

**ASSOCIATION**

**BY-LAWS**

## EXPLANATION OF BY-LAWS

The By-Laws of Scottsdale Shadows Regime III, Inc., describe the rules and responsibilities of the Council of Co-owners. They cover such subjects as the powers and duties of the Board of Directors, annual meetings, voting rights, assessments, insurance, maintenance reserves, etc. All residents of Scottsdale Shadows Regime III are subject to the provisions contained in these By-Laws.

Revised January 21, 1999

BY-LAWS  
OF  
SCOTTSDALE SHADOWS REGIME III, INC.

HORIZONTAL PROPERTY REGIME

ARTICLE I

Section 1. The Regime located in Maricopa County, State of Arizona, known as "SCOTTSDALE SHADOWS", has been previously submitted to a Horizontal Property Regime, pursuant to the provisions of Sections 33-1201 to 33-1260, Arizona Revised Statutes.

Section 2. Definitions. Wherever terms are used herein which are defined in Section 33-1202, A.R.S., such words shall have the definitions set forth in said statute.

Section 3. Application of By-Laws. All present and future owners, tenants, future tenants or their employees or any other person that might use the facilities of the Regime in any manner are subject to the provisions of these By-Laws. The ownership or rental of any of the units in the Regime or the mere action of occupancy of any of said units will signify that these By-Laws are accepted, ratified and will be complied with by the occupant or Co-owner.

ARTICLE II

Section 1. Voting. Notwithstanding the number of Co-owners who may jointly or otherwise own a unit, voting on all matters shall be limited to one (1) of the Co-owners. Where two (2) or more persons own an interest in a unit, they shall designate to the Regime, in writing, one of their number who shall have the power to vote. In the absence of such designation and until such designation is made, the Board shall make such designation.

Section 2. In all matters requiring a vote of the Co-owners, voting shall be on a percentage basis and the percentage of the vote to which each owner is entitled is the same percentage assigned to each of said apartments in the common elements in the Declaration submitting said property to a horizontal property regime.

Section 3. Majority of Co-owners. As used in these By-Laws, the term "Majority of Co-owners" shall mean those Co-owners holding more than fifty percent (50%) of the votes in accordance with the percentages assigned to each apartment.

Section 4. Quorum. Except as otherwise provided in these By-Laws, the presence in person or by proxy of a "majority of Co-owners" as defined in Section 3 of this Article shall constitute a quorum, and a majority of those present either in person or by proxy at an annual or duly noticed special meeting shall be necessary to pass any proposal before the Regime.

Section 5. Proxies. Votes may be cast in person or by proxy. Proxies must be filed with the Secretary before the appointed time of each meeting.

### ARTICLE III

Section 1. Council Responsibilities. The Co-owners of the units will constitute the Council of Co-owners (hereinafter referred to as "Regime") who will have the responsibility of administering the Regime, electing the Board of Directors, and exercising those duties and responsibilities provided for by law and in the Declaration of Restrictions previously recorded.

Section 2. Place of Meeting. Meetings of the Regime shall be at the principal place of business of the Regime or at such other suitable place convenient to the Co-owners as may be designated by the Board of Directors.

Section 3. Annual Meetings. The annual meetings of the Regime shall be held during the month of January of each year. At such meetings there shall be elected by ballot of the Co-owners a Board of Directors in accordance with the requirements of Section 4 of Article IV of these By-Laws. The Co-owners may also transact such other business of the Regime as may properly come before them.

Section 4. Special Meetings. It shall be the duty of the President to call a special meeting of the Co-owners as directed by resolution of the Board of Directors or upon a petition signed by 25 Co-owners and having been presented to the Secretary. The notice of any special meeting shall state the time and place of meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice unless by agreement of more than fifty percent (50%) of the Co-owners present, either in person or by proxy.

Article III

Section 5. Notice of Meetings.

a) Annual Meeting. It shall be the duty of the Secretary to mail a notice of each annual meeting, stating the purpose thereof with the time and the place where it is to be held, to each Co-owner of record, at least ten (10) but not more than thirty (30) days prior to such meeting. The mailing of a notice in this manner provided in this section shall be considered notice served.

b) Special Meeting. It shall be the duty of the Secretary to mail a notice of each special meeting, stating the purpose thereof with the time and the place where it is to be held, to each Co-owner of record, at least three (3) but not more than twenty (20) days prior to such meeting. The mailing of a notice in the manner provided in this section shall be considered notice served.

Section 6. Adjourned meetings. If any meeting of Co-owners cannot be organized because a quorum has not attended, the Co-owners who are present, either in person or by proxy, may adjourn the meeting to a time not more than thirty (30) days from the time the original meeting was called. If a quorum is not present at the adjourned meeting the business proposed for the meeting may be transacted providing a minimum of twenty-five (25) of the Co-owners who are present, either in person or by proxy vote to carry on the meeting with a seventy-five percent (75%) affirmative vote required.

Section 7. Order of Business. The order of business at all meetings of the Regime, except for Special Meetings when sections (d), (e), (f) (g), (h), (i), (j) and (k) may be omitted, shall be as follows:

- (a) Roll call and verification of proxies.
- (b) Proof of notice of meeting.
- (c) Reading of minutes of preceding meeting.
- (d) Reports of officers.
- (e) Report of Board of Directors.
- (f) Reports of committees.
- (g) Appointment of inspectors of election when required.
- (h) Election of members of the Board of Directors when required.
- (i) Unfinished business.
- (j) New business.
- (k) Any other matter that may be good for the welfare of the Regime.

ARTICLE IV

Board of Directors

Section 1. Number and Qualification. The affairs of the Regime shall be governed by a Board of Directors composed of seven (7) persons, all of whom must be Co-owners of units in the Regime.

Where a unit is owned by a corporation, the corporation shall designate an officer of the corporation to act as the Co-owner with respect to all matters and responsibilities of a Co-owner including the election of such person to the Board of Directors. Such designation shall be filed with the Secretary of Regime III and be signed by the Secretary of the Corporation.

Section 2. Powers and Duties. The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Regime and may do all such acts and things as are not by law, by the Declaration of Restrictions, or by these By-Laws directed to be exercised and done by the Co-owners.

Section 3. Other Duties. In addition to the duties imposed by the Declaration submitting property to a Horizontal Property Regime, these By-Laws or by resolutions of the Regime, the Board of Directors shall be responsible for the following:

- (a) Care, upkeep and surveillance of the property and the general common elements and facilities.
- (b) Preparation of an annual budget and allocation of the budget to the various units in accordance with the various percentages of interest owned.
- (c) Collection of monthly assessments from the Co-owners and the filing of liens and foreclosure thereof where necessary.
- (d) Employment and dismissal of the personnel necessary for the maintenance and the operation of the Regime, the general common elements and facilities.
- (e) Employment of a management agent at a compensation established by the Board of Directors to perform such duties and services as the Board shall authorize. The duties conferred upon the management agent by the Board of Directors may at any time be revoked, modified or amplified by a majority of the Board of Directors at a duly constituted meeting.
- (f) To make repairs within the individual units where such repairs are required for the welfare or safety of the Regime or its residents.
- (g) To exercise the option to purchase granted in the Declaration of Restrictions, or to designate a person or persons to exercise such option as provided for therein.

- (h) To maintain an interest in Recreational Center, Inc. and to obligate this Regime to pay its share of assessments levied by said Recreational Center, Inc. for the purchase, construction, development, operation, maintenance and management of recreational facilities for the Co-owners in this and other Regimes. To designate one of its members as a delegate of this Regime to attend and vote at all meetings of the Board of Directors and stockholders of Recreational Center, Inc.
- (i) Obtain and keep in full force and effect fire and hazard insurance on the building and all common elements in the Regime, and public liability and other insurance as deemed necessary and advisable by the Board.
- (j) To grant or relocate easement required for the benefit of the Regime.
- (k) Adopt and amend rules and regulations and enforce the same covering the operation and use of all of the property and recreational areas in the Regime.
- (l) Suspend, prohibit and restrain any Co-owners, who is delinquent in the payment of any assessments, or who violates any of the rules, regulations, By-Laws or Declarations, from using all or any part of the recreational facilities furnished and provided by Recreational Center, Inc.
- (m) Opening of bank account(s) at Bank(s), who are covered by the direct Federal Deposit Insurance Corporation, on behalf of the Regime and designating the signatories required therefore. There being two Director's signatures on all debits to the account(s).
- (n) Invest any excess funds held or controlled by the Regime with a Bank(s) where such funds are covered by direct Federal Deposit Insurance.

Section 4. Election and Term of Office. Directors may be elected to serve for a three year term except that a director who has not served on the Scottsdale Shadows Regime III Board before shall be elected for a one year term.

A director having served on the Board for six (6) consecutive years shall not be eligible for re-election for a period of one (1) year at the expiration of that Director's term.

Section 5. Vacancies. Vacancies in the Board of Directors caused by any reason other than the removal of a director by a vote of the Regime shall be filled by vote of the majority of the remaining directors, even though they may constitute less than a quorum; and each person so elected shall be a director until a successor is elected at the next annual meeting of the Regime.

Section 6. Removal of Directors. At any regular or special meeting duly called, any one or more of the directors may be removed with or without cause by a majority of the Co-owners and a successor may then and there be elected to fill the vacancy thus created. Any director whose removal has been proposed by the Co-owners shall be given an opportunity to be heard at the meeting.

Section 7. Compensation. No compensation shall be paid to directors or officers for their services as directors or officers. No remuneration shall be paid to a director for services performed by him for the Regime in any capacity, unless a resolution authorizing such remuneration shall have been passed by the Co-owners at a special meeting called for this purpose. Neither a director nor an officer may be an employee of the Regime. Directors and officers, however, may be reimbursed for any actual expenses incurred in connection with their duties as such officers or directors which are solely for the benefit of the Regime and not for the benefit personally of the officer or director.

Section 8. Regular Meetings. Regular meetings of the Board of Directors may be held at such time and place as shall be determined, from time to time, by a majority of the directors, but at least two (2) such meetings shall be held during each fiscal year. Notice of regular meetings of the Board of Directors shall be given to each director, personally or by mail, telephone or telegraph, at least three (3) days prior to the day named for such meeting. Such notice shall also be posted on the Bulletin Board in each of Building 24 and 25 at least three (3) days prior to the day named for such meeting giving opportunity for the Co-owners to attend the meeting but not to speak at such meeting unless requested by the Chair.

Section 9. Special Meetings. Special meetings of the Board of Directors may be called by the President or Secretary on three (3) days notice to each director, given personally or by mail, telephone or telegraph, which notice shall state the time, place (as hereinabove provided) and purpose of the meeting. Such notice shall also be posted on the Bulletin Board in each of Building 24 and 25 at least three (3) days prior to the day named for such meeting giving opportunity for the Co-owners to attend the meeting but not to speak at such meeting unless request by the Chair.

**Section 10. Waiver of Notice.** Before or at any meeting of the Board of Directors, any director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to giving of such notice. Attendance by a director at any meeting of the Board shall be a waiver of notice by him of the time and place thereof. If all of the directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting.

**Section 11. Board of Directors' Quorum.**

- a) At all meetings of the Board of Directors, majority of the directors shall constitute a quorum for the transaction of business, and the acts of the majority of the directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting of the Board of Directors there be less than a quorum present, the majority of those present may adjourn the meeting from time to time. At any such adjourned meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice providing a quorum is present.
- b) If a quorum cannot be obtained at a meeting and at an adjourned meeting, then the Directors attending the second meeting without a quorum, shall call a special meeting of the Co-owners pursuant to Article III Section 5b and Article IV Section 6 of these By-Laws for the purpose of taking action to replace one or more Directors in order to restore a quorum of Directors to conduct the business of the Regime.

**Section 12. Fidelity Bonds.** The Board of Directors shall require that all officers and employees of the Regime handling or responsible for funds of the Regime shall furnish adequate fidelity bonds. The premiums on such bonds shall be paid by the Regime.

**Section 13.** The members of the Board of Directors shall not be liable to the Regime or any Co-owner for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct or bad faith. The Regime shall indemnify and hold harmless each of the members of the Board of Directors against all contractual liability to others arising out of contracts made by the Board of Directors on behalf of the Regime unless any such contract shall have been made in bad faith or contrary to the provisions to the Declaration or of these By-Laws.

ARTICLE V

Officers

Section 1. Designation. The principal officers of the Regime shall be a President, Vice President, Secretary and Treasurer, all of whom shall be elected by and from the Board of Directors.

Section 2. Election of Officers. The officers of the Regime shall be elected annually by the Board of Directors at the organization meeting of each new Board and shall hold office at the pleasure of the Board.

Section 3. Removal of Officers. Upon an affirmative vote of a majority of the members of the Board of Directors, any officer may be removed, either with or without cause, and his successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board called for such purpose.

Section 4. President. The President shall be the chief executive officer of the Regime. He shall preside at all meetings of the Regime and of the Board of Directors. He shall have all of the general powers and duties which are usually vested in the office of the President of the Regime including, but not limited to, the power to appoint committees from among the Co-owners from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the Regime.

Section 5. Vice-President. The Vice-President shall take the place of the President and perform his duties whenever the President shall be absent or unable to act. If neither the President nor the Vice-President shall be able to act, the Board of Directors shall appoint some other member of the Board to so do on an interim basis. The Vice-President shall also perform such other duties as shall from time to time be imposed upon him by the Board of Directors.

Section 6. Secretary. The Secretary shall have the responsibility for keeping the minutes of all meetings of the Board of Directors and the Regime and such correspondence as shall be necessary and such other duties as shall from time to time be imposed on him by the Board of Directors.

Section 7. Treasurer. The Treasurer shall have the responsibility for Regime funds and securities and shall be responsible for keeping full and accurate accounts of all receipts and disbursements in books belonging to the Regime and such depositaries as may from time to time be designated by the Board of Directors.

ARTICLE VI

Section 1. General Assessments. All Co-owners shall be obligated to pay monthly assessments for common element expenses imposed by the Board of Directors. These expenses shall include the items noted herein but not limited to these items.

a) Payment of Assessments. The assessments shall be made pro-rata according to the percentage of interest of each unit in the common elements of the Regime as set forth in the Declaration submitting said property to a horizontal property regime. Assessments shall commence and be payable by each Co-owner as of the date of acquisition of title to his unit and said assessment shall be payable monthly in advance or at such other time or times as the Board of Directors shall determine. Any assessments, levied or collected which are in excess of the amount required for the purposes herein set forth shall be refunded to Co-owners. No Co-owner shall be exempt from any assessment or charge by waiver or suspension of the use of any of the common elements, recreational areas or by abandonment of his unit

b) Special Assessment. Should a major extraordinary expense arise in excess of any reserves that may be allocated to such expense, the Board of Directors may recommend to the Regime that a special assessment be levied. Such recommendation would be brought before the Regime at a special meeting called for this purpose. Such recommendation would require to be passed by a majority vote of the Co-owners present or voting by proxy.

c) Lien for Assessments. In accordance with Section 33-1256 of the Arizona Revised Statutes the Regime has a lien on a unit for any assessment levied against that unit or monetary penalties imposed against its unit owner from the time the assessment or fine becomes due.

Section 2. Insurance. The Board of Directors shall be required to obtain and maintain, to the extent obtainable, the following insurance:

a) Fire, storm, earthquake or other hazard which shall be in an amount of the cost of replacement, damage to the structure and improvements with extended coverage insuring the building containing the apartment units (including all of the apartments' bathroom and kitchen fixtures initially installed therein by the developer but not including carpeting, drapes, wall covering, fixtures, furniture, furnishings or other personal property supplied or installed by the Co-owner or all the air-conditioning equipment and other service machinery contained therein). The policy is to cover the interests of the Regime, the Board of Directors and all Co-owners

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and their mortgagees, as their interests may appear, in the amount determined by the Board of Directors. Each policy shall contain a standard mortgage clause in favor of each mortgagee of an apartment which shall provide that the loss, if any, thereunder should be payable to such mortgagee as its interests may appear, subject, however to the loss payment provisions in favor of the Board of Directors.

- b) Workers Compensation Insurance
- c) Public liability insurance in such amounts and with such coverage as the Board of Directors shall from time to time determine, but at least covering each member of the Board of Directors, the Managing Agent, the Manager and each apartment owner and with cross liability endorsement to cover liabilities of the Co-owners as a group to a single Co-owner.
- d) Such other insurance as the Board of Directors may determine. All such policies shall provide that adjustment of loss shall be made by the Board of Directors and that the net proceeds thereof shall be payable to the Board of Directors.
- e) The insurance policies shall cover the entire Regime and not be limited to the general common elements.
- f) All policies of physical damage insurance shall contain waivers of subrogation and waivers of any reduction of pro-rata liability of the insurer as a result of any insurance carried by Co-owners or of invalidity arising from any acts of the insured or any Co-owner; and shall provide that such policies may not be cancelled or substantially modified without at least ten days prior written notice to all of the insureds, including all mortgagees of apartment units. Duplicate originals of all policies of physical damage insurance and all renewals thereof, or acceptable certificates of such insurance, together with proof of payment of premiums, shall be delivered to all mortgagees of apartments if requested in writing at least ten days prior to expiration of the current policies.
- g) Unit Owners may carry insurance if they desire for their own benefit insuring their improvements, carpeting, wall covering, fixtures, furniture, furnishings and other personal property provided that all such policies shall contain waivers of subrogation and further provide that the liability of the carriers issuing insurance obtained by the Board of Directors shall not be affected or diminished by reason of any such additional insurance carried by any Co-owner.

- h) Repair or Reconstruction after fire or other casualty. In the event of damage to or destruction of the building containing the apartment units as a result of fire or other casualty, the Board of Directors shall arrange for the prompt repair and restoration of the building containing the apartment units. Any cost of such repair and restoration in excess of the insurance proceeds shall constitute a common expense and the Board of Directors may assess all Co-owners for such deficit and for a completion bond for such deficit as part of the common charges. Notwithstanding the foregoing, if as a result of fire or other casualty the loss exceeds 50% of the total replacement value of the entire building, units and improvements in the Regime, prior to the casualty, then in that event, the Board of Directors shall call a special meeting of the Co-owners as provided for in the Declaration of Restrictions.

Section 3. Maintenance and Repairs. The assessment shall also include the cost of maintenance and repair of the general common elements, utilities, taxes and assessments, if any, on common elements, and all other items necessary for the maintenance and operation of the common elements.

Section 4. Co-owner Maintenance and Repairs.

- a) Each Co-owner shall perform promptly all maintenance and repair and upkeep work within his own unit, which, if omitted, would affect the Regime in its entirety or in a part belonging to other Co-owners. In the event any Co-owners fails to maintain, keep or repair his own unit and in the event the Board of Directors shall determine that it is necessary to perform such repairs, the Board of Directors may enter such Co-owner's apartment and make such repairs as are necessary, provided, however, that the Co-owner shall first have been given thirty (30) days' notice of the intention of the Board of Directors to make such repairs. In the event that the Co-owner fails to make such repairs within said thirty (30) day period, the Board of Directors through its agents may make such repairs and levy an assessment for the costs thereof against the Co-owner and shall have a lien for all costs incurred against the Co-owner's unit as provided in the Declaration of Restrictions.
- b) All the repairs of internal installations of the units, such as water, light, gas, power, sewage, telephone, air-conditioning, doors, windows, lamps and all other accessories belonging to and located within the individual unit shall be at the Co-owners's expense. Any such repairs required which are outside of the Co-owner's apartment shall be at the expense of the Regime as common area maintenance costs.

- c) A Co-owner shall reimburse the Regime for any expenditures incurred in repairing or replacing any common area damaged through his own fault.
- d) A Co-owner shall not make structural modifications, alterations or installation of a washer or dryer in his unit located in the Regime without previously securing written approval therefore from the Board of Directors.

**Section 5. Restricted Replacement Reserve Fund.** The Board of Directors shall establish a Restricted Replacement Reserve Fund and formally segregate each year a portion of the General Assessments, to be set aside in a separate interest-bearing account and held in reserve, to hold and expend such funds solely and specifically for major repairs, restoration and capital replacement such as roofs, boilers, elevators, chillers, decks, exterior painting, and any other major components of the Regime property.

Reserve amounts shall be in accordance with a Reserve Program which will be represented by a five (5) year budget and up-dated each year based on the estimated cost of major expense items, amortized over the life span of such items. A copy of the Reserve Program budget shall be made available to each Co-owner at the time the annual financial statements are sent out.

All contributions to this Fund shall be maintained in a separate bank account with a Bank whose deposits are directly insured by the Federal Deposit Insurance Corporation, or invested in notes and bills of other securities issued by the Treasury Department of the United States.

No withdrawals from any Reserve Account shall be made except by the affirmative vote of a majority of the Board of Directors and the minutes of the meeting where such vote was taken shall clearly specify the amount and purpose of the withdrawal.

Withdrawals from the Restricted Replacement Reserve may only be used for restoration, repair and replacement of existing capital improvements and equipment as set out in the Budget and not for annual maintenance or operating expense, nor may the monies be rebated to the Co-owners or used to reduce members' future operating expenses.

**Section 6. Impound Fund.** Each Co-owner shall pay to the Regime at the time each Co-owner purchases an apartment a sum equal to six times the then established and existing common element expenses assessment for his apartment unit for common area maintenance costs. Said sum shall be refunded to the Co-owner upon the sale or transfer of his apartment less any amounts then due by the said Co-owner to the Regime.

These funds shall be placed into a separate bank account known as the "Impound Fund". Said funds are to be placed in an interest

-bearing account with a Bank whose deposits are directly insured by the Federal Deposit Insurance Corporation or invested in notes and bills of other securities issued by the Treasury Department of the United States.

The said funds up to a maximum of twenty-five percent (25%) of the fund may only be used for major emergency repairs/replacements not fully covered by the Restricted Replacement Reserve Fund and only if it is demonstrated there are no other sources of funds available. At no time may the Impound Fund be depleted by more than 25% of the total amount owed to the Co-owners. Any funds for such emergency purpose must be repaid to the Impound Fund over a maximum term of three (3) years. Such repayment must form part of the Annual General Assessment Budget, clearly shown as such, and transferred monthly into the Impound Fund bank account.

Use of these funds for the purpose outlined must be authorized by a majority of Co-owners present or voting by proxy at a special meeting called for this purpose.

Section 7. No Co-owner shall be liable for the payment of any part of the common charges assessed against his unit subsequent to a sale, transfer or other conveyance by him, made in accordance with the provisions of the Declaration of Restrictions and these By-Laws, of such unit. A purchaser of an apartment unit shall be liable for the payment of common charges assessed and unpaid against such unit prior to the acquisition by him of such unit, except that a mortgagee or other purchaser of a unit at a foreclosure sale of such unit shall not be liable for, and such unit shall not be subject to, a lien for the payment of common charges assessed prior to the foreclosure sale.

Section 8. The Board of Directors shall from time to time and at least annually prepare a budget for the Regime, the term and the amount of the common charges payable by the Co-owners to meet the common expenses of the Regime and allocate and assess such common charges among the Co-owners according to their respective common interests. The Board of Directors shall advise all Co-owners promptly in writing of the amount of common charges payable by each of them respectively and shall furnish copies of the budget on which such common charges are based to all Co-owners and to their mortgagees if requested in writing. The Board of Directors may levy a late penalty charge on any Co-owner who fails to pay his assessment on or before the due date as set by the Board of Directors.

Section 9. Use of General Common Elements and Facilities. A Co-owner shall not place or cause to be placed in any general common element any furniture, packages or objects of any kind. Such areas shall be used for no other purpose than for normal transit through them, and in the case of recreational areas, for the normal use provided by such recreational facilities.

Section 10. Right of Entry. The management agent or any other person authorized by the Board of Directors of the Regime shall have the right of entry to any unit for purposes of inspection and making necessary repairs, alternations, installations and maintenance to the common elements, including mechanical or electrical services, provided that such requests for entry are made in advance and such entry is at a time convenient to the Co-owner. In case of an emergency, the right of entry shall be immediate.

Section 11. Sales and Leases. No Co-owner may sell or lease his apartment unit in the Regime or any interest therein except by complying with the provisions of the Declaration of Restrictions.

#### ARTICLE VII

##### Amendments

These By-Laws may be amended by a majority vote of the Regime at any regular or special meeting where notice of the proposed amendment is included in the call or notice of meeting, provided no By-Laws may be amended or added which would be in conflict with the Declaration of Horizontal Property Regime or the Declaration of Restrictions heretofore filed.

#### ARTICLE VIII

The Board of Directors shall promulgate and adopt rules and regulations for the management of the Regime, and said rules and regulations shall apply to and govern the occupation of the various units and of the general common elements by the Co-owners and lessees, tenants and guests.

#### ARTICLE IX

Section 1. Maintenance of Books and Records. The Board of Directors shall cause to be maintained at the principal office of the Regime complete books of account concerning all Regime funds, assets and liabilities as well as minutes of all Regime and Board meetings.

- a) Except as prescribed by subsection (b) of this section all financial and other records of the Regime and the Board of Directors shall be made reasonably available for examination by any unit owner and his authorized agent.
- b) Books and records kept by or on behalf of the Regime and the Board may be withheld from disclosure to the extent that the portion withheld related to any of the following:
  1. Personnel matters or a person's medical records.

b) cont'd.

2. Communication between an attorney for the Regime and the Regime.
3. Pending or contemplated litigation.
4. Pending or contemplated matters relating to enforcement of the Regime's documents or rules.
5. Meeting minutes or other records of a session of a board meeting or Regime meeting that is not required to be open to all members.

c) The Regime shall not be required to disclose financial and other records of the Regime if disclosure would violate any local, state or federal law.

Section 2. Annual Report to Co-owners. The Board of Directors shall cause to be prepared a report of the affairs of the Regime to contain the most recent accounting of receipts and disbursements of all Regime funds during the preceding calendar year, a balance sheet setting forth all Regime assets and liabilities and including the Restricted Replacement Reserve Fund and the Impound Fund.

Section 3. Audit. An annual independent audit of the Regime's books and record shall be performed in accordance with generally accepted auditing standards by a duly licensed certified public accountant at the Regime's expense. A copy of the report of such auditor shall then be available to each Co-owner who so requests same from the Treasurer or President. Said audit is to be completed within 60 days of the year end.

The Board of Directors shall annually engage the audit firm and establish the audit fee.

The foregoing By-Laws were duly adopted the 21 day of January, 1999, by the Co-owners of Scottsdale Shadows Regime III, Inc. a Horizontal Property Regime,

Theodore M. Buzon  
President  
Norman L. Olson  
Secretary

**CERTIFICATE OF  
AMENDMENT TO  
BY-LAWS OF  
SCOTTSDALE SHADOWS REGIME III, INC.**

SCOTTSDALE SHADOWS REGIME III, INC. ("Association") hereby amends the By-Laws of Scottsdale Shadows Regime III, Inc. ("By-Laws"), along with any amendments that may exist thereto, as follows:

**Article VI, Section 2(a) of the By-Laws is amended as follows:**

**"Section 2. Insurance.** The Board of Directors shall be required to obtain and maintain, to the extent obtainable, the following insurance:

- a) Fire, storm, or other hazard which shall be in an amount of the cost of replacement, damage to the structure and improvements with extended coverage insuring the building containing the apartment units (including all of the apartments' bathroom and kitchen fixtures initially installed therein by the developer but not including carpeting, drapes, wall covering, fixtures, furniture, furnishings or other personal property supplied or installed by the Co-owner or all the air-conditioning equipment and other service machinery contained therein). The policy is to cover the interests of the Regime, the Board of Directors and all Co-owners and their mortgagees, as their interests may appear, in the amount determined by the Board of Directors. Each policy shall contain a standard mortgage clause in favor of each mortgagee of an apartment which shall provide that the loss, if any, thereunder should be payable to such mortgagee as its interests may appear, subject, however to the loss payment provisions in favor of the Board of Directors.

The President of the Association hereby certifies that this amendment has been approved by the required percentage of the membership in accordance with the requirements of the By-Laws.

DATED this 22nd day of December, 2003

Scottsdale Shadows Regime, III, Inc., an Arizona nonprofit corporation

By: [Signature]

Its: [Signature]