

BYLAWS
OF
ADOBE HILLS HOMEOWNERS' ASSOCIATION

ARTICLE I

Name and Location

The name of the corporation is **ADOBE HILLS HOMEOWNERS' ASSOCIATION** hereinafter referred to as (the "Association."). The location of the principal office of the Association shall be as provided in the Articles of Incorporation (the "Articles"). Meetings of Members and Directors may be held at the principal office of the Association or at such other places within the State of Arizona as may be designated by the Board of Directors (the "Board").

ARTICLE II

Definitions

The words and terms used herein shall be deemed to have the same meanings as are given those words and terms in the certain Declaration of Covenants, Conditions and Restrictions dated August 17, 1999, and recorded on September 22, 1999, at Instrument No. 99-0880082, of the Official Records of Maricopa County, Arizona (the "Declaration"), as the same may be amended from time to time. The term "Declarant" shall refer to Great Western Homes, an Arizona corporation, and the successors and assigns of Declarant's rights and powers under the Declaration.

ARTICLE III

Membership and Voting

Section 1. Membership. Every Owner shall be a Member of the Association. The terms and provisions set forth in these Bylaws, which are binding upon all Owners, are not exclusive, as Owners shall, in addition, have rights, duties and obligations set forth in the Articles, Declaration and Association Rules to the extent the provisions thereof are not in conflict with these Bylaws. Membership of owners shall be appurtenant to and may not be separated from the interest of such Owner in a Residence. Ownership of a Lot or Residence shall be the sole qualification for ownership; provided, however, a Member's voting rights or privileges in the Common Area, or

both, may be regulated or suspended as provided in the Declaration, these Bylaws or the Association Rules. Not more than one membership shall exist based upon ownership of a single lot.

Section 2. Declarant. The Declarant shall be a Member of the Association for so long as it either (a) holds Class B membership pursuant to Section 3 below or (b) owns any Lot.

Section 3. Voting. The Association shall have two (2) classes of voting membership:

Class A: Class A membership shall be all memberships excluding the Class B membership held by the Declarant, and each Owner shall be entitled to one (1) vote for each Class A membership held by the Owner, subject to the authority of the Board to suspend the voting rights of the Owner in accordance with the provisions hereof.

Class B: Class B memberships shall be held by the Declarant, and shall entitle Declarant to ten (10) votes for each Lot owned by Declarant. The Class B memberships shall cease and be converted to Class A memberships on the happening of the earliest of the following events:

(a) When the votes entitled to be cast by Class A members exceed the votes entitled to be cast by the Class B members; or

(b) When Declarant notifies the Association in writing that it relinquishes its Class B memberships.

Section 4. Right to Vote. No change in the ownership of a membership shall be effective for voting purposes unless and until the Board is given actual written notice of such change and is provided satisfactory proof thereof. The vote for each such membership must be cast as a unit, and fractional votes shall not be allowed. In the event that a membership is owned by more than (1) person or entity such Owners are unable to agree among themselves as to how their vote or votes shall be cast, they shall lose their right to vote on the matter in question. If any Member casts a vote representing his membership, it thereafter shall be conclusively presumed for all purposes that such Member was acting with the authority and consent of all other Owners of the same membership unless objection thereto is made at the time the vote is cast. In the event more than one (1) vote is cast for a particular membership, none of such votes shall be counted and all such votes shall be deemed void.

Section 5. Corporate or Trust Membership. In the event any Lot is owned by a corporation, partnership, trust, or other association, the corporation, partnership, trust or association shall be a Member and shall designate in writing at the time of acquisition of the lot an individual who shall have the power to vote said membership, and in the absence of such designation and until such designation is made, the chief executive officer, if any, of such corporation, partnership, trust or association, shall have the power to vote the membership, and if there is no chief executive officer, then the board of directors or general partner of such corporation, trust or association shall designate who shall have the power to vote the membership.

Section 6. Cumulative Voting for Board Members. In any election of the Members of the Board, every Owner of a membership entitled to vote at such an election shall have the number of votes for each membership equal to the number of Directors to be elected, except that the Class B Member shall have ten (10) votes for each unsold Lot times the number of Directors to be elected. Each Member shall have the right to cumulate his votes for one (1) candidate or to divide such votes among any number of the candidates. The candidates receiving the highest number of votes, up to the number of the Board members to be elected, shall be deemed elected.

Section 7. Suspension of Voting Rights. In the event any Owner is in arrears in the payment of any assessments or other amounts due under any of the provisions of these Bylaws, the Declaration, the Articles, or Association Rules for a period of thirty (30) days, said Owner's right to vote as a Member of the Association shall be suspended and shall remain suspended until all payments, including accrued interest and attorneys' fees, are brought current. In the event any Owner is in default of any non-monetary obligation of these Bylaws, the Declaration, the Articles, or Association Rules, and remains in default for more than ten (10) days after notice from the Association to cure same, said Member's right to vote shall be suspended for a period not to exceed sixty (60) days.

Section 8. Transfer of Membership. The rights and obligations of the Owner of a Lot having class A membership in the Association shall not be assigned, transferred, pledged, conveyed, or alienated in any way except upon transfer of ownership to an Owner's Lot, and then only to the transferee of ownership to the Lot. A transfer of ownership to a Lot may be effected by deed, intestate succession, testamentary disposition, foreclosure of a mortgage of record, or such other legal process as now in effect or as may hereafter be established under or pursuant to the laws of the State of Arizona. Any attempt to make a prohibited transfer shall be void. Any transfer of ownership to a Lot shall operate to transfer the membership appurtenant to said Lot to the new Owner thereof.

ARTICLE IV

Meeting of Members

Section 1. Annual Meetings. The first annual meeting of the Members shall be held within one (1) year after the date of incorporation of the Association. An annual meeting of the Members shall be held at least once every twelve (12) months thereafter at such time and place as is determined by the Board.

Section 2. Special Meetings. Special meetings of the Members may be called at any time by the President or by the Board, or upon written request of the Members who are entitled to vote at least fifty-one percent (51%) of all of the votes of the Class A membership.

Section 3. Notice of Meetings. Written notice of each meeting of the Members shall be given by, or at the direction of, the Secretary or person authorized to call the meeting, by mailing

a copy of such notice, postage prepaid, not less than fifteen (15) days nor more than sixty (60) days before such meeting to each Member entitled to vote thereat, addressed to the Member's address last appearing on the books of the Association or supplied by such Member to the Association for the purpose of notice. Such notice shall specify the place, day and hour of the meeting and, in the case of a special meeting, the purpose of the meeting.

Section 4. Quorum. The presence at the meeting of Members entitled to cast, and/or proxies entitled to cast, fifty-one percent (51%) of the votes of each class of membership shall constitute a quorum for any action except as otherwise provided in the Declaration, the Articles, or these Bylaws. If, however, such quorum shall be present or represented at any meeting, the Members entitled to vote thereat shall have power to adjourn and reschedule the meeting.

Section 5. Proxies. At all meetings of Members, each Member then entitled to vote may vote in person or by proxy. All proxies shall be in writing and filed with the Secretary not less than two (2) days prior to the meeting. Every proxy shall be revocable and automatically shall cease upon conveyance by a Member of such Member's lot.

Section 6. Procedure. *Robert's Rules of Order* (latest edition) shall govern the conduct of the Association's meetings when not in conflict with the Declaration, the Articles, or these Bylaws.

ARTICLE V

Board of Directors; Selection; Term of Office

Section 1. Number. The affairs of this Association shall be managed by a Board of Directors, who need not be Members of the Association so long as there is a Class B membership in the Association. The Board shall have the exclusive right of determining the affairs of the Association. The Board shall consist of not less than three (3) nor more than seven (7) Directors. The Board initially shall consist of the three (3) Directors designated in the Articles.

Section 2. Term of Office. The Directors designated in the Articles shall hold office until the first annual election of Directors, which shall take place at the first annual meeting of Members, or until their successors are elected and qualified. At the first annual meeting, the Members shall elect one (1) Director for an initial term of three (3) years, one (1) Director for an initial term of two (2) years, and one Director for an initial term of one (1) year. At each annual meeting thereafter, the Members shall elect Directors to replace those Directors whose terms have expired and all such Directors shall be elected for a term of three (3) years. The length of terms may be modified by the Members and the number of Directors may be increased to not more than seven (7) by vote of the Board. In the event of an increase in the number of Directors, the Members, at the first annual meeting after the increase, shall designate the term for the new directorships. If the new directorships are created and filled by the Board between annual meetings, the newly elected Directors shall serve until the next annual meeting of the Members.

Section 3. Removal and Vacancies. Any Director may be removed from the Board, with or without cause, by a majority vote of the Members of the Association. In the event of the death, resignation or removal of a Director, his successor shall be selected by the remaining members of the Board and such successor shall serve for the unexpired term of his predecessor.

Section 4. Compensation. No Director shall receive compensation for any service he may render to the Association in the capacity of Director. However, any Director may be reimbursed for his actual expenses incurred in the performance of his duties as a Director and may receive a salary or wages if he is employed by the Association in a capacity in addition to serving as a Director.

Section 5. Action Taken Without a Meeting. The Directors shall have the right to take any action in the absence of a meeting which they could take at a meeting by obtaining the written approval of all the Directors. Any action so approved shall have the same effect as though taken at a meeting of the Directors.

ARTICLE VI

Nomination and Election of Directors.

Section 1. Nomination. Nomination for election to the Board may be made by a nominating committee. Nominations also may be made from the floor at the annual meeting of the Members. The nominating committee shall consist of a chairman, who shall be a member of the Board, and two or more persons who are either Members of the Association, officers of the corporate Member, or partners in a partnership Member. The initial nominating committee shall be appointed by the Board at least ninety (90) days prior to the first annual meeting to serve until the close of the first annual meeting. Thereafter, the nominating committee shall be appointed by the Board prior to each annual meeting of the Members, to serve from the close of such annual meeting until the close of the next annual meeting, and such appointment shall be announced at each annual meeting. The nominating committee shall make as many nominations for election to the Board as it shall in its discretion determine, but not less than the number of vacancies which are to be filled.

Section 2. Election. Election to the Board shall be by secret written ballot. At such election the Members or their proxies may cast, in respect to each vacancy, as many votes as they are entitled to exercise under the provisions of the Declaration. The persons receiving the largest number of votes shall be elected.

ARTICLE VII

Meeting of Directors

Section 1. Regular Meetings. Regular meetings of the Board may be held not less than quarterly, at such place and time as may be determined from time to time by resolution by the Board.

Section 2. Special Meetings. Special meetings of the Board shall be held when called by the President of the Association, or by any two Directors, after no less than three (3) days notice to each Director.

Section 3. Quorum. A majority of the number of Directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board.

ARTICLE VIII

Powers and Duties of the Board of Directors

Section 1. Powers. The Board shall have power to:

(a) Adopt and publish rules and regulations governing the use of the Common Area, the personal conduct of the Members and their guests thereon, and any other matters contemplated by the Declaration and Articles, and to establish monetary penalties for infractions thereof;

(b) Suspend the voting rights of a Member and/or the Member's right to use all or any portion of the Common Area during any period in which such Member shall be in default in the payment of any assessment levied by the Association, or for non-monetary infractions of the Declaration, or the Rules and Regulations;

(c) Exercise for the Association all powers, duties and authority vested in or delegated to the Association and not reserved to the Members by other provisions of these Bylaws, the Articles or the Declaration;

(d) Declare the office of a member of the Board to be vacant in the event such member shall be absent from three (3) consecutive regular meetings of the Board; and

(e) Employ a manager, independent contractors, or such other employees as they deem necessary and to prescribe the duties of such persons.

Section 2. Duties. It shall be the duty of the Board to:

(a) Cause to be kept a complete record of all of its acts and corporate affairs and to represent

a statement thereof to the Members at the annual meeting of the Members, or at any special meeting when such statement is requested in writing by at least ten percent (10%) of the Class A Members who are entitled to vote;

(b) Supervise all officers, agents and employees of the Association, and to see that their duties are properly performed;

(c) As more fully provided in the Declaration, to:

(1) Fix the amount of the annual assessment against each Residence at least thirty (30) days in advance of each annual assessment period; and

(2) Take such action, as and when the Board deems such action appropriate but after notice as provided in the Declaration, to foreclose the lien against any residence for which assessments are not paid and/or to bring an action at law against the Member personally obligated to pay the same.

(d) Issue or cause an appropriate officer to issue, upon demand by any person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of such certificates. If a certificate states an assessment has been paid, such certificates shall be conclusive evidence of such payment, as against any bona fide purchaser of, or lender on, the residence in question;

(e) Procure and maintain adequate liability and hazard insurance on the Common Area;

(f) Cause all officers or employees having fiscal responsibilities to be bonded, as it may deem appropriate; and

(g) Cause the maintenance responsibilities of the Association set forth in the Declaration to be performed.

ARTICLE IX

Officers And Their Duties

Section 1. Enumeration of Officers. The officers of this Association shall be a President, who shall at all times be a member of the Board, a Vice President, a Secretary, and a Treasurer, and such other officers as the Board may from time to time create by resolution.

Section 2. Election of Officers. The election of officers shall take place at the first meeting of the Board following each Annual Meeting of the Members.

Section 3. Term. The Directors designated in the Articles shall hold office until the first

annual election of Directors, which shall take place at the first annual meeting of Members, or until their successors are elected and qualified. At the first annual meeting, the Members shall elect one (1) Director for an initial term of three (3) years, one (1) Director for an initial term of two (2) years, and one Director for an initial term of one (1) year. At each annual meeting thereafter, the Members shall elect Directors to replace those Directors whose terms have expired and all such Directors shall be elected for a term of three (3) years. The length of the terms may be modified by the Members and the number of Directors may be increased to not more than seven (7) by vote of the Board. In the event of an increase in the number of Directors, the Members, at the first annual meeting after the increase, shall designate the terms for the new directorships. If the new directorships are created and filled by the Board between annual meetings, the newly elected Directors shall serve until the next annual meeting of the Members.

Section 4. Special Assessments. The Board may elect such other officers as the affairs of the Association may require, each of whom shall (i) hold office for such period, (ii) have such authority, and (iii) perform such duties as the Board may from time to time determine.

Section 5. Resignation and Removal. Any officer may be removed from office with or without cause by 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.

Section 6. Vacancies. A vacancy in any office may be filled by appointment of the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer replaced.

Section 7. Multiple Offices. The offices of Secretary and Treasurer may be held by the same person. Other than for these two (2) offices, no person simultaneously shall hold more than one (1) office except in the case of special offices created pursuant to Section 4 of this Article.

Section 8. Duties. The duties of the officers are as follows:

(a) President. The President shall preside at all meetings of the Board; shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds and other written instruments; and shall co-sign all promissory notes.

(b) 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.

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

(d) Treasurer. The Treasurer shall receive and deposit in appropriate bank accounts all monies of the Association and shall disburse such funds directed by resolution of the board; shall sign all checks and promissory notes of the Association, shall keep proper books of account; shall cause an annual audit of the Associations books to be made by a public accountant at the completion of each fiscal year; and shall prepare an annual budget and statement of income and expenditures to be presented to the membership at its regular annual meeting and delivered to the Members.

(e) Delegation. The Board may delegate the duties listed above or other duties to a manager or managing agent, or other person; however, such delegation shall not relieve any member of the Board of his responsibility for such duties.

ARTICLE X

Indemnification

The Association shall indemnify all of its directors, officers, incorporators, members of the Architectural Committee, employees, agents, and its former directors and officers, to the maximum extent authorized by law, against expenses incurred by them, including, without limitation, legal fees, and judgments and penalties rendered or levied against them or any of them in any legal action brought against any such persons for actions or omissions alleged to have been committed by any such person while acting within the scope of his or her employment by the Association, provided that the Board shall determine in good faith that such person did not act, fail to act, or refuse to act willfully or with gross negligence, or with fraudulent or criminal intent in regard to the matter involved in the action, and provided further that no such indemnification shall be available with respect to liabilities under the Securities Act of 1933, and provided further that the Association shall have the right to refuse indemnification in any instance in which the person to whom indemnification would otherwise have been applicable unreasonably shall have refused to permit the Association, at its own expense and through counsel of its own choosing, to defend him or her in any such legal action. Whenever any such person shall report to the President of the Association that he or she has incurred or may incur any such expense, the Board shall, at its next regular meeting, or at a special meeting held within a reasonable time thereafter, determine in good faith whether such person acted, failed to act, or refused to act willfully, with gross negligence or with fraudulent or criminal intent in regard to the matter involved in the action. If the Board determines in good faith that such person did not act, fail to act or refuse to act willfully or with gross negligence or with fraudulent or criminal intent in regard to the matter involved in the action, indemnification shall be mandatory and automatically shall be extended as specified herein, except as otherwise provided hereinbefore.

ARTICLE XI

Committees

Section 1. Architectural Committee. The Association shall establish an Architectural Committee (the "Committee") which shall consist of at least three (3) persons, none of whom shall be required to be an architect, officer or director of the Association or to meet any other particular qualifications other than as provided in Section 1(a) below.

(a) Membership. Declarant shall appoint all of the original members of the Committee and all replacements thereof until the first anniversary of the conveyance by Declarant of the first Lot to a Purchaser. Thereafter, Declarant shall have the right to appoint a majority of the members of the Committee until (i) the votes entitled to be cast by Class A members exceed the votes entitled to be cast by the Class B members; or (ii) when Declarant notifies the Association in writing that it relinquishes its Class B Membership. Thereafter, the Board shall have the power to appoint all the members of the Committee. Members appointed to the Committee by Declarant need not be members of the Association.

(b) Duties of Committee. It shall be the duty of the Committee to consider and act upon any and all proposals or plans submitted pursuant to the terms of the Declaration, to ensure that all improvements constructed on the Project by anyone other than Declarant conform to plans approved by the Committee, to adopt Architectural Rules and to perform other duties imposed upon it by the Declaration.

(c) Meetings. The Committee shall meet from time to time as necessary to perform its duties hereunder. The vote or written consent of a majority of the members of the Committee, at a meeting or otherwise, shall constitute the act of the Committee unless the unanimous decision of the Committee is required by any other provision of the Declaration. The Committee shall keep and maintain a written record of all actions taken by it at such meetings or otherwise. Members of the Committee shall not receive any compensation for services rendered.

(d) Architectural Rules. The Committee may, from time to time, and in its sole and absolute discretion, adopt, amend, and repeal by unanimous vote or written consent, rules and regulations to be known as "Architectural Rules." The Architectural Rules shall interpret and implement the Declaration by setting forth the standards and procedures for Committee review, the guidelines for design and placement of improvements, as well as all other duties of the Committee as particularly set forth in Section (b) above.

(e) Waiver. The approval by the Committee of any plans, drawings or specifications for any work done or proposed, or for any other matter requiring the approval of the Committee, shall not be deemed to constitute a waiver or any right to withhold approval of any similar plan, drawing, specification or matter subsequently submitted for approval.

(f) Liability. Neither the Committee nor any member thereof shall be liable to the

Association, any Owner or to any other party, for any damage, loss or prejudice suffered or claimed on account of (i) the approval or disapproval of any plans, drawings or specifications, or (ii) the constriction or performance of any work, whether or not pursuant to approved plans, drawings and specifications.

(g) Appeal. In the event plans and specifications submitted to the Committee are disapproved, the party or parties making such submission may appeal in writing to the Board within thirty (30) days following the final decision of the Committee. The Board shall submit such request to the Committee for review, whose recommendations will be submitted to the Board. Within forty-five (45) days following receipt of the request for appeal, the Board shall render its written decision. Failure of the Board to render a decision within said seventy-five (75) day period shall be deemed a decision in favor of the appellant.

Section 2. General. The Board shall appoint such other committees as it deems appropriate in carrying out the purposes of the Association.

ARTICLE XII

Books and Records

The books, records and papers of the Association shall at all times, during reasonable business hours, be available for inspection by any Member. The Declaration, the Articles and the Bylaws of the Association shall be available for inspection by any Member at the principal office of the Association, where copies may be purchased at reasonable cost.

ARTICLE XIII

Assessments

As more fully provided in the Declaration, each Member is obligated to pay to the Association, Annual Assessments, Special Assessments and Supplemental Assessments which are secured by a continuing lien upon the property against which the assessment is made. Any assessments which are not paid when due shall be delinquent. If the assessment is not paid on the due date, the assessment shall bear interest, and the Association may bring an action at law against the Owner personally obligated to pay the same or foreclose the lien against the property, as provided in the Declaration. Interest, costs and reasonable attorney's fees of any such action shall be added to the amount of such Assessment. No Owner may waive or otherwise escape liability for the Assessments provided for herein by virtue of such Owner's non-use of the Common Area or abandonment of his Residence.

ARTICLE XIV

Amendments

Section 1. Amendment by Vote of Members. These Bylaws may be amended in a manner not inconsistent with the Declaration and the Articles, at a regular or special meeting of the Members, by a vote not less than fifty-one percent (51%) of Members present in person or by proxy.

Section 2. Amendment If Required by Outside Agencies. The Board reserves the right to amend all or any part of these Bylaws to such an extent and with such language as may be requested by any federal, state or local governmental agency which requests such an amendment to a condition precedent to such agency's approval of the Bylaws or by any federally chartered lending institution as a condition precedent to lending funds upon the security of any Lot. It is the desire of the Declarant to retain control of the Association and its activities through the Board during the anticipated period of planning and development of the Project until the Declarant has sold or otherwise divested itself of all interest in the Property. If any amendment requested pursuant to the provisions of this Section deletes, diminishes or alters such control, the Board shall have the right to prepare, provide for and adopt as an amendment hereto, other and different control provisions.

ARTICLE XV

Interpretation

~~In the case of any conflict between the Articles and these Bylaws, the Articles shall control; and in the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.~~

ARTICLE XVI

Fiscal Year

The fiscal year of the Association shall begin on the 1st day of January and end on the 31st day of December of each year, except that the first fiscal year shall begin on the date of incorporation of the Association.