

**BYLAWS
OF
THE HIGHLANDS OWNERS ASSOCIATION**

**ARTICLE I
Recital and Definitions**

Section 1.01. Name of Association. The name of this corporation shall be The Highlands Owners Association and shall be referred to herein as the "Association."

Section 1.02. Association Is Nonprofit. The Association is a California nonprofit mutual benefit corporation and an association as defined by California Civil Code section 1351(a).

Section 1.03. Specific Purpose. The specific and primary purpose of this Association shall be to own, repair, maintain and manage the Common Area and Common Facilities within The Highlands real estate common interest development located in the City of Grass Valley, County of Nevada, State of California, to enforce the Association Rules adopted by the Board of Directors, from time to time, and the terms and conditions of the Declaration, and to otherwise enhance and promote the use and enjoyment of the Common Areas and Common Facilities by the Owners in common.

Section 1.04. Definitions.

(a) City. "City" means the incorporated municipal City of Grass Valley, State of California, and its various departments; divisions, employees, and representatives.

(b) County. "County" means the County of Nevada, State of California.

(c) Declaration. "Declaration" means the Declaration of Covenants, Conditions and Restrictions for The Highlands, Recorded in the Official Records of Nevada County on August 3, 2005, as Document No. 2005-0029924; as such Declaration may from time to time be supplemented, amended or modified.

(d) Majority of a Quorum. "Majority of a Quorum" means the vote of a majority of the votes cast at a meeting or by written ballot when the number of Members attending the membership meeting or the number of ballots cast equals or exceeds the quorum requirement specified in Section 5.05, below. Any Member may be represented at a membership meeting by proxy (see Section 4.05, below).

(e) Voting Power. "Voting Power" means those Members who are eligible to vote for the election of directors or with respect to any other matter, issue or proposal property presented to the Members for approval at the time any determination of Voting Power is made.

(f) Other Definitions Incorporated by Reference. The terms defined in the Declaration shall have the same meaning when used herein unless the context clearly indicates a contrary intention.

ARTICLE II

Location of Principal Office

The principal office of the Association will be located at such place within the County of Nevada as the Board may from time to time designate by resolution.

ARTICLE III

Membership

Section 3.01. Members of the Association. Every Owner of a Lot within the Development shall be a Member of the Association. Membership in the Association is appurtenant to, and may not be separated from, ownership of a Lot.

Section 3.02. Term of Membership. Each Owner shall remain a Member until he or she no longer qualifies as such under Section 3.01, above. Upon the sale, conveyance or other transfer of an Owner's interest in a Lot, the Owner's membership interest appurtenant to the Lot shall automatically transfer to the Lot's new Owner(s).

Section 3.03. Multiple Ownership of Lots. Ownership of a Lot shall give rise to a single membership vote in the Association. Accordingly, if more than one person owns a Lot, all of said persons shall be deemed to be one (1) Member for voting purposes, although all such Owners shall have equal rights as Members to use and enjoy the Common Areas and Common Facilities. Any one of the multiple Owners shall be entitled to vote the membership, unless the secretary of the Association is notified in writing of the Owner designated by his or her co-Owners as having the sole right to vote the membership on their behalf. If such notification does not occur and more than one of the multiple Owners votes a membership, the majority of such votes shall be the vote pertaining to said Lot. If a majority of the co-owners are unable to agree on how the membership should be voted, the vote of such membership shall not be considered as either in favor of or opposed to the issue or issues which are the subject of the vote. However the membership shall be considered for purposes of determining whether the quorum requirements applicable to the vote or meeting have been met. If a person owns more than one (1) Lot in the Properties, that Owner shall have one (1) membership and membership voting rights with respect to each Lot owned.

Section 3.04. Furnishing Evidence of Membership. A person shall not be entitled to exercise the rights of a Member until such person has advised the secretary in writing that he or she is qualified to be a Member under Section 3.01, above, and, if requested by the secretary, has provided the secretary with evidence of such qualification in the form of a duly recorded grant deed or a currently effective policy of title insurance. Exercise of membership rights shall be

further subject to the rules regarding record dates for notice, voting and actions by written ballot and eligibility for voting set forth in Section 5.08, below.

ARTICLE IV Membership Voting

Section 4.01. Classes of Membership. The Association shall have two classes of voting membership:

(a) Class A Members. Each Owner, with the exception of the Declarant, shall be a Class A Member of the Association. If a Lot is owned by more than one (1) person, there shall be only one (1) vote with respect to such Lot (see Section 3.03, above). The Declarant shall become a Class A Member upon the occurrence of the events specified in Section 4.02(c), below.

(b) Class B Members. The Class B Member shall be the Declarant until the occurrence of the events specified in Section 4.02(c), below:

Section 4.02. Voting Rights of Classes.

(a) Members Entitled to Vote. Only Members of the Association who are in good standing shall be entitled to vote. The voting privileges of each class of Members shall be as provided herein. The tenants or lessees of a Residence within the Properties shall have no voting or membership rights in the Association.

(b) Class A Members. Class A Members shall have one (1) vote for each Lot that the Member owns. A Class A Member who has sold his or her Lot to a contract purchaser under an agreement to purchase shall delegate to such contract purchaser, by proxy, his or her membership rights in the Association. However, the contract seller shall remain liable for any default in the payment of Assessments by the contract purchaser until title to the property sold shall be transferred to the purchaser.

(c) Class B Members. As the Class B Member, the Declarant shall be entitled to three (3) votes for each Lot that the Declarant owns. The Declarant's Class B membership shall cease and be converted to Class A membership on the first to occur of the following events:

(i) When the total outstanding votes held by the Class A Members equals the total outstanding votes held by the Class B Member; or

(ii) The second (2nd) anniversary of the first (1st) conveyance of a Lot within the Properties.

As long as there are two (2) classes of membership within the Association, no action by the Association that must have the prior approval of the Members shall be deemed approved by the Members unless approved by the appropriate percentage of both classes of Members. With the exception of an action by the Owners to enforce bonded obligations pursuant to Section 3.11

of the Declaration, whenever any provision of these Bylaws or any other Governing Documents of the Association require the approval of a prescribed majority of the Voting Power of Members other than the Declarant are deemed to require the vote or written assent of a bare majority of the Class B Voting Power as well as the vote or written assent of the prescribed majority of the total Voting Power of Members other than the Declarant. After all the Class B memberships have been converted into Class A memberships, any such provisions shall be deemed to require the vote or written assent of a bare majority of the total Voting Power of the Association as well as the vote or written assent of the prescribed majority of the total Voting Power of Members other than Declarant.

Section 4.03. Eligibility to Vote; Definition of Good Standing. Only Members in good standing shall be entitled to vote at any membership meeting. In order to be in good standing, a Member must be current in the payment of all Assessments levied against the Member's Lot and not be subject to any suspension of voting privileges as a result of any disciplinary proceeding conducted in accordance with Section 12.06 of the Declaration. A Member's good standing shall be determined as of the record date established in accordance with Section 5.08, below. Voting rights with respect to any Lot shall not vest until such time as Regular Assessments have been levied with respect to that Lot. In accordance with Civil Code section 1363(h), the Association shall be obligated to conduct a hearing in order to suspend a Member's voting privileges on the basis of the nonpayment of assessments, as set forth in Section 12.06 of the Declaration.

Section 4.04. Manner of Casting Votes.

(a) Voting at Membership Meetings. Voting at any membership meeting may be by voice or by ballot; provided, however, that the voting in any election of directors shall be conducted by secret ballot. The vote on any other issue properly before a meeting of the Members shall be conducted by secret ballot when determined by the chairman of the meeting, in his or her discretion, or when requested by ten (10%) percent of the Members present at the meeting.

(b) Voting by Written Ballot. In addition to voting in person or by proxy at a meeting, Members' votes may be solicited by written ballot with respect to any issue other than the election of directors in accordance with Section 4.06, below.

(c) Proxy Voting. Members otherwise eligible to vote at a meeting may do so in person or by proxy issued as provided in Section 4.05, below.

(d) Cumulative Voting. Each Member entitled to vote at any election of directors where two (2) or more positions are to be filled shall have the right to cumulate his or her votes by giving one (1) candidate a number of votes equal to the number of directors to be elected, multiplied by the number of votes to which the Member is entitled, or by distributing his or her votes on the same principle among as many candidates as he or she desires. No Member shall be entitled to cumulate votes unless (a) the candidate's or candidates' name(s) have been placed in nomination before the voting, and (b) a Member has given notice at the meeting, and before the voting, of the Member's intention to cumulate his or her votes. If any one (1) Member has given such notice, all Members may cumulate their votes for candidates in nomination. Those

candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section 4.05. Proxies.

(a) Proxies Generally. Any Member entitled to vote may do so either in person or by one (1) or more agents authorized by a written proxy signed by the Member and filed with the secretary of the Association. Any proxy shall be for a term not to exceed eleven (11) months from the date of issuance, unless otherwise provided in the proxy, except that the maximum term of any proxy shall be three (3) years from the date of execution. Proxy forms shall be dated to assist in verifying their validity.

(b) Effectiveness of Proxies. Every proxy continues in full force and effect until revoked by the issuing Member prior to the vote pursuant thereto subject to the maximum term of a proxy set forth in subparagraph (a), above. Any proxy issued hereunder shall be revocable by the person executing such proxy at any time prior to the vote pursuant thereto, by (i) delivery to the secretary of a written notice of revocation, (ii) a subsequent proxy executed by the Member executing the prior proxy and presented to the meeting, or (iii) as to any meeting, by attendance at such meeting and voting in person by the Member executing the proxy. The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmarks contained on the envelopes in which they are mailed. A proxy shall be deemed revoked when the secretary shall receive actual notice of the death or judicially declared incompetence of the Member issuing the proxy, or upon termination of such Member's status as an Owner of a Lot as provided in Section 3.01, above.

(c) Validity of Proxies With Respect to Certain Material Transactions. Any proxy given with respect to any of the matters described in this subparagraph (c) shall be valid only if the proxy form sets forth a general description of the nature of the matter to be voted on. The matters subject to this requirement are:

(i) Removal of directors without cause;

(ii) Filling of vacancies on the Board;

(iii) Approval of contracts or transactions between the Association and one (1) or more of its directors, or between the Association and a corporation, firm or association in which one (1) or more of its directors has a material financial interest;

(iv) Amendment of the Articles of Incorporation, these Bylaws or the Declaration;

(v) Action to change any Association Assessments in a manner requiring membership approval under the Declaration;

(vi) Sale, lease, exchange, transfer or other disposition of all or substantially all of the Association's assets otherwise than in the regular course of the Association's activities;

- and
- (vii) Merger of the Association or an amendment to an agreement of merger;
 - (viii) Voluntary dissolution of the Association.

(d) Limited Proxies.

(i) Any form of proxy distributed to ten (10) or more Members must afford an opportunity on the proxy to specify a choice between approval or disapproval of any matter or group of related matters intended, at the time the proxy is distributed, to be acted upon at the meeting for which the proxy is solicited. If the form of proxy lists one (1) or more matters to be acted upon and the issuer of the proxy has specified a choice with respect to any such matter (including a preference in voting for candidates for election to the Board), the proxy holder shall be obligated to cast the vote represented by the proxy in accordance with the issuer's designated preference.

(ii) In accordance with subparagraph (d)(i), above, proxies distributed in connection with the election of directors shall set forth the names of all individuals who are candidates for election to the Board of Directors at the time the proxy is issued. The proxy form shall contain boxes or lines opposite each candidate's name where the issuing Member can express his or her voting preference. If the proxy is marked by a Member "withhold" or otherwise marked in a manner indicating that the authority to vote for the election of directors is withheld, the proxy holder shall not vote the proxy either for or against the election of a director. If any proxy issued in connection with the election of directors is marked so as to direct the proxy holder to vote the proxy for a specified candidate or candidates, the proxy holder shall vote in accordance with the direction of the proxy issuer.

(e) Restriction or Elimination of Proxy Rights; Limitation on Authority. No amendment of the Articles or Bylaws repealing, restricting, or expanding proxy rights may be adopted without approval by the affirmative vote of a majority of the Voting Power of each class of Member represented and voting at a duly held meeting at which a quorum is present, or the affirmative vote of a majority of the Voting Power of Members by written ballot as provided in Section 4.06, below.

(f) Proxy Rules for Memberships Held by More Than One Person. Where two (2) or more persons constitute a Member, any proxy with respect to the vote of such Member may be signed by one (1) or more of such persons so long as no more than one (1) proxy is issued with respect to any single membership.

Section 4.06. Action by Written Ballot Without a Meeting.

(a) Definition of Written Ballot. A "written ballot" is a ballot which is mailed or otherwise distributed to every Member entitled to vote on the matter and which complies with the requirements of this section. The term "written ballot" does not include a ballot distributed to Members at a meeting for purposes of conducting a vote of the Member at such meeting.

(b) Written Ballots, Generally. Any matter or issue requiring the vote of the Members, other than the election of directors, may be submitted for vote by written ballot without the necessity of calling a meeting of the Members, so long as the requirements for action by written ballot set forth in this section are met. The determination to seek Member approval for Association actions in this fashion shall be made by a majority vote of the Board. Once the determination is made to seek Member approval by written ballot, the Board shall establish a record date (see Section 5.08(a)(iii), below) and distribute a written ballot to every Member entitled to vote on the matter. This distribution shall be made consistent with the time requirements specified in subparagraph (d), below.

(c) Content of Written Ballots. Any written ballot distributed to the Members to vote on any issue other than the election of directors shall set forth the proposed action and provide an opportunity to specify approval or disapproval of the proposal.

(d) Balloting Time Requirements. Written ballots shall be distributed to all eligible Members at least thirty (30) days prior to the final date the written ballots must be received by the Association in order to be counted. All written ballots shall provide a reasonable time within which to return the written ballot to the Association and shall state on the face of the ballot or in an accompanying notice the date by which the written ballot must be returned in order to be counted. The time fixed for the return of written ballots may only be extended if the Board so notifies the Members on the face of the ballot or in the balloting solicitations materials accompanying the ballot and then for no more than two successive periods of thirty (30) days each.

(e) Requirements for Valid Member Action by Written Ballot. Membership approval by written ballot shall only be valid if: (i) the number of votes cast by ballot within the time established by the Board for the return of the ballots equals or exceeds the quorum (as specified in Section 5.05, below), that would have been required to be present at a membership meeting if such a meeting had been convened to vote on the proposal, and (ii) the number of affirmative votes equals or exceeds the number of affirmative votes that would have been required to approve the action at such a meeting.

(f) Solicitation Rules. Written ballots shall be solicited in a manner consistent with the requirements of Section 5.04, below, pertaining to issuance of notice of Members' meetings. All solicitations of written ballots shall indicate: (i) the number of responses needed to meet the quorum requirement for valid action, (ii) the time by which the written ballot must be received by the Association in order to be counted, and (iii) the percentage of affirmative votes necessary to approve the measure.

(g) Additional Balloting Procedures. If deemed necessary by the Board, the written ballot shall be conducted in accordance with such additional procedures, not inconsistent with the provisions of this section, as may be prescribed by a firm of public accountants of the Association's legal counsel, who may also be retained to supervise the secrecy and conduct of the balloting process.

(h) Notification of Results of Balloting Process. Upon tabulation of the written ballots, the Board shall notify the Members of the outcome of the vote within thirty (30) days following the close of the balloting process and tabulation of the ballots. If the number of written ballots cast with respect to any matter is insufficient to satisfy the minimum quorum requirements, the Board shall so notify the Members.

(i) Prohibition of Revocation. Once exercised, a written ballot may not be revoked.

(j) Conduct of Informational Meetings. Use of the written ballot procedures set forth herein shall not preclude the Association from also conducting informational meetings of the Members or from scheduling a meeting to coincide with the culmination of the balloting period.

Section 4.07. Majority Vote of Members Represented at Meeting Required for Valid Action. At a meeting, the affirmative vote of a Majority of a Quorum of the Members who are entitled to vote and voting on any matter (other than the election of directors) shall be the act of the Members, unless the vote of a greater number is required by the California Nonprofit Mutual Benefit Corporation Law or by the Governing Documents of the Association. In the case of director elections, the candidates receiving the greatest number of votes, up to the number of directors to be elected, shall be elected to fill the vacancies.

ARTICLE V

Membership Meetings

Section 5.01. Place of Meeting. The meetings of the Members shall be held at the offices of the Association within the Properties or at such other reasonable place (within the County) and at such time as may be designated by notice of the Board of the meeting. Unless unusual conditions exist, meetings shall not be held outside of the County.

Section 5.02. Annual Meeting. The first annual meeting of the Members shall be held not more than six (6) months after the close of escrow for the sale of the first Lot. Thereafter, there shall be an annual meeting of the Members in November of each year at a date, time and location identified in the Notice.

Section 5.03. Special Meetings.

(a) Persons Entitled to Call Special Meetings. A majority of the Board, the president or five (5%) percent or more of the Members may call special meetings of the Members at any time to consider any lawful business of the Association.

(b) Procedures for Calling Special Meetings Requested by Members. If a special meeting is called by Members rather than being called by the Board of Directors or the president, the request shall be submitted by such Members in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by first-class, certified or registered mail or by telegraphic or other facsimile transmission to the president, the vice president, or the secretary of the Association. Upon receipt of the Members' demand for a

special meeting, the Board shall cause notice to be promptly given to the Members entitled to vote, in accordance with the provisions of Section 5.04, below, that a meeting will be held, and the date, time and purpose for such meeting.

Section 5.04. Notice of Members' Meetings.

(a) Requirement That Notice Be Given. Notice of all regular and special meetings of the Members shall be sent or otherwise given in writing to each Member who is eligible to vote at the meeting as of the record date for notice established in accordance with Section 5.08, below.

(b) Time Requirements for Notice. Except in the case of membership meetings called in response to a valid demand therefore received from five percent (5%) or more of the Members, notice of membership meetings shall be given in the manner specified in subparagraph (e) of this Section, not less than ten (10) nor more than ninety (90) days before the date of the meeting. If notice is given by mail and the notice is not given by first-class, registered or certified mail, the notice shall be given not less than twenty (20) days (nor more than ninety (90) days) before the meeting. When a meeting of the Members is called in response to a valid Member demand, the Board shall be obligated to send the members a notice of the special meeting within twenty (20) days following receipt of the Members' demand and the meeting must be held on a date which is not less than thirty-five (35) nor more than ninety (90) days following the receipt of the request. If notice of the meeting is not given by the Association's Board within the twenty (20) days after receipt of the request, the Members requesting the meeting may give the notice.

(c) Minimum Requirements Regarding Content of Notice. Notices of meetings of the Members shall specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, and no other business may in that case be transacted, or (ii) in the case of a regular meeting, those matters which the Board of Directors, at the time of giving the notice, intends to present for action by the Members; but any proper matter may be presented at the meeting for such action so long as a quorum is present. The notice of any meeting at which directors are to be elected shall include the names of all those individuals who are nominees at the time the notice is given to the Members.

(d) Specification of Certain Significant Actions. If action is proposed to be taken at any membership meeting for approval of any of the following proposals, the notice shall also state the general nature of the proposal. Member action on such items is invalid unless the notice or written waiver of notice or consent states the general nature of the proposal(s):

(i) Removing a director without cause;

(ii) Filling vacancies on the Board of Directors under those circumstances where a vote of the Members is required pursuant to Section 7.07(g), below;

(iii) Amending the Articles of Incorporation of the Association, these Bylaws or the Declaration in any manner requiring approval of the Members;

(iv) Approving a contract or transaction between the Association and one (1) or more of its directors, or between the Association and any corporation, firm or association in which one (1) or more of its directors has a material financial interest;

(v) Approving any change in the Association's Assessments in a manner requiring membership approval under the Declaration; or

(vi) Voting upon any election to voluntarily terminate and dissolve the Association.

(e) Manner of Service. Notice of any meeting of Members shall be given either personally or by first-class mail, telegraphic or other written communication, charges prepaid, addressed to each Member either at the address of that Member appearing on the books of the Association or the address given by the Member to the Association for the purpose of notice. If no address appears on the Association's books and no other has been given, notice shall be deemed to have been given if either (i) notice is sent to that Member by first-class mail or telegraphic or other written communication to the Association's principal office, or (ii) notice is published at least once in a newspaper of general circulation in the County. Notice shall be deemed to have been given at the time when the notice is delivered personally or deposited in the mail (postage prepaid) or sent by telegram or other means of written or electronic communication to the recipient.

(f) Affidavit of Mailing. An affidavit of the mailing or other means of giving any notice of any Members' meeting may be executed by the secretary or the assistant secretary of the Association, and if so executed, shall be filed and maintained in the minute book of the Association. Such affidavit shall constitute prima facie evidence that proper notice was given.

Section 5.05. Quorum Requirements.

(a) Quorum Requirements Generally. A majority of the Members in good standing shall constitute a quorum for the conduct of business at a meeting of the Members. If a vote of the Members is conducted by use of a written ballot in accordance with Section 4.06, above, the minimum quorum requirement shall be satisfied when ballots are received from a majority of the Members in good standing within the prescribed balloting period. Should this subparagraph (a) ever be amended to provide for a lower quorum percentage, Civil Code section 1366 will require the minimum quorum to remain at fifty percent (50%) of the Members for any vote on Assessment increases or Special Assessments that are required, by law, to be approved by the Members.

(b) Members Represented By Proxy. Members present at a membership meeting in person or by proxy shall be counted towards satisfaction of the quorum requirements specified herein.

(c) Effect of Departure of Members From Meeting. The Members present in person or by proxy at a duly called or duly held meeting at which a quorum is present may continue to

transact business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the Members required to constitute a quorum. If a quorum is never established for the meeting, a majority of those Members who are present may vote to adjourn the meeting for lack of a quorum but no other action may be taken or business transacted.

Section 5.06. Adjourned Meeting.

(a) Adjournment, Generally. Any Members' meeting, annual or special, whether or not a quorum is present, may be adjourned to another time and/or place (but not for more than forty-five (45) days) by the vote of the majority of Members present at the meeting, either in person or by proxy. When there is an adjournment for lack of a quorum, the date for reconvening the meeting shall be not less than five (5) nor more than thirty (30) days following the date of the adjourned meeting. Unless there is an absence of a quorum (in which case no business other than adjournment may be transacted), the reconvened meeting may take any action which might have been transacted at the original meeting.

(b) Notice Requirements for Adjourned Meetings. When a Members' meeting is adjourned to another time or place, notice need not be given of the new meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. Notwithstanding the foregoing, if after adjournment a new record date is fixed for notice or voting, a notice of the rescheduled meeting must be given to each Member who on the record date for notice of the meeting is entitled to vote thereat.

Section 5.07. Waiver of Notice or Consent by Absent Members.

(a) Waivers and Consents, Generally. If decisions are made or action is otherwise taken by the Members at a meeting where a quorum is present, but for which proper notice was not given to all Members for whatever reason, the decisions or actions made at that meeting will be valid if, either before or after the meeting, each person entitled to vote who was not present at the meeting (in person or by proxy) consents to the meeting by signing (i) a written waiver of notice, (ii) a consent to holding the meeting, or (iii) an approval of the minutes. The waiver of notice or consent need not specify the purpose or general nature of business to be transacted at such meeting unless action was taken or is proposed to be taken with respect to any matters specified in Section 5.04(d), above, in which case, the waiver of notice or consent must state the general nature of the matter. All such waivers, consents or approvals shall be filed with the Association records or be made part of the minutes of the meeting.

(b) Effect of a Member's Attendance at a Meeting. Attendance by a Member or his or her proxy holder at a meeting shall also constitute a waiver of any objections such person may have with respect to notice of that meeting, except when the Member or proxy holder attends the meeting for the sole purpose of objecting at the beginning of the meeting to the transaction of any business due to the inadequacy or illegality of the notice. Attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting which are required to be described therein pursuant to Section 5.04(d), above, if that objection is expressly made at the meeting.

Section 5.08. Record Dates for Member Notice, Voting and Giving Consents.

(a) Record Dates Established By the Board of Directors. For the purpose of determining which Members are entitled to receive notice of any meeting, vote, act by written ballot without a meeting or exercise any rights in respect to any other lawful action, the Board of Directors may fix, in advance, a "record date" and only Members of record on the date so fixed are entitled to notice, to vote, or to take action by written ballot or otherwise, as the case may be, notwithstanding any transfer of any membership on the books of the Association after the record date, except as otherwise provided in the Articles of Incorporation, by agreement, or in the California Nonprofit Mutual Benefit Corporation Law. The record dates established by the Board pursuant to this section must be in accordance with the following requirements:

(i) Record Date for Notice of Meetings. In the case of determining those Members entitled to notice of a meeting, the record date shall not be more than ninety (90) days nor less than ten (10) days before the date of the meeting;

(ii) Record Date for Voting. In the case of determining those Members entitled to vote at a meeting, the record date shall not be more than sixty (60) days before the date of the meeting;

(iii) Record Date for Action By Written Ballot Without Meeting. In the case of determining Members entitled to cast written ballots, the record date shall not be more than sixty (60) days before the day on which the first written ballot is mailed or solicited; and

(iv) Record Date for Other Lawful Action. In the case of determining Members entitled to exercise any rights in respect to other lawful action requiring Member approval, the record date shall not be more than sixty (60) days prior to the date of such other action.

(b) Failure of Board to Fix a Record Date. If the Board, for any reason, fails to establish a record date, the following rules shall apply:

(i) Record Date for Notice of Meetings. The record date for determining those Members entitled to receive notice of a meeting of Members shall be the business day preceding the day on which notice is given, or, if notice is waived, the business day preceding the day on which the meeting is held.

(ii) Record Date for Voting. The record date for determining those Members entitled to vote at a meeting of Members shall be the day of the meeting, or in the case of an adjourned meeting, the day of the adjourned meeting.

(iii) Record Date for Action by Written Ballot Without Meeting. The record date for determining those Members entitled to vote by written ballot on proposed Association actions without a meeting, when no prior action by the Board has been taken, shall be the day on

which the first written ballot is mailed or solicited. When prior action of the Board has been taken, it shall be the day on which the Board adopts the resolution relating to that action.

(iv) Record Date for Other Lawful Action. The record date for determining those Members entitled to exercise any rights in respect to any other lawful action shall be Members at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

(v) "Record Date" Means as of Close of Business. For purposes of this subparagraph (b), a person holding a membership as of the close of business on the record date shall be deemed the Member of record.

ARTICLE VI Membership Rights

Subject to the provisions hereof and the provisions of the Declaration, the Members shall have the following rights:

Section 6.01. Use and Enjoyment of Common Areas by Members and Family. Each Member and the members of his or her family who also reside in the Member's Residence shall be entitled to the use and enjoyment of the private drive, Common Areas and Common Facilities within the Properties.

Section 6.02. Tenants and Lessees.

(a) Assignment of Rights, Generally. Each Member shall have the right to assign his or her rights as a Member (other than voting rights) to a tenant residing within the Member's Residence. Such assignment shall only be effective so long as said tenant is residing in said Residence and is in compliance with the Declaration and the Association Rules as the same may exist from time to time. At all times the Owner shall remain responsible for compliance by Owner's lessee or tenant with the provisions of the Governing Documents.

Section 6.03. Invitees and Guests. The invitees and guests of a Member shall have the right to use and enjoy the drive, Common Areas and Common Facilities within the Properties, subject to the same obligations imposed on the Owner to observe the rules, restrictions and regulations of the Association as set forth in the Governing Documents.

Section 6.04. Association Rules and Regulations. The right of any person to use and enjoy the Common Areas and Common Facilities shall at all times be subject to the rules, limitations and restrictions set forth herein, in the Declaration and in the Association's published rules and regulations as promulgated by the Board from time to time. See also Section 13.07, below. The Association shall not be empowered to cause an absolute forfeiture or abridgment of the right of a Member to the full use and enjoyment of any Common Area and Common Facilities due to the failure by such person to comply with provisions of the Governing Documents except by judgment of a court or a decision arising out of arbitration or after a

foreclosure or sale under a power of sale for failure of such person to pay Assessments duly levied by the Association. Members have the right to challenge certain Association rules or amendments to existing rules in accordance with Civil Code section 1357.140.

ARTICLE VII Board of Directors

Section 7.01. General Association Powers. Subject to the provisions of the California Nonprofit Mutual Benefit Corporation Law, the Davis-Stirling Common Interest Development Act (Cal. Civ. Code §1350, et seq.) and any limitations contained in any of the Governing Documents relating to action required to be approved by the Members, the business and affairs of the Association shall be vested in and exercised by the Association's Board of Directors. Subject to the limitations expressed in Section 10.01, below, the Board may delegate the management of the activities of the Association to any person or persons, management company or committee, provided that notwithstanding any such delegation the activities and affairs of the Association shall continue to be managed and all Association powers shall continue to be exercised under the ultimate direction of the Board.

Section 7.02. Number and Qualification of Directors. The initial Board of Directors shall consist of three (3) persons who, with the exception of those directors nominated by the Declarant, shall be Owners of Lots whose memberships are in good standing with Assessments current and not subject to any suspension. Directors, officers, partners or employees of Declarant may be nominated by Declarant as directors of the Association regardless of whether they are Owners.

Section 7.03. Initial Directors. The initial directors shall be elected by the Declarant upon incorporation of the Association and shall hold office until the first meeting of the membership to be held pursuant to Section 5.02, above.

Section 7.04. Term of Office. The election of the Board of Directors shall be conducted at the first annual meeting of the Members, at which time all members of the Board shall be elected. Directors shall serve for a term of one (1) year. Each director, including a director elected to fill a vacancy or elected at a special meeting of Members, shall hold office for a term of one (1) year and until a successor director has been elected and qualified. There shall be no limitation on the number of consecutive terms to which a director can be re-elected.

Section 7.05. Nomination of Directors. Any Member in good standing can announce his or her candidacy for election to the Board of Directors. At least thirty (30) days prior to the mailing of the notice of the annual membership meeting, the Board of Directors shall send all Members a notice inviting Members to declare their candidacy for election to the Board. Those Members who respond prior to the mailing of the annual meeting notice and who express a desire to run for election to the Board shall have their names listed on the proxy as candidates so long as the announcing Member is in good standing with the Association. In addition, any Member present, in person or by proxy, at a meeting to elect directors may place names in nomination. To be in good standing, a Member must be current in the payment of his or her

Assessment obligations to the Association and not otherwise subject to a suspension of membership voting privileges as a result of disciplinary action taken by the Association in accordance with Article XII of the Declaration.

Section 7.06. Election of Directors.

(a) Directors Elected at Annual Meeting. At each annual meeting of the Members, the Members present in person or by proxy shall elect persons to those positions on the Board of Directors held by directors whose terms are then expiring. The persons thus elected shall be selected from among those persons nominated in accordance with to Section 7.05, above; however, if for any reason an annual meeting is not held or the directors are not elected at any annual meeting, the directors may be elected at any special meeting held for that purpose. In voting for directors, the Members may cumulate their votes in accordance with Section 4.04(d), above, and the candidates receiving the highest number of votes shall be elected as directors. The directors thus elected shall take office on the first (1st) day of the month next following their election. Each director, including a director elected to fill a vacancy or elected at a special Members' meeting, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

(b) Special Rule for Election of Director by Class A Members. Notwithstanding the provisions of Section 7.06(a), above, from the first election of the Board of Directors and thereafter for so long as the majority of the Voting Power of the Association resides in the Declarant, or so long as there are two (2) outstanding classes of membership in the Association, not less than twenty (20%) percent of the incumbents on the Board (i.e., one (1) director) shall have been elected solely by the votes of Owners other than the Declarant. In order to satisfy this requirement, in the nomination process certain candidates having no affiliation with the Declarant shall be identified (or may declare themselves to be) "property owner candidates" and if so designated or declared, the Declarant shall refrain from casting any votes for any property owner candidate for so long as this subparagraph (b) remains in effect.

(c) Determination of Election Results/Succession to Office. The candidates receiving the highest number of votes, up to the number of vacancies to be filled in the election, shall be elected as directors and shall take office immediately following their election. In the event there is a tie vote between those candidates who receive the lowest number of votes necessary to qualify the candidate for election, the tie shall be broken by random drawing.

Section 7.07. Vacancies on Board of Directors.

(a) Vacancies, Generally. A vacancy or vacancies in the Board of Directors shall be deemed to exist on the occurrence of any of the following: (i) the death, resignation or removal of a director pursuant to subparagraphs (c) and (d) hereof; (ii) an increase of the authorized number of directors; or (iii) the failure of the Members, at any meeting of Members at which any director or directors are to be elected, to elect the number of directors to be elected at such meeting.

(b) Resignation of Directors. Except as provided in this subparagraph, any director may resign, which resignation shall be effective on giving written notice to the president, the secretary, or the Board of Directors, unless the notice specifies a later time for the resignation to become effective. If the resignation of a director is effective at a future time, the Board of Directors may elect a successor to take office when the resignation becomes effective.

(c) Authority of Board to Remove Directors. The Board of Directors shall have the power and authority to remove a director and declare his or her office vacant if he or she: (i) has been declared of unsound mind by a final order of court; (ii) has been convicted of a felony; or (iii) fails to attend three (3) consecutive regular meetings of the Board of Directors which have been duly noticed in accordance with California Law.

(d) Authority of Members to Remove Directors. Except as otherwise provided in subparagraphs (c), (e) and (f) of this Section 7.07, a director may only be removed from office prior to expiration of his or her term by the affirmative vote of a majority of the Voting Power of the Association.

(e) Protection of Cumulative Voting Rights. Unless the entire Board of Directors is removed from office, no director may be removed when the votes cast against removal, or not consenting in writing to such removal, would be sufficient to elect such director if voted cumulatively at an election at which the same total number of votes were cast (or, if such action is taken by written ballot, all memberships entitled to vote were voted) and the entire number of directors authorized at the time of the director's most recent election were then being elected.

(f) Special Rule for Removal of Class A Director. Any director elected to office solely by the votes of Class A Members may only be removed from office by the votes of at least fifty-one (51%) percent of such Class A Members.

(g) Filling of Vacancies. Vacancies on the Board of Directors shall be filled by a majority vote of the remaining directors though less than a quorum, or by a sole remaining director unless the vacancy is created through removal of a director by action of the Members in which case the vacancy shall be filled by a vote of the Members. Furthermore, the Members may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors by an election at a duly held meeting of the Members or written ballot.

(h) Reduction in Number of Directors. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

ARTICLE VIII

Meetings of the Board of Directors

Section 8.01. Place of Meetings; Meetings by Conference Telephone.

(a) Permitted Locations for Board Meetings. Except as otherwise provided in subparagraph (b), below, regular and special meetings of the Board of Directors may be held at any place within the Properties or the County that has been designated from time to time by resolution of the Board and stated in the notice of the meeting. In the absence of such designation, regular meetings shall be held at the principal office of the Association. The location of Board meetings shall ordinarily be within the Properties unless in the judgment of the Board a larger meeting room is required than exists within the Properties in which case the meeting room selected shall be as close as possible to the development.

(b) Circumstances When Meetings Can be Conducted by Conference Telephone or Other Electronic Means. Under those circumstances that qualify as grounds for conducting an emergency meeting (see Section 8.05(d), below) or conducting a meeting in executive session (see Section 8.06(c), below), but not otherwise, a regular or special meeting of the Board may be held by conference telephone, electronic video screen communications, or other communications equipment. Participation in a meeting through the use of conference telephone pursuant to this Section constitutes presence in person at the meeting as long as all members participating in the meeting are able to hear one another. Participation in a meeting through the use of electronic video screen communication or other communications equipment (other than a conference telephone) constitutes presence in person at the meeting so long as each director participating in the meeting can communicate with all of the other directors concurrently and each director is given the means of participating in all matters coming before the board. Actions taken by the Board by means of a telephone conference or other permitted electronic means shall be posted in a prominent place within the Common Area in the same manner as actions taken by written consent pursuant to Section 8.10, below.

Section 8.02. Annual Meeting of Directors. Immediately following each annual meeting of Members, the Board of Directors shall hold a regular meeting for the purpose of organization, election of officers, and the transaction of other business. Notice of this meeting shall not be required.

Section 8.03. Other Regular Meetings. Ordinarily, regular meetings shall be conducted at least monthly; provided, however, that regular meetings can be held as infrequently as every calendar quarter if the Board's business does not justify more frequent meetings. If the Board adopts an annual schedule for the conduct of regular meetings (such as a schedule that calls for regular meetings to be held at a specific time and location on the third Thursday of each month) and that schedule is communicated to all directors at the inception of the year, no further notice of a regular meeting shall be required unless the date, time or location for a particular regular meeting is changed for any reason, in which case, notice shall be provided to directors in accordance with Section 8.05, below.

Section 8.04. Special Meetings of the Board. Special meetings of the Board of Directors for any purpose may be called at any time by the president or any two (2) directors.

Section 8.05. Notice of Board Meetings.

(a) Minimum Time Requirements for Giving Notice to Directors. In the case of any special meeting of the Board, and if the Board has not fixed the time and location for regular meetings and provided each director with the schedule for the conduct of regular meetings, notice shall be communicated to each Board member not less than four (4) days prior to the date of the meeting; provided, however, that if the meeting qualifies as an emergency meeting (subsection (d), below) or is a special meeting that can be called in executive session (Section 8.06(c), below) the time for providing notice is forty-eight (48) hours prior to the meeting, unless notice is given by first-class mail in which case the four (4) day notice requirement remains in effect. Notice of a meeting of the Board need not be given to any director who has signed a waiver of notice or a written consent to the conduct of the meeting or an approval of the minutes of the meeting (whether before or after the meeting) or who attends the meeting without protesting, prior thereto or at the commencement of the meeting, the lack of notice to that director. All such notices shall be given or sent to the director's address, telephone number or email address as shown on the records of the Association. Notwithstanding the foregoing, notice of a meeting need not be given to any director who has signed a written waiver of notice or a written consent to holding the meeting or an approval of the minutes thereof as more particularly provided in Section 8.08, below.

(b) Manner of Giving Notice to Directors. Each director shall be entitled to receive notice of meetings by any one of the following means: by first-class mail, by personal delivery, by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, by facsimile, electronic mail, or other electronic means.

(c) Notice Contents. The notice of any meeting of the Board shall state the time, place, and purpose of the meeting.

(d) Members' Right to Receive Notice of Board Meetings. All Members of the Association shall be given notice of the time and place of all Board meetings (as defined in Section 8.06(a), below), except for "emergency meetings", at least four (4) days prior to the date of the meeting. This notice to the Members may be given by posting the notice in a prominent place or places within the Common Area, by mail or delivery of the notice to each Lot within the Properties, or by newsletter or similar means of communication. For purposes of this Section 8.05, an "emergency meeting" of the Board means a meeting called by the president or by any two (2) members of the Board under circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Board and which of necessity make it impracticable to provide prior notice to the Members as required by the Open Meeting Act (see Section 8.06, below).

In addition to the foregoing general notice requirements for Members, if a particular Member or Members are scheduled for possible disciplinary action on the agenda for a Board meeting, the Board must notify the subject Member(s) in writing, by either personal delivery or first-class mail, at least ten (10) days prior to the date of the meeting. Any such special notice of possible disciplinary action must contain, at a minimum, the date, time and location of the meeting, the nature of the alleged violation for which the Member(s) is/are being considered for disciplinary action, and a statement that the Member(s) has/have a right to attend the meeting and address the Board concerning the disciplinary matter.

Section 8.06. Attendance by Members; Common Interest Development Open Meeting Act Provisions. The following provisions reflect the California Common Interest Development Open Meeting Act (Cal. Civ. Code, §1363.05).

(a) Meetings Generally Open to Members; Definition of What Constitutes a "Meeting". With the exception of executive sessions of the Board (see subparagraph (c), below) and any meetings conducted by conference telephone (under the circumstances stated in Section 8.01(b), above), any member of the Association may attend meetings of the Board of Directors; provided, however, that non-director Members may only participate in deliberations or discussions of the Board when expressly authorized by a vote of a majority of the directors present at the meeting at which a quorum has been established or by the Board member chairing the meeting. For purposes of the Open Meeting Act, the term "meeting" includes any congregation of a majority of the members of the Board at the same time and place to hear, discuss, or deliberate upon any item of business scheduled to be heard by the Board, except those matters that may be discussed in executive session.

(b) Right of Members to Speak at Meetings. The Board of Directors shall permit any Member to speak at any meeting of the Members or of the Board of Directors, except for Board meetings that are held in executive session pursuant to subparagraph (c), below. Reasonable time limitations can be imposed by the Board or the chairman of the meeting on presentations or statements by Members and, in the case of Board meetings, the agenda for the meeting can designate a specific time for Member statements and comments.

(c) Executive Sessions. The Board, on the affirmative vote of a majority of the directors present at a meeting at which a quorum has been established, shall be entitled to adjourn at any time for purposes of reconvening in executive session to discuss: (i) litigation in which the Association is or may become a party; (ii) matters relating to the formation of contracts with third parties; (iii) Member discipline; (iv) personnel matters; or (v) to meet with a Member, upon the Member's request, regarding the Member's payment of Assessments, as specified in Section 1367.1 of the Civil Code. The Board must meet in executive session if requested by a Member who may be subject to a fine, penalty, or other form of discipline and the Member who is the subject of the disciplinary proceeding shall be entitled to attend the executive session. Any matter discussed in executive session shall be generally noted in the minutes of the immediately following Board meeting that is open to the entire membership.

(d) Board Meeting Minutes. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board of Directors, other than minutes of an executive session, shall be available to the Members within thirty (30) days of the meeting. The minutes, proposed minutes, or summary minutes shall be distributed to any Member upon request and upon reimbursement of the Association's costs in making that distribution.

Section 8.07. Quorum Requirements. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 8.09, below. Every act or decision done or made by a majority of the directors present at

a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors, subject to the provisions of the California Nonprofit Mutual Benefit Corporation Law, especially those provisions relating to (i) approval of contracts or transactions in which a director has a direct or indirect material financial interest, (ii) appointment of committees, and (iii) indemnification of directors. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors below a quorum, if any action taken is approved by at least a majority of the required quorum for that meeting, or such greater number as is required by these Bylaws, the Articles or by law.

Section 8.08. Waiver of Notice. The transaction of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice, if (a) a quorum is present, and (b) either before or after the meeting, each of the directors not present, individually or collectively, signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. All waivers, consents, and approvals shall be filed with the Association records or made a part of the minutes of the meeting and shall have the same force and effect as a unanimous vote of the Board. The requirement of notice of a meeting shall also be deemed to have been waived by any director who attends the meeting without protesting the lack of proper notice either before or at the inception of the meeting.

Section 8.09. Adjournment. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place. If the meeting is adjourned for more than twenty-four (24) hours, notice of adjournment to any other time or place shall be given prior to the time of the adjourned meeting to the directors who are not present at the time of the adjournment. Except as provided above, notice of adjournment need not be given.

Section 8.10. Action Without a Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board, individually or collectively, consent in writing to that action. Such action by written consent shall have the same force and effect as an unanimous vote of the Board of Directors.

If the Board of Directors resolves by unanimous written consent to take action, an explanation of the action taken shall be posted at a prominent place or places within the Common Area within three days after the written consents of all Board members have been obtained. If the Common Area is unsuitable for posting the explanation of the action taken, the Board shall communicate the explanation by any means it deems appropriate. Any written consent or consents of the Board shall be filed with the minutes of the proceedings of the Board.

Section 8.11. Compensation. Directors, officers and members of committees shall not be entitled to compensation for their services as such, although they may be reimbursed for such actual expenses as may be determined by resolution of the Board of Directors to be just and reasonable. Expenses for which reimbursement is sought shall be supported by a proper receipt or invoice.

ARTICLE IX
Duties and Powers of the Board

Section 9.01. Specific Powers. Without prejudice to the general powers of the Board of Directors set forth in Section 7.01, above, the directors shall have the power to:

(a) Exercise all powers vested in the Board under the Governing Documents and under the laws of the State of California.

(b) Appoint and remove all officers of the Association, the Association's property manager, if any, (subject to any contractual commitments which may exist) and other Association employees; prescribe any powers and duties for such persons that are consistent with law, the Articles of Incorporation and these Bylaws; and fix their compensation.

(c) Appoint such agents and employ such other employees, including attorneys and accountants, as it sees fit to assist in the operation of the Association, and to fix their duties and to establish their compensation.

(d) Adopt and establish rules and regulations subject to the provisions of the Declaration, governing the use of the Common Areas, Common Facilities, and the private drive within the Properties, and the personal conduct of the Members and their guests thereon, and take such steps as it deems necessary for the enforcement of such rules and regulations, including the imposition of monetary penalties; provided notice and a hearing are provided as more particularly set forth in Section 12.06 of the Declaration. Rules and regulations adopted by the Board may contain reasonable variations and distinctions as between Owners and tenants.

(e) Enforce all applicable provisions of the Governing Documents relating to the control, management, and use of the Lots, Common Areas, Common Facilities, and the private drive within the Properties.

(f) Contract for and pay premiums for fire, casualty, liability and other insurance and bonds (including indemnity bonds) which may be required from time to time by the Association.

(g) Contract for and pay for maintenance, landscaping, utilities, materials, supplies, labor and services that may be required from time to time in relation to the Common Areas and Common Facilities.

(h) Pay all taxes, special assessments and other assessments and charges which are or would become a lien on any portion of the Common Areas or Common Facilities.

(i) Contract for and pay for construction or reconstruction of any portion or portions of the Properties which the Association is obligated to maintain, repair and replace, and which have been damaged or destroyed and which are to be rebuilt.

(j) Delegate its duties and powers hereunder to the officers of the Association or to committees established by the Board, subject to the limitations expressed in Section 10.01, below.

(k) Perform all acts required of the Board under the Declaration.

(l) Prepare budgets and maintain a full set of books and records showing the financial condition of the affairs of the Association in a manner consistent with generally accepted accounting principles, and at no greater than annual intervals prepare an annual financial report, a copy of which shall be delivered to each Member as provided in Section 12.05, below.

(m) Appoint a nominating committee for the nomination of persons to be elected to the Board, and prescribe rules under which said nominating committee is to act, all as more particularly described in Section 7.05, above.

(n) Appoint such other committees as it deems necessary from time to time in connection with the affairs of the Association in accordance with Article X, below.

(o) Fill vacancies on the Board of Directors or in any committee, except for a vacancy created by the removal of a Board member.

(p) Open bank accounts and borrow money on behalf of the Association and designate the signatories to such bank accounts.

(q) Bring and defend actions on behalf of the Members in common or the Association to protect the interests of the Members in common or the Association, as such, so long as the action is pertinent to the operations of the Association, and assess the Members for the cost of such litigation.

(r) Enter Lots as necessary, subject to the notice requirements of the Declaration, in connection with construction, maintenance or emergency repairs for the benefit of the Common Areas, Common Facilities, or the Owners in common. (See Section 3.07(b) of the Declaration).

Section 9.02. Limitations on Powers of the Board.

(a) Prohibited Actions. The Association is prohibited from taking any of the following actions:

(i) except as otherwise provided in law, or order of the court, or an order pursuant to a final and binding arbitration decision, the Association shall not deny an Owner or occupant physical access to his or her Residence, either by restricting access through the Common Areas to the Owner's Lots or by restricting access solely to the Owner's Lot;

(ii) the Association may not voluntarily assign or pledge the Association's right to collect payments or assessments or to enforce or foreclose a lien to a third party except when the assignment or pledge is made to a financial institution or lender chartered or licensed

under federal or State of California law when acting within the scope of that charter or license as security for a loan obtained by the Association; however, the foregoing provision may not restrict the right or ability of the Association to assign any unpaid obligations of a former Member to a third party for purposes of collection; or

(iii) adopt a Rule or regulation that arbitrarily or unreasonably restricts an Owner's ability to market the Owner's Residence and Lot.

(b) Board Actions Requiring Member Approval. The Board shall not take any of the following actions except with the consent, by vote a meeting of the Association or by written ballot without a meeting pursuant to Corporations Code Section 7513 or any successive statute thereto, of a Majority of a Quorum of the Members other than Declarant:

(i) Enter into a contract with a third party for the furnishing of goods or services to the Common Area, Common Facilities, or the Association for a term longer than one (1) year. This restriction shall not apply to (i) FHA or VA approved management contracts; (ii) public utility contracts where the rates charged for materials or services are regulated by the California Public Utilities Commission; provided, however that the term of the contract shall not exceed the shortest term for which the supplier will contract at the regulated rate; and (iii) prepaid casualty or liability insurance policies not to exceed three (3) years, provided the policies provide for short rate cancellation by the insured.

(ii) Incur aggregate expenditures for capital improvements to the Common Areas in any fiscal year in excess of five percent (5%) of the budgeted gross expenses of the Association for that year.

(iii) Sell during any fiscal year property of the Association having an aggregate fair market value greater than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.

(iv) Pay compensation to members of the Board of Directors or the officers of the Association; provided, however, that directors and officers can be reimbursed for reasonable out-of-pocket expenses, verified in writing, incurred in carrying on the business of the Association.

(v) Fill any vacancy on the Board of Directors created by the removal of a director by election of the Members.

(vi) Enter into a Lot in a non-emergency situation unless the Owner is furnished with at least twenty-four (24) hours' written notice, except in the case of an emergency as more particularly described in Section 3.07(b) of the Declaration.

(c) Notice of Significant Legal Proceedings. Notwithstanding anything herein to the contrary, the Board shall not institute any significant legal proceeding, including any arbitration or judicial reference proceeding, against any person without providing the Members of the Association with at least thirty (30) days prior written notice of the Association's intention to

institute legal proceedings. The notice shall describe the purpose of the proceeding, the parties to the proceeding, the anticipated cost to the Association (including attorneys' fees) in processing the proceeding, the source of funds to process the proceeding (reserve or special or regular assessments), and suggested information that should be disclosed to third parties, such as prospective purchasers and lenders, while the proceeding is being prosecuted. For purposes herein, "significant legal proceeding" shall mean any legal proceeding in which it reasonably could be anticipated that any of the following event could occur:

- (i) the levy of a Special Assessment to fund all or any portion of the proceedings;
- (ii) the expenditure of funds from the Association's reserves in connection with the proceeding in an amount in excess of five percent (5%) of the then current reserves;
- (iii) the amount of the claim is in excess of Twenty-Five Thousand Dollars (\$25,000); or
- (iv) the action could have a material adverse effect on the ability to sell and/or refinance the lots within the Properties during the period the proceeding is being prosecuted.

If the proposed legal proceeding is against the Declarant or other developer for alleged damage of the Common Area, alleged damage to the separate interests that the Association is obligated to maintain or repair, or alleged damage to the separate interests that arises out of, or is integrally related to, damage to the Common Area or separate interests that the Association is obligated to maintain or repair, the notice also shall specify both of the following (unless not required by reason of Civil Code Section 1375(g)(1)(E) or 1375(g)(2)(D) as amended from time to time: (i) that a meeting will take place to discuss problems that may lead to the filing of a civil action and the time and place of the meeting; and (ii) the options, including civil actions, that are available to address the problems.

Notwithstanding the foregoing, the notice shall not be required to commence and pursue any action to collection delinquent Assessment as described in Section 4.10 of the Declaration or to enforce any Common Area completion bond as described in Section 3.11 of the Declaration. Instead, those collection and enforcement actions shall be governed by the provisions of their respective sections of the Declaration. Furthermore, if the Board in good faith determines that there is insufficient time to provide prior notice to the Members are required herein prior to the expiration of any applicable statute of limitations or prior to the loss of any other significant right of the Association, the Board may take the necessary steps to commence the proceeding to preserve the rights of the Association, provided that as soon as is reasonably practical thereafter, and not later than thirty (30) days following the commencement of the proceeding, the Board shall provide the Members with notice as required herein.

ARTICLE X Committees

Section 10.01. Committees of Directors. In addition to the Architectural Committee appointed and constituted pursuant to the Declaration, the Board may, by resolution adopted by a majority of the directors then in office, designate one (1) or more committees, each consisting of two (2) or more Members (who may also be directors), to serve at the pleasure of the Board. Committees shall have all the authority of the Board with respect to matters within their area of assigned responsibility, except that no committee, regardless of Board resolution, may:

(a) Take any final action on any matter which, under the California Nonprofit Mutual Benefit Corporation Law, also requires approval of the Members.

(b) Fill vacancies on the Board of Directors or on any committee which has been delegated any authority of the Board.

(c) Amend or repeal Bylaws or adopt new Bylaws.

(d) Amend or repeal any resolution of the Board of Directors which by its express terms is not so amendable or repealable.

(e) Appoint any other committees of the Board of Directors or designate the members of those committees.

(f) Approve any transaction (i) to which the Association is a party and one (1) or more directors have a material financial interest; or (ii) between the Association and one (1) or more of its directors or between the Association or any person in which one (1) or more of its directors have a material financial interest.

Section 10.02. Meetings and Actions of Committees. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article VIII, above, concerning meetings of directors, with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members, except that the time for regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee. Special meetings of committees may also be called by resolution of the Board of Directors. Notice of special meetings of committees shall also be given to any and all alternate members, who shall have the right to attend all meetings of the committee. Unless otherwise provided in the Board resolution establishing the committee, minutes shall be kept of each meeting of any committee and shall be filed with the Association records. The Board of Directors may adopt additional rules, not inconsistent with the provisions of these Bylaws, for the governance of any committee.

ARTICLE XI Officers

Section 11.01. Officers. The officers of the Association shall be a president, a vice president, a secretary and a chief financial officer. The Association may also have, at the discretion of the Board, one (1) or more assistant secretaries, one (1) or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 11.03, below. Any person may hold two (2) or more offices, except that neither the secretary nor the chief financial officer may serve concurrently as president.

Section 11.02. Election of Officers. The officers of the Association, except such officers as may be appointed in accordance with the provisions of Sections 11.03 and 11.06, below, shall be chosen annually by majority vote of the Board at its first regular meeting following the annual meeting of the Members or the election of directors, and each shall hold his or her office until he or she shall resign or shall be removed or otherwise disqualified to serve, or his or her successor shall be elected and qualified.

Section 11.03. Subordinate Officers. The Board may appoint, and may empower the president to appoint, such other officers as the affairs of the Association may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws and as the Board may from time to time determine.

Section 11.04. Removal of Officers. Any officer may be removed, either with or without cause, by the Board at any regular or special meeting.

Section 11.05. Resignation of Officers. Any officer may resign at any time by giving written notice to the Board or to the president or to the secretary. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Association under any contract to which the officer is a party.

Section 11.06. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in the Bylaws for regular appointments to such office.

Section 11.07. President. The president shall be elected by the Board from among the directors. He or she shall be the chief executive officer of the Association and shall, subject to the control of the Board, have general supervision, direction and control of the affairs and officers of the Association. He or she shall preside at all meetings of the Board, and shall have the general power and duties of management usually vested in the office of president of a corporation, together with such other powers and duties as may be prescribed by the Board or the Bylaws.

Section 11.08. Vice President. The vice president shall be elected by the Board from among the directors. In the absence or disability of the president, the vice president shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. He or she shall have such other powers and perform such other duties as from time to time may be prescribed by the Board or the Bylaws.

Section 11.09. Secretary. The secretary shall be elected by the Board from among the directors. The secretary shall keep or cause to be kept at the principal office or such other place as the Board may order, a book of minutes of all meetings of directors and Members, with the time and place of holding same, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of Members present in person or by proxy at Members' meetings, and the proceedings thereof. The secretary shall keep, or cause to be kept, appropriate current records showing the Members of the Association, together with their addresses. He or she shall give, or cause to be given, notice of all meetings of the Board required by the Bylaws or by law to be given, and he or she shall keep the seal of the Association in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board or by the Bylaws.

Section 11.10. Chief Financial Officer. The chief financial officer shall be elected by the Board from among the directors. The chief financial officer, who shall be known as the treasurer, shall: (a) keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Association, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and other matters customarily included in financial statements; (b) deposit all monies and other valuables in the name and to the credit of the Association with such depositaries as may be designated by the Board; (c) disburse the funds of the Association as may be ordered by the Board; (d) render to the president and directors whenever they request it, an account of all of his or her transactions as treasurer and of the financial condition of the Association; and (e) shall have such other powers and perform such other duties as may be prescribed by the Board or the Bylaws. The books and records shall at all reasonable times be open to inspection by any director or Member. If required by the Board, the treasurer shall give the Association a bond in the amount and with the surety or sureties specified by the Board for faithful performance of the duties of his or her office and for restoration to the Association of all its books, papers, vouchers, money, and other property of every kind in his or her possession or under his or her control on his or her death, resignation, retirement, or removal from office.

ARTICLE XII

Member Assessment Obligations and Association Finances

Section 12.01. Description of Assessments to Which Owners Are Subject. Owners of Lots within the Properties are subject to Regular, Special and Special Individual Assessments as more particularly described in Article IV of the Declaration.

Section 12.02. Checks. All checks or demands for money and notes of the Association shall be signed by the president and treasurer, or by such other officer or officers or such other

person or persons as the Board of Directors may from time to time designate. Notwithstanding the foregoing, any withdrawal of funds from Association reserve accounts shall require the signature of two (2) directors or an officer (who is not also a director) and a director.

Section 12.03. Operating Account. There shall be established and maintained a cash deposit account to be known as the "Operating Account" into which shall be deposited the operating portion of all Regular and Special Assessments as fixed and determined for all Members. Disbursements from such account shall be for the general need of the operation including, but not limited to, wages, repairs, betterments, maintenance, and other operating expenses of the Properties.

Section 12.04. Other Accounts. The Board shall maintain any other accounts it shall deem necessary to carry out its purposes, including reserve accounts for replacement of capital improvements as more particularly set forth in Article IV of the Declaration. All Association books of account shall be maintained in accordance with generally accepted accounting principles.

Section 12.05. Budgets and Financial Statements. The following financial statements and related information for the Association shall be regularly prepared and copies thereof shall be distributed to each Member of the Association:

(a) Budget. A pro forma operating budget meeting the requirements of this subparagraph (a) shall be distributed to Members not less than forty-five (45) days nor more than sixty (60) days prior to the beginning of the fiscal year. The budget shall include at least the following information:

(i) The Association's estimated revenue and expenses on an accrual basis;

(ii) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to Section 12.06, below, and Civil Code section 1365.5, which shall be printed in bold type and include all of the following:

(A) The current estimated replacement cost, estimated remaining life and estimated useful life of each major component of the Properties which the Association is obligated to repair, replace, restore or maintain (collectively "Association Capital Projects");

(B) As of the end of the fiscal year for which the reserve study is prepared, the current estimate of the amount of cash reserves necessary for Association Capital Projects and the current amount of accumulated cash reserves actually set aside for Association Capital Projects; and

(C) The percentage that the amount of accumulated cash reserves is of the estimated amount of necessary cash reserves calculated under subparagraph (B), above.

(iii) A statement as to whether the Board of Directors has determined or anticipates that the levy of one (1) or more Special Assessments will be required to repair, replace or restore any major component or to provide adequate reserves therefor; and

(iv) A general statement setting forth the procedures used by the Board of Directors in calculating and establishing reserves to defray the future costs of repair, replacement or additions to major components of the Properties which the Association is obligated to maintain.

In lieu of distributing the complete pro forma operating budget as specified above, the Board of Directors may elect to distribute a summary of the budget to the Members (within the time limits provided above), together with a notice that the complete budget is available at the Association's principal office and that copies will be furnished, upon request, to any Member at the Association's expense. This notice shall be presented on the front page of the summary in at least 10-point bold type. If a Member requests a copy of the complete budget, the Association shall mail the material, via first class mail, within five (5) days.

(b) Year-End Report. Within one hundred twenty (120) days after the close of the fiscal year, a copy of the Association's year-end report consisting of at least the following shall be distributed to Members:

(i) A balance sheet as of the end of the fiscal year;

(ii) An operating (income) statement for the fiscal year;

(iii) A statement of cash flows for the fiscal year;

(iv) A statement advising Members of the place where the names and addresses of the current Members are located; and

(v) Any information required to be reported under Corporations Code section 8322 requiring the disclosure of certain transactions in excess of Fifty Thousand Dollars (\$50,000) per year between the Association and any director or officer of the Association and indemnifications and advances to officers or directors in excess of Ten Thousand Dollars (\$10,000) per year.

The annual report shall be prepared in accordance with generally accepted accounting principles by a licensee of the State Board of Accountancy for any fiscal year in which the gross income of the Association exceeds Seventy Five Thousand Dollars (\$75,000). If the annual report is not prepared by such a licensee, it shall be accompanied by the certificate of an authorized officer of the Association that the statement was prepared without an audit from the books and records of the Association.

(c) Review of Accounts. On no less than a quarterly basis, the Board of Directors shall:

- (i) Review a current reconciliation of the Association's operating accounts;
- (ii) Review a current reconciliation of the Association's reserve accounts;
- (iii) Review the current year's actual reserve revenues and expenses compared to the current year's budget;
- (iv) Review the Association's latest account statements prepared by the financial institution(s) with whom the operating and reserve accounts are lodged; and
- (v) Review the Association's income and expense statement for the operating and reserve accounts.

Section 12.06. Required Reserve Studies. At least once every three (3) years the Board of Directors shall cause a study of the reserve account requirements of the development to be conducted if the current replacement value of the major components which the Association is obligated to repair, replace, restore or maintain is equal to or greater than one-half of the gross budget of the Association for any fiscal year. The Board shall also review any reserve study required hereunder on an annual basis and shall consider and implement necessary adjustments to the Board's analysis of the reserve account requirements as a result of that review. The reserve study required hereunder shall include the minimum requirements specified in Civil Code section 1365.5 or comparable successor statute.

ARTICLE XIII

Other Required Reports and Disclosures to Members

Section 13.01. Notification to Members Regarding Insurance Coverage Maintained by the Master Association.

(a) **Scope of Required Summary Disclosures.** In accordance with California Civil Code section 1365(e), within sixty (60) days preceding the beginning of the Association's fiscal year, the Association shall distribute to its Members a summary of the Association's property, general liability and earthquake and flood insurance (if any) containing the information described in subparagraph (b), below.

(b) **Content of Annual Insurance Summary.** The insurance summary required by subparagraph (a), above, shall include (i) the name of the insurer; (ii) the type of insurance; (iii) the policy limits of the insurance; and (iv) the amount of the deductibles, if any. In addition, the summary shall include the following statement in at least 10-point boldface type: "This summary of the Association's policies of insurance provides only certain information, as required by section 1365(e) of the California Civil Code, and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association Member may, upon request and provision of reasonable notice to the Association, review the Association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the

policies of insurance specified in this summary, the Association's policies of insurance may not cover your property, including personal property or, real property improvements to or around your Lot, or personal injuries or other losses that occur within or around your Lot. Even if a loss is covered by the Association's insurance, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association Members should consult with their individual insurance broker or agent for appropriate additional coverage." To the extent that any of the information that is required to be included in an annual insurance summary is specified in the insurance policy declaration page, the Association may meet its obligation to disclose that information by providing its Members with a copy of the declaration page.

(c) Notification of Cancellation or Material Change in Policies. In addition to distributing the insurance summaries described in subparagraph (a) of this Section, if any of the policies described in the summary lapse or are canceled and are not immediately renewed, restored or replaced, or if there is a significant change in the policies, such as a reduction in coverage or limits or an increase in the deductible, then the Association shall, as soon as reasonably practical, notify its Members of the lapse, cancellation or significant change. This notice shall be sent by first-class mail. If the Association receives any notice of nonrenewal of a policy described in subparagraph (a) the Association shall immediately notify its Members if replacement coverage will not be in effect by the date the existing coverage will lapse.

Section 13.02. Alternative Dispute Resolution (ADR) Disclosure. On an annual basis, the Board of Directors shall provide each Member a summary of the provisions of California Civil Code section 1354, which specifically references section 1354 and which includes the language required by section 1354(i). The summary shall be provided either at the time the budget required by Section 12.05, above, is distributed or in the manner specified in California Corporations Code section 5016.

Section 13.03. Statement of Outstanding Charges. Within ten (10) days following receipt of a written request by an Owner, the Association shall provide the Owner with a written statement setting forth the following information as of the date of the statement: (a) the amount of the Association's current Regular Assessment and Special Assessments (if any), and fees; (b) the amount and nature of any assessments levied upon the Owner's Lot which are unpaid on the date of the statement; (c) true and correct information regarding late charges, interest, and costs of collection which, as of the date of the statement are or may be made a lien on the Owner's Lot which may be made a lien upon that Lot in accordance with Civil Code section 1367; and (d) any change in the Association's current Regular and/or Special Assessments and fees which have been approved by the Association's Board of Directors, but have not become due and payable as of the date of the statement. The Association may impose a fee for providing the information stated in this Section 13.03, not to exceed the reasonable costs incurred to prepare and reproduce the requested items.

Section 13.04. Disclosure of Schedule of Fines or Other Monetary Penalties. If the Association adopts a schedule of fines for commonly recurring infractions of the Governing Documents, or any other policy imposing a monetary penalty or a fee on any Member for violation of any Governing Document or the Association Rules, including any monetary penalty relating to the activities of a guest or invitee of a Member, the Board shall distribute the schedule

or policy to the Members by either personal delivery or by first-class mail. This distribution obligation shall arise whenever such a schedule or policy is adopted or subsequently amended.

Section 13.05. Annual Notice Regarding Assessments and Foreclosure. As required by Civil Code section 1365.1, the Association shall distribute to all Members during the sixty (60) day period immediately preceding the beginning of the Association's fiscal year, the notice regarding community association assessment authority, foreclosure and other collection remedies that is set forth in subparagraph (b) of that Civil Code section. This notice shall be printed in at least 12-point type.

Section 13.06. Annual Notification of Members' Right to Receive Board Meeting Minutes. Members shall be notified in writing at the time that the pro forma budget required by Section 12.05, above, is distributed or at the time of any general mailing to the entire membership of the Members' right to have copies of the minutes of any Board meeting and how and where those minutes may be obtained.

Section 13.07. Notification to the Members of Rule Changes.

(a) Rule Changes Requiring Notification to Members. For purposes of this Section 13.07, a "rule change" is defined as any proposed action by the Board of Directors to adopt, amend, ore repeal an operating rule (i.e., any rule of general application) that pertains to any of the following subjects: (i) use of the Common Areas of the Properties; (ii) use of a Lot (including, without limitation, the adoption or amendment of any Architectural Rules); (iii) rule changes relating to Member discipline, including any action to adopt or amend a fine schedule or procedures for the imposition of penalties; (iv) any standards for delinquent Assessment payment plans; or (v) any procedures adopted by the Association for resolution of Assessment disputes.

Specifically excluded from the definition of a rule change are the following: (i) a decision regarding maintenance of the Common Area; (ii) decisions on specific matters that are not intended to apply generally; (iii) decisions setting the amount of a Regular or Special Assessment; (iv) rule changes that are required by law if the Board has no discretion with respect to the substantive effect of the rule change; and (v) issuance of a document that merely repeats existing law or the governing documents.

(b) Required Notice to Members. The Board of Directors must provide written notice of a proposed rule change, as defined in subparagraph (a), above, to the Members at least thirty (30) days prior to making the rule change. The notice must include the text of the proposed rule change and a description of the purpose and effect of the proposed rule change. Notice is not required under this subparagraph (b) if the Board determines that an immediate rule change is necessary to address an imminent threat to public health, or safety or imminent risk of substantial economic loss to the Association. The decision on any rule change that is subject to these notice requirements shall be made by the Board at a duly noticed meeting that is open to the Members, after consideration of any comments made by the Members. As soon as possible after making a rule change (but in no event later than fifteen (15) days thereafter), the Board shall deliver notice of the rule change to every Member. If the rule change was an emergency rule change, the notice shall include the text of the rule change, a description of the purpose and effect of the rule change and the date that the rule change expires (emergency rules cannot remain in effect for more than one hundred twenty (120) days). The notices required by this Section 13.07 may be given to the Members by any means permitted by Civil Code section 1350.9. The Member notification requirements for the preceding five categories of operating rules are intended to afford Members the right to demand that the Board conduct a special meeting or a written ballot vote to rescind the proposed rule change in accordance with Civil Code section 1357.140 (which section sets forth procedures for a Member-initiated plebiscite to challenge the proposed rule change).

Section 13.08. Avoidance of Duplication in Reporting Requirements. To the extent one document distributed to the Members pursuant to Article XII or this Article XIII provides the information required in more than one (1) of the foregoing sections of this Article, any such requirements listed above may be satisfied by sending the Members the same document so long as any statutory or regulatory requirements regarding the manner in which the notice or document must be made or delivered to the Members are satisfied (i.e., regular mail, certified mail, personal delivery, etc.).

ARTICLE XIV Miscellaneous

Section 14.01. Inspection of Books and Records.

(a) Member Inspection Rights.

(i) Scope of Inspection Rights of Members. All accounting books and records, minutes of proceedings of the Members, the Board and committees of the Board and the membership list of the Association shall at all times, during reasonable business hours, be subject to the inspection of any Member. The Member who desires to inspect those documents must submit a written request for inspection to the Association and that request must state a reason for the requested inspection that reasonably related to the Member's interests in the Association. The accounting books and records and the minutes of proceedings of an Association, and any information contained in those records may not be used or sold for a commercial purposes or used for any other purpose that is not reasonably related to a Member's interests as a Member.

Prohibited uses of the Association's membership list are set forth in Corporations Code section 8338 and the Association shall have the right, pursuant to Corporations Code section 8330 to offer a Member who is seeking access to the membership list an alternative method of achieving the Member's stated purpose without providing access to or a copy of the list, itself, so long as the Association presents its alternative method within ten (10) days following receipt of the Member's request.

(ii) Association's Right to Withhold Information. The Association has the right to withhold or redact information from the accounting books and records and the minutes of proceedings for any of the following reasons: (A) the release of the information is reasonably likely to lead to identify theft (i.e., the unauthorized use of another person's personal indemnifying information to obtain credit, goods, services, money or property); (B) the release of the information is reasonably likely to lead to fraud in connection with the Association; or (C) the information is privileged by law. However, except as provided by the attorney-client privilege, the Association may not withhold or redact information concerning the compensation paid to employees, vendors or contractors. Compensation information for individual employees shall be presented only by job classification or title, and not by use of the employee's name, social security number or other personal information.

(iii) Designation of Agent for Purposes of Inspection. A Member may inspect and copy those records that are open to Member inspection either in person or his or her duly appointed representative. If a Member designates another person to inspect and/or copy Association records that are open to Member inspect, that designation must be in writing.

(iv) Where Inspection Rights May be Exercised. The Association shall make the accounting books and records and the minutes of proceedings available for inspection and copying in the Association's business office within the Properties or if there is no such office at a mutually agreeable location as established by the Association and the Member who requests the inspection; provided, however, that the Association has the right to satisfy the requirement to make the accounting books and records and the minutes of proceeding available for inspection and copying by mailing copies of the requested records to the Member by first-class mail within ten (10) days of receiving the Member's request.

(v) Cost of Copies. The Association may bill the requesting Member for its actual, reasonable costs for copying and mailing requested documents so long as the Association informs the Member of the amount of the copying and mailing costs before sending the requested documents. Except as otherwise provided in subparagraph (iv), above and in section 1368 of the Civil Code (which obligates associations to provide certain information to requesting members), nothing in this subparagraph (v) shall be construed to obligate the Association to make copies of requested documents or to organize or compile specific information or categories of information sought by a requesting Member under circumstances where the Association has made the information available for inspection and copying by the Member or his or her agent.

(b) Director Inspection Rights. Every director shall have an absolute right at any reasonable time to inspect all books, records, documents and minutes of the Association and the physical properties owned by the Association. The right of inspection by a director includes the

right to make extracts and copies of documents. All Directors should consider their fiduciary obligations to act in good faith and in a manner the director believes to be in the best interests of the Association in determining what use and/or dissemination is to be made of information obtained in the director's exercise of his or her inspection rights.

(c) Adoption of Reasonable Inspection Rules. The Board of Directors may establish reasonable rules with respect to (i) notice of inspection, (ii) hours and days of the week when inspection may be made, and (iii) payment of the cost of reproducing copies of documents requested by the Member.

Section 14.02. Property Manager. The Board may, from time to time, employ the services of a manager or property management company to manage the affairs of the Association and, to the extent not inconsistent with the laws of the State of California, and upon such conditions as are otherwise deemed advisable by the Board, the Board may delegate to the manager or management company any of its day-to-day management and maintenance duties and powers under these Bylaws and the Declaration, provided that the manager or management company shall at all times remain subject to the general control of the Board.

Section 14.03. Corporate Seal. The Association shall have a seal in circular form having within its circumference the words "The Highlands Owners Association, Incorporated November 15, 2005, State of California."

Section 14.04. Roberts Rules of Order. In the event of a question or dispute concerning the procedural aspects of any meetings which cannot be resolved by reference to these Bylaws or applicable law, the matter shall be resolved by reference to Robert's Rules of Order.

Section 14.05. Amendment or Repeal of Bylaws.

(a) Amendment Before Close of First Sale. Before the close of the first sale in the Properties to a purchaser other than Declarant, these Bylaws and any amendments to them may be amended in any respect or revoked by the execution by Declarant and any Mortgagee of record of an instrument amending or revoking the Bylaws together with any consents or approvals that may be required by the California Department of Real Estate. The amending or revoking instrument shall make appropriate reference to these Bylaws and their amendments.

(b) Amendment After Close of First Sale. After the close of the first sale of a Lot in the Properties to a purchaser other than Declarant, these Bylaws may be amended or revoked in any respect by the vote or assent by written ballot of the holders of not less than fifty-one (51%) percent of the voting rights of each class of Members. If a two-class voting structure is no longer in effect in the Association because of the conversion of Class B membership to Class A membership, as provided in the Declaration, any amendment hereof will require the vote or assent by written ballot of both (i) fifty-one (51%) percent of the total Voting Power of the Association; and (ii) the vote of fifty-one (51%) percent of the total votes other than Declarant. Notwithstanding the foregoing, the percentage of the Voting Power necessary to amend a specific clause or provision of these Bylaws shall not be less than the percentage of affirmative votes prescribed for action to be taken under that clause.

Section 14.06. Notice Requirements. Any notice or other document permitted or required to be delivered as provided herein may be delivered either personally or by mail. If delivery is made by mail, it shall be deemed to have been delivered seventy-two (72) hours after a copy of same has been deposited in the United States mail, postage prepaid, addressed as follows: if to the Association or the Board of Directors at the principal office of the Association as designated from time to time by written notice to the Members; if to a director, at the address from time to time given by such director to the secretary for the purpose of service of such notice; if to a Member, at the address from time to time given by such Member to the secretary for the purpose of service of such notice, or, if no such address has been so given, to the address of any Lot within the Properties owned by such Member.

Section 14.07. Indemnification of Agents.

(a) Indemnification by Association of Directors, Officers, Employees and Other Agents. To the fullest extent permitted by law, the Association shall indemnify its directors, officers, employees, and other agents described in Corporations Code section 7237, including persons formerly occupying any such positions, against all expenses, judgments, fines, settlements and other amounts actually and reasonably incurred by them in connection with any "proceeding" as that term is used in that section and including an action by or in the right of the Association, by reason of the fact that such person is or was a person described by that section. "Expenses," as used in this section, shall have the same meaning as in Corporations Code section 7237(a).

(b) Approval of Indemnity by Association. On written request to the Board by any person seeking indemnification hereunder, the Board shall promptly determine in accordance with Corporations Code section 7237(e) whether the applicable standard of conduct set forth in section 7237(b) or section 7237(c) has been met and, if it has, the Board shall authorize indemnification. If the Board cannot authorize indemnification because the number of directors who are parties to the proceeding with respect to which indemnification is sought prevents the formation of a quorum of directors who are not parties to the proceeding, the Board shall promptly call a meeting of the Members. At that meeting, the Members shall determine under Corporations Code section 7237(e) whether the applicable standard of conduct set forth in section 7237(b) or section 7237(c) has been met and, if it has, the Members present at the meeting in person or by proxy shall authorize indemnification.

(c) Advancement of Expenses. To the fullest extent permitted by law and except as is otherwise determined by the Board in a specific instance, expenses incurred by a person seeking indemnification under paragraphs (a) and (b) of this Section in defending any proceeding covered by those sections shall be advanced by the Association before final disposition of the proceeding, on receipt by the Association of an undertaking by or on behalf of that person that the advance will be repaid unless it is ultimately determined that the person is entitled to be indemnified by the Association for those expenses.

(d) Insurance. The Association shall have the power to purchase and maintain insurance on behalf of its directors, officers, employees and other agents against other liability

asserted against or incurred by any director, officer, employee or agent in such capacity or arising out of the director's, officer's, employee's or agent's status as such.

Section 14.08. Construction and Definitions. Unless the context requires otherwise or a term is specifically defined herein, the general provisions, rules of construction, and definitions in the California Nonprofit Mutual Benefit Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of the above, the masculine gender includes the feminine and neuter, and singular number includes the plural and the plural number includes the singular. All captions and titles used in these Bylaws are intended solely for the reader's convenience of reference and shall not affect the interpretation or application of any of the terms or provisions contained herein.

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CERTIFICATE OF INCORPORATOR

The undersigned Incorporator of The Highlands Owners Association hereby certifies that the above and foregoing Bylaws, consisting of 38 pages, were duly adopted by action of the Incorporator on _____, 2004, and that they now constitute the Bylaws of the Association.

THE HIGHLANDS OWNERS ASSOCIATION,
a California nonprofit mutual benefit corporation

By: Curtis C. Sproul, Incorporator

**BYLAWS
OF
THE HIGHLANDS OWNERS ASSOCIATION**

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BYLAWS
OF
THE HIGHLANDS OWNERS ASSOCIATION

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