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February 5, 2010

Admirals Cove Homeowners' Association  
JoAnna Weeks, President  
1182 Dewey Drive  
Coupeville, WA 98239

Re: The Association's Governing Documents

To the Board:

You have asked me to give a second opinion on the condition of Admiral's Cove's articles of incorporation, covenants, and bylaws. I group these together under the general term "governing documents". After reading the governing documents briefly at our meeting last week, I have the following observations.

First, the governing documents as written do not give the Association power to assess the Association's members for Beach Club dues. The problem is that the recorded covenants do not provide the board with the power to impose dues and assessments on members. In a perfect world, every lot owner in Admiral's Cove would own an undivided interest in the Association's common areas – the pool, beach, and club amenities. The Association would have the power to assess members annually for the maintenance and improvement of the common areas, and these assessments would be debts against the property. If a member refused to pay, the Association would have an automatic lien against the member's lot.

The current governing documents do not provide the Association with these interrelated powers. The Articles of Incorporation once included a provision allowing the Beach Club to assess its members for maintenance dues. This did not create a binding obligation on lot owners because the provision did not appear in the covenants. Simply put, Admiral's Cove's founders put the assessment provision in the wrong document. To make matters more confusing, the recent amendments to the Articles deleted the assessment provision altogether.

The underlying problem is that Admiral's Cove's developer created separate governing bodies for the subdivision and the beach club. In hindsight, they should have been merged in the homeowners' association board with all powers spelled out in the recorded covenants, not the articles of incorporation.

Second, correcting the problems with the governing documents is not an easy fix. As we discussed at our meeting, my recommended first step is to clarify and streamline the process for amending Admiral's Cove's covenants. Under the current covenants, an absolute majority of members must sign an amendment to approve it. A vote alone is not enough.

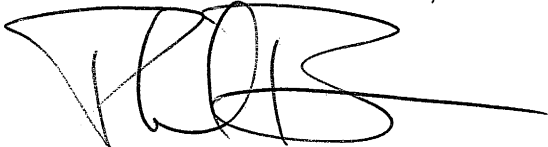
The typical provision in covenants is that the membership can amend them by a 2/3rds majority vote at a meeting where a quorum is present. I recommend that you amend your covenants to include this provision. The most straightforward process is for the board to propose an amendment and submit it to the membership for a vote. If a 2/3rds majority approves, then the board records the amendment and it takes effect. This is not what your covenants currently provide, and it is what I propose as the logical first step to correcting your governing documents.

Once the amendment process is streamlined, the board can begin work on revising the covenants to merge ownership and control of the common areas with the power to assess members for maintenance. It is impossible to predict the details of these amendments, but my experience is that they require careful thought and extensive discussion.

Thank you for the opportunity to discuss this issue with the board. I applaud your willingness to take on this difficult but worthwhile task.

Sincerely,

BURI FUNSTON MUMFORD, PLLC

A handwritten signature in black ink, appearing to read 'P. Buri', with a long horizontal line extending to the right.

Philip J. Buri