

AFTER RECORDING, RETURN TO:

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Jefferson County WA Auditor's Office - Donna Eldridge, Auditor


**SUPPLEMENTAL DECLARATION
OF COVENANTS, CONDITIONS, RESTRICTIONS, AND EASEMENTS FOR
LUDLOW COVE DIVISION 2**

Grantor: PORT LUDLOW ASSOCIATES LLC, a Washington limited liability company

Grantee: LUDLOW COVE DIVISION 2 HOMEOWNERS ASSOCIATION, a Washington nonprofit corporation

Abbreviated Legal Description:

Tract E as depicted on the Plat of Ludlow Cove Division No. 1, Phase 1, recorded in Volume 8 of Plats, pages 1 through 6 inclusive, records of Jefferson County, Washington.

Complete legal description is at Exhibit A attached hereto.

Assessor's Property Tax Parcel Account Number:

968 800 102

Reference Numbers of Related Documents:

A.F. No. 587899 (final plat)
A.F. No. 587897 (declaration of annexation)
A.F. Nos. 324010 and 325175 (master declaration)

**SUPPLEMENTAL DECLARATION
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LUDLOW COVE DIVISION 2**

THIS SUPPLEMENTAL DECLARATION OF COVENANTS, CONDITIONS, RESTRICTIONS, AND EASEMENTS FOR LUDLOW COVE DIVISION 2 (this "Supplemental Declaration") is made this 5 day of December, 2014, by PORT LUDLOW ASSOCIATES LLC, a Washington limited liability company ("Declarant").

RECITALS

A. Declarant is the Developer and Owner of certain real property located in Jefferson County, Washington, commonly known as Ludlow Cove Division 2, which is legally described on Exhibit A attached hereto (the "Property").

B. The Property is located within the Port Ludlow Master Planned Resort in unincorporated Jefferson County, Washington.

C. By the making and recording of that certain Declaration of Annexation dated December 5, 2014, recorded under Jefferson County Auditor's File No. 587897 pursuant to the South Bay Annexation and Capital Contribution Agreement dated February 2, 2007, and recorded under Jefferson County Auditor's File No. 523674, Declarant and South Bay Community Association have caused the Property to be annexed into South Bay and subjected to the South Bay Master Declaration of Covenants, Conditions, Restrictions, Assessments, Changes, Servitudes, Liens, Reservations and Easements recorded under Jefferson County Auditor's File No. 324010, File No. 325175, or both (collectively and as amended, the "Master Declaration"). Under the Master Declaration, the Owners of Lots within the Property are members of South Bay Community Association (the "Master Association").

D. Declarant desires to develop the Property into a residential community for the benefit of the residents therein.

E. The Property comprises one development phase more particularly defined below.

F. Jefferson County has approved the recording of the final plat of the Property.

G. Declarant desires to form a nonprofit corporation for the management, maintenance, social, physical, aesthetic, and recreational purpose of benefiting the Owners, Residents, and Occupants, which corporation shall be known as Ludlow Cove Division 2 Homeowners Association (the "Association") and which may (1) acquire, operate, manage, and maintain the Limited Common Areas to the extent provided in this Supplemental

Declaration, (2) establish, levy, collect, and disburse any assessments and other charges imposed hereunder, and (3) as the agent and representative of the Members, administer and enforce all provisions hereof.

H. The Property is not part of the residential subdivision commonly known as Ludlow Cove and Ludlow Cove Division 1, and Owners of Lots within the Property shall be Members of Ludlow Cove Division 2 Homeowners Association and South Bay Master Association but shall not be members of Ludlow Cove Homeowners Association, which is the association of owners of lots within Ludlow Cove Division 1.

I. Declarant wishes to subject the Property to the covenants, conditions, restrictions, assessments, charges, servitudes, liens, reservations, and easements set forth in this Supplemental Declaration.

AGREEMENT

NOW, THEREFORE, Declarant hereby agrees, covenants, and declares that the Property shall be held, sold, conveyed, hypothecated, encumbered, leased, rented, used, occupied, and improved subject to the following covenants, conditions, easements, and restrictions. These covenants, conditions, easements, and restrictions shall run with the Property and shall be binding upon, and inure to the benefit of, the Property, and all portions thereof, and any interest therein, and shall be binding upon, and inure to the benefit of, all parties having or acquiring any right, title, or interest in the Property or any portion thereof.

Upon the making of this Supplemental Declaration, the Property shall be subject to this Supplemental Declaration.

ARTICLE 1

DEFINITIONS

The following words, phrases or terms used in the Declaration shall have the following meanings:

Section 1.1. "Anchor Lane" shall mean Tract J as depicted on the Final Plat.

Section 1.2. "Annual Assessment" shall mean any assessment levied and assessed against a Lot pursuant to the Annual Assessment provisions of Article 7.

Section 1.3. "Articles" shall mean the Articles of Incorporation of the Association as the same may be amended or supplemented.

Section 1.4. "Assessable Property" shall mean any Lot except such part or parts thereof as may constitute Exempt Property.

Section 1.5. "Assessments" shall mean an Annual Assessment or Special Assessment as provided in Article 7.

Section 1.6. "Assessment Lien" shall mean the lien created and imposed by Article 7.

Section 1.7. "Association" shall mean Ludlow Cove Division 2 Homeowners Association, a Washington nonprofit corporation, its successors and assigns.

Section 1.8. "Association Facilities" shall mean all buildings, roadways, monument signs and other signs, mail and newspaper receptacles or boxes, fences and walls, storm water management facilities, vegetation and landscape improvements, parking facilities, irrigation pipes, sprinklers, and appurtenant facilities, trails and pathways within Frontage Easement Areas, and other fixtures, improvements, and structures that are constructed or installed by either Declarant or the Association and located within the Limited Common Areas or Frontage Easement Areas, provided, however, that Association Facilities do not include (i) Dwelling Units, (ii) trails and pathways within Limited Common Areas, which are maintained by the Master Association (or its designee, which may be the Port Ludlow Village Council or Port Ludlow Trails Committee) notwithstanding that Limited Common Areas are owned by the Association, (iii) utility facilities, and (iv) storm water management facilities maintained by the Port Ludlow Drainage District or any other government agency.

Section 1.9. "Association Rules" shall mean the rules and regulations adopted by the Board of the Association as the same may be amended or supplemented.

Section 1.10. "Board" shall mean the Board of Directors of the Association.

Section 1.11. "Bylaws" shall mean the Bylaws of the Association adopted by the Board of the Association as the same may be amended or supplemented.

Section 1.12. "Common Areas" shall mean all Common Areas as defined in the Master Declaration, which shall be maintained by the Master Association. Generally, Common Areas include the pedestrian trail or pathway system located within Limited Common Areas.

Section 1.13. "Covenants" shall mean the covenants, conditions, restrictions, assessments, charges, servitudes, liens, reservations, and easements set forth herein, as the same may be amended or supplemented.

Section 1.14. "Declarant" shall mean Port Ludlow Associates LLC, a Washington limited liability company, its successors and assigns, but only if such successors or assigns should acquire all or substantially all of the undeveloped Lots for the purpose of development and resale.

Section 1.15. "Developer" shall mean Declarant.

Section 1.16. "Development Period" shall mean that period commencing with the recording of this Supplemental Declaration and terminating upon the first to occur of (i) ten (10) years after such commencement date, or (ii) written notice from Declarant to the Association of termination of the Development Period.

Section 1.17. "Dwelling Unit" shall mean a building situated upon a Lot designed and intended for use and occupancy as a residence by a single family.

Section 1.18. "Exempt Property" shall mean the following portions of the Property:

- (i) All land and improvements owned by or dedicated to and accepted by the United States, the State of Washington, or Jefferson County, or any political subdivision thereof, for as long as any such governmental entity is the owner thereof or for so long as said dedication remains effective, and
- (ii) All Common Areas and Limited Common Areas.

Section 1.19. "Final Plat" shall mean the final plat of the Property recorded in the real property records of Jefferson County, Washington, on or around the date of this Supplemental Declaration, as it may be altered and amended from time to time.

Section 1.20. "First Mortgage" shall mean and refer to any unpaid and outstanding mortgage, deed of trust, or other security instrument on any Lot recorded in the office of the Auditor of Jefferson County, Washington, having priority of record over all other recorded liens except those governmental liens made superior by statute.

Section 1.21. "First Mortgagee" shall mean to any person or entity named as a beneficiary or mortgagee under any First Mortgage or any successor to the interest of any such First Mortgagee who shall notify the Association in writing of its desire to receive notices and exercise First Mortgagee rights under this Supplemental Declaration.

Section 1.22. "Frontage Easement" shall mean a perpetual nonexclusive easement within the Frontage Easement Area for ingress and egress and the construction, installation, maintenance, repair, replacement, and use of (i) Association Facilities for the benefit of the Association, (ii) pedestrian trails and pathways for the benefit of the Association and its Members, (iii) utility cables, conduits, pipes, pumps, vaults, and appurtenant utility facilities for the benefit of all private and public utility service providers serving the Property, and (iv) storm water ditches, drains, pipes, swales, and other storm water facilities for the benefit of the Port Ludlow Drainage District, any other government agency engaged in storm water management, and the Association (to the extent that the Association may at any time be engaged in storm water management).

Section 1.23. "Frontage Easement Area" shall mean the portion or portions of each Lot and Tract except Anchor Lane located within fourteen (14) feet of any portion of Anchor Lane.

Section 1.24. "Governing Documents" shall mean the Articles and Bylaws, the Articles of Incorporation and Bylaws of the Master Association, the Master Declaration, this Supplemental Declaration, the Association Rules, and any rules and regulations or design guidelines of the Master Association, as the same may be amended or supplemented.

Section 1.25. "Government Mortgage Agency" shall mean the Federal Housing Administration, the Veterans Administration, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, the Federal National Mortgage Association, and any similar entity, public or private, authorized, approved, or sponsored by any governmental agency to insure, guarantee, make, or purchase mortgage loans.

Section 1.26. "Limited Common Areas" shall mean those portions of the Property that are either designated on the Final Plat as open space, common area, or limited common area, or that otherwise are owned by the Association, or both, including without limitation all Tracts depicted on the Final Plat. Limited Common Areas may include Common Areas, which are maintained by the Master Association. Limited Common Areas are owned and, except for Common Areas maintained by the Master Association, are maintained by the Association.

Section 1.27. "Lot" shall mean any area of real property within the Property depicted as a lot on the Final Plat and otherwise designated or regulated as a residential building lot, together with all appurtenances, improvements, and Dwelling Units located therein. On the Final Plat, there are forty-two (42) Lots numbered 1 through 42 inclusive. No Tract shall be a Lot. A reference in this Supplemental Declaration to a Lot by its Lot number (for example, "Lot 42") means such Lot as it is graphically depicted on the Final Plat.

Section 1.28. "Master Association" shall mean South Bay Community Association, a Washington nonprofit corporation, its successors and assigns, and its designees, which may include the Port Ludlow Village Council or Port Ludlow Trails Committee.

Section 1.29. "Master Declaration" shall mean the South Bay Master Declaration of Covenants, Conditions, Restrictions, Assessments, Changes, Servitudes, Liens, Reservations and Easements recorded under Jefferson County Auditor's File No. 324010, File No. 325175, or both, as amended.

Section 1.30. "Member" shall mean any person holding a Membership in the Association pursuant to this Supplemental Declaration and without exception shall mean and refer to each Owner, including the Declarant, of a Lot. Membership in the Association shall be appurtenant to, and may not be separated from, ownership of a Lot.

Section 1.31. "Membership" shall mean a membership in the Association and the rights granted to the Owners and Declarant pursuant hereto to participate in the Association.

Section 1.32. "Occupant" shall mean any person, other than the Owner, in rightful possession of a Lot.

Section 1.33. "Owner" shall mean the record holder of a fee simple ownership interest in any Lot, provided, however, that Purchasers and their assignees under recorded real estate contracts shall be deemed Owners as against their respective sellers or assignors. An Owner shall include any person who holds record title to a Lot in joint ownership with any other person or who holds an undivided fee interest in any Lot.

Section 1.34. "OWSI" shall mean Olympic Water and Sewer, Inc., a Washington corporation, an affiliate of Declarant, and its successors and assigns.

Section 1.35. "Purchaser" shall mean a purchaser of a Lot under a real estate contract, under which the purchaser makes periodic payments and obtains a deed of fee simple title to the Lot only upon completion of all payments.

Section 1.36. "Renter" shall mean a Tenant.

Section 1.37. "Resident" shall mean:

- (a) An Owner actually residing on a Lot,
- (b) A Purchaser actually residing on a Lot,
- (c) Members of the immediate family of each Owner and of each Purchaser actually living in the same household in a Dwelling Unit with such Owner or Purchaser, and
- (d) Renters and Tenants of a Dwelling Unit or Lot.

Section 1.38. "Single Family" shall mean one or more persons each related to the other by blood, marriage, or legal adoption, or a group of not more than four (4) persons not all so related, who maintain a common household in a Dwelling Unit.

Section 1.39. "South Bay" shall mean the real property described in Section 1.40 of the Master Declaration.

Section 1.40. "Special Assessment" shall mean any assessment levied and assessed against a Lot pursuant to the Special Assessment provisions of Article 7.

Section 1.41. "Supplemental Declaration" shall mean this Supplemental Declaration as the same may be amended or supplemented.

Section 1.42. "Tenant" shall mean a lessee, renter, tenant, or other person having exclusive possession of a Lot under a lease or rental agreement with the Owner of the Lot.

Section 1.43. "Tract" shall mean any open space, common area, or limited common area tract within the Property, which is depicted as "TRACT [LETTER]" on the Final Plat. On the Final Plat, there are eleven (11) Tracts, designated Tracts A through K inclusive. No Lot shall be a Tract. A reference in this Supplemental Declaration to a Tract by its Tract letter (for example, "Tract A") means such Tract as it is graphically depicted on the Final Plat.

Section 1.44. "Visible from Neighboring Property" shall mean, with respect to any given object, that such object is or would be visible to a person six feet tall, standing at ground level on any part of a Lot, Common Area, or Limited Common Area neighboring that on which such object exists.

ARTICLE 2

PROPERTY SUBJECT TO DECLARATIONS

Section 2.1. General Declaration. The Property is hereby declared to be subject to the Master Declaration and this Supplemental Declaration. The Master Declaration and the Supplemental Declaration are declared to be in furtherance of a general plan for the overall improvement of the various development components of South Bay and are established for the purpose of enhancing and protecting the value, desirability, and attractiveness of South Bay and every portion thereof. The Master Declaration and this Supplemental Declaration, as either may be hereafter modified or amended, shall run with the land and shall be binding upon and inure to the benefit of Declarant, the Association, and all Owners, Residents, and Occupants, their successors and assigns, in the Property.

Nothing in this Supplemental Declaration shall be construed to prevent Declarant from dedicating or conveying portions of the Property, including but not limited to Common Areas, Limited Common Areas, streets, roadways, and easements, to the Association, the Master Association, any governmental entity, or other third party or for uses other than as a Lot, Common Area, or Limited Common Area.

Section 2.2. Association Bound. Upon issuance of a Certificate of Incorporation by the State of Washington, the Covenants contained in this Supplemental Declaration shall be binding upon and shall benefit the Association.

Section 2.3. Superseded Declaration. With the exception of the Master Declaration, this Supplemental Declaration supersedes and is made in full substitution of any prior covenants that may have been imposed on the Property by Declarant or any of its predecessors in interest.

ARTICLE 3

EASEMENT OF ENJOYMENT IN LIMITED COMMON AREAS

Section 3.1. Easements of Enjoyment. Every Owner, Resident, Occupant and Member of the Association shall have a non-exclusive right and easement of enjoyment in and to the Limited Common Areas within the Property, which easement shall be appurtenant to and shall pass with the title to every Lot subject to the following provisions:

3.1.1 The right of the Association to suspend the voting rights and right to use of the Limited Common Areas by any Member (i) for any period during which any Assessment against such Owner's Lot remains delinquent, (ii) for a period not to exceed sixty (60) days for such infraction of this Supplemental Declaration or Association Rules, and (iii) for successive sixty (60) day periods if any such infraction is not corrected during any prior sixty (60) day suspension period;

3.1.2 The right of the Association to grant easements, licenses, and permits within the Limited Common Areas, provided that such easements, licenses, and permits are without substantial adverse effect on the enjoyment of these areas by the Members;

3.1.3 The right of the Association to regulate the use of the Limited Common Areas through the Association Rules and to prohibit access to those areas, such as critical areas (see Section 4.17) and drainage areas, not intended for use by Members. The Association Rules are intended to enhance the preservation of the Limited Common Areas for the safety and convenience of the users thereof and shall serve to promote the best interest of the Owners, Residents, and Occupants of the Property;

3.1.4 The right of the Association to prescribe which Members are permitted to use the Limited Common Areas and to determine who may be classified as guests and to close or limit the use of the Limited Common Areas, or portions thereof, while maintaining and repairing the same;

3.1.5 The right of the Declarant, reserved hereby, to non-exclusive use of all Limited Common Areas for display, sales, promotional, and other purposes deemed useful by Declarant and its agents and representatives in advertising or promoting the Property and other real property. This right shall permit Declarant to allow unlimited use by guests and prospective customers of all Limited Common Areas and shall terminate upon the termination of the Development Period;

3.1.6 The right of the Association, in accordance with its Articles and Bylaws, to borrow money for the purpose of improving the Limited Common Areas, and with written consent of two-thirds (2/3) of the votes of each class of Membership in the Association, to mortgage the Limited Common Areas as security for any such loan; and

3.1.7 The right of the Association to suspend, modify, or terminate, either temporarily or permanently, the rights of Owners, Residents, Occupants, Members, and others arising under this Article 3 at any time and from time to time for good cause shown.

Section 3.2. Limited Common Areas. The Limited Common Areas within the Property are hereby declared to be for the exclusive use and enjoyment of the Owners, Residents, and Occupants of the Lots, subject to the Governing Documents and the rights of the Association as set forth in Section 3.1 hereof.

ARTICLE 4

SINGLE FAMILY RESIDENTIAL USE AND MISCELLANEOUS USE RESTRICTIONS

Section 4.1. Single Family Residences. Each Lot within the Property shall be used only for the construction and occupancy of one (1) detached single family residential Dwelling Unit, customary accessory structures, and customary residential activities incidental thereto. No professional, commercial, or industrial operations of any kind shall be conducted in or upon and Lot except (i) as permitted by the Board and Jefferson County, and (ii) such temporary uses as shall be permitted by Declarant while the development is being construction and Lots are being sold by Declarant. No casita may be may be configured or used as a Single Family Dwelling.

Section 4.2. Tenants. All leases and rental agreements for individual Dwellings Units shall be in writing and specifically shall be subject to each and every requirement, covenant, condition, and restriction of the Governing Documents.

Section 4.3. Master Declaration Land Use Covenants. Notwithstanding anything to the contrary herein, all Lots are subject to all provisions of the Master Declaration, as amended from time-to-time, including those provisions relating to Land Use set forth in Article 4 thereof.

Section 4.4. Right of Entry. During reasonable hours and upon reasonable notice to the Owner, Resident, or Occupant of a Lot, any Member of the Board of the Association or Declarant, or any authorized representative of either of them, shall have the right to enter upon and inspect any Lot, and the improvements thereon, except for the interior portions of any Dwelling Unit, for the purpose of ascertaining compliance with the Master Declaration and this Supplemental Declaration.

Section 4.5. Prefabricated Buildings. No prefabricated, modular, or manufactured building or structure of any nature whatsoever, permanent or temporary, shall be moved or placed or assembled or otherwise maintained on any Lot.

Section 4.6. Removal of Weeds and Debris. Each Lot Owner irrevocably grants Declarant, the Association, and their successors and assigns, the right at the option of said entities to remove any weeds or debris from the Lot, subject to the authority of the Association to collect from the Owner all costs and expenses of such work as provided under Section 10.10.

Section 4.7. Storm Water Site Plan. Prior to commencement of any land disturbing activities and prior to issuance of a building permit, a Storm Water Site Plan shall be developed to the standards of the Washington State Department of Ecology Storm Water Management Manual (Revised May 1994 edition) and be submitted to the Department of Public Works for approval. Temporary erosion control Best Management Practices shall be implemented at all times during land disturbing activities.

Section 4.8. Geotechnical Report. A geotechnical report dated March 22, 1995, has been prepared by GeoEngineers, Inc., relating to the Property (the "Geotechnical Report"). The Geotechnical Report contains information and recommendations relating to site work, construction activities, and related matters associated with soils and slope stability. All construction, clearing, and land disturbing activities on any Lot within the Property shall either (i) comply with the recommendations set forth in the Geotechnical Report, or (ii) comply with the recommendations of an alternate geotechnical/engineering report approved by the Jefferson County Department of Public Works. In the event that an alternative geotechnical/engineering report is desired, then prior to commencement of any land disturbing construction activities on any Lot, and prior to the issuance of a building permit, the report shall be prepared by a licensed, qualified engineer and be submitted to the Department of Public Works for approval. Except for non-critical structures, such as decks, patios, small storage sheds, etc., the report shall include a determination whether any proposed foundations, reinforcements, or rock walls are required to be engineered. The engineering report shall illustrate the exact location of all proposed residential foundations, reinforcements, or rock walls that will be located on slopes in excess of 15% grade. In addition, all land disturbing activities must comply with all applicable Jefferson County ordinances and regulations.

Section 4.9. Unnatural Drainage. Under no circumstances shall any Owner, Resident, or Occupant of any Lot be permitted to deliberately alter the topographic conditions of a Lot in any way that would adversely affect the approved and constructed storm drainage system.

Section 4.10. Animals. In addition to the provisions contained within Section 4.2.2 of the Master Declaration, no pets (as defined in Section 4.2.2 of the Master Declaration) shall be housed or confined outdoors. No structure for the care, housing, or confinement of any Pet shall be erected or maintained on any Lot within the Property if Visible from Neighboring Property.

Section 4.11. Sewer Connection. Each Dwelling Unit within the Property shall be connected to a sanitary sewer system. On-site septic systems are prohibited within the

Property, provided, however, that Lots may require sewer grinder pumps, to be provided at the sole expense of the Lot Owner, where elevation of the sewer mains prohibits or significantly impairs gravity sewer service to any residence or intended use, whether due to the placement of improvements or general topography. Any sewer grinder pump shall meet the specifications of OWSI, and shall be installed in accordance with guidelines provided by OWSI. Each Lot Owner may be required to enter into a separate agreement with OWSI with regard to use, maintenance, and repair of any sewer grinder pump. Once installed, the Lot Owner shall be solely responsible for maintaining the sewer grinder pump and associated equipment in good working order. In the event that the sewer grinder pump and associated equipment is not repaired or maintained and OWSI determines that repair or maintenance is needed, then OWSI shall have the right to enter upon the Lot ten (10) days after providing written notice to the Lot Owner requesting that repair or maintenance be completed, provided, however, that no notice is required in the event of an emergency. The Lot Owner shall reimburse OWSI the full cost and expense associated with said repair or maintenance within fifteen (15) days after receiving an invoice relating thereto. Any such charge shall become a lien on the Lot and may be foreclosed in accordance with the procedures set forth in Article 8 herein.

Section 4.12. Pesticides and Herbicides. Pesticides and herbicides shall be applied only by applicators licensed by the Washington State Department of Agriculture consistent with the requirements of RCW Chapters 15.58 and 17.21. Herbicides, pesticides, and fungicides with the shortest hydrolysis half-life shall be used. A two-week half-life is desirable. Pesticides appearing on the U.S. Environmental Protection Agency's "Priority List of Leaching Pesticides" shall not be used. Herbicides, pesticides, and fertilizers shall be applied during the dry summer season rather than during winter runoff periods. Pesticides, herbicides, and fungicides shall not be used in wetlands, streams, or their buffers. The use of pesticides, herbicides, and fungicides shall conform to all applicable laws, orders, ordinances, regulations, and rules.

Section 4.13. Mail and Newspaper Boxes. Declarant, during the Development Period, or the Board of the Association thereafter, shall have the right to designate exclusive locations within the Property for community-wide collection of mail and newspapers. In such event, and except as otherwise specified by the Board, no alternative mail or newspaper receptacles or boxes shall be permitted on any Lot.

Section 4.14. Lighting. The Owners of each Lot shall be required to operate during hours of darkness at least one (1) outdoor lamp of between _____ and _____ lumens, mounted on the front façade of their Dwelling Unit or within the portion of their Lot that is subject to the Frontage Easement, which lamp must automatically (by the use of a photo cell, timer, or otherwise) illuminate the Frontage Easement Area within the Lot and abutting any portion of Anchor Lane from dusk until morning light. The intent of this provision is to provide lighting within Anchor Lane and the Frontage Easement Area throughout the Property to facilitate pedestrian use.

Section 4.15. Declarant's Exemption. Nothing contained in this Supplemental Declaration shall be construed to prevent the erection or maintenance by Declarant, or its duly authorized agent, of any buildings, utilities, structures, improvements, or signs necessary or convenient to the development or sale of any portion of the Property.

Section 4.16. Water System Hookup. Each Dwelling Unit within the Property shall be connected to the water system operated by OWSI. No individual wells shall be permitted on any Lot. Due to the general topography and location of the Property, Lot Owners may be required by applicable building and plumbing codes to install individual pressure reducing valves at the time of residential construction. Any individual pressure reducing valves will be installed and maintained at the sole cost and expense of the Lot Owners.

Section 4.17. Critical Areas. Tract A contains critical areas categorized by Jefferson County as a Category II Wetland and Type 3 Stream, together with their associated buffers. After the initial construction of Dwelling Units within the Property is substantially complete, permanent physical separations along all critical area buffers shall be installed by Declarant and thereafter shall be permanently maintained by the Association. These separations may consist of logs, a tree or hedge row, or other prominent physical marking approved by the administrator of the Jefferson County Department of Community Development.

Section 4.18. Landscaping. Whenever feasible, native plants shall be maintained and planted within the Property.

Section 4.19. Vegetation Removal. No Owner or Resident shall damage, injure, or remove any tree or other vegetation within the Limited Common Area or Frontage Easement Area without the prior written approval of the Association in its sole discretion. No vegetation shall be removed from the critical areas within Tract A without the prior review and approval of the Jefferson County Department of Community Development.

Section 4.20. Dredging and Filling. No dredging or filling within the Property shall be permitted without the prior written approval of Jefferson County.

Section 4.21. Disputes. The Association shall have jurisdiction over activities permitted within the Limited Common Areas. All disputes, complaints, or matters of change in existing or future use restriction shall be submitted to the Board for determination, unless otherwise provided in the Master Declaration to be within the authority of the Architectural Review Committee. The decision of the Board or Architectural Review Committee shall be final.

Section 4.22. Releases of Hazardous Materials. During construction, all releases of oils, hydraulic fluids, fuels, other petroleum products, paints, solvents, and other deleterious materials must be contained and removed in a manner that will prevent their discharge to waters and soils of the State of Washington. The cleanup of spills should take precedence over other work within the Property.

Section 4.23. Disposal of Construction Debris. Proper disposal of construction debris must be on land in such a manner that debris cannot enter Port Ludlow Bay, Class II wetlands, and Type 3 streams, or cause water quality degradation of waters of the State of Washington.

ARTICLE 5

ORGANIZATION OF THE ASSOCIATION

Section 5.1. Formation of the Association. The Association shall be charged with the duties and vested with the powers prescribed by law and set forth in the Governing Documents. Neither the Articles nor Bylaws of the Association shall, for any reason, be amended or otherwise changed or interpreted so as to be inconsistent with the Master Declaration or this Supplemental Declaration. In the event of an inconsistency between the Articles, Bylaws, and Declarations, the Declarations shall control.

Section 5.2. Board of Directors and Officers. The affairs of the Association shall be conducted by the Board and such Officers as the Board may elect or appoint in accordance with the Articles and Bylaws and the Board shall have the authority and duty to enforce this Supplemental Declaration and shall have the authority and be responsible for the proper and efficient management, maintenance, and operation of the Limited Common Areas. Without limiting the foregoing, the Board shall have the authority and duty to perform the following acts:

5.2.1 Maintaining all Association Facilities;

5.2.2 Maintaining the Frontage Easement Areas except facilities located therein that are not Association Facilities;

5.2.3 Maintaining the Limited Common Areas, including the native growth protection easement area and critical areas and their buffers in Tract A, but excluding trails and pathways maintained by the Master Association;

5.2.4 Maintaining all entry areas and monument signs within the Property;

5.2.5 Maintaining the storm water and drainage control systems including but not limited to catch basins, piping, conveyance facilities, ponds, and oil separators within the Limited Common Areas until such time as any government agency assumes responsibility for the maintenance thereof;

5.2.6 Paying any real estate taxes, special assessments, and other charges on the Limited Common Areas;

5.2.7 Insuring all improvements the Association is obligated to maintain against damage by casualty as the Board deems appropriate;

5.2.8 Hiring, firing, supervising, and paying employees and independent contractors to carry out the obligations of the Association as set forth herein;

5.2.9 Maintaining commercial general liability insurance to insure the Association and the Board against liabilities covered thereby;

5.2.10 Maintaining workmen's compensation insurance for any employees of the Association;

5.2.11 Purchasing all goods, supplies, labor and services reasonably necessary for the performance of the obligations set forth herein;

5.2.12 Establishing and maintaining such cash reserves, if any, as the Association may, in its sole and absolute discretion, deem reasonably necessary for the maintenance and repair of the Limited Common Areas and Frontage Easement Area;

5.2.13 Paying for all utility services of the Association;

5.2.14 Granting easements, licenses, and permits within the Limited Common Areas, provided that such easements, licenses, and permits are without substantial adverse effect on the enjoyment of these areas by the Members;

5.2.15 Entering into such agreements and taking such actions as are reasonably necessary and convenient for the performance of the obligations set forth in this Supplemental Declaration, the Articles, and the Bylaws; and

5.2.16 Performing such other obligations and exercising such other powers as are provided under (i) the Articles and Bylaws, (ii) this Supplemental Declaration, and (iii) Washington State law relating to nonprofit corporations.

Section 5.3. Association Rules. The Board shall be empowered to adopt, amend, or repeal such Association Rules as it deems reasonable and appropriate, which shall be binding upon all persons and entities subject to this Supplemental Declaration, whether Members of the Association or not, provided, however, that the Association Rules shall not discriminate among Members and shall not be inconsistent with this Supplemental Declaration or the other Governing Documents. Each Member agrees that the use of all Lots may be limited by the Association Rules or by an amendment to the Association Rules duly approved as described above, even if all Members do not approve of the limitation and even if the limitation does not appear in this Supplemental Declaration, and that any Association Rules or amendment thereto duly approved as described in this Supplemental Declaration may increase, decrease, limit, or enhance the obligations and rights of the Members and the Association relating to the ownership and use of the Property. The Association Rules may also include the establishment of a system of fines and penalties for the enforcement of such Rules. The Association Rules

may be established, modified, or amended by the Board at any special or regular meeting of the Board.

The Association Rules are deemed incorporated herein by this reference, shall have the same force and effect as if they were set forth in and were part of this Supplemental Declaration, and shall be binding on all persons or entities having any interest in, or making any use of, any part of the Limited Common Areas, whether or not a Member of the Association and whether or not the Association Rules are actually known to such persons or entities. The Association Rules shall be available for review by any Member at the principal office of the Association or such other location within South Bay as may be designated by the Board. In the event of a conflict between any provisions of the Association Rules and any provisions of the Master Declaration or this Supplemental Declaration, the provisions of the Association Rules shall be deemed to be superseded by the provisions of the Master Declaration and this Supplemental Declaration to the extent of such conflict. Any monetary penalties or fines imposed by the Association Rules shall be treated as an Assessment, which may become a lien against a Lot.

Section 5.4. Non-Liability of Officials and Indemnification. To the fullest extent permitted by Washington law, Declarant and every Director, Officer, committee member, manager, agent, employee, or representative of the Association, Board, and Declarant shall not be personally liable hereunder to any Member or to any other person or entity, including the Association, for any damage, loss, or prejudice suffered or claimed on account of any act, omission, error, or negligence, provided, however, the provisions set forth in this section shall not apply to any person who has failed to act in good faith or has engaged in willful or intentional misconduct.

Section 5.5. Managing Agent. The Association, through the Board, is authorized to employ a managing agent and other persons and to contract with independent contractors and managing agents to perform all or any part of the duties and responsibilities of the Association. The Association, through the Board, is also expressly authorized to enter into one or more management agreements with third parties in order to facilitate efficient operations and to carry out its obligations. It shall be the primary purpose of such management agreements to provide for the administration, management, repair, and maintenance of the Limited Common Areas to the extent provided herein and to assess, collect and apply the Assessments and to enforce this Supplemental Declaration.

The terms of the management agreement shall be as determined by the Board to be in the best interest of the Association and shall be subject to the Governing Documents. Any management agreement shall not exceed a term of one (1) year unless the terms thereof have been approved by majority vote of the Association, but may be renewed by agreement of the parties for successive one (1) year periods and shall provide for termination by either party with or without cause and without payment of a termination fee upon ninety (90) days' prior written notice, provided, however, that the Association may terminate the agreement for cause

upon thirty (30) days' prior written notice, and provided further, that in the event of misconduct the Association may terminate the agreement with no prior notice whatsoever.

The Association is expressly authorized to contract with Declarant, or an affiliate, representative or company involving some or all of the same individuals as Declarant, in order to provide management and/or maintenance services or to perform any other duties of the Association or the Board. Each Owner, Resident, and Occupant shall be bound by the terms and conditions of all management agreements entered into. All management agreements shall be available for review by any Member at the principal office of the Association or such other location within South Bay as may be designated by the Board.

Section 5.6. Bank Accounts. The Association shall maintain with a bank doing business in the State of Washington, an operating account and any reserve accounts that may be required by applicable law. The Association shall allocate its funds between the foregoing accounts in such proportions as the Association may approve.

Section 5.7. Records and Accounting. The Association shall keep or cause to be kept true and correct books and records in accordance with generally accepted accounting principles. Financial statements for the Associations shall be regularly prepared and available for review by any Member at the principal office of the Association or such other location within South Bay as may be designated by the Board, as follows:

5.7.1 A pro forma budget of revenue and expenses for each fiscal year shall be available for distribution not less than thirty (30) days before the beginning of the fiscal year;

5.7.2 An annual report shall be available for distribution within one hundred twenty (120) days after the close of the fiscal year consisting of a balance sheet as of the end of the fiscal year, an operating (income) statement for the fiscal year, and a statement of changes in financial position for the fiscal year; and

5.7.3 The annual report need not be prepared by an independent accountant, but it shall be accompanied by the certificate of an authorized Officer of the Association that the statements were prepared without audit from the books and records of the Association.

Section 5.8. Inspection of Books and Records. The Membership register, books of account, and minutes of meetings of the Members, of the Board, and of Committees of the Board, shall be available for review by any Member at the principal office of the Association or such other location within South Bay as may be designated by the Board. The Board may establish reasonable rules with respect to: (i) Notice to be given to the custodian of the records by the Member desiring to make the inspection, (ii) hours and days of the week when such an inspection may be made, and (iii) payment of the cost of reproducing copies of documents requested by a Member. 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.

ARTICLE 6

MEMBERSHIP AND VOTING

Section 6.1. Membership. Every Owner of a Lot, including Declarant, shall be a Member of the Association. Membership shall be appurtenant to and may not be separated from ownership of the Lot to which the Membership is attributable. There shall be only one Membership for each Lot, which Membership shall be shared by all Owners of an interest therein.

Section 6.2. Classes. The Association shall have two (2) classes of voting membership:

Class A. Class A Membership shall be all Membership except the Class B Membership held by Declarant, and the Class A Membership shall be entitled to one (1) vote for each Lot owned, subject to the authority of the Association Board to suspend the voting rights of the Owner for violations of this Supplemental Declaration.

Class B. Class B Membership shall be held by Declarant, and the Class B Membership shall be entitled to three (3) votes for each Lot owned by Declarant. The Class B Membership shall cease and be converted to Class A Membership at the end of the Development Period.

Section 6.3. Right to Vote. The right to vote in Association matters shall be subject to the following conditions:

6.3.1 No change in the Membership shall be effective for voting purposes unless and until the Board is given actual written notice of such change. The vote for each Membership must be cast as a unit; fractional votes shall not be allowed. If a Membership is owned by more than one person or entity and 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 a certain Membership, it will thereafter be conclusively presumed for all purposes that he was acting with the authority and consent of all Owners of the Membership unless objection thereto is made at the time the vote is cast.

6.3.2 Any mortgagee who acquires title to a Lot pursuant to a judgment or foreclosure or a trustee sale shall automatically become entitled to exercise all voting rights that the Owner of said Lot would otherwise have had.

6.3.3 If any lender to whom Declarant has assigned or hereafter assigns, as security, all or substantially all of its rights under this Supplemental Declaration, succeeds to the interests of the Declarant by virtue of said assignment, then the absolute voting rights of the Declarant as provided herein shall not be terminated thereby, and such lender shall hold the Declarant's Memberships and voting rights on the same terms as they were held by Declarant.

Section 6.4. Transfer of Membership. The rights and obligations of Membership in the Association shall not be assigned, transferred, pledged, conveyed, or alienated in any way except upon conveyance of ownership of an Owner's Lot.

ARTICLE 7

COVENANT FOR ASSESSMENTS AND CREATION OF LIEN

Section 7.1. Creation of Lien and Personal Obligation of Assessments. The Declarant, for each Lot within the Property, hereby covenants and agrees, and each Owner by acceptance of a deed therefor (whether or not it shall be so expressed in such deed) is deemed to covenant and agree to pay to the Association the following Assessments established hereunder: (i) Annual Assessments, and (ii) Special Assessments for capital improvements or other extraordinary expenses or costs. The Annual and Special Assessments, together with interest, costs and reasonable attorneys' fees, shall be a charge on the Lot and shall constitute a continuing servitude and lien with power of sale upon the Lot against which such Assessment is made. The lien may be enforced by foreclosure of the lien on the defaulting Owner's Lot by the Association in like manner as a mortgage or deed of trust on real property. The lien for each unpaid Assessment attaches to each Lot at the beginning of each Assessment Period and shall continue to be a lien against such Lot until paid. The costs and expenses for filing any notice of lien shall be added to the Assessment for the Lot against which it is filed and collected as part and parcel thereof. Each such Annual and Special Assessment, together with interest, costs and reasonable attorneys' fees, shall also be the personal obligation of the Owners of the Lot at the time when the Assessment fell due. The personal obligation for delinquent Assessments shall not pass to the successors in title of the Owners unless expressly assumed by them.

Section 7.2. Annual Assessments. In order to provide for the uses and purposes specified in Article 9 hereof, the Board each year shall assess an Annual Assessment against each Lot. The Owner of each Lot shall be responsible for paying the Annual Assessment allocated to the Lot. The amount of the Annual Assessment shall be established by the Board but shall be determined with the objective of fulfilling the Association's obligations under this Supplemental Declaration.

Section 7.3. Uniform Rate of Assessment. The amount of any Annual or Special Assessment shall be fixed at a uniform rate per Lot within the Property. Annual Assessments shall be collected in advance on a monthly, quarterly or annual basis and Special Assessments may be collected as specified by the Board unless otherwise determined by the resolution of the Members of the Association approving the Special Assessment.

Section 7.4. Superiority of Assessment Lien. The Association's lien on each Lot for Assessments shall be superior to any homestead exemption now or hereafter provided by the laws of the State of Washington or any exemption now or hereafter provided by the laws of the United States. The acceptance of a deed subject to this Supplemental Declaration shall

constitute a voluntary and informed waiver of the homestead right by the Owner and an acknowledgement that the lien should be satisfied prior to any homestead claim. The Assessment Liens of the Association shall be subordinate in all cases to any Assessment Liens of the Master Association established by the Master Declaration.

Section 7.5. Maximum Annual Assessment. The initial Annual Assessment period shall be the fiscal year any Lot is first conveyed by Declarant to a third party, and each subsequent Annual Assessment period shall correspond with the fiscal year of the Association. The Annual Assessment to be established by the Board may not exceed a certain amount (the "Maximum Annual Assessment") determined in accordance with the following provisions. The Maximum Annual Assessment described in this Supplemental Declaration does not include assessments payable to the Master Association under the Master Declaration.

7.5.1 During the initial Annual Assessment period, the Maximum Annual Assessment against each Lot shall be \$100.00 per month and shall be payable annually, quarterly, or monthly, in the discretion of the Board.

7.5.2 Effective with commencement of the first full fiscal year (the second Annual Assessment Period) and continuing through the fifth (5th) full fiscal year, the Maximum Annual Assessment may be increased by the Board without a vote of the Membership by a maximum of twenty percent (20%) over the previous year's Annual Assessment. Any such increase shall be effective at the beginning of each fiscal year. Beginning with the sixth (6th) full fiscal year, and each subsequent fiscal year thereafter, the Maximum Annual Assessment may be increased by the Board without a vote of the Membership by a maximum amount equal to the greater of either (i) five percent (5%) over the previous year's Annual Assessment, or (ii) the percentage increase in the Consumer Price Index, Seattle/Everett Metropolitan Area (or such other closest geographic area available), published by the Department of Labor, Washington, D.C., or successor governmental agency, between the first day of the previous year and the first day of the current full fiscal year. Any such increase shall be effective at the beginning of each fiscal year.

7.5.3 The Maximum Annual Assessment may be increased above the amount set forth in Subsection 7.5.2 above, provided that any such increase shall have the assent of a majority of the votes of the Class A Membership and a majority of the votes of the Class B Membership who are voting in person or by proxy at a meeting duly called for this purpose, as provided in Section 7.7 below.

7.5.4 During each of the first five (5) Annual Assessment periods, but terminating not later than the end of the fourth full fiscal year (the fifth Annual Assessment period), Declarant shall pay the Association an annual subsidy ("Declarant's Subsidy") equal to the difference, if any, between the Maximum Annual Assessments allowed under this Supplemental Declaration and the total actual annual expenses of the Association, provided actual expenses do not exceed budgeted expenses approved by the Association.

7.5.5 After the period described in Section 7.5.4, Declarant shall either (i) continue Declarant's Subsidy, or (ii) waive its rights under Section 7.12 below and permit the Association to commence Annual Assessments as to all Lots.

Section 7.6. Special Assessments for Capital Improvements and Extraordinary Expenses. The Board may levy a Special Assessment applicable to any fiscal year, for the purpose of defraying, in whole or in part, the cost of any acquisition, construction, reconstruction, repair or replacement of a capital improvement upon Limited Common Areas, including buildings, structures, fixtures, and personal property related thereto, or for the purpose of defraying other extraordinary expenses, provided, however, that in any fiscal year the Board may not, without the vote or written consent of a majority of each class of Membership, levy Special Assessments that in the aggregate exceed five percent (5%) of the budgeted gross expenses of the Association for that fiscal year. The provisions of this section are not intended to preclude or limit the assessment, collection, or use of Annual Assessments for the aforesated purposes.

Section 7.7. Notice and Quorum. Written notice of any meeting called for the purpose of taking any action under Sections 7.5 or 7.6 of this Article shall be sent to all Members not less than fourteen (14) days, or more than sixty (60) days, in advance of the meeting. At any such meeting called, the presence of Members or of proxies entitled to cast forty percent (40%) of all the votes (exclusive of suspended voting rights) of each class of Membership shall constitute a quorum.

Section 7.8. Establishment of Annual Assessment Period. The fiscal year for collection of Assessments shall be designated by the Board and shall be billed and collected on an annual, quarterly, or monthly basis.

Section 7.9. Billing and Collection Procedures. The Board shall have the right to adopt procedures consistent herewith for the purpose of levying and collecting Annual and Special Assessments. The failure of the Association to send a bill to a Member shall not relieve any Member of his liability for any Assessment under this Supplemental Declaration, but the Assessment Lien therefor shall not be foreclosed or otherwise enforced until the Member has been given not less than thirty (30) days prior written notice at the address of the Member on the records of the Association. Such notice may be given at any time prior to or after delinquency of such payment. The Association shall be under no duty to refund any payments received by it prior to conveyance of a Lot; successor Owners shall be given credit for prepayments, on a prorated basis, made by prior Owners. The Association may charge new Members, who become such during a fiscal year, an administration fee related to the issuance or reissuance of new Membership cards, if applicable, and updating Membership records.

Section 7.10. Collection Costs and Interests on Delinquent Assessments. Any delinquent installment of Annual or Special Assessment shall bear interest from thirty (30) days after the due date until paid at a uniform rate established by the Board which rate shall

not exceed the maximum interest rate legally allowed by Washington State. The Member shall be liable for all collection costs, including attorneys' fees, incurred by the Association. The Board may also record a Notice of Delinquent Assessment against any Lot as to which an Annual or Special Assessment is delinquent and constitutes a lien, and may further establish a fixed fee to reimburse the Association for its costs associated with recording such Notice of Line, processing the delinquency and recording a Notice of Payment, which fixed fee shall be treated as collection costs of the Association secured by the Assessment Lien.

Section 7.11. Evidence of Payment of Annual and Special Assessments. Upon receipt of a written request by a Member or any other person, the Association within ten (10) days shall issue a written certificate stating (i) that all Annual and Special Assessments (including interest, costs and attorneys' fees) have been paid with respect to any specified Lot, as of the date of such certificate, or (ii) if all Annual and Special Assessments have not been paid, the amount of such Annual and Special Assessments (including interest, costs and attorneys' fees, if any) due and payable as of such date. The Association may make a reasonable charge for the issuance of such certificates. Any such certificate, when duly issued as herein provided, shall be conclusive and binding with respect to any matter therein stated as against any bona fide purchaser of, or lender on, the Lot in question.

Section 7.12. Property Not Subject to Annual and Special Assessments Until Initial Sale and Completion of Construction. Notwithstanding any provision in this Supplemental Declaration to the contrary, no Lot shall be liable for payment of Annual or Special Assessments unless and until (i) the construction of a Dwelling Unit within the Lot is substantially complete and Jefferson County has approved such Dwelling Unit for occupancy, and (ii) Declarant has completed the initial sale of the Lot to an end user who is not a successor Declarant.

Section 7.13. Property Exempted From the Annual and Special Assessments. Exempt Property shall be excluded from liability for Annual and Special Assessments, provided, however, that in the event any change of ownership of Exempt Property results in all or any part thereof becoming Assessable Property in any year, the same thereupon shall be subject to liability for Annual and Special Assessments (prorated as of the date it became Assessable Property) and subject to the Assessment Lien.

ARTICLE 8

ENFORCEMENT OF PAYMENT OF ANNUAL AND SPECIAL ASSESSMENTS AND OF ASSESSMENT LIEN

Section 8.1. Association as Enforcing Body. The Association shall have the right to enforce the provisions of this Supplemental Declaration. However, if the Association shall fail or refuse to enforce this Supplemental Declaration or any provision hereof for any unreasonable period of time, after written request to do so, then any Member may enforce the

same on behalf of the Association, but not at the expense of the Association, by any appropriate action, whether in law or in equity.

Section 8.2. Association's Remedies to Enforce Payment of Annual and Special Assessments. The Association may enforce payment of any delinquent Annual or Special Assessments, together with all collection costs and attorneys' fees, by taking either or both of the following actions, concurrently or separately:

8.2.1 Bring an action at law and recover judgment against the Member personally obligated to pay the Annual or Special Assessments; and

8.2.2 Foreclose the Assessment Lien against the Lot in accordance with the then-prevailing Washington law relating to the judicial foreclosure of real estate mortgages or deeds of trust, including the right to recover any deficiency.

Section 8.3. Subordination of Assessment Lien to First Mortgage: Priority Lien. The Assessment Lien provided for herein shall be subordinate to any First Mortgage lien and any liens for taxes and other public charges which by applicable law are expressly made superior. Except as above provided, the Assessment Lien shall be superior to any and all charges, liens, or encumbrances which hereafter in any manner may arise or be imposed upon each Lot, except for any lien arising from the Master Declaration in favor of the Master Association. Sale or transfer of any Lot shall not affect the Assessment Lien, provided, however, that if the sale or transfer is pursuant to foreclosure of a first mortgage or deed of trust or pursuant to any judicial sale or proceedings, the purchaser at the sale shall take the Lot free of the Assessment Lien. However, such purchaser shall take title subject to all Annual and Special Assessments, and the Assessment Lien thereof, accruing subsequent to the date of issuance of the sheriff's or trustee's deed.

Section 8.4. Suspension of Membership. In addition to the remedies set forth herein, and not to the exclusion or prejudice thereof, the Board may also suspend a Member from the Association and the privileges of Membership, including use of Limited Common Areas, for non-payment of Annual or Special Assessments.

ARTICLE 9

USE OF FUNDS: BORROWING POWER

Section 9.1. Purposes for which Association's Funds May be Used. The Association shall apply all funds collected and received by it for the common good and benefit of the Members by devoting said funds, among other things, to the maintenance, provision, and operation of Limited Common Areas, which may be necessary, desirable or beneficial. The following are some, but not all, of the areas in which the Association may seek to provide for such common benefit: social interaction among Members; maintenance, operation, repair and improvement of Limited Common Areas; maintenance and repair of entry areas and

monument signs; liability insurance; communications; transportation; health; utilities (including street lights); public services; safety; and security.

Section 9.2. Borrowing Power. The Association may borrow money in such amounts, at such rates, upon such terms and security, and for such period of time as it determines is necessary or appropriate.

Section 9.3. Association's Rights in Spending Funds From Year-to-Year. The Association shall not be obligated to spend in any year all the sums received by it in such year (whether by way of Annual or Special Assessments, fees or otherwise), and may carry forward as reserves any balances remaining. The Association shall not be obligated to reduce the amount of the Annual Assessment in the succeeding year if reserves exist from a prior year, and the Association may carry forward from year-to-year such reserves as the Board in its discretion may determine to be desirable.

ARTICLE 10

EASEMENTS AND PROPERTY MAINTENANCE

Section 10.1. Frontage Easement Area. Declarant hereby establishes and reserves the Frontage Easement within the Frontage Easement Area. The Association shall maintain or provide for the maintenance of the following facilities, all of which shall be deemed to be Association Facilities, that are originally constructed or installed by either Declarant or the Association within the Frontage Easement Area: monument signs and other signs, mail or newspaper receptacles or boxes, fences and walls, storm water management facilities (to the extent not maintained by the Port Ludlow Drainage District or other government agency), parking facilities within designated parking areas, trails and pathways (to the extent not maintained by the Master Association or its designee), and vegetation and landscape improvements. Within the Frontage Easement Area, (i) no building or other structure may be constructed or installed without the prior written consent of the Association in its sole discretion, (ii) no tree, bush, grass, or other vegetation may be planted or maintained without the prior written consent of the Association in its sole discretion, (iii) no parking stall or other parking area or facility shall be constructed or installed without the prior written consent of the Association in its sole discretion, (iv) no alterations or improvements may be made without the prior written consent of the Association in its sole discretion, (v) all Lot Owners shall have a perpetual nonexclusive easement for the parking of operable passenger vehicles within designated parking areas, subject to the Association Rules, and (vi) all Lot Owners shall have a perpetual nonexclusive easement for pedestrian and nonmotorized vehicle ingress and egress within designated trails and pathways.

Section 10.2. Limited Common Areas. The Association shall maintain or provide for the maintenance of the Limited Common Areas within the Property, except to the extent storm water facility maintenance is provided by the Port Ludlow Drainage District or any other government agency. The following shall govern all maintenance of said systems and

facilities: (i) material collected during maintenance of oil/water separators shall be disposed of by a licensed contractor and in accordance with the standards of the Jefferson County Hazardous Waste Management Plan at a site approved by appropriate state and local agencies, and (ii) all on-going maintenance procedures utilized by the Association relating to storm water conveyance systems and management facilities shall first be approved by the Port Ludlow Drainage District, which shall have the right to oversee all aspects of said on-going maintenance.

Section 10.3. Tract A (Native Growth Protection Easement Area). Tract A shall be maintained by the Association as a native growth protection easement area ("NGPE"). A NGPE within Tract A was approved and established during the creation of the residential subdivision commonly known as Ludlow Cove Division 1.

Section 10.4. Tract C (Monument Sign). Tract C shall be maintained by the Association as a monument sign and entry area. The Association shall maintain or provide for the maintenance of the following facilities, all of which shall be deemed to be Association Facilities, that are originally constructed or installed by either Declarant or the Association within Tract C: monument signs and other signs, storm water management facilities, vegetation and landscape improvements, and appurtenant facilities.

Section 10.5. Tract G (Private Park). Tract G shall be maintained by the Association as a private park. The Association shall maintain or provide for the maintenance of the following facilities, all of which shall be deemed to be Association Facilities, that are originally constructed or installed by either Declarant or the Association within Tract G: picnic tables, playground equipment, playfields, and other park facilities, storm water management facilities, vegetation and landscape improvements, and appurtenant facilities.

Section 10.6. Anchor Lane (Tract J Access Roadway). Anchor Lane shall be maintained by the Association as an access roadway and appurtenant facilities. The Association shall maintain or provide for the maintenance of the following facilities, all of which shall be deemed to be Association Facilities, that are originally constructed or installed by either Declarant or the Association within Anchor Lane: roadway facilities, traffic signs, light fixtures and standards, storm water management facilities, vegetation and landscape improvements, and appurtenant facilities.

Section 10.7. Tract K (Shoreline Open Space). Tract K shall be maintained by the Association as a shoreline open space tract.

Section 10.8. Vegetation Within Limited Common Areas Except Tracts C and G. Except as specifically permitted by Section 13.4 herein, and except within Tracts C, G, and J, all vegetation in any Limited Common Area shall remain in its natural condition, unless removal is necessary due to imminent threat to life or property.

Section 10.9. Assessment of Certain Costs of Repair of Limited Common Areas. In the event that the need for maintenance or repair is caused through the willful or negligent act or omission of an Owner, Resident or Occupant, their guest or invitee, the cost of such maintenance or repair may, in the discretion of the Board, be charged directly to the Owner of the Lot and shall be payable when established by the Board. A lien shall secure repayment and be enforceable in the same manner as other Assessments provided herein.

Section 10.10. Maintenance and Use of Lots. Each Lot Owner shall maintain his or her Lot in good and attractive condition and repair. In the event any portion of any Dwelling Unit or Lot is used or maintained so as to present a public or private nuisance, or as to substantially detract from the appearance or quality of the surrounding Lots or Dwelling Units, or in the event any portion of a Lot or Dwelling Unit is used in a manner that violates the Master Declaration or this Supplemental Declaration, or in the event the Owner of any Lot fails to perform any of his or her obligations under the Master Declaration or this Supplemental Declaration, the Board may by resolution make a finding to such effect, specifying the particular conditions that exist, and give notice to the offending Owner that unless corrective action is taken within fourteen (14) days, the Board may take such action at said Owner's cost, which costs and expenses shall be immediately charged to the Owner and shall be payable in accordance with the time period set by the Board. A lien shall secure repayment and be enforceable in the same manner as the Assessment Lien provided for in Article 7. Alternatively, the Board may seek any legal recourse, including litigation against the Owner, to remedy the situation. Any expense incurred by the Association, including attorneys' fees and costs, shall be paid by the non-prevailing party and entered as part of any judgment.

ARTICLE 11

RIGHTS AND POWERS OF ASSOCIATION

Section 11.1. Association's Rights and Powers as Set Forth in Articles and Bylaws. In addition to the rights and powers of the Association set forth in this Supplemental Declaration, the Association shall have such rights and powers as are set forth in its Articles and Bylaws and all rights and powers granted by Washington law to a nonprofit corporation. The Articles and Bylaws shall be available for review by any Member at the principal office of the Association or such other location within South Bay as may be designated by the Board.

Section 11.2. Contracts with Others for Performance of Association's Duties. Subject to the restrictions and limitations contained herein, the Association may enter into contracts and transactions with others, including Declarant and its affiliated companies, and such contracts or transactions shall not be invalidated or in any way affected by the fact that one or more Directors or Officers of the Association or Members of any Committee is employed by or otherwise connected with Declarant or its affiliates, provided, however, that the fact of

such interest shall be disclosed or known to the other Directors acting upon such contract or transaction, and provided further that the transaction or contract is fair and reasonable.

ARTICLE 12

INSURANCE

Section 12.1. Insurance on Limited Common Areas. The Association may maintain insurance covering all insurable improvements, if any, located or constructed within Limited Common Areas. The Association may maintain the following types of insurance, to the extent that such insurance is reasonably available, considering the cost and risk coverage provided by such insurance.

12.1.1 Property Insurance. A policy of property insurance covering all insurable improvements, if any, located on Limited Common Areas with a "Replacement Cost Endorsement." Such insurance shall afford protection against loss or damage by fire and other perils normally covered by the standard extended coverage endorsement and such other risks customarily covered with respect to projects similar in construction, location, and use, including all perils normally covered by the standard all risk endorsement, where such is available.

12.1.2 Liability Insurance. A comprehensive policy of public liability insurance covering all of the Limited Common Areas in an amount not less than One Million Dollars (US \$1,000,000) covering bodily injury, including death of persons, personal injury, and property damage liability arising out of single occurrence, and such other risks as shall customarily be covered with respect to projects similar in construction, location, and use.

Section 12.2. Damage to Limited Common Areas. In the event of damage to, or destruction of, all or a portion of the Limited Common Areas due to fire or other adversity or disaster, the insurance proceeds, if sufficient to reconstruct or repair the damage, shall be paid by the Association for such reconstruction and repair. If the insurance proceeds with respect to such damage or destruction are insufficient to repair and reconstruct the damage or destruction, then the Association shall present to the Members a notice of Special Assessment for approval by the Membership in accordance with the Special Assessment provisions herein. If such Special Assessment is not approved, then the insurance proceeds may, after first being used to clean and landscape damaged areas, be applied in accordance with the wishes of the Membership upon the approval of Members and First Mortgagees, except that the proceeds shall not be distributed to the Owners unless made jointly payable to Owners and the First Mortgagees, if any, of their respective Lots.

Section 12.3. Other Insurance to Be Maintained by Owners. Insurance coverage on furnishings and other items of personal property belonging to an Owner, public liability, insurance coverage upon each Lot, and homeowners and hazard insurance coverage on the

residence and other improvements constructed on Lots shall be the responsibility of the Owner thereof.

Section 12.4. Annual Review of Insurance Policies. All insurance policies carried by the Association shall be reviewed at least annually by the Board to ascertain that the coverage provided by such policies is reasonably adequate in view of expected and likely risks insured by the Association.

ARTICLE 13

ADDITIONAL EASEMENTS

Section 13.1. Maintenance Easement. A perpetual nonexclusive easement is hereby reserved and granted to the Association, its Officers, Directors, agents, employees, and assigns, upon, across, over, in, and under Limited Common Areas and Lots to enable the Association to perform the duties and functions that it is obligated or permitted to perform pursuant to this Supplemental Declaration.

Section 13.2. Trail Easement. A perpetual nonexclusive easement is hereby reserved and granted to the Master Association and its members within those portions of the Limited Common Areas in which pedestrian trails or pathways are established and maintained, which portions shall comprise Common Areas under this Supplemental Declaration, provided, however, that the Master Association shall clean, maintain, repair, and replace such trails and pathways as needed from time to time to keep the same in an attractive and safe condition.

Section 13.3. Future Utility Easements. To the extent not inconsistent with the terms and conditions herein, the Association shall have the right to grant easements, licenses, and permits within the Limited Common Areas, provided that such easements, licenses, and permits are without substantial adverse effect on the enjoyment of these areas by the Members.

Section 13.4. View Protection. To preserve some of the scenic territorial mountain and water views from Lots within the Property, the Association, for the benefit of its Members and their Lots, shall have the right to protect and preserve Lot views through the Limited Common Areas. At its discretion, and subject to any restrictions imposed by Jefferson County or otherwise by law, the Association is permitted to cut, limb, trim, and remove vegetation, including trees, if it determines that such vegetation is unreasonably obstructing scenic views from any Lot. Prior to authorizing any such activity, a report shall be prepared by a qualified forester or similar professional, with recommendations regarding the activity, and shall be submitted to the Board for its review. In addition, tree removal shall be in accordance with any geotechnical reports referenced on the face of the Final Plat. Any costs and expenses associated with performing any such activities and obtaining the report may be charged to the Lot Owner or Owners requesting the activity, at the sole discretion of the Board.

Section 13.5. Easements Created on Plats. The Property shall be subject to the Easements created on the Final Plat.

Section 13.6. Rights of Declarant Incident to Development and Construction. An easement is reserved by and granted to Declarant, its successors and assigns, and others to be designated by Declarant, for access, ingress, and egress over, in, upon, under and across the Limited Common Areas, including, but not limited to, the right to store materials thereon and to make such other use thereof as may be reasonably necessary or incidental to construction activities in the Property, provided, however, that no such rights or easements shall be exercised by Declarant in such a manner as to unreasonably interfere with the occupancy, use, enjoyment, or access by any Owner to that Owner's Lot. The easement created pursuant to this section shall automatically cease upon termination of the Development Period.

Section 13.7. Easements Deemed Created. All conveyances of Lots hereafter made, whether by the Declarant or otherwise, shall be construed to grant and reserve the easements contained in this Article 13, even though no specific reference to such easements or to this Article 13 appears in the instrument of such conveyance.

ARTICLE 14

CONDEMNATION

Section 14.1. Actions and Awards. In the event proceedings are initiated by any governmental entity seeking to take eminent domain of the Limited Common Areas, or any part thereof, or any interest therein, with a value as reasonably determined by the Association in excess of \$10,000, the Association shall give prompt notice thereof to all Members. The Association shall have full power and authority to defend in said proceedings, and to represent the Owners in any negotiations, settlements and agreements with a condemning authority for acquisition of the Limited Common Areas, or any part thereof, but the Association shall not enter into any such proceedings, settlements or agreements pursuant to which all or any portion or interest in said properties, or improvements located thereon, are relinquished, without giving all Members at least fifteen (15) days prior written notice thereof. In the event following such proceedings, there is such a taking in condemnation or by eminent domain of a part or all of said properties, the award made for such taking shall be applied by the Association to such repair and restoration of the Limited Common Areas remaining, or improvements thereon, as the Board, in its discretion, shall determine. If the full amount of such award is not so expended, the Association shall disburse the net proceeds of such award to the Lot Owners. Each Lot will receive one (1) equal share, provided that the Association shall first pay out of the share of each Owner the amount of any unpaid assessment liens or charges on his Lot. No provision of this Supplemental Declaration shall be deemed to give an Owner or any other party priority over the rights of a First Mortgagee in the case of a distribution to an Owner of insurance proceeds or condemnation awards for losses to or taking of Lots or Limited Common Areas, or any combination thereof.

ARTICLE 15

TERM; AMENDMENTS; TERMINATION

Section 15.1. Term; Method of Termination. This Supplemental Declaration shall be effective upon the date of recordation hereof and, as amended from time-to-time, shall continue in full force and effect for a term of twenty-five (25) years from the date this Supplemental Declaration is recorded. From and after said date, this Supplemental Declaration shall be automatically extended for successive periods of ten (10) years each, unless there is an affirmative vote to terminate this Supplemental Declaration by Members casting ninety percent (90%) or more of the votes cast at a meeting held for such purpose. No vote to terminate this Supplemental Declaration shall be effective unless and until the written consent to such termination has been obtained, within a period from six (6) months prior to such vote to six (6) months after such vote, from all First Mortgagees. If the necessary votes and consents are obtained, then the Board shall record a Certificate of Termination in the Jefferson County real property records and thereafter this Supplemental Declaration shall have no further force or effect.

Section 15.2. Amendments.

15.2.1 Declarant reserves the right to amend this Supplemental Declaration during the Development Period unilaterally without the consent or signature of the Association, the Board, or any Director, Officer, or Owner.

15.2.2 Except as provided in Section 15.2.1, during the Development Period, this Supplemental Declaration may be amended by obtaining approval of fifty-one percent (51%) or more of the votes of each class of Membership cast at a meeting held for such purpose, provided that there shall also be full compliance with all other provisions herein.

15.2.3 After the Development Period, this Supplemental Declaration may be amended by obtaining approval of sixty-seven percent (67%) or more of the votes of the Members cast at a meeting held for such purpose, provided that there shall also be full compliance with all other provisions herein.

15.2.4 Any amendment to this Supplemental Declaration shall be recorded with the Jefferson County Auditor as a Certificate of Amendment, duly signed and acknowledged by Declarant as to amendments approved under Section 15.2.1 and by the President of the Association as to amendments approved under Sections 15.2.2 and 15.2.3. The Certificate of Amendment shall set forth in full the amendment adopted and shall certify that the amendment was properly approved by Declarant or the Members or both as provided in the Articles, the Bylaws, and this Supplemental Declaration.

15.2.5 Each Member agrees that the use of all Lots may be limited by an amendment duly approved as described above, even if all Members do not approve of the amendment, and

that any amendment duly approved as described in this Supplemental Declaration may increase, decrease, limit, or enhance the obligations and rights of the Members and the Association relating to the ownership and use of the Property.

Section 15.3. Right to Amendment if Requested by Governmental Mortgage Agency or Federally chartered Lending Institutions. Anything in this Article to the contrary notwithstanding, Declarant reserves the right to amend all or any part of this Supplemental Declaration to such an extent and with such language as may be requested by Governmental Mortgage Agencies and to further amend to the extent requested by any other federal, state, or local governmental agency that requests such an amendment as a condition precedent to such agency's approval of this Supplemental Declaration, or by any federally chartered lending institution as a condition precedent to lending funds on the security of any Lot. Any such amendment shall be effected by the recordation, by Declarant, of a Certificate of Amendment duly signed by the authorized agents or officers of Declarant, as applicable, with their signatures acknowledged, specifying the Governmental Mortgage Agency, the federal, state or local governmental agency or the federally chartered lending institution requesting the amendment, and setting forth the amendatory language requested by such agency or institution.

ARTICLE 16

MISCELLANEOUS

Section 16.1. Interpretation of the Covenants. Except for judicial construction, the Association, through its Board, shall have the exclusive right to construe and interpret the provisions of this Supplemental Declaration. In the absence of any adjudication to the contrary, the Association's construction or interpretation of the provisions hereof shall be final, conclusive, and binding as to all persons and property benefited or bound by the covenants and provisions hereof.

Section 16.2. Severability. Any determination by any court of competent jurisdiction that any provision of this Supplemental Declaration is invalid or unenforceable shall not affect the validity or enforceability of any of the other provisions hereof.

Section 16.3. References to Covenants in Deeds. Deeds to and instruments affecting any Lot in the Property may contain the covenants herein set forth by reference to this Supplemental Declaration, but regardless of whether any such reference is made in any deed or instrument, each and all of the Covenants shall be binding upon the grantee-owner or other person claiming through any instrument and his heirs, executors, administrators, successors and assigns.

Section 16.4. Successors and Assigns of Declarant. Any reference in this Supplemental Declaration to Declarant shall include any successors or assigns of Declarant's rights and powers hereunder.

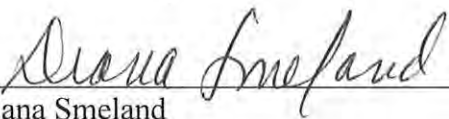
Section 16.5. Gender and Number. Wherever the context of this Supplemental Declaration so requires, words used in the masculine gender shall include the feminine and neuter genders, words used in the neuter gender shall include the masculine and feminine genders, words in the singular shall include the plural, and words in the plural shall include the singular.

Section 16.6. Captions and Titles. All captions, titles or headings of the articles and sections in this Supplemental Declaration are for the purpose of reference and convenience only and are not to be deemed to limit, modify, or otherwise affect any of the provisions hereof or to be used in determining the intent or context thereof.

Section 16.7. Notices. Unless otherwise required by the Governing Documents, notice of any meeting, action or proposed action by the Association, Board or any Committee to be given to any Owner shall be deemed satisfied if notice of such action or meeting is given in person or by regular mail, postage paid, not less than three (3) days prior to the date such notice is effective. Each Owner shall register his mailing address with the Association for the purposes of such notice. All notices, demands, or other notices intended to be served upon the Board or the Association shall be sent by certified mail, postage prepaid, to the business office of the Association. This section shall not be construed to required that any notice be given if not otherwise required and shall not prohibit satisfaction of any notice required in any other manner.

IN WITNESS WHEREOF, Declarant has hereunto caused its authorized official to execute this Supplemental Declaration as of the day and year first above written:

PORT LUDLOW ASSOCIATES LLC, a
Washington limited liability company

By: 
Diana Smeland
Its President
Date: December 2, 2014

STATE OF WASHINGTON)
) ss.
COUNTY OF JEFFERSON)

On this 2nd day of December, 2014, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared DIANA SMELAND, to me known to be the President of Port Ludlow Associates LLC, a Washington limited liability company, the company that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited liability company, for the uses and purposes therein mentioned, and on oath stated she was authorized to execute the said instrument.

WITNESS MY HAND AND OFFICIAL SEAL hereto affixed the day and year first above written.



C. McShane
NOTARY PUBLIC in and for the
State of Washington, residing at
Kitsap Bank
My commission expires 12-09-2015

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

All real property located within the Plat of Ludlow Cove Division 2, recorded in the real property records of Jefferson County, Washington, under A.F. No. 587899,

which also may be described as Tract E as depicted on the Plat of Ludlow Cove Division No. 1, Phase 1, recorded in Volume 8 of Plats, pages 1 through 6 inclusive, records of Jefferson County, Washington,

Situate in Jefferson County, Washington.