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FILED
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SECRETARY OF STATE

ARTICLES OF INCORPORATION
OF
THE SOUTH BAY COMMUNITY ASSOCIATION,
A Washington Non-Profit Corporation

In compliance with the requirements of RCW 24.03, the undersigned, Craig L. Jones, of Eisenhower, Carlson, Newlands, Reha, Henriot & Quinn, who is a resident of Washington State and who is of full age, has this day voluntarily formed a corporation not for profit and does hereby certify:

ARTICLE I
NAME

The name of the corporation shall be "The South Bay Community Association", hereinafter referred to as the "Association."

ARTICLE II
PRINCIPAL PLACE OF BUSINESS

The principal office of the Association is located at 19351-A Eighth Avenue NE, Poulsbo, Washington, 98370.

ARTICLE III
REGISTERED AGENT

Thomas A. Griffin, whose address is 19351-A Eighth Avenue NE, Post Office Box 1780, Poulsbo, Washington, 98370, is hereby appointed as the initial Registered Agent of this Association.

ARTICLE IV
DURATION

The Association shall exist perpetually.

ARTICLE V
PURPOSE AND POWERS OF THE ASSOCIATION

This Association does not contemplate pecuniary gain or profit to the members thereof, and it is formed for management, maintenance, social, physical, aesthetic and recreational purposes to benefit property owners, residents and occupants within the South Bay Community, which community is defined in the South Bay Master Declaration Of Covenants, Conditions, Restrictions, Assessments, Charges, Servitudes, Liens, Reservations And Easements (hereinafter referred to as the "Master Declaration"). The Master Declaration is recorded against the property of each Member of this Association, except Associate Members. The Master Declaration is incorporated herein by this reference and, in the event of any inconsistency between the Master Declaration and these Articles of Incorporation, the Master Declaration shall control. The definitions contained within the Master Declaration shall apply to these Articles of Incorporation by this reference.

The Association shall have the right and responsibility to exercise all of the powers and privileges and to perform all of the duties and obligations of the Association set forth in the Master Declaration, as the same may be amended from time to time, including, but not limited to, the following:

(A) The right and responsibility for the proper management and operation of the Master Association Land, Common Areas and Recreational Facilities;

(B) The right and authority to levy, bill for, sue for, collect, lien, administer, disburse, enforce payment, suspend membership and exercise all other remedies relating to Annual Assessments, Special Assessments and Special Use Fees;

(C) The right and authority to enforce the provisions of the Master Declaration;

(D) The right and authority to establish and appoint an Architectural Review Committee;

(E) The right and authority to preserve, maintain, enhance and enforce the Master Declaration View Easement;

(F) The right and authority to maintain insurance;

(G) The right and authority to enter into contracts and transactions with others;

(H) The right and authority to employ a Managing Agent and to contract with independent contractors or other entities to perform all or any part of the duties or responsibilities of the Association;

(I) The right and authority to adopt South Bay Rules;

(J) The right and authority to adopt South Bay Design Standards within the Architectural Review Committee;

(K) The right and authority to borrow money for the purpose of improving the Common Areas and/or Recreational Facilities, and with the written consent of two-thirds (2/3) of the votes of each Class of Membership and all First Mortgagees, to mortgage said Common Areas and Recreational Facilities as security for any such loan;

(L) The right and authority to establish Associate Memberships in the Association and to delegate the right of enjoyment in certain Common Areas and Recreational Facilities to Associate Members in consideration of reciprocal rights or the payment of an Associate Membership Fee and/or such Special Use Fees as may be established by the Board of Directors;

× (M) The right and authority to exercise jurisdiction over all activities permitted on Master Association Land, Common Areas and Recreational Facilities;

(N) The right and authority to pay all expenses incident to the conduct of the business of the Association including, but not limited to, wages and other employment compensation, utilities, maintenance expenses, license fees, property taxes, personal property taxes, or other taxes imposed by any governmental entity;

(O) The right and authority to acquire (by gift, purchase or otherwise), own, hold, improve, build upon, operate,

maintain, convey, sell, lease, transfer, dedicate for public use or otherwise dispose of, any real or personal property in connection with the affairs of the Association; provided, however, that no dedication or transfer of real property shall be effective unless an instrument agreeing to such dedication or transfer, signed by two-thirds (2/3) of each Class of Membership of the Association, has been recorded; and

(P) The right and authority to exercise any and all powers, rights and privileges which a corporation organized under the Non-Profit Corporation Law, RCW 24.03, of the State of Washington may now or hereafter have or exercise.

ARTICLE VI MEMBERSHIP

Every person or entity who is a record owner of a fee or undivided fee interest in any Lot, which is subject to the Master Declaration, shall be a Member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any Lot to which the Membership is attributable. The foregoing is not intended to include persons or entities who hold an interest merely as security for the performance of an obligation. 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 a Lot by deed, intestate succession, testamentary disposition, foreclosure or other legal process pursuant to the laws of the State of Washington or the United States.

Pursuant to the Master Declaration, and notwithstanding anything to contrary herein, the Board of Directors may by resolution establish Associate Memberships for individuals who are not owners or occupants, as defined in the Master Declaration, but who wish to utilize the Master Association Land, Common Areas or Recreational Facilities owned or controlled by the Association. Associate Memberships shall be

granted or denied in the sole discretion of the Board of Directors and may be in consideration of such Membership Fee, Special Use Fee, Reciprocal Agreements or other consideration as the Board of Directors deems appropriate. Associate Members shall be subject to all applicable terms and conditions of the Master Declaration, these Articles of Incorporation and the Bylaws of the Association.

ARTICLE VII VOTING RIGHTS

The Association shall have two (2) classes of voting memberships:

Class A. Class A Memberships shall be all Memberships, except the Class B Membership held by Pope Resources, which is the developer of the property within South Bay, and each Owner shall be entitled to one (1) vote for each Lot owned, subject to the authority of the Board of Directors to suspend the voting rights of the Owner for violations of the Master Declaration.

Class B. Class B Memberships shall be held by Pope Resources and the Class B Membership shall be entitled to three (3) votes for each Lot owned by Pope Resources. For purposes of Class B Membership, and in order to provide for the complete development of South Bay as currently contemplated, Pope Resources for voting purposes only shall be deemed to be the Owner of the total number of Lots to be developed in South Bay, which is hereby declared to be eight hundred (800), less the number of Lots owned by the Class A Members at the end of the Association's fiscal year. The Class B Membership shall cease and be converted to Class A Memberships on the first of the following events:

(A) When the total votes outstanding in Class A Membership equals eight hundred (800);

(B) When the Declarant voluntarily terminates the Class B Membership by written notice to the Association, at which time Pope Resources will receive Class A Membership for

each Lot it owns, which is within approved and recorded subdivisions within South Bay; or

(C) At the end of the Development Period.

When more than one person holds an interest in a Lot, all such persons shall be Members. The vote for such Lot shall be exercised as they determine, but in no event shall more than one (1) vote be cast with respect to any Lot.

ARTICLE VIII BOARD OF DIRECTORS

The affairs of the Association shall be conducted and managed by the Board of Directors and such Officers as the Board of Directors may elect or appoint in accordance with the Bylaws of the Association as the same may be amended from time to time. The Board of Directors shall be composed of at least three (3) and no more than nine (9) members. The initial Board of Directors shall be composed of five (5) members. The names and addresses of the persons who are to act in the capacity of Directors until the selection of their successors are:

<u>NAME</u>	<u>ADDRESS</u>
1. Mr. Greg McCarry	19351-A Eighth Avenue NE Poulsbo, WA 98370
2. Mr. Thomas A. Griffin	19351-A Eighth Avenue NE Poulsbo, WA 98370
3. Mr. David Cunningham	19351-A Eighth Avenue NE Poulsbo, WA 98370
4. Mr. George Folquet	19351-A Eighth Avenue NE Poulsbo, WA 98370
5. Mr. Thomas M. Ringo	19351-A Eighth Avenue NE Poulsbo, WA 98370

ARTICLE VIII
INDEMNIFICATION

Any person who is made or was a party or is threatened to be made a party to any threatened or pending action, suit, or proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that he is or was a member, director, or officer of this Association or is or was serving at the request of this Association as a director, trustee, officer, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified against expenses (including attorneys fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit, or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Association and with respect to any criminal action or proceeding had no reason to believe his conduct was unlawful. In any action or suit by or in the right of this Association to procure a judgment against such a person, no indemnification shall be made in respect of any claim, issue, or matter as to which he should have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Association, unless and only to the extent that the Court in which such action or suit was brought shall determine upon application that, despite an adjudication of liability, he is fairly and reasonably entitled to indemnity for such expenses which such Court shall deem proper. On request of such person who is made or who has threatened to be made a party to any such suit, this Association shall enter into an agreement confirming the foregoing indemnity subject to limitations as provided by law in such instances. The indemnification herein provided for shall continue as to a person who has ceased to be a director or officer of this Association, shall inure to the benefit of his heirs, executors, and administrators, and shall be in addition to rights of indemnification provided by law.

This Association may purchase and maintain insurance on behalf of any person who is or was a member, director, trustee, officer, employee, or agent of the Association, or is or was serving at the request of the Association, as a director, trustee, officer, employee, or agent of another corporation, partnership, joint venture, trust, or any other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Association has or would have the power to indemnify him against such liability under law.

ARTICLE X DISSOLUTION

In the event of dissolution, the net assets of the Association shall be distributed as determined by the Board of Directors to either (1) another non-profit corporation; or (2) to the members as provided in RCW 24.03.

ARTICLE XI BYLAWS

Provisions for the regulation of the internal affairs of the Association shall be set forth in the Bylaws of the Association.

ARTICLE XII AMENDMENT

As long as there is a Class B Membership these Articles of Incorporation may be amended by obtaining approval of fifty-one (51%) percent or more of each Class of Membership. However, as long as there is a Class B Membership, the following actions will require the prior approval of the Federal Housing Administration ("FHA") if there is an FHA insured mortgage on any Lot and Veterans Administration ("VA") if there is a VA guaranteed mortgage on any Lot: annexation of additional properties, dedication of Common Areas and Amendment of this Declaration.

When there is no longer a Class B Membership, this Declaration may be amended by obtaining approval of seventy-five percent (75%) of the total outstanding votes of the Association.