

AZ CORP COMMISSION  
FOR THE STATE OF AZ.  
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APPROVED *[Signature]*  
DATE APPROVED 8/4/94  
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DATE \_\_\_\_\_

0723589-0

## ARTICLES OF INCORPORATION

OF

## VELVET SHADOWS IMPROVEMENT ASSOCIATION

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned incorporators, whose mailing addresses appear with their respective names, have this day associated themselves for the purpose of forming a nonprofit corporation under the laws of the State of Arizona and do hereby adopt the following Articles of Incorporation.

### ARTICLE I

The name of this Association is and shall be VELVET SHADOWS IMPROVEMENT ASSOCIATION.

### ARTICLE II

The known place of business of this Association shall initially be 7518 Elbow Bend, Carefree, Arizona 85377, but it may establish other principal places of business and other offices at such other places, either within or without the State of Arizona, as the Board of Directors may from time to time determine. The mailing address for this Association shall initially be Post Office Box 6183, Carefree, AZ 85377.

### ARTICLE III

This Association is organized and shall be operated as a nonprofit corporation solely and exclusively for the purposes of forming an association pursuant to I.R.C. § 501(c)(4) and specifically for the following purposes, and the following initial business:

A. To implement and make effective the provisions contemplated in the Declarations filed of record in the office of the Maricopa County Recorder on May 31, 1979 in Docket No. 13667 at pages 229-244.

B. To own, operate and/or maintain certain property and improvements to be used in common by and for the benefit of the Owners of Lots in Carefree's Velvet Shadows subdivision

as of record with the Maricopa County Recorder as follows:

Lots 1-140 inclusive in Velvet Shadows, according to the plat of record in the Office of the County Recorder of Maricopa County, Arizona (hereinafter sometimes collectively referred to as ("Premises"). Velvet Shadows I, Lots 1-48 inclusive, in Book 104 or Maps, page 25; Velvet Shadows II, Lots 49-75 inclusive, in Book 107 of Maps, page 9; and Velvet Shadows III, Lots 76-140 inclusive, in Book 121 of Maps, page 42. Lots 9G, 9H, 9J, 9K, 9L, 9M, 9N, and 9P inclusive, Metes and Bounds, according to Docket 6909, pages 704-707 and Docket 6980, pages 879-882 thereof. As shown on Velvet Shadows a plat of recorded in Book 104 at page 25.

C. To enable the financing of construction, operation and maintenance of such common elements.

D. To accept such property and improvements as may be conveyed to the Association and to maintain and otherwise manage landscaping, parking areas, walk areas, common elements, recreational areas and facilities upon such property.

E. To pay all taxes and assessments, if any, which may properly be levied against such property or other property acquired by or owned by the Association.

F. To repair, maintain, rehabilitate and restore the real property and any improvements located thereon.

G. To assess annual dues and special assessments payable by the Owners of each Lot to provide funds to pay the capital and operating costs of the Association; to impress liens against individual Lots and improvements thereon, if any, to secure the payment of obligations due from the Owners or former Owners thereof to the Association and to collect, foreclose or otherwise enforce, compromise, release, satisfy and discharge said demands, and to do all other acts necessary to the filing, maintenance and discharge of said liens.

H. To take any action necessary or appropriate to enforce the covenants, restrictions, reservations, and conditions which at present or in the future affect said Lots either by recording restrictions, Bylaws of the Association, rules and regulations of the Association, or in any other way created.

I. In addition thereto, to do any and all lawful things and acts which the Association, at any time, and from time to time, shall, in its discretion, deem to be to the best interests of the Members of the Association, and to pay all costs and expenses in connection therewith and in connection with any and all of the purposes of the Association, and further, to do any and all lawful things which may be advisable, proper, authorized or permitted to be done by the Association under and by virtue of any condition, covenant, restriction, reservation, charge or assessment affecting said Lots, or any portion thereof, and to do and perform any and all acts

which may be either necessary for or incidental to the exercise of any of the foregoing powers, or for the peace, health, comfort, safety or general welfare of the Members of the Association, and further, to do any and all things and exercise all rights and power permitted to non-profit corporations under the laws of the State of Arizona, including the power to mortgage or encumber any property owned by it and to do and perform any and all acts and things and to transact any business, not inconsistent with law, which may be necessary, incidental to or convenient in carrying out any of the business or purposes of the Association.

Consistent with the foregoing purposes and subject to all other limitations, restrictions and prohibitions set forth in these Articles, this Association shall have all the powers specified in Section 10-1005A of the Arizona Revised Statutes, as amended from time to time, and to do all and every thing necessary, suitable and proper for the accomplishment of the purposes or attainment of the objects hereinabove set forth either alone or in association with other individuals, corporations or partnerships, including federal, state, county and municipal bodies and authorities; and, in general, to do and perform such acts and transact such business in connection with the foregoing objects not inconsistent with law; provided, however, that the Association shall not perform any act or transact any business that will jeopardize the tax exempt status of the Association under I.R.C. § 501(c)(4) and its regulations as such section and regulations now exist or may hereafter be amended or under corresponding laws and regulations hereafter adopted.

#### ARTICLE IV

No primary or substantial part of the activities of the Association shall be participation in or intervention in (including the publishing or distributing of statements) any political campaign on behalf of or in opposition to any candidate for public office.

#### ARTICLE V

The time for the commencement of this Association shall be the date of the filing of these Articles of Incorporation as required by law, and the term of its corporate existence shall be twenty-five (25) years thereafter, with privilege of renewal as provided by law.

#### ARTICLE VI

This Association shall be a nonprofit corporation and shall have no stock, and no dividends or pecuniary profits shall be declared or paid to the directors hereof or to any other private individual. All the earnings and property of the Association shall be used to further the purposes and objects of the Association as set forth in ARTICLE III. Nothing contained herein, however, shall prohibit payments by the Association to directors or Members as reasonable compensation for services rendered to the Association.

#### ARTICLE VII

The directors, officers and Members of the Association shall not be individually liable for

the Association's debts or other liabilities. The private property of such individuals shall be exempt from any corporate debts or liabilities. A director of the Association shall not be personally liable to the Association or its Members, if any, for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Association or its Members, if any, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 10-1026 c Section 10-1097 of the Arizona Revised Statutes, or (iv) for any transaction from which the director derived any improper personal benefit. If the Arizona Revised Statutes are hereafter amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Association shall be eliminated or limited to the fullest extent permitted by the Arizona Revised Statutes, as so amended. Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Association existing at the time of such repeal or modification.

Further, the Association shall indemnify any and all of the directors or former directors of the Association, their personal representatives and heirs, and the Board of Directors may in its sole discretion determine to indemnify any and all of the officers and employees or former officers and employees of the Association, their personal representatives and heirs, against expenses incurred by them or judgments or penalties rendered or levied against any such person in a legal action (whether civil, criminal, administrative, or other) brought against any such person for actions or omissions alleged to have been committed by any such person while acting within the scope of his or her employment as a director, officer, or employee of the Association, provided that in all cases the Board of Directors shall determine in good faith that such person did not fail to act, or refuse to act willfully or with gross negligence or with fraudulent or criminal intent with regard to the matter involved in the action; if such person is both a director and officer, or she shall be entitled to indemnity as a matter of right only if the alleged actions or omissions pertain to his position as a director or as both director and an officer, but if as an officer also then he shall be entitled to indemnity only if the Board of Directors shall so determine. The term "expenses," as used herein, shall include all obligations incurred by such person for the payment of money, including, without limitation, legal fees and amounts paid in settlement of any such action. A judgment or conviction (whether based on a plea of guilty, or nolo contendere or equivalent, or after trial) shall not be conclusive as to whether the person against whom judgment is rendered acted, or failed to act, or refused to act willfully or with gross negligence or with fraudulent or criminal intent with respect to the matter involved in the action. Any determination with respect to indemnity shall be made by resolution adopted by a majority and quorum of the Board of Directors, excluding from such majority and quorum any directors who have incurred expense, judgments, or penalties in connection with such action; and if there is no quorum of directors who are not so excluded, then by resolution adopted by a majority of a committee of non-excluded directors and/or stockholders appointed by the Board of Directors (all directors being eligible to participate in such appointment). The right of indemnification provided in Article VII shall not be exclusive of any other right which such directors, officers, employees of the Association, and the other persons above mentioned, may have or hereafter acquire, and such right shall in all cases be subject to the requirements and provisions of applicable law. A member of any committee appointed by the Board of Directors shall have the same right of indemnification as a director with respect to alleged acts or omissions by him or her as a member of such committee.

*Section 2.*

Transfer of Memberships. A membership in the Association shall not be transferred, pledged or alienated in any way, except upon the sale of such Lot and then only to such purchaser, or by intestate succession, testamentary disposition, foreclosure of mortgage of record or other legal process. Any attempt to make a prohibited transfer is void and will not be reflected upon the books and records of the Association. In the event the Owner or former Owner of any Lot should fail or refuse to transfer the membership registered in his name to the purchaser of such Lot, the Association shall have the right to record the transfer upon the books of the Association and issue a new membership for the purchaser and thereupon the old membership outstanding in the name of the seller be null and void as though the same had been surrendered.

*Section 3.*

Number of Memberships. The Owner(s) of each Lot shall be entitled to one membership in the Association, and there shall be no more than one membership for each Lot, which membership shall be subject to all of the provisions of the Association's Articles of Incorporation, By-Laws, Management Agreement, and Restrictions, provided, however, that if the Owner(s) of a Lot shall acquire ownership and use of all or a fraction of an adjoining Lot in combination with such Lot, the same shall then be deemed and considered to be one Lot for all purposes.

*Section 4.*

Voting Rights. The Association shall have one class of voting membership designated "Class A." Each Class A Member shall be all the Owners of a Lot as defined in this Article. A Class A Member shall be entitled to one vote for each Lot owned by said Member, as provided above and upon payment of all membership dues and special assessments, if any, outstanding.

*Section 5.*

Annual Dues or Special Assessments. Each Member shall be assessed Annual Dues, and may be assessed Special Assessments, as determined by the Board of Directors. The initial Annual Dues shall be the sum of \$50.00 per ~~improved Lot and/or \$20.00 per unimproved Lot~~ or as further or otherwise established by the Board of Directors. Any Annual Dues or Special Assessments assessed upon a Lot remaining unpaid as of the due date as established by the Board of Directors, which shall be not less than thirty (30) days after adoption and notice to the membership, shall be and become a lien upon such Lot. Such lien may be enforced by Board of Directors as it deems appropriate.

*CAW/ES  
10/30/95*

**ARTICLE X**

No person shall possess any property right in or to the property or assets of the Association. Upon dissolution of this Association as provided in the Bylaws, all assets remaining after payment of any outstanding liabilities shall be distributed exclusively to charitable, religious, educational or scientific organizations which would then qualify under the provisions of I.R.C.

## ARTICLE VIII

The control and management of the affairs of the Association shall be vested in a Board of Directors of not less than five (5), nor more than seven (7), persons, except as set forth in the Bylaws. The names of those selected to serve as directors, beginning with the incorporation of this Association and until the first annual meeting of the Association or until their successors shall be elected and qualify are:

HENRY F. BOYLE  
8980 East Lazywood Place  
P.O. Box 5530  
Carefree, AZ 85377

THOMAS W. JOHNSTON  
8901 East Cave Creek Road  
P.O. Box 879  
Carefree, AZ 85377

ARTHUR J. DOYLE  
36400 Placid Place  
P.O. Box 1035  
Carefree, AZ 85377

EDWARD A. KONOPKA  
8944 East Lazywood Place  
P.O. Box 5601  
Carefree, AZ 85377

HERB GLICKSTON  
8917 East Lazywood Place  
P.O. Box 939  
Carefree, AZ 85377

GLENN WILLIAM MILLER  
9002 East Lazywood Place  
P.O. Box 5601  
Carefree, AZ 85377

EDWARD C. MORGAN  
36401 N. Stardust Ln  
P.O. Box 3546  
Carefree, AZ 85377-3546

The above directors were elected at a meeting held in Carefree, Arizona, on the 5th day of July, 1994.

## ARTICLE IX

This Association shall have Members as provided in the Bylaws of the Association and as follows:

### *Section 1.*

Limitation on Membership. Membership in the Association shall be limited to Owners of Lots within the above described Premises. The Owner(s) of a Lot shall automatically, upon becoming the Owner of a Lot, become a Member of the Association, and shall remain a Member of the Association until such time as such ownership ceases for any reason, at which time such membership in said Association shall automatically cease. Ownership of a Lot shall be the sole qualification and criteria for membership.

§§ 501(c)(3), (4), or (6) and its regulations as such sections and regulations now exist or may hereafter be amended, or under corresponding laws and regulations hereafter adopted and which organizations have purposes and objects similar to those of the Association, all determined in accordance with the Bylaws.

#### ARTICLE XI

These Articles of Incorporation may be amended as provided in the Bylaws of the Association.

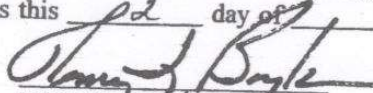
#### ARTICLE XII

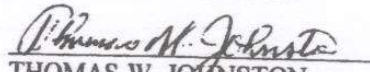
The highest amount of indebtedness or liability, direct or contingent, to which this Association may be subject at any one time shall be One Hundred Thousand Dollars (US \$100,000.00) or such additional amount or amounts as may be authorized by three-fourths (¾) of the votes cast with respect thereto at a lawfully held meeting of the directors of the Association; provided that, in no event, shall that amount exceed any limit provided by law.

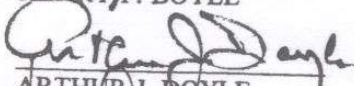
#### ARTICLE XIII

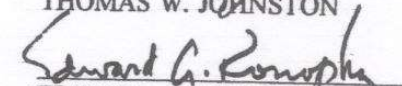
This Association hereby appoints Herb Glickston of 8917 East Lazywood Place, P.O. Box 939, Carefree, AZ 85377, as its initial statutory agent. All notices and processes, including service of summons, may be served upon said statutory agent and, when so served, shall be lawful, personal service upon this Association. The Board of Directors may, at any time, appoint another agent for such purpose, and filing of such other appointment shall revoke this or any other previous appointment of such agent.

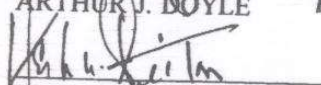
IN WITNESS WHEREOF, we, the undersigned incorporators, have hereunto signed our names this 02 day of AUGUST, 1994.

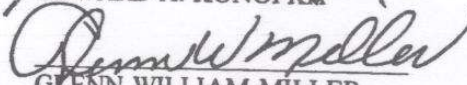
  
HENRY F. BOYLE

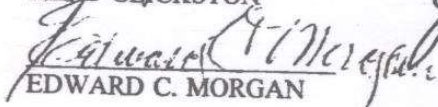
  
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