

BYLAWS OF THE PALOMAR RESERVE COUNCIL OF CO-OWNERS, INC.

ARTICLE I

General

(A) Description and name

These are the bylaws for The Palomar Reserve Council of Co-Owners, Inc. (hereafter called the "council"), a Kentucky nonstock, nonprofit corporation, which is composed of every owner of a unit in The Higbee Mill Reserve (Palomar Reserve) Condominium (the "condominium"), as created by Pinecrest Development Company, LLC, a Kentucky limited liability company ("declaring"), by a master deed (the "master deed") recorded in Deed Book 2632, Page 502, and Condominium Deed Book 62, Page 305 in the office of the Clerk of the County Court of Fayette County, Kentucky. Certain terms used herein without definition shall have the meanings ascribed to them in the master deed.

(B) Purposes of council

The council, acting in accordance with the master deed, the articles of incorporation of the council, and these bylaws, and through its officers, and through the Board of Directors of the council, shall govern the affairs of the condominium and provide for the harmonious use and occupation thereof.

(C) Office

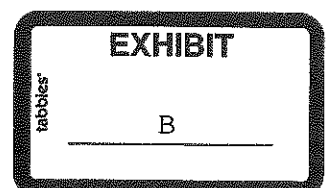
The office of the council and of the Board of Directors shall be located initially at Dellavalle Management Group, Inc., 4080 Clearwater Way, Lexington, Kentucky 40515, and thereafter at such other office as the board may determine from time to time.

(D) Fiscal year

The fiscal year of the council shall be the calendar year.

(E) Members' qualifications

Each owner of record of any unit, and only such owner of record, shall be a member of the council. Any person, on becoming a record owner of a unit, shall automatically become a member of the council and be subject to these bylaws, and such membership shall terminate without any formal action by the council when such person ceases to be a record owner of a unit, but such termination shall not relieve or release such former owner from any liability or obligations incurred or arising during the period of his membership or impair any rights and remedies



which the council or others may have against such former unit owner arising out of or connected with the membership by that unit owner of the unit.

ARTICLE II

Unit Owners

(A) Annual meetings

The Declarant shall notify the unit owners of the time and place of the first annual meeting (the "inception meeting") of unit owners, which shall be held within sixty (60) days after the earlier of (1) five (5) years from the date of recordation of the master deed, (2) the date as of which units to which one hundred (100%) of the common elements are appurtenant have been conveyed by Declarant, or (3) prior thereto at the sole election of the Declarant.

Thereafter, the annual meeting of unit owners shall be held at 9:00 A.M., at the Office of Dellavalle Management Group, Inc., 4080 Clearwater Way, Lexington, Kentucky 40515, or such other places as the Council may designate, on the 1st day in April, 2006, and on the same day of each succeeding year, unless such date shall occur on a legal holiday, in which event the meeting shall be held at the same time on the next following business day. At such meetings, the Board of Directors shall be elected by the unit owners in accordance with the provisions of these bylaws. The unit owners may transact such other business at such meetings as may properly come before them.

(B) Place of meetings

Meetings of the unit owners shall be held at the principal office of the council as set forth in the section of these bylaws entitled "Office", or at such other place reasonably convenient to the unit owners as may be designated by the Board of Directors.

(C) Special meetings

The President of the council (the "President") shall call a special meeting of the unit owners if so directed by resolution of the Board of Directors or upon a petition signed and presented to the Secretary of the council by the unit owners of units to which are appurtenant fifty (50%) percent or more of the common elements or as otherwise may be required under these bylaws or the master deed. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice.

(D) Notice of meetings

The Secretary of the council (the "Secretary") or the President, any Vice President of the council ("Vice President"), or the managing agent shall mail to each unit owner of record at the address of the unit owner at the condominium project (unless such unit owner shall have specified a different address for notices by notice theretofore given in writing to the attention of the Secretary, in which event the notice of the meeting of unit owners shall be mailed to such unit owner at such different address) and to any managing agent of the condominium project (a representative of which shall be entitled to attend the meeting), a notice of each annual meeting and of each special meeting of the unit owners, at least 5 but not more than thirty (30) days prior to such meeting, stating the purpose thereof as well as the time and place where it is to be held. The mailing of a notice of meeting in the manner provided in this section shall be considered service of notice. Any unit owner may waive notice of any and all meetings in writing before or after a meeting, and such waiver shall be deemed equivalent to the giving of notice. A unit owner's attendance at a meeting without objection to such unit owner's not having received proper notice of the meeting shall be deemed a waiver of the right to receive notice of that meeting.

(E) Adjournment of meetings

If any meeting of unit owners cannot be held because a quorum is not present, unit owners of units to which are appurtenant 50% or more of percentage interest in the common elements of the condominium project and who are present at such meeting either in person or by proxy, may adjourn the meeting to a time not less than twenty four (24) hours from the time the original meeting was called.

(F) Designated voter

The unit owner of each of the units of the condominium project shall designate one (1) individual (the "designated voter"), who need not be a unit owner, who alone shall be entitled to vote on behalf of such unit owner on all matters put to a vote at all meetings of the unit owners. The Secretary of the council shall be notified in writing of the identity of the designated voter, and of any changes in such identity from time to time occurring. If a unit is owned by more than one (1) natural person or is under lease, the designated voter for such unit shall be identified by a certificate signed by all of the record owners of the unit and filed with the Secretary of the council. If a unit is owned by a corporation, the designated voter for such unit shall be identified by a certificate signed by the President or Vice President and attested by the Secretary or assistant Secretary of the corporation and filed with the Secretary of the council. If a unit is owned by a limited liability company, the designated voter for such unit shall be identified by a certificate signed by the members or the manager of the company and filed with the Secretary of the council. If a unit is owned by a trust or estate, the designated voter for such unit shall be identified by a certificate signed by the trustee or personal representative and filed with the Secretary of the council. If a unit is owned by a partnership, whether general or limited, or a joint venture, the certificate identifying the designated voter

shall be signed by all general partners or joint venturers, as the case may be, except that the Secretary may rely on a certificate signed only by the managing general partner of a general or limited partner may vote at such meetings. One (1) individual may be a designated voter for more than one unit if so designated by unit owners of more than one unit. Each designated voter shall be entitled to vote in person or by proxy on all matters which are put to a vote at all meetings of unit owners in the same proportion as the common elements appurtenant to the unit or units owned by the unit owners who selected them bear to the total common elements of the condominium project (by way of example only, the designated voter for a unit to which is appurtenant one and four thousand seven hundred five ten thousandths (1.4705%) percent of the total elements shall be entitled to cast one and four thousand seven hundred five ten thousandths (1.4705) votes).

(G) Proxies

Votes may be cast in person or by proxy. A proxy may be made by any person entitled to vote and shall be valid only for the particular meeting designated in the proxy and must be filed with the Secretary in a form acceptable to the Secretary before the appointed time of the meeting (except, in the case of a meeting which is adjourned, before the appointed time of the continuation meeting held pursuant to the adjournment).

(H) Quorum

At all meetings of the unit owners, the presence in person or by proxy of designated voters who together are entitled to cast greater than thirty(30%) percent of the total votes which could be cast if the designated voters for all units of the condominium project were present in person or by proxy at the meeting shall constitute a quorum.

(I) Action by unit owners

Except where a higher percentage is required by the express provisions of the condominium documents or by law, the unit owners, when acting at a meeting, shall act only by a vote of designated voters who are present in person or by proxy and voting at any meeting of the unit owners at which a quorum is present, and who together represent units to which are appurtenant greater than fifty (50%) percent of the total percentage interest in the common elements of the condominium project.

(J) Informal action by unit owners

Any action required or permitted to be taken at any meeting of the unit owners may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the designated voters entitled to vote with respect to the subject matter thereof.

(K) Order of business

The order of business at the annual meetings, and as far as practical at special meetings, shall be:

- (1) Election of chairman of the meeting;
- (2) Identification of designated voters and certifying of proxies;
- (3) Proof of notice of meeting or waiver of notice;
- (4) Reading and disposal of any unapproved minutes;
- (5) Reports of officers;
- (6) Reports of committees;
- (7) Election of inspectors of election;
- (8) Election of Directors;
- (9) Unfinished business;
- (10) New business;
- (11) Adjournment.

(L) Article II provisions

Every provision contained in this Article II shall be subject to the following provisions: Until such time as the inception meeting of the unit owners is held, the affairs of the council shall be conducted solely and entirely by the Board of Directors, and the proceedings of meetings of unit owners as members of the council or otherwise, if any such meetings are held, shall have no effect.

ARTICLE III

Board of Directors

(A) Number and Qualification

The management of the condominium project shall be under the exclusive control and direction of a Board of Directors appointed entirely by the Declarant or the nominee of Declarant until the inception meeting. Thereafter, the Board of

Directors of the council shall be composed of three or five members (each sometimes referred to hereinafter individually as a "Director" and collectively, the "Directors") nominated and elected by the unit owners, with the exact number of Directors to be determined by the unit owners at each annual meeting of the council; provided, however, that any increase or decrease in the number of Directors shall not become effective until the next annual meeting after such increase or decrease is voted. All Directors shall be unit owners or the spouses of unit owners; or, in the case of partnership or joint venture unit owners, members or employees of such partnership; or in the case of corporate unit owners, officers, stockholders, or employees of such corporation; or in the case of fiduciary unit owners, fiduciaries or officers or employees of such fiduciary. Any Director who ceases to be associated with a unit owned in one of the above-enumerated capacities shall so notify the Secretary of the council and shall be deemed to have resigned as of the date of such notice. Any vacancy on the Board of Directors shall be filled by a substitute Director nominated and elected by the remaining Directors and shall serve until the next meeting of the unit owners wherein a successor is duly elected.

(B) Powers and duties

The Board of Directors shall have the powers and duties necessary for administration of the affairs of the condominium project and may do all such acts and things except as by law or pursuant to the provisions of the condominium documents may not be delegated to the Board of Directors by the unit owners. All of the powers and duties of the council existing under the Horizontal Property Law and the condominium documents shall be exercised exclusively by the Board of Directors acting on its own behalf or officers of the council elected by it, or any managing agent. Such powers and duties of the Board of Directors shall include, but shall not be limited to, the following:

- (1) Operation, care, upkeep, and maintenance of the common elements;
- (2) Determination of the common expenses required for the affairs of the condominium project, including, without limitation, operation and maintenance of the common elements;
- (3) Collection of the common charges from the unit owners;
- (4) Employment and dismissal of the personnel necessary for the maintenance and operation of the common elements;
- (5) Adoption and amendment of rules and regulations covering the details of the operation and use of the property;
- (6) Opening of bank accounts on behalf of the council and designating the signatories required therefor;

(7) Purchasing of units at foreclosure or other judicial sales in the name of the Board of Directors, or its designee, corporate or otherwise, on behalf of all unit owners;

(8) Obtaining insurance for the property including, without limitation, any insurance required by the master deed;

(9) Making of repairs, additions, and improvements to or alterations of the property, including after damage or destruction by fire or other casualty, or as a result of condemnation or eminent domain proceedings;

(10) Enforcing the remedies available against unit owners for violation of the provisions of the condominium documents, including, without limitation, provisions of the master deed and the rules and regulations;

(11) Controlling the use of all common elements (consistent with the provisions of the condominium documents, including but not limited to provisions concerning the rights of unit owners of units to which limited common elements are appurtenant);

(12) Controlling power shutoffs and other interruptions of the normal functioning of the condominium project to facilitate renovation of particular units and of the common elements; provided, however, in such event that the board will use diligent efforts to minimize the disruption to the unit owners caused thereby;

(13) Changing the name of the council or the condominium; and

(14) Taking all other necessary and proper actions for the prudent management of the condominium project and fulfillment of the terms and provisions of the condominium documents.

(C) Managing agent and manager

The Board of Directors may employ either or both a managing agent and a manager for the condominium project, at a compensation established by the Board of Directors, to perform such duties and services as the Board of Directors shall authorize, including, but not limited to, the duties listed in subsections (1), (3), (4), (8), (9), (11), and (12) of section III(B) of these bylaws. The Board of Directors may delegate to the manager or managing agent all of the powers granted to the Board of Directors by these bylaws other than the powers set forth in subsections (2), (5), (6), (7), (10), and (13) of section III(B) of these bylaws. Any management agreement must be terminable by the council for cause upon not more than thirty (30) days' written notice, and the term of any such agreement must not exceed one year, renewable by agreement of the parties for successive one year periods.

(D) Election and term of office

The Directors shall be elected at each annual meeting of the unit owners. Directors shall hold office for a term of one year and subsequently until their respective successors shall have been duly elected, or until such Director is removed pursuant to section III(E) of these bylaws; provided, however, that a Director shall be deemed to have resigned whenever such Director, such Director's spouse, or firm, corporation, or other entity with which he or she is associated, conveys the unit which qualified such individual to become a Director or terminates such Director's relationship with that unit owner which qualified such individual to become a member of the Board of Directors. Except as to vacancies created by removal of Directors by unit owners, vacancies in the Board of Directors occurring between annual meetings of unit owners shall be filled by vote of the majority of the remaining Directors, whether or not such a majority constitutes a legal quorum of the Board of Directors. If such Directors are unable to agree, such vacancy shall be filled by vote of the unit owners at a special meeting called by the President for such purpose promptly after the meeting at which it is finally determined by the remaining Directors that they are unable to agree.

(E) Removal of Directors

At any regular or special meeting of unit owners, any one or more of the Directors may be removed by the unit owners with or without cause by a vote of greater than fifty (50%) percent in common interest cast by them, and a successor or successors shall be elected by them at the same such meeting.

(F) Organization meeting

The initial members of the Board of Directors shall be appointed by the Declarant from time to time until the first meeting of the Board of Directors occurring after the inception meeting of the unit owners. Such first meeting of the Board of Directors shall be held immediately after the inception meeting of the unit owners, and no notice shall be necessary to the newly designated Directors in order legally to constitute such meeting, providing a quorum of the Board of Directors, as that term is defined in section III(K) of these bylaws, shall be present.

(G) Regular meetings of Directors

Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by the vote of a majority of the Directors, but at least two such meetings shall be held during each fiscal year. Notice of regular meetings of the Board of Directors shall be given to each Director by mail or facsimile transmission, at least five business days prior to the day named for such meeting.

(H) Special meetings of Directors

Special meetings of the Board of Directors may be called by resolution of owners of units to which at least thirty (30%) of the common elements are appurtenant, on at least five business days' prior notice to each Director given by mail or facsimile transmission, which notice shall state the time, place (which shall be within a twenty (20) mile radius of the condominium project), and purpose of the meeting. Special meetings of the board shall be called by the Secretary in like manner and on like notice on the written request of any two Directors.

(I) Waiver of notice

Any Director may at any time waive notice of any meeting of the Board of Directors in writing, and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board of Directors shall constitute a waiver of notice by him of the time and place thereof. If all the Directors are present at any meeting of the Board of Directors, no notice shall be required and any business may be transacted at such meeting which properly may be transacted pursuant to the provisions of the condominium documents and applicable law.

(J) Voting

Each Director shall be entitled to cast one vote at all meetings of the Board of Directors.

(K) Quorum and decision of board

Except as may otherwise be provided in these bylaws, the presence in person of greater than fifty (50%) percent of the Directors shall constitute a quorum at all meetings of the Board of Directors, and at any meeting of the Board of Directors at which a quorum is present, the vote of greater than fifty (50%) percent in number of the Directors present and voting shall constitute the decision of the Board of Directors. If at any meeting of the Board of Directors there shall be less than a quorum present, any Director who is present may adjourn the meeting to a later time and place. At any such adjourned meeting at which a quorum is present, any business which might have been transacted at the meeting originally called may be transacted without further notice.

(L) Informal action by Directors

Any action required or permitted to be taken at a meeting of the Board of Directors, or any action which may be taken at a meeting of the Board of Directors or of a committee, may be taken without a meeting if a consent, in writing, setting forth the action so taken, shall be signed by all of the Directors, or all of the

members of the committee, as the case may be. Such consent shall have the same effect as a unanimous vote.

(M) Presiding officer at Directors' meetings

The presiding officer of a Directors' meeting shall be the President of the council, or, if the President is not in attendance, the Vice President. In the absence of the President or Vice President, a majority of the Directors present shall designate one of their number to preside.

(N) Order of business at Directors' meeting

The order of business at Directors' meetings shall be:

- (1) Calling of roll;
- (2) Proof of due notice of meeting;
- (3) Reading and disposal of any unapproved minutes;
- (4) Reports of officers and committees;
- (5) Election of officers;
- (6) Unfinished business;
- (7) New business;

- (8) Adjournment;
- (9) Fidelity bonds.

The Board of Directors may obtain fidelity bonds for all officers and employees of the council and its manager or managing agent, if any, handling or responsible for funds of the condominium project. The premiums on such bonds shall constitute a common expense.

(O) Compensation

No Director shall receive any compensation from the council for acting as such. However, notwithstanding the foregoing or any other provision to the contrary contained in these bylaws or the other condominium documents, nothing shall prevent a Director, subject to the approvals required herein, to be engaged in

the additional or other capacity as a managing agent or employee of the council for salary or fees.

(P) Liability of the Directors

The Directors shall not be liable to the unit owners for any mistake of judgment, negligence, or otherwise, except for their own individual willful misconduct, gross negligence, or bad faith. The council shall indemnify and hold harmless each of the Directors against all contractual liability to others, and all other loss, claim, cost, and expense (including but not limited to reasonable attorney fees), arising out of contracts made by the Board of Directors on behalf of the council unless any such contract shall have been made in bad faith, with the cost and expense of any such indemnity to be a common expense of the condominium project. It is intended that the Directors shall have no personal liability with respect to any contract made by them on behalf of the council.

Every contract made by the Board of Directors or by the managing agent or by the manager on behalf of the condominium project shall provide that the Directors, or the managing agent, or the manager, as the case may be, are acting only as agents for the unit owners and shall have no personal liability thereunder (except as unit owners), and that each unit owner's liability thereunder, if any, shall be limited to such proportion of the total liability thereunder as such unit owner's interest in the common elements bears to the interests of all unit owners in the common elements.

(Q) Provisions

Every provision contained in this Article III shall be subject to the following provision: Until the first meeting of the Board of Directors held after the inception meeting of the unit owners, the Board of Directors shall consist solely of those persons designated by the Declarant in the articles of incorporation of the council and thereafter appointed by Declarant from time to time, and, in the event of vacancies (whether created by removal, with or without cause, at the sole option of Declarant, or otherwise), the Declarant shall appoint Directors to fill the vacancies. Directors designated by the Declarant in the articles of incorporation or to fill vacancies need not be unit owners; provided, however, the Declarant shall not have the right either before or after the first meeting of the Board of Directors after the inception meeting to enter into any management agreement or other contracts which extend beyond the date of such special meeting.

ARTICLE IV

Officers

(A) Designation

The principal officers of the council shall be the President, the Vice President, the Secretary, and the Treasurer, all of whom shall be elected by vote of the Board of Directors. The Board of Directors may appoint an assistant Treasurer, an assistant Secretary, and such other officers as in the judgment of the Board of Directors may be necessary or desirable to assist in managing the affairs of the council. The President and Vice President, but no other officers, shall be required to be Directors.

(B) Election of officers

The officers of the council shall be elected annually by the Board of Directors at the regular annual meeting of the Board of Directors.

(C) Removal of officers

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

(D) President

The President shall be the chief executive officer of the council. He shall preside at all meetings of the unit owners and of the Board of Directors. He shall have all of the general powers and duties which are incident to the office of President of a nonstock, nonprofit corporation, including, but not limited to, the power to appoint committees from among the unit owners from time to time as he may in his discretion decide is appropriate to assist in the conduct of the affairs of the council.

(E) 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 is able to act, the Board of Directors shall appoint some other Director to act in the place of the President, 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.

(F) Secretary

The Secretary shall keep the minutes of all meetings of the unit owners and of the Board of Directors; the Secretary shall have charge of such books and papers as the Board of Directors may direct, and shall, in general, perform all the duties incident to the office of Secretary of a nonstock, nonprofit corporation.

(G) Treasurer

The Treasurer shall have the responsibility for collecting the common charges assessed by the Board of Directors, for assisting the Board of Directors in the preparation of the annual budget and the calculation of the common charges, for investing council funds and securities, for keeping full and accurate financial records and books of account showing all receipts and disbursements, and for the preparation of all required financial data. The Treasurer shall be responsible for the deposit of all monies and other valuable property in the name of the Board of Directors, in such depositories as may from time to time be designated by the Board of Directors, and shall, in general, perform all the duties incident to the office of Treasurer of a nonstock, nonprofit corporation, including, but not limited to, (1) insuring that a book of detailed accounts of receipts and expenditures affecting the condominium project and its administration is kept in accordance with good accounting procedures, which shall specify the maintenance and repair expenses of the condominium project, and (2) arranging for the audit of said books at least once a year by a certified public accountant.

(H) Agreements, contracts, deeds, checks, etc.

All agreements, contracts, deeds, leases, checks, and other instruments of the council shall be executed by any two (2) officers of the council, at least one (1) of whom shall be a member of the Board of Directors, or by such other person or persons as may be designated by the Board of Directors.

(I) Compensation of officers

The compensation, if any, of the officers shall be fixed by the Board of Directors and noted in the minutes of the Board of Directors.

ARTICLE V

Fiscal Management of the Property

(A) Determination of common expenses and fixing of common charges

The Board of Directors shall from time to time, and at least once each fiscal year, prepare a budget for the condominium project, determine the amount of the common charges payable by the unit owners to meet the common expenses of the condominium project, and allocate and assess such common charges among the unit owners in the same proportion as their respective ownership of the common elements.

The common charges shall include, among other things, the cost of all insurance premiums on all policies of insurance required to be or which have been obtained by the Board of Directors, and the fees and disbursements of any

insurance trustee. The common expenses shall also include such amounts as the Board of Directors deems proper for the operation and maintenance of the property, including, without limitation, for payment of accounting, legal, architectural, or other professional or service fees; an amount for working capital of the council; for a general operating reserve; for a reserve fund for replacements; for a reserve fund for capital expenditures; and to make up any deficit in the common expenses for any prior fiscal year. The Board of Directors shall advise all unit owners promptly, in writing, of the amount of common charges payable by each of them, respectively, as determined by the Board of Directors as aforesaid and shall furnish to any unit owner who requests the same, in writing, copies of each budget on which such common charges are based. A copy of the annual budget also shall be sent to any first mortgagee of record of a unit promptly upon request from such mortgagee.

(B) Utilities

(1) Gas and electricity shall be supplied to all of the units and the common elements through separate meters associated with, respectively, each unit and the common elements. Each unit owner shall pay all charges for gas and electricity metered to each unit owned by such unit owner promptly after the bills or the same shall have been rendered. The Board of Directors shall cause to be paid, as a common expense, all water and sewer charges for all units and the common elements and all gas and electricity charges metered to the common elements.

(2) Air-conditioning expenses, including maintenance, shall be borne by each unit owner as to all units owned by such unit owner. The Board of Directors shall pay, as a common expense, any air-conditioning expenses, including maintenance, for the common elements. The approval in writing of the Board of Directors shall be required to permit a unit owner to install a separate air-conditioning unit in any unit and in the event such a separate air-conditioning unit is privately installed by a unit owner, such unit owner may be required by the Board of Directors to pay the expense of separately metering such air-conditioning unit, and all other charges in connection therewith shall be borne exclusively by the unit owner.

(C) Accounts

The receipt and expenditures of the council shall be credited and charged to accounts under the following classifications as shall be appropriate, all of which expenditures shall be common expenses:

(1) "Current expenses", which shall include all receipts and expenditures within the year for which the budget is made, including a reasonable allowance for contingencies and working funds, except expenditures chargeable to reserves or to additional improvements. The balance in this fund at the end of each year, if any, shall be applied to reduce the assessments for current expenses for the succeeding year.

(2) "Reserve for deferred maintenance", which shall include funds for maintenance items that occur less frequently than annually.

(3) "Reserve for capital expenditures", which shall include the funds to be used for capital expenditures for additional improvements or additional personal property that will be part of the common elements.

The budget for each fiscal year shall include the estimated funds required to defray the common expense and to provide and maintain funds for the foregoing accounts and reserves according to good accounting practices as follows:

(1) "Current expenses".

(2) "Reserve for deferred maintenance", the amount of which shall not exceed ten (10%) percent of the amount budgeted for this account for the prior year.

(3) "Reserve for capital expenditures", the amount for which shall not exceed ten (10%) percent of the amount budgeted for this account for the prior year.

The amount for each budgeted item may be increased over the foregoing limitations when approved by owners of units to which not less than sixty seven (67%) percent of the common elements are appurtenant.

(D) Assessments and special assessments

Assessments against the unit owners for their shares of the items of the budget shall be made for each fiscal year at least thirty (30) days preceding the beginning of such fiscal year. Such assessment shall be due in twelve (12) equal payments on the first day of each month of said fiscal year. If an annual assessment is not made as required, an assessment shall be presumed to have been made in the amount of the last prior assessment and monthly installments on such assessments shall be due upon each installment payment date until changed by an amended assessment. Should the annual assessment prove to be insufficient to meet either current expenses or the cost of deferred maintenance or capital expenditures, the budget and assessments may be amended at any time by the Board of Directors if the accounts of the amended budget do not exceed the limitations for that year. If any account would exceed such limitation upon amendment of the budget to meet such increased current expenses or deferred maintenance or capital expenditures, the budget shall not be amended to the budget and of a special assessment to meet such increases. The unpaid assessment for the remaining portion of the calendar year during which the special assessment is made shall be due upon the dates on which the regular assessment is due, and the special assessment shall be made in equal payments on the payment dates of the annual assessment during the

remainder of that calendar year. The first payment of a monthly installment by a unit owner shall be due on the date of delivery of his deed, and shall be equal to that proportion of the installment payment for the month in which delivery of his deed occurs as the period between the date of delivery of his deed and the last day of that month bears to thirty (30). The next payment of a monthly installment shall be due on the first monthly installment payment date falling after the date of delivery of his deed.

(E) Acceleration of assessment installments upon default

If payment by a unit owner of any monthly installment of an annual assessment is more than fifteen (15) days past due, the same shall be a default, and thereupon the Board of Directors may accelerate the remaining installments of the annual assessment (and each annual assessment thereafter upon final determination by the Board of Directors thereof, if at or prior to the time of such determination the unit owner shall not have cured the default by voluntary payment of all past due assessments) upon notice to the unit owner, and thereupon the unpaid balance of the then current annual assessment shall become due upon the date stated in the notice, but not less than ten (10) days after personal delivery of the notice to the unit owner, or not less than twenty (20) days after the mailing of such notice to such unit owner by registered or certified mail, whichever shall first occur.

All assessments shall bear interest at the rate of twelve (12%) percent per annum from the date such assessment is due; provided, however, that in the event such assessment is paid on or before ten (10) days after the date such assessment shall be due, interest on such assessment shall be abated.

(F) Depository

The depository of the council shall be such federally insured bank or banks or federally insured savings and loan associations as shall be designated from time to time by the Board of Directors and in which the monies of the council shall be deposited. Withdrawal of monies from such accounts shall be deposited by checks or other withdrawal orders signed by such persons as are authorized by the Board of Directors.

(G) Audit

An audit of the accounts of the council shall be made annually after the end of each fiscal year of the council by certified public accountant(s), pursuant to an agreement requiring such accountant(s) to furnish such completed audit report to the Board of Directors no later than four months after the fiscal year end of the council.

A copy of the audit report shall be furnished by the Board of Directors to each unit owner promptly upon request of the unit owners.

(H) Rights of mortgagees

The holders of first mortgages on any units shall have the right to examine the books and records of the council upon reasonable prior notice and at reasonable times determined by the Secretary, and to require the Board of Directors to furnish them with a copy of the annual audit report and the current budget, upon the express condition that the same shall be kept confidential by them.

(I) Provisions

Every provision contained in this article shall be subject to the following provision: Until the time of the inception meeting of the unit owners is held, the initial Board of Directors (any replacements for such Directors appointed by Declarant) shall be solely and entirely responsible for the fiscal affairs of the council, and may prepare a budget in such form and manner as it deems advisable; may omit from such budget allowances for contingencies and reserves; may make assessments against the unit owners in such amounts as such Board of Directors deems advisable; and may amend such assessments at any time it deems advisable.

ARTICLE VI

Clubhouse and Pool

It shall be the responsibility of the Board of Directors to negotiate the leasing of the clubhouse and pool from Pinecrest Development Company, LLC, its successors and/or assigns. In the event that Pinecrest Development Company, LLC should refuse to lease the clubhouse and pool to the Council of Co-Owners, the Board of Directors will not personally be liable to any Unit Owner.

ARTICLE VII

Mortgages

(A) Notice to the Board of Directors

A unit owner who mortgages the unit owned by such unit owner shall notify the Board of Directors of the name and address of each mortgagee and shall file a conformed copy of the note(s) and mortgage(s) with the Board of Directors, which shall be maintained in a confidential file.

(B) Notice of unpaid common charges

The Board of Directors, whenever so requested in writing by a mortgagee of a unit, shall promptly report any then unpaid common charges due from, or any

other default within the actual knowledge of the Board of Directors by, the unit owner of the mortgaged unit.

(C) Notice of default

The Board of Directors, when giving notice to a unit owner of a default in paying common charges or other default, shall send a copy of such notice to each holder of a mortgage covering such unit whose name and address has theretofore been furnished to the Board of Directors; provided, however, that the Board of Directors shall not be liable to any mortgagee for failure to comply with this section.

(D) Examination of books

Each unit owner and each mortgagee of a unit shall be permitted to examine the books of account of the condominium project at reasonable times on business days, but not more often than once a month.

ARTICLE VIII

Miscellaneous

(A) Notices

All notices required to be given to the Board of Directors pursuant to any provision of any of the condominium documents shall be sent by registered or certified mail, return receipt requested, to the Board of Directors in care of the manager or managing agent, or to such other address as the Board of Directors may hereafter designate from time to time, by notice in writing to all unit owners in accordance with this section. All notices required under the provisions of any of the condominium documents to be given to any unit owner shall be in writing and personally delivered or sent by registered or certified mail, return-receipt requested, to any unit owned by the unit owner at the condominium project, or to such other address as may have been designated by such unit owner to the Board of Directors from time to time by notice given to the Board of Directors in accordance with this section. All notices sent by mail shall be deemed to have been given when mailed, except notices of change of address, which shall be deemed to have been given when received.

(B) Severability

The invalidity of any provision of these bylaws shall not impair or affect in any manner the validity, enforceability, or effect of any other provision of these bylaws.

(C) Captions

The captions herein are inserted only as a matter of convenience and for reference, and in no way define, limit, or describe the scope of these bylaws, or the intent of any provision thereof.

(D) Gender; number

The use of the masculine gender in these bylaws shall be deemed to include the feminine gender, and the use of the singular shall be deemed to include the plural, whenever the context so requires.

(E) Waiver

No restriction, condition, obligation, or provision contained in these bylaws shall be deemed to have been abrogated or waived by reason of any failure to enforce the same, irrespective of the number of violations or breaches thereof which may occur.

(F) Reference to the Declarant

Whenever a reference is made to the Declarant, such reference shall be deemed to include any corporation, subsidiary, or their entity affiliated with the Declarant and designated by it to act in its place and stead concerning any matter pertaining to the ownership, leasing, or mortgaging of units, operation of the property, or both.

(G) Conflicts

These bylaws are intended to comply with the requirements of the Horizontal Property Law, the articles of incorporation, and the master deed. In case any of these bylaws conflicts with the provisions of said Horizontal Property Law, articles of incorporation, or of the master deed, the provisions of said Horizontal Property Law, the articles of incorporation, or the master deed, as the case may be, shall control.

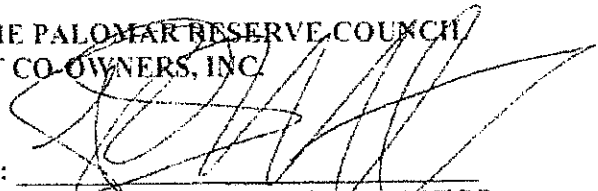
ARTICLE IX

Amendments to Bylaws

These bylaws may not be modified, amended, or repealed except by the vote of the owners of units to which greater than fifty (50%) percent of the common

elements is appurtenant, at a regular or special meeting of the unit owners; provided, however, that until the time the inception meeting of the unit owners is held, the bylaws may be modified, amended, or repealed by the vote of greater than fifty (50%) percent in number of the members of the Board of Directors present and voting at a meeting of the Board of Directors at which a quorum is present.

The foregoing bylaws and the attached rules and regulations were adopted as the bylaws and rules and regulations, respectively, of The Palomar Reserve Council of Co-Owners, Inc., by written unanimous consent of the Board of Directors in lieu of an organizational meeting as of this 7 day of March, 2006.

THE PALOMAR RESERVE COUNCIL
OF CO-OWNERS, INC.
BY: 
ROBIN E. SCHNEIDER, DIRECTOR

STATE OF KENTUCKY
COUNTY OF FAYETTE

The foregoing instrument was acknowledged before me this the 2ND day of MAY, 2006, by ROBIN E. SCHNEIDER, as DIRECTOR of PALOMAR RESERVE COUNCIL OF CO-OWNERS, INC., on behalf of said Corporation.

My Commission Expires: 10-9-07

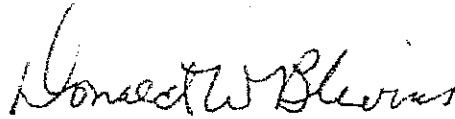

NOTARY PUBLIC

PREPARED BY:
Mainous & Grant, PLLC
201 West Vine Street
Lexington, Kentucky 40507

BY: 
JOSEPH E. MAINOUS, JR.

DEED BOOK 2641 PAGE 44

I, Donald W Blevins, County Court Clerk
of Fayette County, Kentucky, hereby
certify that the foregoing instrument
has been duly recorded in my office.


Donald W Blevins

By: DOUG BRADLEY , dc

200605030333

May 3, 2006 15:27:32 PM

| | | | |
|------|---------|-----|--------|
| Fees | \$45.00 | Tax | \$.00 |
|------|---------|-----|--------|

| | |
|------------|---------|
| Total Paid | \$45.00 |
|------------|---------|

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22 Pages

23 - 44

FIRST AMENDMENT TO MASTER DEED ESTABLISHING
HIGBEE MILL RESERVE CONDOMINIUMS
(PALOMAR RESERVE CONDOMINIUMS)
HORIZONTAL PROPERTY REGIME

THIS FIRST AMENDMENT TO MASTER DEED ESTABLISHING HIGBEE MILL RESERVE CONDOMINIUMS (PALOMAR RESERVE CONDOMINIUMS) HORIZONTAL PROPERTY REGIME (the "First Amendment to Master Deed"), made and entered into this ____ day of JUNE, 2006, by PINECREST DEVELOPMENT COMPANY, LLC, a Kentucky limited liability company, having an office at 1021 Majestic Drive, Suite 310, Lexington, Kentucky 40513 (the "Declarant").

WITNESSETH:

WHEREAS, Declarant is the Declarant referred to in the Master Deed Establishing Higbee Mill Reserve Condominiums (Palomar Reserve Condominiums) Horizontal Property Regime, dated March 29, 2006, of record in Deed Book 2632, Page 502 and in Condominium Deed Book 62, Page 305, in the Fayette County Clerk's Office ("Master Deed"); and

WHEREAS, Article I (C) of the Master Deed, provides that the Developer may add additional buildings and units to the horizontal property regime governed by the Master Deed ("Condominium Project"); and

WHEREAS, Developer has elected to add certain buildings and units to the Condominium Project; and

NOW, THEREFORE, for and in consideration of the premises, terms and conditions of the Master Deed, and this First Amendment to Master Deed, Declarant declares as follows:

1. BUILDINGS AND UNITS. The building numbers and unit numbers of the buildings and units submitted to the Condominium Project are shown on the Floor Plans recorded in Plat Cabinet G, Slide 740, and Plat Cabinet G, Slide 753, in the Fayette County Clerk's Office, respectively and such buildings and units are more particularly set forth, as follows:

| <u>Building No.</u> | <u>Unit No.</u> |
|---------------------|-----------------|
| 3K | 1 |
| 3K | 2 |
| 3K | 3 |
| 3K | 4 |
| 3K | 5 |
| 3K | 6 |

| | |
|----|-----|
| 3K | 7 |
| 3K | 8 |
| 3K | 9 |
| 3K | 10 |
| 3K | 11 |
| 3K | 12 |
| 3M | 104 |
| 3M | 103 |
| 3M | 102 |
| 3M | 101 |
| 3M | 204 |
| 3M | 203 |
| 3M | 202 |
| 3M | 201 |
| 3M | 304 |
| 3M | 303 |
| 3M | 302 |
| 3M | 301 |

2. PERCENTAGE INTEREST. Unless otherwise provided, the new percentage of undivided ownership interest in the common elements pertaining to each unit in the Regime is as follows:

| <u>Building No.</u> | <u>Unit No.</u> | <u>Sq. Ft. of Unit</u> | <u>% of Interest of Unit</u> |
|---------------------|-----------------|------------------------|------------------------------|
| 3K | 1 | 1303 | .01866 |
| 3K | 2 | 1368 | .01959 |
| 3K | 3 | 1490 | .02134 |
| 3K | 4 | 1299 | .01860 |
| 3K | 5 | 1356 | .01942 |
| 3K | 6 | 1480 | .02119 |
| 3K | 7 | 1661 | .02378 |
| 3K | 8 | 1499 | .02147 |
| 3K | 9 | 1356 | .01942 |
| 3K | 10 | 1483 | .02124 |
| 3K | 11 | 1661 | .02378 |
| 3K | 12 | 1502 | .02151 |
| | | | ----- |
| | | | SUB TOTAL .25 |
| 3M | 104 | 1303 | .01866 |
| 3M | 103 | 1368 | .01959 |
| 3M | 102 | 1490 | .02134 |
| 3M | 101 | 1299 | .01860 |
| 3M | 204 | 1356 | .01942 |
| 3M | 203 | 1480 | .02119 |


| | | | |
|----|-----|--------|---------------|
| 3M | 202 | 1661 | .02378 |
| 3M | 201 | 1499 | .02147 |
| 3M | 304 | 1356 | .01942 |
| 3M | 303 | 1483 | .02124 |
| 3M | 302 | 1661 | .02378 |
| 3M | 301 | 1502 | .02151 |
| | | | ----- |
| | | | SUB TOTAL .25 |
| 3J | | 17,458 | SUB TOTAL .25 |
| 3L | | 17,458 | SUB TOTAL .25 |
| | | | ===== |
| | | | TOTAL 100 |

IN WITNESS WHEREOF, the Declarant has caused this First Amendment to Master Deed to be executed actually on the date indicated in the notarial certificate affixed hereto but effective this 6 day of JUNE, 2006.

DECLARANT:

PINECREST DEVELOPMENT COMPANY,
LLC, a Kentucky limited liability company

By:



DAVID BRIGGS, MEMBER

STATE OF KENTUCKY
COUNTY OF FAYETTE

The foregoing instrument was acknowledged before me this the 6 day of June, 2006, by DAVID BRIGGS, as Member of Pinecrest Development Company, LLC, a Kentucky limited liability company, on behalf of said company.

My Commission Expires: 10/9/07

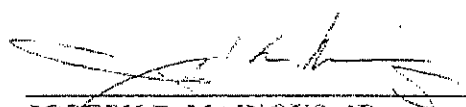


NOTARY PUBLIC

PREPARED BY:

MAINOUS & GRANT, PLLC
201 West Vine Street
Lexington, KY 40507

BY:

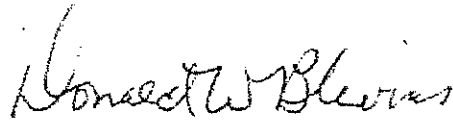


JOSEPH E. MAINOUS, JR.



CONDO DEED BOOK 63 PAGE 307

I, Donald W Blevins, County Court Clerk
of Fayette County, Kentucky, hereby
certify that the foregoing instrument
has been duly recorded in my office.



By: DOUG BRADLEY , dc

200606060371

June 6, 2006

13:47:27 PM

| | | | |
|------|---------|-----|--------|
| Fees | \$14.00 | Tax | \$0.00 |
|------|---------|-----|--------|

| | |
|------------|---------|
| Total Paid | \$14.00 |
|------------|---------|

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5 Pages

303 - 307