

DISCLOSURE STATEMENT

THE HILLS OF WATERFORD

TOWNSHIP OF WATERFORD, OAKLAND COUNTY, MICHIGAN

THE EFFECTIVE DATE OF THIS DISCLOSURE STATEMENT IS

JULY 1, 1997

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THIS DISCLOSURE STATEMENT IS NOT A SUBSTITUTE FOR THE PURCHASE AGREEMENT, MASTER DEED, ITS EXHIBITS, THE CONDOMINIUM BUYER'S HANDBOOK, OR OTHER LEGAL DOCUMENTS AND ALL PURCHASERS SHOULD READ ALL DOCUMENTS TO FULLY ACQUAINT THEMSELVES WITH THE COMMUNITY AND THEIR RIGHTS AND RESPONSIBILITIES RELATED THERETO. IT IS RECOMMENDED THAT PURCHASERS SEEK PROFESSIONAL ASSISTANCE PRIOR TO PURCHASING A CONDOMINIUM UNIT.

The Hills of Waterford is a 191 Unit residential Condominium development in the Township of Waterford, Oakland County, Michigan. Units 1 through 17 and Units 70 through 191 need not be built at this time.

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DISCLOSURE STATEMENT
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I. INTRODUCTION

American Quality Homes, Inc., is a Michigan Corporation and is the Developer of The Hills of Waterford. The following is a Disclosure Statement, which has been prepared by the Developer, and is intended to inform Purchasers of Condominium Units in The Hills of Waterford in general terms as to the nature of the Condominium, the rights and obligations of the Purchaser as a Co-owner in the Condominium, the rights and obligations of the Developer and of the Condominium Association and other matters. This Disclosure Statement is required by the Michigan Condominium Act of 1978, as amended, and is given to the Purchasers in conformance with the Statute. This Disclosure Statement, along with the Master Deed and other legal documents required for the creation and operation of the Condominium, constitute the only authorized description of The Hills of Waterford and none of the Developer's sales or other representatives are permitted or authorized to vary from their terms.

II. THE CONDOMINIUM CONCEPT

"Condominium" is a form of property ownership. A Condominium Unit has the same legal attributes as any other form of real estate under Michigan law and may be sold, mortgaged, or leased by the owner subject only to such restrictions as are contained in the Condominium Documents. Michigan Statute regulates the creation of a Condominium Project. The Condominium Act of 1978, as amended (Act 59 of the Michigan Public Acts of 1978, as amended) regulates The Hills of Waterford. A Condominium Project is established by recording a Master Deed in the Office of the Register of Deeds.

Each owner of a Condominium Unit owns his or her Unit and is one of a number of mutual owners of common facilities ("Common Elements") which service his/her and other Units. Each Purchaser of a Condominium Unit receives an individual deed to his/her Unit. The Unit and the Common Elements (which are legally inseparable from the Unit) are described generally in the Master Deed, and the Unit boundaries are shown in the Condominium Subdivision Plan attached to the Master Deed, subject to any modification or correction as is permitted by Statute and by the Condominium Documents. All portions of the Condominium not included within the Units constitute the Common Elements and are owned by all owners in undivided portions equal to the percentages of value attributable to each Unit as set forth in the Master Deed.

The relative close proximity of residences dictates that certain restrictions and obligations be imposed on each owner for the mutual benefit of all owners. Such restrictions and obligations are contained in the Master Deed and the Condominium By-Laws, which are recorded as part of the Master Deed. Restrictions and obligations may also be contained in the rules and regulations which may be passed by the Board of Directors of the Condominium Association in conformity with the Condominium Documents. All of the Condominium Documents are prepared with the goal of allowing each Co-owner a substantial amount of individual freedom and discretion without allowing any one Co-owner to infringe upon the rights and interests of the group at large. All Co-owners and residents must be familiar with and abide by the Condominium Documents.

The management and administration of the Condominium is the responsibility of the Condominium Association, which is a nonprofit corporation of which all owners of Condominium Units automatically are members. One of the primary responsibilities of the Board of Directors of any Condominium Association is to enforce the provision requiring each Co-owner to pay monthly assessments to the Association to meet expenses of administration of the Condominium. Pursuant to the provisions of Michigan law, and the Condominium Documents, such assessments constitute a lien against the owner's Unit and in the event the owner fails to pay the assessments attributable to his/her Unit, the Board of Directors of the Association may cause the lien to be foreclosed. The Board of Directors is also obligated to enforce the other provisions of the Condominium Documents, including the restrictions on the use of the Condominium Premises as set forth in the Condominium Documents, and is given

broad remedial rights in the event such provisions are violated, including the right to sue for money damages and for injunctive relief.

The foregoing is a general statement of the operational characteristics of The Hills of Waterford and is common to most residential Condominium Projects. Each Purchaser is urged to carefully review all of the documents contained in The Hills of Waterford Condominium Purchaser Information Booklet as well as any other documents that have been delivered to the Purchaser in connection with this development. In particular, information about the government and organization of Condominiums in Michigan may be found in the Condominium Buyer's Handbook, published by the Michigan Department of Commerce, and provided to Purchasers by the Developer. The Purchaser is advised to consult with his own lawyer or other professional advisor with respect to any questions which he or she may have in regard to The Hills of Waterford and/or the Condominium Documents.

III. DESCRIPTION OF THE CONDOMINIUM

A. Size, Scope, and Physical Characteristics of the Project. The Hills of Waterford is a residential Project located in the Township of Waterford, Oakland County, Michigan, on Hatchery Road. The Project consists of 191 building sites, each of which is an individual residential Condominium Unit.

The Condominium Units in The Hills of Waterford consist only of the individual sites within which each residence is to be located, and the Common Elements do not include the residential dwelling structures and other improvements located within the Units. Each owner holds an absolute and undivided title to his/her Unit and to the dwelling and other improvements located within the boundaries of the Unit.

Since the residential dwellings are contained within the boundaries of the Condominium Unit, the Co-owners are responsible for the maintenance, repair, and replacement of the residential structure and all other improvements within the boundaries of the Condominium Unit, including the maintenance, repair and/or replacement of the driveways. The Co-owners are responsible for lawn mowing and the maintenance of landscaping within the boundaries of their Condominium Unit. The Association shall be responsible for snow removal from streets in accordance with such standards as the Association may adopt.

If a Co-owner fails to perform maintenance and/or repair of the residential structure or maintenance of the landscaping within the boundaries of his/her Condominium Unit or in accordance with such standards as the Association may adopt, the Association may perform such maintenance functions and assess the Co-owner the cost of such maintenance and collect such costs as part of the Condominium Assessments.

The Co-owner is responsible for planting one deciduous shade tree between the sidewalk and the street.

To the best of the Developer's knowledge, there are no hazardous materials, waste, or toxic substances buried on the Condominium Premises.

B. Structures and Improvements Which Must Be Built and Which Need Not Be Built. The Condominium Act of 1978, as amended, requires the Developer to label structures and improvements on the Condominium Subdivision Plan (Exhibit "B" to the Master Deed) as either "must be built" or "need not be built." Initially, 52 Condominium Units are designated "must be built," the balance of the Condominium Units, Units 1 through 17 and Units 70 through 191, "need not be built" at this time, as the Developer intends to develop those Condominium Units at a later date. The Developer must construct all improvements which are labeled "must be built." The rights in regard to items which are labeled "need not be built" are described below. Each Land Purchase Agreement provides that the Developer is not contractually obligated to construct any of the improvements which are labeled "need not be built." A Purchaser who closes upon the purchase of a Unit is given no assurance that any other improvements which are, from time to time, labeled "need not be built" will be completed by the Developer. The Developer has not provided any financial arrangements for the completion of any improvements which are labeled "need not be built." The escrow arrangement described in the next paragraph

provides certain arrangements in regard to the construction of any structures or improvements which are labeled "must be built."

C. Convertible Area. Some portion of the Common Elements of the Project may be converted into Limited Common Elements or Condominium Units by the Developer. If the Developer elects to do so, this change must be made not later than six (6) years after the recording of the Master Deed. These changes would typically include such items as enlarging a particular Unit, or a road or walkway adjacent to a particular Unit. A change may also entail relocation of roads and sidewalks to provide access to those Units. Any changes made will not unreasonably diminish the appearance of the Project or view of any Unit which is near the modified Unit or Common Elements.

D. Contractible Area. The Developer has the right to contract or reduce the size of The Hills of Waterford to a minimum of 52 Units. The Developer is free to reduce the size of the development by removing any land that does not have any sold Units located on it.

E. Escrow Arrangement. The Developer has entered into an escrow arrangement with Transnation Title Insurance Company which provides that all deposits made under Land Purchase Agreements shall be placed in escrow. The Escrow Agreement provides for the release of an escrow deposit to any Purchaser who withdraws from a Land Purchase Agreement in accordance with the Land Purchase Agreement. Such a withdrawal is permitted by each Land Purchase Agreement if it takes place within nine (9) business days after the Purchaser has received all of the Condominium Documents, or if the Land Purchase Agreement is conditional upon obtaining a mortgage and Purchaser is unable to do so, or if the Unit is not completed within the time period stated in the Land Purchase Agreement, or if the Condominium Documents are changed in a way that materially reduces a Purchaser's rights. The Escrow Agreement also provides that a deposit will be released to the Developer if the Purchaser defaults in any obligation under the Land Purchase Agreement after the Land Purchase Agreement has become binding upon the Purchaser. The Escrow Agreement also provides that deposits will be released to the Developer when (a) the closing of the sale takes place and (b) a Certificate of Occupancy is issued if required by local ordinance (for those Units having a residential structure erected by Developer) and (c) if any improvements on the Condominium Subdivision Plan (Exhibit "B" to the Master Deed) are labeled "must be built," the escrow agent has received certification from an engineer or architect that such improvements are substantially complete.

F. Reserved Rights of Developer.

(i) Modification of Units. The Developer has reserved the right to modify the size, location, design or elevation of Units or dwellings and/or Common Elements by amendment to the Master Deed. Such modifications shall be in the sole discretion of the Developer without the consent of any other person.

(ii) Conduct of Commercial Activities. The Developer has reserved the right to maintain an office in The Hills of Waterford for conduct of commercial activities as it may elect, together with a sales office, a business office, model Units, storage areas, reasonable parking incident to the use of such areas, and such access to, from and over the Condominium premises, as may be reasonable to enable development, sale, operation and warranty obligations until the end of the warranty period for the last Unit which is sold in The Hills of Waterford. During this period of time, the Developer or its affiliates may use such offices and other areas to sell other property off-site.

(iii) Right to Amend. The Developer has reserved the right to amend the Master Deed without approval from Co-owners and mortgagees for the purpose of correcting errors and for any other purpose so long as the amendment would not materially alter or change the rights of a Co-owner or mortgagee. Further, certain provisions of the Master Deed cannot be amended without Developer approval.

(iv) Easements. The Developer has reserved such easements over the Condominium (including all Units and Common Elements) as may be required to perform any of the Developer's or the Association's maintenance, repair, decoration or replacement obligations. The Developer has also reserved easements for utility and/or drainage purposes along the side yard and rear yard boundaries of the respective Condominium Units in The Hills of Waterford.

(v) Certain Units Burdened By Additional Easements. Certain Condominium Units are burdened and/or affected by utility and/or drain easements as described on the Condominium Subdivision Plans attached to the Master Deed as Exhibit "B". No buildings or structures shall be placed within these easement areas. In addition, there are limitations on landscaping in and around these easement areas as set forth in the easement agreements that are referenced in the Condominium Subdivision Plans.

(vi) General. In the Condominium Documents and in the Condominium Act certain rights and powers are granted or reserved to the Developer to facilitate the development and sale of The Hills of Waterford, including the power to approve or disapprove a variety of proposed acts and uses and the power to secure representation on the Association Board of Directors.

G. Legal Documentation.

(i) General. The Hills of Waterford was established as a Condominium pursuant to the Master Deed recorded in the Oakland County Register of Deeds as set forth in the Purchaser Information Booklet. The Master Deed as recorded contains as Exhibit "A", the Condominium By-Laws and as Exhibit "B", the Condominium Subdivision Plan, a 3-dimensional survey establishing the physical relationship and location of each of the Units in the Condominium, together with a depiction of utility locations and the location of Common Elements.

(ii) Master Deed. The Condominium Master Deed, among other things, contains a definition of terms used within the Condominium, the percentage of value assigned to each Unit in the Condominium and a description of the General Common Elements constituting the Condominium.

The percentages of value of the Units are set forth in Article V-B of the Master Deed. The percentage of value assigned to each Unit shall be equal. The percentage of value assigned to each Unit is determinative of each Co-owner's respective share of the Common Elements of The Hills of Waterford, the proportionate share of each Co-owner in the proceeds and the expenses of administration, and the value of each Co-owner's vote at meetings of the Association. The percentages of value must at all times total one hundred (100%) percent.

(iii) Condominium By-Laws. The Condominium By-Laws contain provisions relating to the operation and management of The Hills of Waterford and, in particular, set forth in Article II the provisions relating to both regular and special assessments of the members to pay the costs of operation of the Condominium. Certain restrictions upon the ownership, occupancy and use of The Hills of Waterford are set forth in Article VI.

IV. WARRANTY

Express warranties are not provided unless specifically stated in the Land Purchase Agreement. Each Land Purchase Agreement provides that at the closing, the Developer will give a Limited Warranty with regard to the Condominium Unit and the Common Elements. The Builder will give a Limited Warranty as to the residence. The terms of the Limited Warranties are expressly limited as stated in the Limited Warranties. Specifically, the Builder will warrant for a period of one (1) year after closing of the purchase of a residential structure, that the floors, ceilings, walls and other internal structural components of the residential structure which are not covered by other portions of the Limited Warranty will be free of defects in materials or workmanship. The Limited Warranty does not cover any appliances and equipment located within the residential structure. The Builder shall assign and pass through to the Purchaser any manufacturers' warranties on these appliances and equipment. ARBITRATION IS THE SOLE REMEDY FOR DISPUTES PURSUANT TO THE CONDOMINIUM DOCUMENTS. THE DEVELOPER AND BUILDER SHALL HAVE NO RESPONSIBILITY FOR ANY OF THE FOLLOWING, WHICH ARE EXPRESSLY EXCLUDED FROM THE COVERAGE OF THE LIMITED WARRANTY:

(a) Defects in appliances and pieces of equipment which are covered by manufacturers' warranties.

(b) Damage due to ordinary wear and tear, abusive use, modification, or lack of proper maintenance of the Condominium Unit, the residential structure erected thereon, or of the Common Elements.

(c) Conditions which are the result of characteristics common to the materials used, such as (but not limited to) warping and deflection of wood; fading, chalking, and checking of paint due to sunlight; cracks due to drying and curing of concrete, stucco, drywall, bricks and masonry; damage to concrete resulting from the use of salt, chemicals or other de-icing agents; drying, shrinking and cracking of caulking and weather-stripping; cracks in tile or cement and heaving of tile or cement; sound transmission within or without the residential structure including noise from pipes, appliances and fixtures; settlement of the residential structure or the ground under or around the structure or under or around other residential structures or Common Elements.

(d) Damage to or destruction of any tree, shrub or plant growth which is native to the Condominium site and which remains after completion of construction of the Condominium, regardless of the Developer's or Builder's care to protect any tree, shrub or plant growth in either its original or relocated site.

(e) Defects in items installed by the Purchaser or anyone else except the Builder or (if requested by the Builder) the Builder's subcontractors.

(f) Work done by the Purchaser or anyone else except the Builder or (if requested by the Builder) the Builder's subcontractors.

(g) Loss or injury due to the elements.

(h) Conditions resulting from condensation on, or expansion or contraction of, materials.

(i) Consequential or incidental damages.

NO OTHER WARRANTIES.

THIS LIMITED WARRANTY IS THE ONLY WARRANTY THE DEVELOPER OR BUILDER SHALL GIVE. THERE ARE NO IMPLIED WARRANTIES OF ANY KIND AND/OR FOR THE BENEFIT OF ANY ENTITY, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, HABITABILITY OR THE LIKE AND CONFORMANCE WITH PLANS AND SPECIFICATIONS (EXCEPT THE CONDOMINIUM SUBDIVISION PLAN ATTACHED TO THE MASTER DEED). THE WARRANTY ALSO EXCLUDES ANY CONDITION WHICH MAY BE DEEMED IN VIOLATION OF ENVIRONMENTAL LAWS, RULES, POLICIES, OR REGULATIONS, AND/OR ANY CONDITIONS OF TOXIC WASTE OR HAZARDOUS SUBSTANCES. THE PURCHASERS AND/OR THE ASSOCIATION OF CO-OWNERS MAY BE REQUIRED TO PAY SUBSTANTIAL SUMS FOR THE REPAIR OF DEFECTS WHICH MAY OCCUR AND WHICH ARE NOT COVERED BY THIS LIMITED WARRANTY. BY EXECUTING THE LAND PURCHASE AGREEMENT, THE PURCHASER ACKNOWLEDGES THAT HE/SHE HAS INSPECTED THE CONDOMINIUM UNIT; THE RESIDENTIAL STRUCTURE (DWELLING) ERECTED BY THE BUILDER THEREIN; AND THE COMMON ELEMENTS OF THE CONDOMINIUM PROJECT. NO SALES REPRESENTATIVE OF THE DEVELOPER OR BUILDER IS AUTHORIZED TO DEVIATE FROM THIS PROVISION.

Except for emergencies, each Purchaser may submit warranty claims in writing to the Builder at the following times: (1) within ninety (90) days after the closing with the Builder; or (2) within eleven (11) months after the closing with the Builder. If a defect appears which the Purchaser thinks is covered by the Limited Warranty, the Purchaser must write a letter describing it to the Builder at the address appearing in the Limited Warranty. The Builder will not assume responsibility for responding to any written letter delivered to the Builder more than fourteen (14) days after the expiration of the one-year warranty period, even if the defects that are claimed in the letter may have arisen within the one-year warranty period. The Purchaser must tell the Builder in the letter what times during the day the Purchaser will be at home, so

that the Builder can schedule service calls appropriately. If delay will cause extra damage, the Purchaser should telephone the Builder. Only emergency reports will be taken by telephone.

THIS LIMITED WARRANTY EXTENDS ONLY TO THE FIRST PURCHASER OF THE UNIT AND IS NONTRANSFERABLE.

V. THE DEVELOPER AND ITS AFFILIATES

American Quality Homes, Inc., is a Michigan Corporation and is the Developer of The Hills of Waterford. The principal of the Developer is Bernard Gliberman. He has been engaged in the real estate and building business for the past thirty years. Bernard Gliberman has been involved in the following condominium projects:

Brush Park, Detroit, MI
Campau Farms in Elmwood Park, Detroit, MI
Crooks Crossing East, Rochester Hills, MI
Crosswinds Condominium, Clinton Township, MI
Crosswinds East Condominium, Clinton Township, MI
Crosswinds West Condominium, Novi, MI
Crosswinds of Farmington Hills, Farmington Hills, MI
Greenpoint Condominium, West Bloomfield, MI
Greenpoint No. 2 Condominium, West Bloomfield, MI
Greenpoint at Copper Creek Condominium, Farmington Hills, MI
Main Street Square of Royal Oak, Royal Oak, MI
The Maryland Club, Royal Oak, MI
Millpointe of Hartland, Hartland, MI
Millpointe Park, Ypsilanti, MI
Millpointe Square, Waterford Township, MI
Millpointe of Waterford, Waterford, MI
Millpointe of Westland, Westland, MI
Orchard Valley Village (Also Known as Millpointe of Holly)
Riverwalk in Wyandotte
University Estates, Waterford, MI
Victoria Commons, Belleville, MI
Villages of Country Creek, Oakland Township, MI
West Bloomfield Fairways, West Bloomfield, MI

Crosswinds Quality Homes, Inc., is a licensed residential builder and will be erecting all residences on Units in The Hills of Waterford. Crosswinds Quality Homes, Inc., is owned and operated by the same principals as the Developer. There are no pending legal proceedings affecting The Hills of Waterford.

VI. OPERATION AND MANAGEMENT OF THE HILLS OF WATERFORD

A. Condominium Association. The Hills of Waterford will be maintained and administered by The Hills of Waterford Association, which has been incorporated by the Developer as a nonprofit corporation under Michigan law. The Association is governed by its Board of Directors whose initial members are designees of the Developer and who are empowered to serve pursuant to the provisions of the Condominium By-Laws until other directors are elected. The election of Directors by Co-owners (including the Developer voting as a Co-owner) cannot take place later than fifty-four (54) months after the first closing of a Unit. It is possible that the non-Developer Co-owners will have voting rights sooner than that time depending upon the number of Units conveyed. Voting rights are set forth in detail in Article I of the Condominium By-Laws, especially in Section 8 thereof, and these provisions should be carefully reviewed. Within one (1) year after the first conveyance of a Unit, or one hundred twenty (120) days after conveyance of one-third (1/3) of all of the Units which may be created, whichever occurs first, an Advisory Committee of Co-owners will be established to facilitate communication and aid transition of control to the Co-owners.

At the First Annual Meeting of members of the Association, the members of the Association, including the Developer if it still owns any Condominium Unit, will elect five (5) directors, in accordance with the provisions of the Association's By-Laws, and the directors in turn shall elect officers for the Association.

Annual Meetings of the Co-owners will be held in August each year commencing in the calendar year following the First Annual Meeting for the purpose of conducting the business of the Association and electing directors pursuant to the Association's By-Laws. Prior to each Annual Meeting, Co-owners will receive notice stating the time and location of the meeting and the matters to be considered at the meeting as prescribed by the Association's By-Laws.

Each Co-owner (including the Developer) is a member of the Association and entitled to vote at meetings of the Association in accordance with the provisions of the By-Laws. Although it is hoped that a majority of the Units will be sold by the time of the First Annual Meeting, the Developer will have the right to determine the make-up of the Board of Directors if it still owns a majority of the Units included in the Master Deed and amendments thereto at the time of the First Annual Meeting.

B. Condominium Association Management Contracts. The By-Laws permit the Association to employ a professional management agent to manage the affairs of The Hills of Waterford. The Association has entered into a Management Agreement with LandArc, Inc., whose address is 32500 Telegraph, Suite 206, Bingham Farms, Michigan 48025, at a fee of \$10.00 per Unit per month. LandArc, Inc. is presently managing approximately five thousand (5,000) residential units in southeast Michigan. The Developer may be subsidizing the Association with respect to the management fee and with respect to certain fixed expenses such as, by way of example, liability insurance, snow removal, etc., in its sole discretion, until the Association is adequately funded, in Developer's sole discretion, or until turnover of control of the Association from the Developer to the Co-owners, whichever first occurs. The Association may terminate the agreement upon the Transitional Control Date or at any time within ninety (90) days thereafter. The "Transitional Control Date" means the date on which a Board of Directors for the Association takes office pursuant to an election in which the votes which may be cast by eligible Co-owners unaffiliated with the Developer exceed the votes which may be cast by the Developer.

C. Condominium Finances.

(i) Budget. The provisions of Article II of the Condominium By-Laws establish the means whereby the Board of Directors must annually adopt a budget for the operation of The Hills of Waterford. The initial budget has been formulated by the Developer in consultation with others and is intended to provide for the normal and reasonably predictable expenses of administration of the Condominium for the first year, and to include a reserve for future replacement of major structural and other components of the Condominium. Inasmuch as the initial budget must necessarily be prepared prior to the commencement of operation of the Condominium, it reflects estimates of expenses which could be made by the Developer and its consultants. To the extent that the goods and services necessary to service The Hills of Waterford may increase in cost in the future, the budget and the expenses of the Association will also require upward revision. In this respect, it is normal for Association expenses to increase on a regular basis. Such a revision to the budget is intended generally to occur only in connection with the annual adoption of a budget by the Association's Board, although circumstances may require such a revision at other times.

THE INITIAL BUDGET OF THE ASSOCIATION HAS BEEN ATTACHED TO THE END OF THIS DISCLOSURE STATEMENT AS EXHIBIT "A". IT MUST BE REMEMBERED THAT THE INITIAL BUDGET OF THE ASSOCIATION, WHICH IS ATTACHED TO THIS DISCLOSURE STATEMENT AS EXHIBIT "A", IS ONLY AN ESTIMATE OF THE EXPENSES WHICH MIGHT BE INCURRED IN ADMINISTERING THE CONDOMINIUM. THE ACTUAL EXPENSES OF THE ADMINISTRATION MAY BE SUBSTANTIALLY DIFFERENT AND MAY RESULT IN INCREASED ASSESSMENTS FOR THE CO-OWNERS. THE DEVELOPER DOES NOT REPRESENT OR WARRANT THE ACCURACY OF THE INITIAL BUDGET AND NO REPRESENTATIONS OR WARRANTIES ARE TO BE CONSTRUED FROM ANY PORTION OF THE INITIAL BUDGET.

(ii) Assessment. The Condominium assessments which are charged to the Co-owners are based upon the annual budget of the Association. The Association's only source of revenue to fund its budget is by the assessment of its members. Each co-owner must pay to the Association an annual assessment which is determined by dividing the projected budget by the members' percentage of value which is stated in the Master Deed. The annual assessment must

be paid to the Association by each Co-owner in quarterly or other periodic installments, as may be determined by the Board of Directors.

Because the day-to-day operation of the Condominium is dependent upon the availability of funds, it is important that each Co-owner pay his/her assessment in a timely manner. Assessments shall be due on a date determined by the Board of Directors of the Association. In the event that a Co-owner fails to pay this amount in a timely manner, the Condominium By-Laws provide that the Condominium Association may impose a lien upon a delinquent Co-owner's Unit, collect interest at the highest rate allowed by law on delinquent assessments, and impose late charges and collection costs, including a reasonable attorneys' fee. Article II of the Condominium By-Laws should be consulted for further details.

Each Co-owner may be required to pay special assessments, if special assessments are either levied by the Board of Directors of the Association or, if applicable, approved by the Co-owners in accordance with the Condominium By-Laws. Special assessments may be levied in the event that, among other things, the regular assessment should prove inadequate, Common Elements need to be replaced or expanded, or an emergency occurs. Any special assessment would be allocated to the Co-owners in accordance with the percentages of value stated in the Master Deed. In the event that an unusual expense benefits less than all of the Units in the Condominium, the expense may be assessed against those Units which are specially benefitted by the expense and shall be share equally by those Units. Article II of the Condominium By-Laws should be examined for further details about special assessments and the sharing of unusual expenses of administration.

Until occupancy of a particular Unit, the Developer, although a member of the Association, is not required to pay Association assessments for that Unit. Instead, the Developer must contribute only its proportionate share of the Association's expenses actually incurred as described in Article II, Section 8, of the Condominium By-Laws. After occupancy of a residential structure on a particular Unit, the Developer must contribute to the Association in accordance with the percentages of value assigned to occupied residential structures on Units owned by it.

Each Co-owner must also pay other charges in connection with his/her ownership of a Unit in the Condominium. For example, each Co-owner will be responsible for paying real estate taxes levied on his/her Unit and his/her undivided interest in the Common Elements. The amount of the taxes will be determined by the assessor for the Township of Waterford. The Condominium Association will pay no real estate taxes; however, if, after closing, the real property tax bills relative to the Condominium property have not yet been split into separate tax bills for each Condominium Unit by the local tax assessor, the Condominium Association may require the Purchaser to pay into an escrow account to be maintained by the Association an amount equal to Purchaser's percentage of value of the estimated real property taxes with respect to the Condominium which will next fall due.

(iii) Possible Other Liability. Pursuant to Section 84a(1)(d)(i) of the Condominium Act of 1978, as amended, each Purchaser is advised of the possible liability of each Co-owner under Section 58 of the Condominium Act of 1978, as amended: If the holder of a first mortgage or other purchaser of a Condominium Unit gains title to that Unit by foreclosing that mortgage, the holder of the first mortgage or other purchaser is not liable for unpaid assessments which are chargeable against that Unit and which had become due prior to acquisition of title to the Unit by the holder of the first mortgage or other purchaser. These unpaid assessments are common expenses which are collectible from all Unit owners including the holder of the first mortgage or other purchaser who has obtained title to the Unit through foreclosure.

(iv) General. In general, the provisions which are relative to the operation and physical management of The Hills of Waterford and of the Association are more particularly set forth in Articles I and II of the Condominium By-Laws and in the Association's By-Laws.

D. Insurance. The Condominium Documents require that the Association shall carry a standard "all risk" insurance policy which includes, among other things, fire and extended coverage, vandalism and malicious mischief and liability insurance and workers' compensation insurance, if applicable, with respect to all the Common Elements of the Condominium. The insurance policies have deductible clauses and to the extent thereof, losses will be borne by the

Association, unless the loss is to an individual structure or contents, in which case the Co-owner shall pay the deductible.

The Association may also elect to carry an "all risk" insurance policy, including fire and extended coverage, vandalism, and malicious mischief and liability insurance with respect to the Condominium Units and the residential dwellings constructed within the boundaries of the Condominium Units. As of the effective date of this Disclosure Statement, the Association has elected to carry such insurance on behalf of the respective Co-owners with respect to the Condominium Units.

The Board of Directors of the Association is responsible for obtaining insurance coverage for the Association. Each Co-owner's pro rata share of the annual Association premiums is included in the regular assessment. The Association's insurance policies are available for inspection during normal working hours.

The master insurance policy carried by the Association names the Condominium Association as the insured. In the event of any casualty affecting the Condominium, insurance proceeds would be paid to and administered by the Condominium Association in accordance with the provisions of the Condominium By-Laws. The insurance coverage carried by the Condominium Association, in no event, will cover the interior of any residential structures constructed within the boundaries of the Condominium Unit or any personal property of the Co-owner.

EACH CO-OWNER IS RESPONSIBLE FOR OBTAINING, AND SHALL OBTAIN, INSURANCE COVERAGE WITH RESPECT TO THE INTERIOR OF THE RESIDENTIAL STRUCTURE AND CONTENTS OF THE RESIDENTIAL STRUCTURE, TO THE EXTENT INDICATED IN THE CONDOMINIUM BY-LAWS, AND FOR LIABILITY FOR INJURY WITHIN HIS/HER UNIT.

A copy of the Certificate of Insurance with respect to the Condominium will be furnished to each Co-owner upon closing the sale of his/her Unit. The Association should periodically review all of its insurance coverage to be assured of its continued adequacy and Co-owners should each do the same with respect to their personal insurance.

Title insurance will be supplied to each individual Purchaser as the sales of the Units are closed. The Land Purchase Agreement provides that the Developer shall furnish each Purchaser with a commitment for an owner's title insurance policy issued by Transnation Title Insurance Company at or prior to closing, and the policy itself shall be provided within a reasonable time after closing. The cost of the commitment and policy is to be borne by the Developer. The policies will be in the face amount of the purchase price of each Unit. The policies will insure each Purchaser that the Purchaser's title to the Unit received from the Developer is in the condition required by each Land Purchase Agreement. Each Purchaser should review the title insurance commitment with a qualified advisor of his/her choice prior to closing to make certain that it conforms to the requirements of the Land Purchase Agreement.

E. Restrictions on Ownership, Occupancy and Use. In order to provide an environment conducive to pleasant living at The Hills of Waterford, the Condominium By-Laws contain certain limitations upon the activities of Co-owners which might infringe upon the right to quiet enjoyment of all Co-owners. Article VI of the Condominium By-Laws sets forth restrictions upon the ownership, occupancy and use of the Condominium. It is not possible to accurately and completely characterize such restrictions and each prospective Purchaser should review the restrictions in their entirety to ascertain whether their operation will interfere with his/her prospective use of the Condominium; however, the following are certain of the restrictions:

- (i) Single Family Use. Units are to be used for single family residences only.
- (ii) Lease. Any Co-owner may lease his/her Unit; however, the leases must be in writing. Notice of the lease arrangement and a copy of the lease form must be supplied to the Association at least ten (10) days prior to presenting the lease form to the potential lessee. All tenants must comply with the Condominium Documents.
- (iii) Pets. No animal, including household pets, other than one (1) domesticated dog or cat, shall be kept without the prior written consent of the Board of

Directors, which consent, if given shall be revocable at any time by the Board for failure by owners of pets to observe provisions of the By-Laws or Rules and Regulations of the Association pertaining to pets. These animals must not be noisy and the Co-owner maintaining the animals must indemnify the Association for any costs or damages incurred as a result of maintaining such animals. Additional restrictions governing animals are set forth in Article VI, Section 6 of the Condominium By-Laws.

(iv) House Trailers, Recreational Vehicles, Vans, Commercial Vehicles. Except for vans and pick-up trucks used for personal transportation by a Co-owner, no house trailers, pick-up trucks recreational vehicles, vans, commercial vehicles, or vehicles other than automobiles may be parked or stored upon the premises of the Condominium unless such vehicles are parked in the garages of the respective Units, or unless specifically approved by the Association or parked in an area specifically designated by the Association. Such designated parking areas have not been established by the Association. Unless the Board of Directors specifically approves in writing otherwise, Co-owners shall not park or maintain more than three (3) vehicles on the Condominium Premises and such vehicles shall only be parked in their respective garages, except that if the number of vehicles owned by a Co-owner exceeds the number of vehicles that a Co-owner's garage can accommodate, such additional vehicles shall be parked in the Co-owner's driveway immediately adjoining his or her garage. Garage doors shall be kept closed at all times except as may be reasonably necessary to gain access to or from any garage.

(v) Physical Changes: Use. There are substantial limitations upon improvements and physical changes that may be made within the boundaries of a Condominium Unit and elsewhere on the Common Elements. The Purchaser should carefully review Article VI, Section 3 of the Condominium By-Laws and the other provisions of Article VI of the Condominium By-Laws with respect to such restrictions.

(vi) Rules and Regulations. Reasonable rules and regulations may be adopted by the Board of Directors of the Association concerning the use of the Condominium without the vote of the Co-owners. The Co-owners may revoke any rules and regulations adopted by the Board of Directors of the Association upon a vote of fifty (50%) percent of all of the Co-owners.

Whenever a Co-owner wishes to sell his/her Unit, the Board of Directors of the Association must be notified and the Co-owner must comply with Section 13 of Article VI of the Condominium By-Laws.

None of the restrictions apply to the commercial activities or signs of the Developer.

The restrictions are enforceable by the Association, which may take appropriate action to enforce the restrictions, such as legal action for injunctive relief and damages. The remedies available in the event of violation of these restrictions are contained in Article XI of the Condominium By-Laws. The restrictions are also enforceable by the individual Co-owners and by the Developer.

Purchaser shall be required to sod or seed his Unit within sixty (60) days of completion of construction of the residence. A silt fence shall be maintained at the perimeter of the lot until the grass has taken hold. Purchaser will also be required to plant one deciduous shade tree in the area between the sidewalk and street in front of his residence within sixty (60) days of occupancy, in compliance with the Zoning Ordinance for the municipality.

VII. RIGHTS AND OBLIGATIONS AS BETWEEN DEVELOPER AND CO-OWNER

A. Before Closing. The respective obligations of the Developer and the Purchaser of a Condominium Unit prior to closing are set forth in the Land Purchase Agreement and the Escrow Agreement. Both of those documents should be closely examined by all Purchasers in order to ascertain the disposition of earnest money deposits advanced by Purchaser, anticipated closing adjustments, and the obligations of both parties with respect to modifications or improvements to the Unit.

ARBITRATION IS THE SOLE REMEDY FOR DISPUTE PURSUANT TO THE CONDOMINIUM DOCUMENTS.

B. At Closing. Each Purchaser will receive by warranty deed fee simple title to his/her Unit subject to no liens or encumbrances other than the Condominium Documents and those other easements and restrictions as are specifically set forth in the Condominium Documents and title insurance commitment. Prior to closing, each Purchaser shall be afforded an opportunity to inspect the Unit that he/she is purchasing, any residential structure thereon, and the Common Elements. At closing, and as a condition to closing, the Purchaser shall sign an Acknowledgement indicating that he/she has inspected the Unit and residential structure and is satisfied with its location, color, options, and condition and is satisfied with the condition of the Common Elements. The Developer will rely on this Acknowledgement in proceeding with the closing.

C. Subsequent to Closing. Subsequent to the purchase of the Unit, relations between the Co-owner and the Developer are governed by the Master Deed and the Condominium By-Laws and the Condominium Act of 1978, as amended, except to the extent that any contractual provisions of the Land Purchase Agreement are intended to survive the closing. The Purchaser shall have the Limited Warranty on his/her Unit and the Common Elements as described above in Part IV of this Disclosure Statement and as given by the Developer at closing, if the Condominium Unit contains a residential structure built by the Developer.

VIII. LOCAL GOVERNMENT, TAXES, AND UTILITIES

A. Local Government. The Project is located in the Township of Waterford and the Waterford School District.

B. Real Property Taxes. Taxes upon the Condominium Units are assessed by the Township of Waterford, the County of Oakland, and the Waterford School District. Pursuant to Michigan law, taxes are required to be assessed on the basis of fifty (50%) percent of the true cash value. During the year in which the Condominium Master Deed is originally recorded, real property taxes attributable to each of the Units established by such Master Deed or amendment may not be separately billed, but may be paid by the Association as an expense of administration, to be shared by the Co-owners of the Units in proportion to their respective percentages of value. The Developer will contribute its proportionate share to the payment of taxes for such Units as it owns at the time that the taxes fall due. In subsequent years, each Co-owner will receive an individual tax bill attributable to his/her Unit only. It is impossible to determine with accuracy the amount of real property taxes which will fall due in subsequent years since those taxes are a function of both property values and tax rates which may either rise or fall.

C. Building Inspections. Although Waterford Township has inspected the construction undertaken by the Developer in The Hills of Waterford, the Developer does not represent that the Condominium complies with all applicable codes. The Developer is presently unaware of any violations of applicable codes with respect to the construction in The Hills of Waterford.

D. Utilities. Utility services to The Hills of Waterford are provided as follows:

- (i) Electricity - Consumers Energy
- (ii) Gas - Consumers Energy
- (iii) Telephone - Ameritech
- (iv) Cable T.V. - Comcast
- (v) Sewer and Water - Waterford
- (vi) Refuse Removal - Waterford

The costs of and responsibilities for maintaining the storm sewer systems serving the Condominium will be borne by the Association, as provided in the Master Deed.

IX. RADON GAS

Radon is a naturally-occurring, colorless and odorless radioactive gas formed by the breakdown of uranium and radium deposits in soil. Radon can escape from the soil and enter buildings. Preliminary studies by the United States Environmental Protection Agency (EPA) suggest that prolonged exposure to radon may result in adverse health consequences.

The extent to which an area or a specific residential dwelling (or Condominium Unit) may be exposed to radon depends on a number of factors, including natural geologic conditions, prior land use, ground water, construction materials and techniques, ventilation and air condition systems, and homeowner maintenance. Because of the multitude of factors involved, it is difficult to predict whether a specific residence may be subject to high radon levels unless specific tests are conducted by experts in the area.

Developer neither has nor claims any expertise in radon, and it does not provide advice to homeowners about the acceptable levels or possible health hazards of radon. It is possible that tests or studies might disclose information which a Purchaser might consider significant in deciding whether to purchase a Unit in The Hills of Waterford from the Developer. Developer assumes no responsibility to make any tests or studies, but Developer will permit the Purchaser to do so, at the Purchaser's expense, if the Purchaser so desires.

The EPA, as well as state and local regulatory authorities are best equipped to render advice regarding the risks which may exist in a particular area, the risks associated with radon exposure, the methods available to detect and measure radon levels, and whether remedial measures may be advisable in particular circumstances to reduce the risk of radon exposure. The EPA has published two (2) guides which are available to interested persons: "A Citizen's Guide to Radon: What it is and What to do About it" and "Radon Reduction Methods: A Homeowner's Guide."

X. PURPOSE OF DISCLOSURE STATEMENT

This Disclosure Statement was prepared by the Developer in good faith and in compliance with the Condominium Act of 1978, as amended. This Disclosure Statement paraphrases various provisions of the Land Purchase Agreement, Escrow Agreement, Master Deed, Condominium By-Laws, and other documents required by law. This Disclosure Statement only highlights certain provisions of such documents and by no means contains a complete statement of all of the provisions of those documents, which may be important to Purchasers. In an attempt to be more readable, this Disclosure Statement omits most legal phrases, definitions and detailed provisions of the other documents. This Disclosure Statement is not a substitute for the legal documents from which it draws information and the rights of Purchasers and other parties will be controlled by the other legal documents and not by this Disclosure Statement. All of the documents referred to in this Disclosure Statement should be carefully reviewed by prospective Purchasers, and it is advisable to have professional assistance in making this review.

The Developer is required by law to prepare this Disclosure Statement. The Developer has prepared this Disclosure Statement in reliance upon sources of information believed to be accurate and in an effort to disclose material facts about The Hills of Waterford. However, the Developer disclaims liability to any Purchaser for misstatements herein (or for omissions which make statements herein appear misleading) if such misstatements were made by the Developer in good faith, or were immaterial in nature, or were not relied upon by the Purchaser, or did not result in any damages to the Purchaser.

Each Purchaser is urged to engage a competent lawyer or other advisor in connection with the Purchaser's decision to purchase a Unit. In accepting title to a Unit in The Hills of Waterford, each Purchaser shall be deemed to have waived any claim or right arising out of or relating to any immaterial defect, omission, or misstatement in this Disclosure Statement. In preparing this Disclosure Statement and the other Condominium Documents, Developer's counsel has not undertaken professional responsibility to the Condominium Association or to any Co-owners or mortgagees for the completeness, accuracy, or validity of the Condominium Documents.

The Developer is required to give each Purchaser a copy of the Condominium Buyer's Handbook. This Handbook was prepared by the Michigan Department of Commerce, and the Developer accepts no responsibility for its contents.

XI. PROPOSED BUDGET

INCOME:

MONTHLY FEES	\$ 66,469.50
CO-OWNER RESERVE CONTRIBUTION	<u>16,617.38</u>
TOTAL INCOME	<u>\$ 83,086.88</u>
AVERAGE QUARTERLY FEE - 191 UNITS	87.00

EXPENSES:

ADMINISTRATION	
OFFICE SUPPLIES/PRINTING	\$ 1,650.00
MANAGEMENT FEE	13,752.00
AUDIT/LEGAL	<u>1,400.00</u>
TOTAL ADMINISTRATIVE	\$16,802.00

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MAINTENANCE AND REPAIR	
LAWN MAINTENANCE	\$ 7,800.00
SPRINKLER SYSTEM	1,740.00
LANDSCAPING	3,500.00
SNOW REMOVAL	9,550.00
SALT AND CALCIUM CHLORIDE	<u>6,207.50</u>
TOTAL MAINTENANCE AND REPAIR	\$28,797.50

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TAX, FEES AND INSURANCE	
INSURANCE	<u>\$13,370.00</u>
TOTAL TAX, FEES AND INSURANCE	\$13,370.00

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RESERVE EXPENDITURES	
TRANSFER TO RESERVE ACCOUNT	<u>\$ 7,500.00</u>
TOTAL RESERVE EXPENSES	\$ 7,500.00

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TOTAL OPERATING EXPENSES	\$66,469.50
CO-OWNER RESERVE CONTRIBUTION	<u>16,617.38</u>
TOTAL EXPENSES	\$83,086.88

1. An amount equal to one quarter (1/4) of the annual assessment will be collected from the initial owners at closing for an initial reserve. There is no assurance that this will be adequate.

2. In the first year Units are established, taxes may be assessed as if one parcel. If that is the case, additional quarterly assessments will be due in the amount of one quarter (1/4) of the tax bill, divided by the number of Units affected.

3. The assessments are good faith estimates but if they prove inadequate to cover expenses, the Board of Directors may have to change the amount of the assessment or levy a special assessment pursuant to the By-Laws.

4. The initial assessment will be set equally for all Units at \$87.00 per quarter, plus any tax bill assessed against the Project as described in paragraph 1 above. Once individual assessments are made and taxes are billed individually, those taxes will be the responsibility of the individual Co-owners.

5. Electricity is for Common Elements and would be in addition to any electric expense for Co-owner use which is metered and billed separately.

6. The budget is based upon 191 Units. If a smaller number of Units are established, the actual amounts will be adjusted.