shall hold title thereto and be responsible for the
maintenance thereof as "common area" of the Master Association
pursuant to the Master Declaration.

1.8 "Common Expenses" shall mean the actual and esti-
mated expenses of operating the Association, including any rea-
sonable reserves, all as may be found to be necessary and

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1 appropriate by the Board pursuant to this Declaration or pur-
2 suant to the Articles or the Bylaws.

3 1.9 "Declarant" shall mean First Service Title
4 Agency, Inc., an Arizona corporation, serving in its capacity
5 as trustee of its Trust No. 1080, and its successors and
6 assigns.

7 1.10 "Declaration" shall mean this Declaration of
8 Covenants, Conditions and Restrictions, as the same may be
9 amended from time to time.

10 1.11 "Declaration of Annexation" shall mean that cer-
11 tain Declaration of Annexation Recorded on September 8, 1988,
12 at Recorder's No. 88-445448, whereby the Property was subjected
13 to the Master Declaration.

14 1.12 "Developer" shall mean Sunrise Limited
15 Partnership, an Illinois limited partnership doing business in
16 the State of Arizona as S Limited Partnership, and any assignee
17 of the rights and duties granted or reserved to the Developer
18 herein, which assignment Unofficial Document be evidenced by a duly executed
19 and acknowledged Recorded instrument. The term "Developer"
20 shall in no event mean or refer to a retail Lot buyer.

21 1.13 "Eligible Mortgage Holder" shall mean any holder
22 (as evidenced by a Recorded instrument) of a First Mortgage who
23 or which shall have made written request to the Association for
24 notice of any proposed action that, pursuant to Section 10.2 or
25 Section 10.11, requires the consent of a specified percentage
26 of Eligible Mortgage Holders (which written request must con-
tain the name and address of the Eligible Mortgage Holder and
the Lot number or street address of the Lot against which the
First Mortgage held by said Eligible Mortgage Holder is
Recorded).

1.14 "First Mortgage" shall mean a Mortgage Recorded
against a Lot which has priority over any and all other
Mortgages Recorded against that Lot.

1.15 "Lot" shall mean and refer to a lot into which
the Property is subdivided as set forth in the Plat. In no
event shall the term "Lot" mean or refer to all or any part of
the Common Area.

1.16 "Master Association" shall mean Warner Ranch
Association, an Arizona non-profit corporation, and its
successors and assigns.

1.17 "Master Declaration" shall mean that certain
Declaration of Covenants, Conditions and Restrictions for

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1 Warner Ranch recorded on January 24, 1985, at Recorder's No. 85
 2 033713 in the office of the Maricopa County, Arizona Recorder,
 3 as the same may be amended from time to time.

4 1.18 "Maximum Annual Assessment" shall mean the
 5 amount determined for each fiscal year of the Association in
 6 accordance with Subsection 8.1.5 of this Declaration.

7 1.19 "Member" shall mean any Person entitled to
 8 membership in the Association, as provided herein, provided,
 9 however, that there shall be only one Class "A" membership for
 10 each Lot, as further provided in Article 3 below.

11 1.20 "Mortgage" shall mean a deed of trust, as well
 12 as a mortgage, which, in either case, is Recorded against a Lot
 13 or any other part of the Property.

14 1.21 "Mortgagee" shall mean a beneficiary or holder
 15 of a deed of trust, as well as a mortgagee under a mortgage,
 16 which, in either case, is Recorded against a Lot or any other
 17 part of the Property.

18 1.22 "Occupant" shall mean any Person other than an
 19 Owner who occupies or is in possession of a Lot, whether as a
 20 lessee under a lease or ot^{Unofficial Document}.

21 1.23 "Owner" shall mean the Person or Persons who
 22 individually or collectively: (a) own fee title to a Lot (as
 23 evidenced by a Recorded instrument); or (b) hold the seller's
 24 or vendor's interest under a contract for conveyance, contract
 25 for deed, agreement for sale or similar contract through which
 26 a seller has conveyed to a purchaser equitable title in prop-
 erty and under which the seller is obligated to convey to the
 purchaser the remainder of the seller's title in the property,
 whether legal or equitable, on payment in full of all sums due
 under the contract. The term "Owner" shall not include:
 (i) any Person who holds an interest in a Lot merely as secu-
 rity for the performance of an obligation; or (ii) a lessee,
 tenant or other Occupant of a Unit. Developer shall be the
 "Owner" of each Unit with respect to which Developer holds the
 interest required by this Section and, in addition, shall be
 deemed to be the "Owner" of each Lot to which title is held by
 a trustee (other than the trustee of a deed of trust) for the
 benefit of Developer. Notwithstanding part (a) of this
 Section, in the case of a Lot, the fee title to which is vested
 in a trustee under a deed of trust pursuant to Chapter 6.1 of
 Title 33 of the Arizona Revised Statutes, the "Owner" of that
 Lot shall be deemed to be the owner of the trustor's interest
 under the deed of trust.

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1.24 "Person" (whether or not such term is capitalized herein) means a natural person, corporation, partnership, trustee or other legal entity.

1.25 "Phase" shall mean any one of the portions of the Property described and identified by a phase number or letter (or number and letter) on Exhibit "B" attached hereto and incorporated herein by reference. The numbers or letters (or numbers and letters) assigned to Phases hereby are and shall be for reference only and shall not control the order of development or sale of Lots within any Phase or from Phase to Phase. Developer shall retain full discretion as to the order and timing of the development and sales of Lots within any Phase or from Phase to Phase.

1.26 "Plat" shall mean that certain plat of Warner Ranch Landing Unit II recorded in Book 324 of Maps, page 28, in the office of Maricopa County, Arizona Recorder, as and if amended.

1.27 "Property" shall mean the real property described in Exhibit "A" attached hereto and shall further refer to such additional property, if any, as may hereafter be annexed thereto pursuant to Article 6 hereof or as is now or may hereafter be owned in ^{Unofficial Document} fee simple by the Association.

1.28 "Record", "Recording", "Recorded" and "Recordation" shall mean placing or having placed an instrument of public record in the official records of Maricopa County, Arizona, or of such other governmental authority, office or official with which or whom the applicable laws of the State of Arizona prescribe that documents affecting title to real property in the area including the Property are to be placed of public record.

1.29 "Residential Unit" shall mean any structure constructed on a Lot which is intended for use and occupancy as a residence by a single household.

1.30 "Special Assessments" shall mean those Assessments levied in accordance with Section 8.3 hereof.

ARTICLE 2

PROPERTY RIGHTS

Every Owner shall have a non-exclusive right and easement of enjoyment in, to and over the Common Area, subject to any restrictions or limitations contained herein or in any instrument conveying to the Association or subjecting to this

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1 Declaration such property, and subject further to the reason-
 2 able rules and regulations of the Association. Any Owner may
 3 assign his, her or its right of enjoyment to (and share the
 4 same with) the members of his or her household and assign the
 5 same to and share the same with his, her or its tenants and
 6 invitees subject to the provisions of this Declaration and to
 7 reasonable regulation by the Board and otherwise in accordance
 8 with such procedures as the Board may adopt.

9 ARTICLE 3

10 MEMBERSHIP AND VOTING RIGHTS

11 3.1 Membership. The Association shall have two (2)
 12 classes of membership, Class "A" and Class "B", as follows:

13 3.1.1 Class "A". There shall be one Class "A"
 14 membership in the Association for each Lot. Each such
 15 membership shall be held by the Owner (from time to time) of
 16 such Lot and shall be appurtenant to and may not be separated
 17 from ownership of such Lot. The foregoing is not intended to
 18 include Persons who hold an interest merely as security for the
 19 performance of an obligation, and the giving of a security
 20 interest shall not terminate an Owner's membership. No Owner,
 21 whether one or more Persons, shall have more than one
 22 membership per Lot owned. In the event any Lot is owned by two
 23 or more Persons, whether by joint tenancy, tenancy in common,
 24 community property or otherwise, the membership as to such Lot
 25 shall be joint, provided, however, that such Persons shall
 26 jointly designate to the Association in writing one of their
 number who shall have the power to vote said membership, and,
 in the absence of such designation and until such designation
 is made, the Board shall make such designation and such design-
 ation shall be binding for all purposes. In no event shall
 more than one (1) Class "A" membership exist for each Lot.
 Notwithstanding the foregoing, so long as the Class "B"
 membership is in existence, no Class "B" Member shall at the
 same time be a Class "A" Member nor shall a Class "B" Member
 have any Class "A" votes, and the membership and number of
 votes of the Class "B" Member(s) shall be determined in accor-
 dance with Subsections 3.1.2 and 3.2.2.

3.1.2 Class "B". Class "B" Members shall be
 Developer and any assignee of all or any part of Developer's
 Class "B" membership rights.

3.2 Voting The voting rights of the Class "A" and
 Class "B" Members are as follows:

3.2.1 Class "A". Each Class "A" Member shall be
 entitled on all issues to one (1) vote for each Lot with

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1 respect to which such Member holds the interest required for
 2 membership by Subsection 3.1.1 above. When more than one
 3 Person holds such interest in any Lot, there shall be only one
 4 (1) vote with respect to such Lot, which vote shall be exer-
 5 cised by the Person designated to exercise the power to cast
 6 such vote, as provided in Subsection 3.1.1. Any attempt to
 7 cast a vote appurtenant to a Lot in a manner inconsistent with
 8 that designation shall result in the suspension of the power to
 9 cast such vote until such time as such vote is cast in accor-
 10 dance with that designation. Any Owner of a Lot which is
 11 leased or which is subject to a valid, outstanding and recorded
 12 executory agreement of sale may, in the lease, agreement of
 13 sale or other written instrument, assign the voting right
 14 appurtenant to the Lot to the lessee of the Lot or to the pur-
 15 chaser of the Lot under such agreement of sale, as applicable,
 16 provided that a copy of such instrument is furnished to the
 17 Secretary of the Association prior to any meeting.

18 3.2.2 Class "B". The Class "B" Member or Members
 19 shall be entitled to three (3) votes for each Lot owned by such
 20 Class "B" Member or Members. Developer shall have the right,
 21 at any time and from time to time, to assign all or any part of
 22 its voting rights appurtenant to its Class "B" membership
 23 rights (as well as all or any other rights appurtenant thereto)
 24 to one or more persons or entities acquiring, for purposes of
 25 development and sale, any part of the Property. Further,
 26 Developer shall have the right, at any time and from time to
 time, to designate an individual or individuals to exercise
 Developer's voting rights (whether appurtenant to Class "A" or
 Class "B" membership), provided, however, that such designation
 shall not act as an assignment by Developer of its membership
 or voting rights hereunder. Upon the earlier to occur of:
 (i) January 1, 1994; or (ii) the time at which the total number
 of Class "A" votes outstanding (as determined pursuant to
Subsection 3.2.1) equals (or exceeds) the total number of Class
 "B" votes outstanding (as determined pursuant to the preceding
 provisions of this Subsection 3.2.2), the Class "B" membership
 shall terminate and be deemed converted to a Class "A"
 membership, whereupon the membership and voting rights of
 Developer (and any assignee of Developer's Class "B" membership
 rights) shall be determined in accordance with Subsections
3.1.1 and 3.2.1.

ARTICLE 4

MAINTENANCE

24 4.1 Association's General Responsibilities. The
 25 Association shall maintain and keep in good repair the Common
 26 Area (and certain other areas, as more expressly provided in

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1 this Section 4.1), the costs of such maintenance to be Common
 2 Expenses of the Association (subject to any insurance then in
 effect). This maintenance shall include, but not be limited to:

3 4.1.1 maintenance, repair and replacement of all
 4 landscaping and other flora, structures and improvements
 situated upon the Common Area, including any perimeter or
 boundary walls;

5 4.1.2 maintenance, repair and replacement of
 6 landscaping and flora in or upon public rights-of-way within or
 immediately adjacent to the Property (except as provided
 below);

7 4.1.3 maintenance, repair and replacement of
 8 landscaping and signs within areas designated on the Plat as
 "landscape easements," "landscape and wall easements" or "land-
 9 scape and sign easements" (or similar designations);

10 4.1.4 maintenance, repair and replacement of the
 11 side facing a street or portion of the Common Area of any
 boundary or perimeter wall situated within areas designated on
 the Plat as "wall easements" (or similar designations); and

12 4.1.5 maintenance and repair of any drainage
 13 easements upon or across ^{Unofficial Document} the Common Area.

14 Notwithstanding the foregoing: (a) landscaping and flora upon
 15 or in the public right-of-way for Warner Ranch Drive, or in
 areas of the Property adjacent to said public right-of-way des-
 16 ignated on the Plat as being "landscape easements," "landscape
 and wall easements" or similar designations, shall be the
 17 responsibility of the Master Association pursuant to the Master
 Declaration; and (b) maintenance of the side facing any public
 18 right-of-way of any boundary or perimeter walls situated upon
 the Property along Warner Ranch Drive shall be the responsibil-
 19 ity of the Association (unless such maintenance responsibility
 is assigned to, or expressly assumed by, the Master Association
 in or pursuant to the Master Declaration), while the mainte-
 20 nance of the side of such boundary or perimeter walls (and of
 boundary or perimeter walls between Common Area and an Owner's
 21 Lot) facing an Owner's Lot shall be the responsibility of such
 Owner.

22 4.2 Maintenance of Owner's Structures. Each Owner
 23 shall be responsible for the maintenance, cleaning, painting,
 repair and general care of the Residential Unit and any other
 24 structure existing or constructed upon such Owner's Lot, and,
 in particular, each Owner shall cause the exterior of said
 25 Residential Unit or other structure to be maintained in good
 condition and repair and in an attractive state consistent with
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1 general community standards within the Property. In the event
 2 that the Association shall determine, by the affirmative vote
 3 of a majority of the votes of each class of Members represented
 4 in person or by valid proxy at a meeting called for such pur-
 5 pose, that any Owner is in breach of such Owner's obligation to
 6 cause the exterior of the Residential Unit or other structure
 7 on such Owner's Lot to be maintained in good condition and
 8 repair and in an attractive state consistent with general com-
 9 munity standards within the Property, the Association shall
 10 promptly give such Owner written notice of such determination,
 11 including a reasonably detailed list or description of the
 12 repairs, maintenance or other work required to cure such
 Owner's breach, and in the event the Owner shall not have cured
 such breach within thirty (30) days after the date of said
 written notice, the Association shall cause the repairs, main-
 tenance or other work to be performed so as to cure such
 Owner's breach, and the Association's costs in doing so,
 together with interest from the date of expenditure at the rate
 set forth in Section 10.8 of this Declaration, shall constitute
 a lien on such Owner's Lot, which lien shall have the priority
 and may be enforced in the manner described in Section 8.4 of
 this Declaration. The Association shall have an easement on,
 over, across and through each Lot to permit it to carry out its
 duties and obligations under this Article 4.

13 4.3 Publicly-Dedicated Areas. Except as expressly
 14 provided in this Article 4 (and, in particular, in
 15 Subsection 4.1.2), and except as may otherwise be required by
 16 applicable law, the Association shall have no responsibility to
 maintain any areas within the Property (including, but not
 limited to, public streets) which are dedicated to or the
 responsibility of a municipality or other governmental entity.

17 4.4 No Discrimination. The provision of services in
 18 accordance with this Article shall not be deemed to be discrim-
 ination in favor of or against any Owner.

19 4.5 Conformance with Landscape Plans. All landscap-
 20 ing shall conform to the landscape plans for the Property, as
 approved by the City of Tempe, where applicable.

21 ARTICLE 5

22 INSURANCE AND FIDELITY BONDS; CASUALTY LOSSES

23 5.1 Insurance to be Obtained by the Association.

24 5.1.1 Hazard Insurance.

25 (a) The Board, acting on behalf of the
 26 Association, shall obtain and maintain at all times insurance

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1 for all insurable improvements on the Common Area against loss
 2 or damage by fire or other hazards, casualties and risks
 3 embraced within the coverage of the standard "extended cover-
 4 age" policy available from time to time in the State of
 5 Arizona, against all other perils customarily covered for simi-
 6 lar types of projects (including those covered by the standard
 7 "all risk" endorsement available from time to time in the State
 8 of Arizona), and against loss or damage due to vandalism and
 9 malicious mischief. Said insurance shall be in an amount equal
 10 to 100% of the current replacement cost, from time to time,
 11 without deduction for depreciation, of all such insurable
 12 improvements (excluding land, foundations, excavations and
 13 other items usually excluded from such insurance coverage, but
 14 including fixtures and building service equipment and personal
 15 property and supplies owned by the Association), with such
 16 amount to be redetermined annually by the Board with the assis-
 17 tance of the insurer or insurers providing such coverage.

18 (b) The policy or policies providing the insur-
 19 ance required by this Subsection 5.1.1 shall provide that:
 20 (i) any insurance trust agreement will be recognized; (ii) the
 21 insurer shall waive any right of subrogation against the
 22 Owners, the Board or the Association, and their respective
 23 agents, employees, guests and household members; (iii) such
 24 insurance shall not be cancelled, invalidated or suspended by
 25 reason of any acts or Unofficial Document omissions of any Owner (or of such
 26 Owner's invitees, agents, employees or household members), or
 of any member, officer or employee of the Board without a prior
 written demand to the Board that any such act or omission be
 cured and without providing a sixty (60) day period within
 which the Board may cure such act or omission (or cause the
 same to be cured); (iv) such insurance coverage shall be pri-
 mary, and shall in no event be brought into contribution with
 any insurance maintained by individual Owners or their
 Mortgagees; and (v) the coverage afforded by such policy or
 policies shall not be prejudiced by any act or omission of any
 Owner or Occupant (or their agents) when such act or omission
 is not within the control of the Association.

20 (c) The policy or policies providing the insur-
 21 ance required by this Subsection 5.1.1 shall also contain (if
 22 available at no additional cost or at such additional cost as
 23 is not demonstrably unreasonable) the following endorsements
 24 (or their equivalents): (i) "agreed amount" and "inflation
 25 protection" endorsements; (ii) "increased cost of construction"
 26 endorsement; (iii) "contingent liability from operation of
 building laws or codes" endorsement; and (iv) "demolition cost"
 endorsement.

25 (d) The policy or policies providing the insur-
 26 ance required by this Subsection 5.1.1 shall also contain a

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1 steam boiler and machinery endorsement providing coverage in an
2 amount not less than the lesser of \$2,000,000 or the insurable
3 value of the building(s) housing such boiler and machinery, if
4 any.

5 (e) Unless a higher maximum deductible amount is
6 required by applicable law, each policy providing the insurance
7 coverage required by this Subsection 5.1.1 shall provide for a
8 deductible not to exceed the lesser of \$10,000 or one percent
9 (1%) of the face amount of such policy.

10 5.1.2 Liability Insurance. The Board, acting on
11 behalf of the Association, shall obtain and maintain at all
12 times a comprehensive general liability policy insuring the
13 Association, each member of the Board and each Owner (and, so
14 long as Developer, or any Person with whom Developer contracts
15 directly for the performance of all or a substantial portion of
16 Developer's rights and obligations hereunder, or for the con-
17 struction of substantial improvements on the Property, retains
18 an interest in the Property or any Lot, insuring Developer and
19 such Person, if identified by Developer to the Association,
20 provided that any added premium cost or other expense resulting
21 from naming Developer or such Person as insureds shall be borne
22 by Developer or such other Person), against any liability to
23 the public or to any Owner or Occupant (and such Owner's or
24 Occupant's invitees, agents, employees and household members)
25 for death, bodily injury and property damage arising out of or
26 incident to the ownership or use of the Common Area or arising
out of or incident to the performance by the Association of its
maintenance and other obligations hereunder. The Board, with
the assistance of the insurer(s) providing such coverage, shall
review annually the amounts of coverage afforded by said com-
prehensive general liability policy or policies and adjust such
amounts of coverage as the Board deems appropriate, but in no
event shall said policy or policies provide coverage less than
One Million Dollars (\$1,000,000.00) for death, bodily injury
and property damage for any single occurrence. The policy or
policies providing such insurance shall, by specific endorse-
ment or otherwise, preclude denial by the insurer(s) providing
such insurance of a claim under such policy or policies because
of negligent acts or omissions of the Association or any
Owner(s) (or of Developer or any other Person named as an
insured or additional insured thereunder).

23 5.1.3 Flood Insurance. In the event any part of
24 the Common Area is in a "special flood hazard area," as defined
25 by the Federal Emergency Management Agency (or its successors),
26 the Board, acting on behalf of the Association, shall obtain
(and maintain at all times during which any part of the Common
Area is in such a "special flood hazard area") a "master" or
"blanket" policy of flood insurance covering all insurable

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1 improvements on the Common Area and covering any personal prop-
 2 erty situated from time to time within such improvements (to
 3 the extent such personal property is normally covered by the
 4 standard flood insurance policy available from time to time in
 5 the State of Arizona). Said insurance shall be in an amount
 6 not less than the lesser of: (a) 100% of the current replace-
 7 ment cost, from time to time, of all such insurable improve-
 8 ments (and such insurable personal property) located in the
 "special flood hazard area"; or (b) the maximum coverage avail-
 able for such insurable improvements and insurable personal
 property under the National Flood Insurance Program. Unless a
 higher maximum deductible amount is required by applicable law,
 the policy providing such insurance shall provide for a deduct-
 ible not to exceed the lesser of \$5,000 or one percent (1%) of
 the face amount of such policy.

9 5.1.4 General Provisions Governing Insurance.

10 The insurance required to be obtained under Subsections 5.1.1,
 11 5.1.2 and 5.1.3 shall be written in the name of the Association
 as trustee for each of the Owners and for each Mortgagee (as
 their respective interests may appear) and shall be governed by
 the provisions hereinafter set forth:

12 (a) All policies shall be written with one or
 13 more companies authorized to provide such insurance in the
 State of Arizona;

14 (b) Exclusive authority to adjust losses under
 15 policies in force on property owned or insured by the
 Association shall be vested in the Board;

16 (c) In no event shall the insurance coverage
 17 obtained and maintained by the Board hereunder be brought into
 18 contribution with insurance purchased by individual Owners,
 Occupants or their Mortgagees, and the insurance carried by the
 Association shall be primary;

19 (d) Subject to the requirement of item (ii) of
 20 Subsection 5.1.1(b) above, the Board shall be required to make
 21 every reasonable effort to secure insurance policies that will
 22 provide for a waiver of subrogation by the insurer as to any
 23 claims against the Board or the Owners and their respective
 tenants, servants, agents and guests (if securing same will
 impose on the Association no additional cost or only such rea-
 sonable cost as the Board may approve, in its discretion);

24 (e) Each policy providing insurance coverage
 25 required by Subsections 5.1.1, 5.1.2 and 5.1.3 shall require
 the applicable insurer to give not less than ten (10) days
 written notice to the Association, and to each Mortgagee which

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1 shall have given such insurer written notice of such
 2 Mortgagee's interest in a Lot (which notice must include the
 name and address of such Mortgagee), of any cancellation,
 refusal to renew or material modification of such policy.

3 5.1.5 Fidelity Bonds. The Board, acting on
 4 behalf of the Association, shall obtain and maintain at all
 times adequate fidelity bond coverage to protect against dis-
 5 honest acts on the part of officers, directors and employees of
 the Association and all others who handle, or are responsible
 6 for handling, funds held or administered by the Association,
 whether or not such officers, directors, employees or others
 receive compensation for services they render to or on behalf
 7 of the Association. Any independent management agent which
 handles funds for the Association shall also obtain (and pay
 8 for) such fidelity bond coverage with respect to its own
 activities (and those of its directors, officers and employees,
 9 whether or not such directors, officers or employees receive
 compensation for services rendered). Such fidelity bonds:
 10 (a) shall name the Association as obligee; (b) shall be issued
 by one or more companies authorized to issue such bonds in the
 11 State of Arizona; and (c) shall be in an amount sufficient to
 cover the maximum total of funds reasonably expected by the
 12 Board to be in the custody of the Association or such agent at
 any time while such bond is in force, but in no event shall the
 13 amount of such fidelity bond coverage be less than the sum of
 three (3) months' Annual Assessments on all Lots, plus the
 14 total of funds held in the Association's reserves. Each such
 fidelity bond shall provide that the issuer thereof shall pro-
 15 vide not less than ten (10) days written notice to the
 Association and to each Eligible Mortgage Holder before such
 16 bond may be cancelled or substantially modified for any reason.

17 5.1.6 Workers' Compensation Insurance. The
 Board, acting on behalf of the Association, shall obtain and
 18 maintain workers' compensation insurance if and to the extent
 necessary to meet the requirements of applicable law.

19 5.1.7 Cost of Insurance. All premiums for the
 20 insurance or bonds required to be obtained by the Board by this
 Section 5.1 shall be Common Expenses (except that, as provided
 21 in subsection 5.1.5 above, the cost of the fidelity bond
 required to be furnished by any independent management agent
 22 shall be paid by such agent, and, as provided in
Subsection 5.1.2 above, any added cost of naming Developer, or
 23 any Person with whom or which Developer contracts directly for
 the performance of all or a substantial portion of Developer's
 24 obligations hereunder, or for the construction of improvements
 on the Property, shall be borne by Developer or such other
 25 Person). The Board shall not be liable for failure to obtain

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1 or maintain any of the insurance coverage required by this
 2 Section 5.1, or for any loss or damage resulting from such
 3 failure, if such failure is due to the unavailability of such
 insurance coverage from reputable companies authorized to pro-
 vide such insurance in the State of Arizona, or if such insur-
 ance coverage is available only at an unreasonable cost.

4 5.1.8 Subsequent Changes in Insurance
 5 Requirements. It is the intention of this Article 5 (and, in
 6 particular, of this Section 5.1), to impose upon the
 7 Association the obligation to obtain and maintain in full force
 8 and effect at least those types and amounts of insurance as are
 9 required, at the time this Declaration is recorded, by the
 10 Federal National Mortgage Association, Federal Home Loan
 11 Mortgage Corporation, Veterans Administration and Federal
 12 Housing Administration. However, notwithstanding any provision
 13 of this Declaration to the contrary, should any or all of said
 14 agencies subsequently amend or modify their respective require-
 15 ments regarding the insurance coverage required to be main-
 16 tained by the Association, the Board, acting on behalf of the
 17 Association, shall, promptly upon receiving notice of such
 18 amendment or modification from any such agency, from any Owner
 19 or Eligible Mortgage Holder or from Developer, obtain such
 20 additional, modified or amended policy or policies of insurance
 21 as may be necessary to conform to such amended or modified
 22 requirements. Should such requirements of any such agency con-
 23 flict with the requirements of any other such agency or with
 24 applicable provisions of law, the Board, acting on behalf of
 25 the Association, shall diligently work with such agency or
 26 agencies to resolve such conflict and shall thereafter obtain
 and maintain such additional, modified or amended policy or
 policies of insurance as may be necessary to conform with the
 requirements of such agencies, taking into account the resolu-
 tion of said conflict. In the event the Board, after exercise
 of such diligence, is unable to resolve such conflict, the
 Board, acting on behalf of the Association, shall exercise its
 good faith business judgment and obtain and maintain in full
 force and effect such insurance coverage as the Board, in the
 exercise of such judgment, deems to conform as closely as pos-
 sible with the applicable requirements of all such agencies,
 and of law, taking into account such conflict.

22 5.2 Insurance to be Obtained by the Owners.

23 5.2.1 Public Liability Insurance. It shall be
 24 the individual responsibility of each Owner to provide, as such
 25 Owner sees fit and at such Owner's sole expense, such compre-
 26 hensive public liability insurance as such Owner may desire
 against loss or liability for damages and any expense of

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1 defending against any claim for damages which might result from
the ownership, use or occupancy of such Owner's Lot.

2 5.2.2 Hazard and Contents Insurance. It shall be
3 the individual responsibility of each Owner to provide, as such
4 Owner sees fit and at such Owner's sole expense, such fire,
5 liability, theft and any other insurance as such Owner may
6 desire covering the Residential Unit and any other structure on
such Owner's Lot, as well as any and all fixtures and personal
structure(s).

7 5.3 Casualty Losses.

8 5.3.1 Damage and Destruction.

9 (a) Immediately after any damage or destruction
10 by fire or other casualty to all or any part of the property
11 required to be insured by the Association under Section 5.1
12 above, the Board or its duly authorized agent shall:
13 (i) proceed with the filing and adjustment of all claims arising
14 under such insurance; (ii) obtain reliable and detailed
15 estimates of the cost of repair or reconstruction of the damaged
16 or destroyed property Unofficial Document (iii) upon receipt of the proceeds
17 of such insurance and except as is otherwise provided in
this Subsection 5.3.1, use such proceeds to repair or
reconstruct the damaged or destroyed property. Repair or
reconstruction, as used in this Article 5, means repairing or
restoring the property in question to substantially the same
condition as that in which it existed prior to the fire or
other casualty (or, where applicable, replacing the damaged or
destroyed property with property substantially similar to the
damaged or destroyed property as it existed prior to such damage
or destruction).

18 (b) Any major damage or destruction to the prop-
19 erty required to be insured by the Association under Section
20 5.1 above shall be repaired or reconstructed unless: (i) at a
21 special meeting of the Members of the Association duly noticed
22 and convened within sixty (60) days after the occurrence of
23 such damage or destruction, the Members determine, by a vote of
24 Owners owing not less than seventy-five percent (75%) of all
25 Lots, not to so repair or reconstruct; and (ii) Eligible
26 Mortgage Holders representing at least fifty-one percent (51%)
of all Lots subject to First Mortgages held by Eligible
Mortgage Holders concur in such determination not to so repair
or reconstruct; and (iii) the office of the City Attorney for
the City of Tempe, Arizona, concurs in such determination not
to so repair or reconstruct (or waives in writing its right to
concur in or disapprove such determination). If for any reason
either the amount of the insurance proceeds to be paid as a