

BYLAWS OF
VILLAS OF CAVE CREEK OWNERS ASSOCIATION

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ARTICLE 1

Name and Location

The name of the homeowners association (the "Association") is VILLAS OF CAVE CREEK OWNERS ASSOCIATION. The principal office of the Association shall be located in Maricopa County, Arizona or at such other place as the Board of Directors may specify.

ARTICLE 2

Definitions

2.1 Definition of Declaration

"Declaration" shall mean and refer to the Declaration of Covenants, Conditions, Restrictions and Easements applicable to the Property recorded on _____, 1996, as Document No. _____, in the office of the Maricopa County Recorder.

2.2 Declaration Definitions

The definitions contained in the Declaration are incorporated in these Bylaws by reference.

ARTICLE 3

Membership; Meetings of Members; Voting Rights

3.1 Membership

The Owner of an Interval Interest or a Lot which is not a Dedicated Lot shall automatically, upon becoming the record Owner of the same, be a Member of the Association and shall remain a Member thereof until such time as his ownership ceases for any reason, at which time his Membership in the Association shall automatically cease. Membership and voting rights are appurtenant to and inseparable from ownership of an Interval Interest or a Lot. Voting and other rights and obligations will vest and accrue as set forth in the Declaration.

3.2 Annual Meetings

Regular meetings of Members of the Association shall be held annually on the Property or such other suitable place

convenient to the Members within or without this state as may be designated by the Board at the time and on the date set by the Board for such annual meeting, but in no event shall the first meeting be held later than one (1) year after the close of escrow for the sale of the first Interval Interest.

3.3 Special Meetings

A special meeting of the Members of the Association may be called by the President of the Association, by the Board upon the vote for such a meeting by a majority of the Board, or upon receipt of a written request therefor signed by Members representing at least ten percent (10%) of the total votes entitled to be cast at such meeting.

3.4 Notice of Meetings

Written notice of regular and special meetings shall be given to Members by or at the direction of an Officer of the Association by mailing a notice in the manner provided in Subarticle 12.4 below to each Member which shall specify the place, day and hour of the meeting and, in the case of a special meeting, the nature of the items on the agenda to be undertaken. Except as provided in Subarticle 3.9 below, notice shall be delivered or mailed to each Member at least ten (10) and not more than fifty (50) days prior to the meeting.

3.5 Quorum

The presence in person or by proxy of at least ten percent (10%) of the total votes of each class of Membership entitled to be cast at the meeting shall constitute a quorum except as specifically provided to the contrary in the Declaration, the Articles or these Bylaws. If a quorum is not present, the provisions of Subarticle 3.9 below shall apply, but the quorum at the reconvened meeting shall be the presence in person or by proxy of at least five per cent (5%) of the total votes of each class of Membership entitled to be cast at the meeting, except as specifically provided to the contrary in the Declaration, the Articles or these Bylaws. The Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment notwithstanding the withdrawal of enough Members to leave less than a quorum.

3.6 Action Without a Meeting

Any action that, under the provisions of Arizona corporate law, may be taken at a meeting of the Members may be taken without a meeting if authorized by a writing signed by all of the Persons who would be entitled to vote upon such an action at a meeting and filed with the Secretary of the Association.

3.7 Joint Ownership of Lots

When more than one Person owns an interest in any Interval Interest or Lot which is not a Dedicated Lot, all such Persons shall be Members of the Association. The vote for such Interval Interest or Lot shall be exercised as the Owners of the Interval Interest or Lot determine among themselves, but in no event shall more than one (1) ballot be cast for or with respect to any Interval Interest or Lot concerning a particular vote of the Association. The vote for each Interval Interest or Lot must be cast as a unit and fractional division of the votes shall not be allowed. If the vote for an Interval Interest or Lot is fractionally divided as a result of being cast by more than one Owner of a particular Interval Interest or Lot during a particular vote of the Association, said vote shall not be counted and shall be deemed void. If any Owner or Owners cast a vote on behalf of an Interval Interest or a Lot, it will thereafter be conclusively presumed for all purposes that he or they was/were acting with the authority and consent of all Owners of the Interval Interest or Lot unless any other Owners of the Interval Interest or Lot promptly protest such action to the Person presiding over the meeting.

3.8 Proxies

At all meetings of Members, each Member may vote (or register protest to the casting of the vote for the Member's Interval Interest or Lot by another Owner of the Interval Interest or Lot) in person or by proxy. All proxies shall be in writing and filed with the Secretary before the appointed time of each meeting. Every proxy shall be revocable and may be revoked upon actual notice of revocation to the Person presiding over a meeting of the Association or upon presentation of a later dated proxy executed by the same Member. A proxy is void if it is not dated or purports to be revocable without notice. A proxy terminates twenty-five (25) months after its date unless it specifies a shorter term. All proxies shall be automatically revoked upon conveyance by the Member of his Lot or upon receipt of actual notice by the Secretary of the death or judicially declared incompetence of such Member.

3.9 Adjournment

At any meeting of the Members, the meeting may be adjourned to another time and place and notice need not be given of the reconvened meeting if the time and place of the reconvened meeting are announced at the meeting at which adjournment is taken and the reconvened meeting is held within thirty (30) days of the adjourned meeting. In the absence of a quorum at a meeting of the Members, a majority of those present in person or by proxy may adjourn the meeting as provided above but may not transact any other business. At any reconvened meeting, the reduced quorum prescribed in the Declaration and/or in these Bylaws shall be required.

3.10 Classes of Membership

The Association shall have two (2) classes of voting Membership established according to the Declaration.

3.11 Commencement of Voting Rights

Voting rights attributable to each Lot shall vest in accordance with the terms and provisions of the Declaration.

3.12 Record Date

For any meeting of the Members, the Board of Directors may fix in advance a date, not more than sixty (60) days nor less than ten (10) days before the date of such meeting, as a record date for the determination of the Members of record entitled to notice of, and to vote at, such meeting. The Members entitled to vote at any meeting of the Members will be determined as of the applicable record date if one has been fixed as aforesaid, otherwise, as of the time the meeting is convened.

3.13 Organization and Conduct of Meetings

All meetings of Members will be called to order and thereafter chaired by the Chairman of the Board if there is one or, if not, or if the Chairman of the Board is absent or so requests, then by the President. If both the Chairman of the Board and the President are unavailable, such other Officer of the Association or authorized agent of the Association, including a representative of the Managing Agent, or such Member as may be appointed by the Board of Directors may call the meeting to order and chair the meeting. The Association's Secretary will act as secretary of each Membership meeting. In his or her absence, the chairman of the meeting may appoint any Person (whether a Member or not) to act as secretary thereat. After calling a meeting to order, the chairman thereof may require the registration of all Members intending to vote in person and the filing of all proxies with the election inspector or inspectors, if one or more has/have been appointed (or, if not, with the secretary of the meeting). After the announced time for such filing of proxies has ended, no further proxies or changes, substitutions or revocations of proxies will be accepted. If Directors are to be elected, a tabulation of the proxies so filed, if any Person entitled to vote in such election so requests, will be announced at the meeting (or adjournment thereof) prior to the closing of the election polls. Absent a showing of bad faith on his part, the chairman of the meeting will, among other things, have absolute authority to fix the period of time allowed for the registration of Members and the filing of proxies, to determine the order of the business to be conducted at such meeting and to establish reasonable rules for expediting the business of the meeting (including any informal or question-and-answer portion thereof).

ARTICLE 4

Board of Directors; Selection; Term of Office

4.1 Number; Qualifications and Term of Directors

Until the first election of Directors as described in Paragraph 3.5 of the Declaration, all Directors shall serve at the pleasure of Declarant. Thereafter, all Directors shall be elected for staggered terms as follows: The first Director (the Director with the most votes), elected at the first election of Directors for the Association shall serve a three-year term, the Director with the next highest vote total elected at that meeting shall serve a two-year term, and the remaining Director shall serve a one-year term. Thereafter, all Directors shall be elected to three-year terms. All elections and appointments of Directors under these Bylaws shall be for such terms as will preserve the staggering of terms as provided in this Subarticle 4.1.

The Directors may be Owners or agents of Declarant (while Declarant remains an Owner). If an Owner other than Declarant is a corporation, partnership or trust, a Director may be an officer, partner, trustee, or beneficiary of such Owner. If a Director shall fail to meet such qualifications during his term, he will thereupon cease to be a Director, and his place on the Board shall be deemed vacant.

4.2 Election of Board of Directors

4.2.1 Nomination

Nominations for election to the Board of Directors may be made from the floor at the annual meeting of the Association. Additionally, the Board may appoint a Nominating Committee which shall consist of a chairman (who shall be a member of the Board of Directors) and two (2) or more Members of the Association. If the Board determines to appoint a Nominating Committee, the Committee shall be appointed at least ninety (90) days prior to the annual meeting of the Members, to serve until the close of such annual meeting, and shall make as many nominations for election to the Board of Directors as it in its discretion shall determine but not less than the number of vacancies that are to be filled.

4.2.2 Secret Ballot; No Cumulative Voting

Election of the Board members by the Association Membership shall be by secret written ballot. Cumulative voting shall not be permitted except as may be required by law. In the event of a tie for any position, a run-off election shall be held and the successful candidate may be determined by a voice vote, or, if inconclusive, by another balloting of the Members.

4.3 Removal

The entire Board or any individual Director may be removed from office by an affirmative vote of Members holding a majority of the voting power in each class of Membership entitled to vote at an election of Directors. If any Director is so removed, a new Director may be elected at the same meeting.

4.4 Vacancies

Vacancies in the Board caused by any reason other than the removal of a Director by a vote of the Members shall be filled by vote of the majority of the remaining Directors, and each Person so elected shall be a Director for the remainder of the term of the Director he replaces or until a successor is elected at a special meeting of the Members called for that purpose. The Board shall have the power to declare that a Director's absence from three (3) consecutive regular and duly noticed meetings of the Board shall constitute a vacancy. Vacancies created by the removal of a Director by the Members as provided in Subarticle 4.3 hereof shall be filled by a vote of the Members.

ARTICLE 5

Meetings of Directors

5.1 Regular Meetings

Regular meetings of the Board shall be conducted at least annually at a time and place within or near the Property as may be fixed by the Board. Notwithstanding the foregoing, participation at a Directors' meeting pursuant to this subarticle may be by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation by any Director shall constitute a Director's "presence" thereat. Notice of the time and place of regular meetings shall be given to each Director, personally or by mail, telephone or telegraph, at least three (3) days prior to the day named for the meeting.

5.2 Special Meetings

A special meeting of the Board may be called by written notice signed by the President of the Association or by any two (2) Directors other than the President. Notice shall be provided to all Directors and shall include a description of the nature of any special business to be considered by the Board.

5.3 Waiver of Notice

Before any meeting of the Board, any Director may, in writing, waive notice of such meeting, and such waiver shall be deemed equivalent to the giving of such notice to that Director.

Attendance by a Director at any meeting of the Board shall be a waiver of notice by him of the time and place of the meeting unless such attendance is for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Furthermore, any action to be taken by the Directors pursuant to the Articles, the Declaration or these Bylaws may be taken without a meeting if all Directors consent thereto in writing. Such consent shall have the same effect as a unanimous vote.

5.4 Quorum

The presence in person of a majority of the Directors at the beginning of any meeting of the Board shall constitute a quorum throughout the meeting. Every act or decision done or made by a majority of the Directors at a duly held meeting at which a quorum is present shall be regarded as an act of the Board.

ARTICLE 6

Powers and Duties of the Board of Directors

6.1 Powers and Duties

The Board shall have the powers and duties necessary for the administration of the affairs of the Association. Without limitation on the generality of the foregoing powers and duties, the Board shall be vested with, and responsible for, the following powers and duties:

6.1.1 To select, appoint, supervise and remove all Officers, agents and employees of the Association, including a Managing Agent; to prescribe such powers and duties for them as may be consistent with Arizona corporate laws governing nonprofit corporations and with the Project Documents; to fix their compensation (if not prohibited under these Bylaws); and to require from them security for faithful service when deemed advisable by the Board.

6.1.2 To enforce the applicable provisions of the Project Documents and any other instruments relating to the ownership, management and control of the Property.

6.1.3 To adopt and publish Rules and Regulations governing the use of the Common Area and facilities and the personal conduct of the Members and their Permitted Users thereon and to establish procedures and penalties for the infraction thereof, subject to approval of the Members as provided in Subarticle 9.1 hereof.

6.1.4 To pay all taxes and assessments which are, or could become, a lien on the Common Area or a portion thereof or any Dedicated Lots.

6.1.5 To contract for casualty, liability and other insurance on behalf of the Association as provided in the Declaration.

6.1.6 To cause to be maintained the portions of the Common Area, the Lots, the Dedicated Units, the Common Furnishings and other real or personal property for which the Association is responsible pursuant to the Declaration and to contract for goods and/or services therefor or for the Association, subject to the limitations set forth in the Project Documents.

6.1.7 To prepare, adopt and amend budgets and financial statements for the Association without the consent of the Members as prescribed in the Declaration and these Bylaws.

6.1.8 To initiate and execute disciplinary proceedings against Members of the Association for violations of the provisions of the Project Documents in accordance with procedures adopted pursuant to these Bylaws and to impose suspensions of rights and reasonable monetary penalties as provided in Subarticle 9.1 hereof.

6.1.9 To enter upon Lots and Units in connection with construction, maintenance, repairs and operation as permitted by the Declaration.

6.1.10 To borrow money and incur indebtedness for purposes of the Association; to cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

6.1.11 To fix and collect Basic and Special Assessments according to the Declaration and these Bylaws and, if necessary, to record a notice of Assessment Lien and foreclose said Lien against any Lot for which an Assessment is not paid within thirty (30) days after the due date or bring an action at law against the Owner personally obligated to pay such Assessment. All reserves for capital expansion, repair and maintenance shall be transferred to and held in a separate Reserve Account for such purpose, to be expended only in the manner prescribed by the Membership or the Board in accordance with a duly adopted budget.

6.1.12 To prepare and file annual tax returns with the federal government and the State of Arizona and to make such elections as may be necessary to reduce or eliminate the tax liability of the Association. Without limiting the generality of the foregoing, the Board may, on behalf of the Association, elect to be taxed under Section 528 of the Internal Revenue Code or any successor statute conferring income tax benefits on homeowners associations. In connection therewith, the Board shall take such steps as are necessary to assure that the income and expenses of the Association for any taxable year shall meet the following limitations and restrictions:

6.1.12.1 At least sixty percent (60%) of the gross income of the Association for any taxable year shall consist solely of amounts received as Membership Assessments from Owners;

6.1.12.2 At least ninety percent (90%) or more of the expenditures of the Association for any taxable year shall be for the acquisition, construction, management, operation, maintenance and care of the Property; and

6.1.12.3 No part of the net earnings of the Association shall inure to the benefit of any private individual (other than by acquiring, constructing or providing management, maintenance and care of the Common Area and other Association property and other than by a rebate of excess Assessments).

6.1.13 To delegate to committees, Officers or employees of the Association or to a Managing Agent pursuant to a written contract the powers described in Subarticles 6.1.2 through 6.1.10 and 6.1.12 and the right to collect (but not to fix) the Assessments and to take all permitted actions to collect the same as provided in Subarticle 6.1.11.

6.2 Limitation on Board's Power

Except with the vote or written assent of a majority of the votes in the Association residing in Members other than Declarant represented at an annual or special meeting of the Association, the Board shall be prohibited from taking any of the following actions:

6.2.1 Selling during any fiscal year property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.

6.2.2 Paying compensation to Directors or Officers of the Association for services performed in the conduct of the Association's business, provided, however, that the Board may cause a Director or Officer to be reimbursed for expenses incurred in carrying on the business of the Association.

6.2.3 Entering into a contract with a third Person wherein the third Person will furnish goods or services for the Common Area or the Association for a term longer than one (1) year with the following exceptions:

6.2.3.1 A management contract with a Managing Agent which shall not exceed three (3) years;

6.2.3.2 A contract with a public utility company if the rates charged for the materials or services are regulated by the Arizona Corporation Commission or successor agency, provided however, that the term of the contract shall not

exceed the shortest term for which the supplier will contract at the regulated rate; and

6.2.3.3 Prepaid casualty and/or liability insurance policies not to exceed three (3) years' duration, provided however, that the policy permits short rate cancellation by the insured.

ARTICLE 7

Officers and Duties

7.1 Enumeration and Term

The Officers of this Association shall be a president and vice president (who shall at all times be members of the Board of Directors), a secretary, a treasurer (or a combined secretary-treasurer as permitted by Subarticle 7.5 below) and such other Officers as the affairs of the Association may require and as the Board by resolution, may from time to time establish. The Officers may be Owners or agents of Declarant (while Declarant remains a Lot Owner). The Officers shall hold office for one (1) year unless they shall sooner resign, shall be removed or shall otherwise be disqualified to serve.

7.2 Election of Officers

The election of Officers by the Board shall take place at the first meeting of the Board of Directors following each annual meeting of the Members.

7.3 Resignation and Removal

At any time with or without cause, any Officer may be removed from office by a majority of the 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.

7.4 Vacancies

A vacancy in any office may be filled by appointment by the Board. The Officer appointed to fill such vacancy shall serve for the remainder of the term of the Officer he replaces. If, however, the office of President becomes vacant, the Vice President (or Secretary if no Vice President exists) shall automatically fill the office of President and shall serve the remainder of the term. The Board shall then fill by appointment the vacant position of Vice President (or Secretary).

7.5 Multiple Offices

The offices of Secretary and Treasurer may be held by the same Person. No Person shall simultaneously hold more than one of any of the other offices except in the case of special offices created pursuant to Subarticle 7.1 above.

7.6 Duties

The duties of the Officers are as follows:

7.6.1 President

The President shall preside at all meetings of the Board of Directors, shall see that orders and resolutions of the Board are carried out, shall sign all leases, mortgages, deeds and other written instruments and shall cosign all checks (unless the authority to sign checks in the ordinary course of Association business has been delegated to a management company as provided in these Bylaws) and promissory notes. The President shall execute, certify and record all amendments to the Declaration, the Articles or these Bylaws adopted by the Members from time to time.

7.6.2 Vice President

The Vice President shall act in the place and stead of the President in the event of his absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required of him by the Board.

7.6.3 Secretary

The Secretary shall record the votes and keep the minutes of all meetings and proceedings of the Board and of the Members, shall serve notice of meetings of the Board and of the Members, shall keep appropriate current records showing the Members of the Association together with their addresses and shall perform such other duties as required by the Board.

7.6.4 Treasurer

The Treasurer shall receive and deposit in appropriate bank accounts all monies of the Association, shall disburse such funds as directed by resolution of the Board of Directors, shall cosign all checks and promissory notes of the Association and shall keep proper books of account and prepare or have prepared financial statements as required in these Bylaws. The duty of the Treasurer to receive and deposit funds and to cosign checks in the ordinary course of Association business may be delegated to a management company as provided in these Bylaws.

ARTICLE 8

Maintenance; Assessments

Pursuant to the procedures and guidelines set forth in the Declaration, the Board shall levy, collect and enforce Basic and Special Assessments for the operation of the Association and for the management, maintenance and operation of the Property for which the Association is responsible pursuant to the Declaration. The Assessments shall be used exclusively to promote the recreation, health, safety and welfare of all Owners and for the improvement and maintenance of the Property.

ARTICLE 9

Discipline of Members; Suspension of Rights

The Association shall have no power to cause a forfeiture or abridgement of an Owner's ownership of his individually owned Interval Interest or Lot on account of a failure by the Owner to comply with provisions of the Project Documents, except where the loss or forfeiture is the result of the judgment of a court or a decision arising out of arbitration or on account of a foreclosure or sheriff's sale for failure by the Owner to pay Assessments levied by the Association. Notwithstanding the foregoing, the Board shall have the power to impose reasonable temporary suspensions of an Owner's voting rights as a Member of the Association and/or rights to use the Property or any Use Period and further provided that the accused shall be given reasonable notice and the opportunity to be heard by the Board with respect to the alleged violation before a decision to impose discipline is reached. In a case in which monetary penalties are to be imposed, such penalties shall be according to a schedule of penalties related to specific offenses, which schedule shall be proposed by the Board and approved by the vote or written assent of a majority of the votes in each class of Membership. Such penalties shall bear a reasonable relationship to the conduct for which the penalty is imposed and may only be imposed prospectively.

ARTICLE 10

Budgets; Financial Statements; Books and Records10.1 Budgets and Financial Statements

Financial statements for the Association shall be regularly prepared and copies shall be distributed to each Member of the Association as follows:

10.1.1 A pro forma operating statement (budget) for each fiscal year shall be distributed not less than thirty (30) days before the beginning of the fiscal year.

10.1.2 A balance sheet as of the last day of the Association's fiscal year and an operating statement for said fiscal year shall be distributed within ninety (90) days after the close of the fiscal year.

Without limiting the foregoing, the Board may from time to time amend and adopt budgets without the consent of the Members and shall provide a summary of any such budget or amended budget to the Members not later than thirty (30) days after adoption of the same by the Board.

10.2 Fiscal Year

The fiscal year of the Association shall be as determined by resolution of the Board. In the absence of such a resolution, the fiscal year shall be the calendar year.

10.3 Inspection of Association's Books and Records

The Membership register, current copies of the Project Documents, financial statements, books of account and minutes of meetings of the Members, the Board and committees of the Board and/or Association shall be made available for inspection and copying by Members of the Association, holders of Prior Mortgages or by their duly appointed representatives, at any reasonable time and for a purpose reasonably related to their interests as Members or holders of Prior Mortgages at the office of the Association or at such other place within as the Board shall prescribe. Such inspection may take place on weekdays during normal business hours following at least forty-eight (48) hours' written notice to the Board by the Member or holder of a Prior Mortgage desiring to make the inspection. Any Member or holder of a Prior Mortgage desiring copies of any document shall pay the reasonable cost of reproduction. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association and the physical properties owned or controlled by the Association. The right to inspection by a Director includes the right to make extracts and copies of documents.

ARTICLE 11

Amendment to Bylaws

These Bylaws may be amended at any meeting of the Association Membership at which a quorum is established by the vote or written assent of Members holding fifty-one percent (51%) of the total votes entitled to be cast by Members who are present in Person or by proxy at such meeting, provided however, that the percentage of the votes necessary to amend a specific clause or provision shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

ARTICLE 12

Miscellaneous Provisions12.1 Regulations

All Owners, tenants, other Permitted Users, their employees or any other Person who might use the facilities of the Property in any manner are subject to the regulations set forth in the Project Documents and all reasonable rules enacted pursuant to the procedures established pursuant to these Bylaws. Acquisition, rental or occupancy of any Interval Interest or Lot shall constitute acceptance and ratification of the provisions of all such rules and regulations.

12.2 Indemnity of Officers and Directors

To the fullest extent permitted under A.R.S. § 10-2305, each Officer and Director shall be indemnified by the Association against all expenses and liabilities, including attorneys' fees, reasonably incurred by or imposed upon him by judgment or settlement in connection with any proceeding to which he may be a party or in which he may become involved by reason of his being or having been an Officer or Director of the Association. Liability of the Directors shall be limited as provided in the Articles.

12.3 Committees

The Board may appoint a Nominating Committee as provided in these Bylaws. In addition, the Board of Directors shall appoint other committees as deemed appropriate in carrying out its purpose.

12.4 Notices

Any notices permitted or required to be given by the Project Documents shall be given as provided in Paragraph 8.4 of the Declaration.

12.5 Plurals; Gender

Whenever the context so requires, the use of the singular shall include and be construed as including the plural and the masculine shall include the feminine and neuter.

ESTABLISHMENT OF BYLAWS

We, the undersigned, being the Directors of VILLAS OF CAVE CREEK OWNERS ASSOCIATION, do hereby certify:

That we are required by law to adopt Bylaws for VILLAS OF CAVE CREEK OWNERS ASSOCIATION; and

That we hereby assent to the within and foregoing Bylaws and hereby adopt the same as the Bylaws of said VILLAS OF CAVE CREEK OWNERS ASSOCIATION.

IN WITNESS WHEREOF, we have hereunto subscribed our names this 26th day of February, 1996.

[Signature]
Don Dubin

x [Signature]
David Bruce

[Signature]
Ron Sharp

I, the undersigned duly elected and acting Secretary of VILLAS OF CAVE CREEK OWNERS ASSOCIATION, do hereby certify:

That the within and foregoing Bylaws were adopted as the Bylaws of said Association on the 26th day of February, 1996 and that the same do now constitute the Bylaws of said Association.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 26th day of February, 1996.

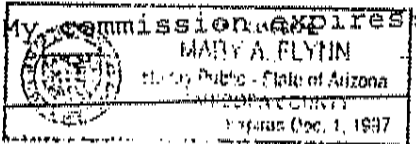
x [Signature]
David Bruce, Secretary

State of Arizona

County of Maricopa

On this the 26th day of February, 1996, before me, the undersigned Notary Public, personally appeared David Bruce, the Secretary of the VILLAS OF CAVE CREEK OWNERS ASSOCIATION, known to me to be the person whose name is subscribed to the within Bylaws, and acknowledged to me that he executed the same for the purposes therein contained.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal.



Mary A. Flynn
Notary Public

VILLAS OF CAVE CREEK HOMEOWNERS' ASSOCIATION

Proforma Operating Budget for Fiscal Year Ending 12/31/97

July 23, 1996

	1996 Budget		1996 Budget
REVENUES		FACILITIES EXPENSE (cont.)	
Basic Assessments - Operating	443,278	Vehicle	
Basic Assessments - Reserves	62,428	Maintenance-Pool and Spas	3,000
Late Charges	0	Maintenance-Keys/Lock	240
Personal Charges	900	Maintenance-Electrical	900
Bonus Time	14,160	Maintenance-Lighting	900
Resorttime	6,000	Maintenance-Plumbing	600
Rental Revenue-Front Desk	6,850	Maintenance-Carpentry	600
Interest Income-Operating Fund	800	Maintenance-Painting	960
Interest Income-Replacement Revenues	6,000	Maintenance-Kitchen Supplies	1,200
TOTAL REVENUES	540,416	Reimbursable-Kitchen Supplies	-360
EXPENSES		Maintenance-Appliance Repair	600
RESORT DESK/RESERVATIONS		Maintenance-Materials & Small Tools	2,400
Salaries - Staff	25,440	Maintenance-Personal Property	900
Telephone	3,120	Maintenance-Gates	600
Printing and Stationary	1,028	Maintenance-Pers. Prop. Reimb.	-300
Uniforms	483	Maintenance-Furnishings	300
Total Resort Desk Expense	30,071	Utilities-Water and Sewer	5,244
HOUSEKEEPING EXPENSE		Utilities-Assessment	1,850
Salaries - Staff	63,966	Utilities-Electric	51,912
Uniforms	360	Maintenance-Grounds & Landscape	10,400
Cleaning Equipment	540	Total Facilities Expenses	127,388
Cleaning Supplies	3,000	GENERAL & ADMIN. EXPENSE	
Printing and Stationary	168	Salaries-Administration	47,600
Guest Supplies	7,776	Employer Payroll Taxes	2,400
Laundry and Supplies	11,700	Health Insurance/Disability	1,740
Total Housekeeping Expense	87,510	Worker's Compensation	1,800
FACILITIES EXPENSE		Recruitment & Training	600
Salaries - Maintenance	25,032	Activities	12,000
Uniforms	384	Promotion & Community Relations	5,100
Contract Services:		Promotion - Reimbursement	-800
HVAC Maintenance	1,224	Travel and Lodging	1,000
Cable Television	3,720	Travel and Lodging - BOD	1,000
Fire Protection	948	Meals/Travel	200
Pest Control	2,400	Meals/Travel - BOD	200
Pools and Spas	3,600	Meals/Meetings	2,364
Refuse Disposal	2,124	Legal Fees	300
Security	3,000	Dues and Subscriptions	792
Firewood	3,000	Audit Services	2,500
		Computer Services	3,000
		Computer Operations	600
		Reservation System Access Fee	6,000
		Computer Software	1,200
		Bank Charges	480
		Collection Services	6,760
		Reimbursable - Collection Service	-6,760
		Telephone - G & A	5,184

	1996 BUDGET
GENERAL & ADMIN EXPENSE (cont.)	
Reimbursable - Telephone Charges	0
Telephone G & A Data	6,000
Insurance	16,500
Taxes and Licenses	588
Real Property Tax	23,219
Financial Services	18,000
Management Fees	42,000
Contingency Payroll	5,426
Postage and Delivery	2,500
Printing and Stationery	2,000
Office Supplies	2,200
Equipment Leases	6,000
Minor Equipment	1,200
Retail Item Purchases	4,000
Retail Item Sales	-4,800
Bad Debt Expense	9,230
Provision for Taxes	1,700
Total G & A Expense	233,919
TOTAL OPERATING EXPENSES	477,988
RESERVES	
Painting - Exterior	4,542
Painting - Interior	1,314
Roofs/Gutters	528
Water Heaters	612
Light Fixtures	54
Flooring - Carpeting	3,588
Flooring - Tile	1,200
HVAC	276
Pool	360
Spa	3,600
Pool/Spa Decking	48
Walls	5,004
Furnishings/Equipment	708
Furnishings	15,400
Countertops	540
Cabinets	900
Fountains	540
Appliances	3,102
Appliances - Television	1,564
Fences	366
Pumps & Motors	90
Automated Gates	276
Linen	4,500

	1996 BUDGET
RESERVES (cont.)	
Laundry Equipment	450
Vehicle	390
Wallpaper/Coverings	536
Office Equipment	540
Computer Equipment	1,500
Recreation Equipment	500
Fire Alarm System	180
Walkways/Decking	786
Plumbing/Fixtures	114
Plumbing/Electrical - Structural	252
Landscaping/Irrigation	72
Reserve Fund Interest Earnings	6,000
Total Provision for Reserves	62,428
TOTAL RESERVES & EXPENSES	540,416
TOTAL REVENUES	540,416
TOTAL EXPENSES	540,416
Projected Excess @ 12/31/96	0

SUMMARY OF PROJECTED ACCUMULATED FINANCIAL STATUS @ 12/31/96

Projected Operating Excess/(Deficit @ 12/31/95)	0
Budgeted Operating Excess/(Deficit @ 12/31/96)	0
Excess/(Deficit)	0

Total per Interval Week (1300)
 Basic Assessments: 389.00 Per Year

RECEIVED
AZ SOUP COMMISSION
FILED

APR 2 12 54 PM '55

Christine Young-Pezala
4/2

0773463-1

ARTICLES OF INCORPORATION
OF
VILLAS OF CAVE CREEK OWNERS ASSOCIATION

KNOW ALL MEN BY THESE PRESENTS:

That we, the undersigned, have this day associated ourselves for the purpose of forming a corporation under the laws of the State of Arizona, and for that purpose do hereby adopt the following Articles of Incorporation.

1. Name. The name of this corporation (hereinafter "Association") is **VILLAS OF CAVE CREEK OWNERS ASSOCIATION.**

2. Duration. The period of duration of the Association shall be perpetual.

3. Principal Place of Business. The principal office for the transaction of business of the Association is located in Maricopa County, Arizona.

4. Statutory Agent. The name and address of the initial Statutory Agent for the Association are:

DAVID W. KREUTZBERG
40 North Central Avenue, Suite 2700
Phoenix, Arizona 85004-4441

5. Nonprofit Corporation. This Association is organized as a nonprofit corporation under the laws of the State of Arizona.

6. Purpose and Powers. This Association does not contemplate the distribution of gains, profits or dividends to its Members. The specific primary purposes for which it is formed are to provide for the management, operation, administration, maintenance, repair, improvement, preservation and architectural control of the Property, including acquisition of the Common Area, situated in the Town of Cave Creek, Maricopa County, Arizona, which is more particularly described and defined in that certain Declaration of Covenants, Conditions,

Restrictions and Easements (the "Declaration") which was recorded on March 4, 1996, as Document No. 96-0144621 of the official records of the Maricopa County Recorder, and to promote the health, safety and welfare of all of the Owners within the Property and any Additional Property as may hereafter be brought within the jurisdiction of this Association for this purpose, all according to the Declaration.

In furtherance of said purposes, this Association shall have the powers to:

- a. Perform all of the duties and obligations of the Association as set forth in the Declaration;
- b. Fix, levy, collect and enforce Assessments, Personal Expenses and fines as set forth in the Declaration, and Rules and Regulations;
- c. Pay all expenses and obligations incurred by the Association in the conduct of its business, including without limitation, all licenses, taxes or governmental charges levied or imposed against the Common Area;
- d. Acquire (by gift, purchase or otherwise), own, hold, improve, build upon, operate, maintain, convey, sell, lease, transfer, dedicate for public use or otherwise dispose of real or personal property in connection with the affairs of the Association;
- e. Grant non-exclusive easements over the Common Area to any Person for purposes beneficial to the Members;
- f. Borrow money and, only with the assent (by vote or written consent) of two-thirds (2/3) of each class of Members, mortgage, pledge, deed in trust or hypothecate any or all of its personal or real property (including the Common Area) as security for money borrowed or debts incurred;
- g. Dedicate, sell or transfer all or any part of the Common Area to any public agency, authority, utility company or other entity for such purposes and subject to such conditions as may be agreed to by the Members if an instrument has been signed by two-thirds (2/3) of each class of Members agreeing to such dedication, sale or transfer;
- h. Participate in mergers and consolidations with other nonprofit corporations organized for the same purposes, provided that any merger or consolidation shall have the assent by vote or written consent of two-thirds (2/3) of each class of Members; and
- i. Have and exercise any and all powers, rights and privileges which a corporation organized under the Arizona Nonprofit Corporation Act (A.R.S. § 10-2301 et seq.) may now or hereafter have or exercise.

7. Membership Voting Rights; Assessments. The number and qualifications of Members of the Association, the different classes of Membership, if any, the property, voting

and other rights and privileges of Members, their liability for Assessments and the method of collection thereof shall be as set forth in the Declaration and the Bylaws.

8. Board of Directors. The affairs of this Association shall be managed by a Board of not less than three (3) nor more than five (5) Directors (the exact number and qualifications of which shall be fixed by the Bylaws, or amendments thereof, duly adopted by the Members or by the Board of Directors). The number of Directors may be changed by amendment to the Bylaws. The initial Directors, who shall serve until their successors are elected or appointed according to the Bylaws, are as follows:

Don Dubin
3443 North Central Avenue, Suite 1414
Phoenix, Arizona 85012

David Bruce
3443 North Central Avenue, Suite 1414
Phoenix, Arizona 85012

Ron Sharp
3443 North Central Avenue, Suite 1414
Phoenix, Arizona 85012

9. Elimination of Director Liability. As set forth in the Arizona Nonprofit Corporation Act, each Director shall be immune from civil liability and shall not be subject to suit indirectly or by way of contribution for any act or omission resulting in damage or injury if said Director was acting in good faith and within the scope of his official capacity (which is any decision, act or event undertaken by the Association in furtherance of the purpose or purposes for which it is organized), unless such damage or injury was caused by willful and wanton or grossly negligent conduct of the Director. Without limiting the foregoing, it is the intention of this paragraph to provide for the Directors the full benefits and immunities created by or available under the provisions of A.R.S. §§ 10-2317(D), 10-2342(D) and 10-2342(A)(8), as the same may be expanded or modified in the future.

10. Dissolution. In the event of dissolution, liquidation or winding up of the Association (other than incident to a merger or consolidation), the Association shall pay or adequately provide for the debts and obligations of the Association and otherwise comply with the Arizona Nonprofit Corporation Act. The Directors or Persons in charge of the liquidation shall dedicate the assets of the Association to an appropriate public agency to be used for purposes similar to those for which this Association was created or if such dedication is refused acceptance, then such assets may be granted, transferred or conveyed to any nonprofit corporation, association, trust or other organization devoted to similar purposes. If such actions are not feasible, said Directors or other Persons in charge of the liquidation shall divide the remaining assets among the Members in accordance with their respective rights therein as set forth in the Declaration, except as otherwise required by law.

11. Amendments. These Articles may be amended by the vote or written assent of Members representing sixty-seven percent (67%) of the total voting power of each class of Membership in the Association, provided however, that the percentage of the voting power necessary to amend a specific clause or provision shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause or provision.

12. Incorporators. The Incorporators and their names and addresses are:

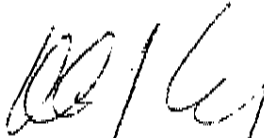
David W. Kreutzberg
 40 North Central Avenue, Suite 2700
 Phoenix, Arizona 85004

Jan Pouncey
 40 North Central Avenue, Suite 2700
 Phoenix, Arizona 85004

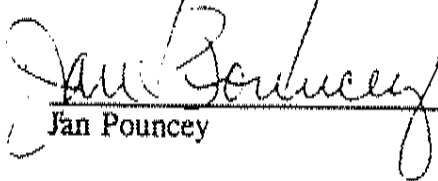
13. Definitions. All initially capitalized terms used herein without definition shall have the meanings set forth for such terms in the Declaration.

IN WITNESS WHEREOF, for the purpose of forming this Association under the laws of the State of Arizona, we, the undersigned, constituting the Incorporators of this Association, have executed these Articles of Incorporation this 1st day of April, 1996.

INCORPORATORS:



 David W. Kreutzberg



 Jan Pouncey

TOTAL P.02

EXHIBIT A

A PARCEL OF LAND DESIGNATED AS TRACT 31 A, BEING A PORTION OF THE SOUTHWEST ONE QUARTER OF SECTION 27, TOWNSHIP 8 NORTH, RANGE 4 EAST, GILA AND SALT RIVER BASE AND MERIDIAN AND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHWEST CORNER, A POINT ON THE EASTERLY 40 FOOT RIGHT-OF-WAY LIEN OF SCHOOL HOUSE ROAD;
 THENCE ALONG THE EASTERLY 40 FOOT RIGHT-OF-WAY LINE OF SCHOOL HOUSE ROAD, NORTH $00^{\circ} 05' 31''$ EAST 376.45 FEET TO THE NORTHWEST CORNER, A POINT ON THE SOUTHERLY 55 FOOT RIGHT-OF-WAY LINE OF CAVE CREEK ROAD;
 THENCE ALONG THE SOUTHERLY 55 FOOT RIGHT-OF-WAY LINE OF CAVE CREEK ROAD, ALONG THE ARC OF A CURVE TO THE LEFT HAVING A DELTA OF $21^{\circ} 37' 09''$, A RADIUS OF 1200.92 FEET, AN ARC OF 453.14 FEET TO A POINT OF TANGENCY;
 THENCE NORTH $82^{\circ} 41' 23''$ EAST 194.88 FEET ALONG THE SOUTHERLY 55 FOOT RIGHT-OF-WAY LINE OF CAVE CREEK ROAD TO A POINT OF CURVATURE; THENCE ALONG THE SOUTHERLY 55 FOOT RIGHT-OF-WAY LINE OF CAVE CREEK ROAD ALONG THE ARC OF A CURVE TO THE RIGHT HAVING A DELTA OF $01^{\circ} 23' 07''$, A RADIUS OF 1090.92 FEET, AN ARC OF 28.38 FEET TO THE NORTHEAST CORNER;
 THENCE SOUTH $00^{\circ} 01' 44''$ WEST 204.44 FEET TO A POINT;
 THENCE SOUTH $88^{\circ} 06' 06''$ EAST 110.00 FEET TO A POINT;
 THENCE SOUTH $00^{\circ} 05' 53''$ WEST 396.45 FEET TO A 1/2 INCH IRON PIPE FOUND IN PLACE, THE SOUTHEAST CORNER;
 THENCE SOUTH $89^{\circ} 55' 22''$ WEST 738.27 FEET TO THE SOUTHWEST CORNER, THE POINT OF BEGINNING.

SAID PARCEL CONTAINS 7.7226 ACRES, MORE OR LESS.