

2018

BYLAWS

OF

SOUTHWOOD GARDEN TOWNHOMES ASSOCIATION

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OF
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**BYLAWS
OF
SOUTHWOOD GARDEN TOWNHOMES ASSOCIATION**

ARTICLE 1 NAME AND PURPOSE

1.1 Name and Location. The name of the corporation is Southwood Garden Townhomes Association (the "Association"). The principal office of the Association shall be located in Sacramento County, California or at such other place reasonably convenient to the Development as the Board of Directors may from time to time establish.

1.2 Corporate Status. The Association has been formed pursuant to the California Nonprofit Mutual Benefit Corporation Law (California Corporation Code, Section 7110 et seq.) as a nonprofit mutual benefit corporation, and is an "Association" as defined by California Civil Code Section 1351(a).

1.3 Specific Purpose. The specific and primary purpose of this Association shall be to maintain and enhance the property values of all of the property within the Southwood Garden Townhomes planned development located in the City of Sacramento, Sacramento County, California. The Association shall own, repair, maintain and manage the Common Area within the Southwood Garden Townhomes development, enforce the terms and conditions of the Declaration, the Rules adopted by the Board of Directors, from time to time, and to otherwise enhance and promote the use and enjoyment of the Common Areas by the Owners in common.

ARTICLE 2 DEFINITIONS

2.1 Association Records. "Association Records" shall mean any financial document required to be provided to a Member pursuant to California Civil Code Section 1365 or 1368, as well as interim unaudited financial statements such as balance sheet, income and expense statement, budget comparison, general ledger and check registers. Association Records also include Association executed contracts not otherwise privileged under law, written Board approval of vendor or contractor proposals or invoices, state and federal tax returns, reserve account balances and records of payments made from reserve accounts, agendas and minutes of meetings of the Members, the Board of Directors and any committees appointed by the Board of Directors; excluding, however, agendas, minutes, and other information from executive sessions of the board of directors as described in California Civil Code Section 1363.05. Association Records include Membership lists, including name, property address, and mailing address.

2.2 Declaration. "Declaration" means the Declaration of Covenants, Conditions and Restrictions for Southwood Garden Townhomes, Recorded on _____, 2006, in Book _____, at Page _____, in the Official Records of Sacramento County, California, as such Declaration may from time to time be amended.

2.3 Enhanced Association Records. "Enhanced Association Records" means invoices, receipts and canceled checks for payments made by the Association, purchase orders approved by the Association, credit card statements for credit cards issued in the name of the Association, statements for services rendered, and reimbursement requests submitted to the Association, provided that the person submitting the reimbursement request shall be solely responsible for removing all personal identification information from the request.

2.4 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 3 MEMBERSHIP AND VOTING

3.1 Members and Term of Membership. Membership in the Association shall include, and shall be limited to, all Owners of any Lot located within the Development. Membership shall be appurtenant to and may not be separated from ownership of a Lot. Upon becoming the Owner of a Lot, each Owner shall automatically be a Member of the Association and shall remain a Member until such time as his or her Lot ownership ceases for any reason. Membership in the Association shall not be transferred, encumbered, pledged, alienated, or hypothecated in any way, except upon the transfer or encumbrance of the Lot to which it is appurtenant and then only to the transferee or mortgagee, as the case may be, of such Lot. Any attempt to make a prohibited transfer is void. Upon any transfer of title to a Lot including a transfer upon the death of an Owner, Membership in the Association shall pass automatically to the transferee.

3.2 Classes of Membership. The Association shall have the following classes of membership:

(a) Class A Members. Each Owner, with the exception of Declarant, shall be a Class A Member of the Association. If a Lot is owned by more than one person, there shall be only one vote with respect to such Lot. Declarant shall become a Class A Member upon the occurrence of the events specified in Section 3.3(c), below.

(b) Class B Members. The Class B Member shall be Declarant until the occurrence of the events specified in Section 3.3(c), below.

3.3 Voting Rights of Classes of Members.

(a) Members Entitled to Vote. Only Members of the Association shall be entitled to vote. The voting privileges of each class of Members shall be as provided herein. The tenants or lessees of any Lot within the Development shall have no voting or membership rights in the Association.

(b) Class A Members. Class A Members shall have one vote for each Lot that the Member owns. A Class A Member who has sold his or her property 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. The Class B Member shall be entitled to three votes for each Lot owned by Declarant. The Class B membership shall cease and be converted to Class A membership on the first to occur of the following events:

(i) The second (2nd) anniversary of the first conveyance of a Lot in the most recent Phase of the Development by Declarant.

(ii) The fourth (4th) anniversary of the first conveyance of a Lot in Phase 1 by Declarant.

(d) Consent of Membership Classes. As long as there are Class A and Class B memberships 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 3.8 of the Declaration, whenever any provision of these Bylaws or any other Governing Document of the Association requires the approval of a prescribed majority of the voting power of the Members "other

than Declarant", the intent of the quoted phrase is that the action be approved by 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 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.

3.4 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 percent (10%) 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 4.11, 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 4.7, below.

(d) Cumulative Voting. Each Member entitled to vote at any election of directors where two or more positions are to be filled shall have the right to cumulate his or her votes by giving one 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 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.

(d) Multiple Owner Vote Allocation. Members in Good Standing shall be entitled to cast one (1) vote for each Lot owned. In the event more than one (1) person owns a given Lot, the vote for such Lot shall be exercised as the Owners among themselves shall determine, but in no event shall more than one (1) vote be cast with respect to any Lot. If the joint Owners of a Lot are unable to agree among themselves as to how their vote or votes are to be cast, such vote shall be cast in accordance with the decision of a majority of such Owners. If there is no such majority, the vote for the Lot shall not be cast either in favor of or opposed to the issue or issues which are the subject of the vote, but the membership shall be counted for purposes of determining whether the quorum requirements applicable to the vote or meeting have been met. If any Owner casts a vote representing a certain Lot and no written objection thereto is received by the Secretary prior to the close of voting, it will thereafter be conclusively presumed for all purposes that such Owner was acting with the authority and consent of the other Owners of that Lot.

3.5 Assignment of Membership Rights. A Member who has sold his or her Lot to a Contract Purchaser shall be entitled to assign to such Contract Purchaser his or her rights and privileges of membership in the Association and shall be deemed to have assigned to a Contract Purchaser who has assumed occupancy of the Member's Residence all rights of use and enjoyment of the Common Area. No assignment of any membership rights or privileges to a non-resident Contract Purchaser shall be binding, however, until the Board of Directors has been notified thereof in writing. Notwithstanding any assignment, until fee title to the Lot has been transferred of record, a Contract Seller shall remain liable for all assessments, fines, and other charges imposed by the Board and for compliance with the Governing

Documents by all Residents of his or her Lot. Any Member who has leased or rented his or her Residence to another person or persons shall in all events be deemed to have assigned to his or her tenants all rights of use and enjoyment of the Common Area. It is the express purpose and intent of the provisions of this section to limit the right of use and enjoyment of the Common Area to Residents of the Development and their guests.

3.6 Record Dates. The record dates for notice of meetings of Members and voting shall be determined as follows:

(a) Record Dates for Notice of Meetings. The Board of Directors may fix a time not more than 90 days and not less than 10 days preceding the date of any meeting of the Members as the record date for determining the Members entitled to notice of any such meeting. In the event no such record date is fixed by the Board of Directors, the record date for the determination of Members entitled to notice of any meeting shall be the close of business on the business day preceding the day on which notice is given or, if notice is waived, the close of business on the business day preceding the day on which the meeting is held. Only those persons or entities identified as Members in the records of the Association on the record date shall be entitled to notice of such meeting.

(b) Record Dates for Voting. The Board of Directors may fix a time not more than 60 days preceding the date of any meeting of the Members as the record date for determining the Members entitled to vote at any such meeting. In the event no such record date is fixed by the Board of Directors, the record date for the determination of Members entitled to vote at any meeting shall be the day of the meeting or, in the case of an adjourned meeting, the day of the adjourned meeting. Only Members in Good Standing as of the record date shall be entitled to vote at such meeting.

(c) Record Dates for Actions Without a Meeting. The Board of Directors may fix a time not more than 60 days before the day on which the first written ballot is mailed or solicited as the record date for determining the Members entitled to cast written ballots with respect to any action proposed to be taken without a meeting pursuant to Section 4.11. In the event no such record date is fixed by the Board of Directors, the record date for the determination of Members entitled to cast written ballots with respect to any proposed action shall be the day on which the first written ballot is mailed or solicited. Only Members in Good Standing as of the record date shall be entitled to receive written ballots and vote on the proposed action.

(d) Entitlement to Notice and Vote. Only Members are entitled to receive notice of meetings and only Members in Good Standing are entitled to vote.

ARTICLE 4 MEETINGS OF MEMBERS

4.1 Annual Meeting. The first annual meeting of the Members shall be held not more than forty-five (45) days after the closing of the sale of the Lot which represents the 51st percentile subdivided interest authorized for sale under the first public report for the project, but in no event shall the first meeting be held later than six (6) months after the close of escrow for the sale of the first Lot. Thereafter, the annual meeting of the Members shall be held annually at a date and time established by the Board.

4.2 Special Meetings. Special meetings of the Members may be called at any time by the President or by the Board of Directors or pursuant to the written request of Members entitled to cast at least five percent (5%) of the Total Voting Power of the Membership.

4.3 Notice of Meetings.

(a) Notice Period. Written notice of each meeting of the Members shall be given by or at the direction of the Secretary or other person authorized to give notice of a meeting. Written notice shall be mailed first class, postage prepaid, or otherwise delivered at least 10 but not more than 90 days before such meeting, to each Member entitled to vote at such meeting, except that in the case of a special meeting called pursuant to a written request of Members, notice of such special meeting shall be mailed or otherwise delivered within 20 days after receipt of such written request by the Board, and the date of such special meeting shall be set by the Board and shall be not sooner than 35 days nor later than 90 days after the date of the Board's receipt of such written request.

(b) Content of Notice. Notice of meetings shall be addressed or otherwise delivered to the Member's address last appearing on the books of the Association or supplied by such Member to the Association for the purpose of notice. Notice of any meeting of Members shall specify the date, hour, and place of the meeting, and the general nature of those matters which the Board intends to present for action by the Members.

(c) Matters to be Transacted. With respect to special meetings, only those matters referred to in such notice may be transacted. With respect to regular meetings, and notwithstanding the foregoing, any proper matter may be presented at the meeting for action by the Members, except that if the meeting is actually attended, in person or by proxy, by less than one-third (1/3) of the Total Voting Power of the Association, the Members may act only on matters the general nature of which has been set forth in the notice of such meeting.

4.4 Conduct of Meetings. All meetings of Members shall be conducted in accordance with a recognized system of parliamentary procedure, such as Robert's Rules of Order, or such parliamentary procedures as the Association may adopt. A reasonable time limit for all Members to speak at a meeting of the Members shall be established by the Board of Directors.

4.5 Place of Meetings. Annual and special meetings shall be held at a convenient place located as close as reasonably practicable to the Development.

4.6 Quorum.

(a) Percent of Members Required. The presence at any meeting, in person or by proxy, of Members entitled to cast at least twenty five percent (25%) of the Total Voting Power shall constitute a quorum for the transaction of any business except that the quorum requirement for any assessment increases described in Section 6.5(d) and Section 6.6(c) of the Declaration shall require the presence, in person or by proxy, of Members entitled to cast at more than fifty percent (50%) of the Total Voting Power of the Association.

(b) Adjournment. If, however, such quorum shall not be present or represented at any meeting, the Members otherwise entitled to vote at that meeting may not transact any business but may adjourn the meeting from time to time, to be reconvened at a subsequent date which is not less than five days and not more than thirty (30) days from the time of the adjourned meeting, without notice other than announcement at the meeting, until a quorum shall be present or represented. The quorum for an adjourned meeting of the Members originally called for any purpose other than to recall one or more members of the Board of Directors or for any assessment increases described in Section 6.5(d) and Section 6.6(c) of the Declaration shall be fifteen percent (15%) of the Members. The quorum requirements of this section shall be subject to any other provisions of the Governing Documents specifically establishing a different quorum requirement. If the Association fails to obtain a quorum after three (3) attempts, unless there are more candidates than Board of Director positions subject to election pursuant to Section 5.3, below, the Board of Directors may

appoint the nominated candidates to fill the vacant Board positions. If the vacant Board position is reserved for a Class A Member pursuant to Section 5.3(b), below, only a Class A Member shall be appointed to fill the position.

4.7 Proxies. At all meetings of the Members, each Member may vote in person or by proxy. All proxies shall be in writing and shall be filed with the Secretary. Any duly-executed proxy continues in full force and effect until an instrument revoking it or a duly-executed proxy bearing a later date is filed with the Secretary of the Association. Notwithstanding the preceding, no proxy shall be valid after the expiration of 11 months from the date of its execution. A proxy shall automatically cease upon conveyance by the Member of his or her Lot.

(a) Form of Proxy. A proxy covering any of the following matters shall not be valid unless it sets forth the general nature of the matter to be voted on:

(i) removal of any or all directors pursuant to California Corporations Code Section 7222;

(ii) filling a vacancy on the Board created by the removal of a director or to fill a vacancy not filled by the directors pursuant to California Corporations Code Section 7224;

(iii) voting on a transaction involving an interested director pursuant to California Corporations Code Section 7233;

(iv) amending the Articles or the Bylaws to repeal, restrict, create, or expand proxy rights pursuant to California Corporations Code Section 7613(f)(1);

(v) amending the Articles pursuant to California Corporations Code Section 7812;

(vi) voting on the sale or exchange of all or substantially all of the Association assets pursuant to California Corporations Code Section 7911(a)(2);

(vii) voting on a merger pursuant to California Corporations Code Section 8012;

(viii) voting on amendments to principal terms of a merger agreement pursuant to California Corporations Code Section 8015(a);

(ix) voting to wind up or dissolve the Association as a corporation pursuant to California Corporations Code Section 8610;

(x) voting on a plan of distribution of Association assets in the event of dissolution pursuant to California Corporations Code Section 8719.

(b) Choice Between Approval and Disapproval. Any form of proxy distributed to ten (10) or more Members shall afford an opportunity on the proxy to specify a choice between approval and disapproval of each matter or group of matters intended, at the time the proxy is distributed, to be acted upon at the meeting for which the proxy is solicited and shall provide, subject to reasonable specified conditions, that where a choice is specified the vote shall be cast in accordance with that choice.

4.8 Vote of the Members. If a quorum is present, in person or by proxy, the affirmative vote of a majority of the voting power so present and voting on any matter (that is, a Simple Majority) shall constitute the act of the Members, unless the approval of a greater number or proportion of Members is required by any provision of the Governing Documents or of law. The Members present at a meeting may

continue to transact business until adjournment of the meeting notwithstanding the withdrawal of enough members to leave less than a quorum, if any action taken, other than adjournment, is approved by Members entitled to vote at least a majority of the voting power required to constitute a quorum, or by such greater number as required by law or by the Governing Documents.

4.9 Disclosure of Voting Results. For a period of 60 days following the conclusion of a meeting of the Members, the Association shall, upon written request from a Member, inform the Member of the result of any particular vote of the Members taken at such meeting, including the number of memberships voting for, the number of memberships voting against the ballot measure. If the matter voted on was the election of directors, the Association shall report the number of membership votes cast for each nominee for director.

4.10 Adjournment. Whether or not a quorum is present, any meeting of Members may be adjourned from time to time to be reconvened at a later time, subject to Section 4.6, by the vote of a majority of the Members present in person or by proxy at such meeting; however, in the absence of a quorum, no business other than adjournment may be transacted. If a time and place for the adjourned meeting to reconvene is not fixed by those in attendance at the original meeting in which a quorum was not present, or if for any reason a new date is fixed for the adjourned meeting to reconvene after adjournment, notice of the time and place of the adjourned meeting to reconvene shall be given to the Members in the manner prescribed for regular meetings in Section 4.3, above.

4.11 Action Without a Meeting.

(a) Types of Action Permitted. Any action which may be taken at a regular or special meeting, other than the election of Directors, may be taken without a meeting of the Members if the Association distributes a written ballot to every Member entitled to vote. The determination to seek Member approval for Association actions through the use of written ballots shall be made by a majority vote of the Board.

(b) Content of Ballots. Written ballots distributed to the Members shall set forth the proposed action and provide an opportunity to specify approval or disapproval of the proposal. The written ballots shall provide a reasonable time within which to return the ballot to the Association. The Board, at its discretion, shall have the power to extend the date within which ballots must be returned if ballots constituting the necessary quorum requirements for approval of the proposed action are not received by the original deadline set for their return.

(c) Quorum and Approvals Required. Approval by written ballot shall be valid only when the number of votes cast equals or exceeds the quorum that would be required if the action were taken at a meeting, and the number of approvals equals or exceeds the number of votes that would be required to approve the action if it were taken at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot.

(d) Content of Solicitation. The written ballot solicitation shall identify the number of responses needed to meet the quorum requirement and the percentage of approvals necessary to pass the measure submitted and shall specify the time by which the ballot must be received by the Association in order to be counted.

(e) Revocation of Ballot. A written ballot, once cast, may not be revoked.

5.1 Number of Directors. The affairs of this Association shall be managed by or under the direction of a Board of Directors. The initial Board of Directors shall be comprised of three (3) persons designated by Declarant, and shall hold office until the first meeting of the membership to be held pursuant to Section 4.1, above.

5.2 Qualification and Disqualification of Directors. Directors, officers, partners or employees of Declarant may be nominated by Declarant as Directors of the Association regardless of whether they are Owners. Except for Directors appointed by Declarant, all directors shall meet the following qualifications, and shall be subject to disqualification as follows:

(a) Good Standing Required. Only Members in Good Standing shall be eligible to be elected to or serve on the Board.

(b) Number of Owners per Lot on the Board. Only one Owner of a particular Lot may serve on the Board at any time.

(c) Disqualification. A person shall be deemed disqualified under the followings circumstances: (i) the person is found by a court of competent jurisdiction to be of unsound mind or has been convicted of a felony; (ii) the person fails within 60 days after receiving notice of election to accept such office, either in writing or by attending a meeting of the Board of Directors as a Director; (iii) the person is absent, without an excuse approved by the Board, from three consecutive meetings of the Board; and (iv) with respect to a Director who is or was a Member, the person ceases to be a Member in Good Standing.

5.3 Election of Board of Directors.

(a) Staggered Terms of Office. At each annual meeting of the Members, the Members shall elect, in alternating years, two (2) or one (1) Directors for terms of two (2) years each to replace those Directors whose terms are then expiring. At the first election of Directors, the Director elected who receives the fewest votes shall serve a one year term. A Director's term of office shall commence immediately following his or her election and each Director shall serve until the expiration of his or her term and thereafter until a successor is elected, or until the earlier disqualification, death, resignation, or removal of such Director. Any tie in the number of votes cast for candidates where more than one Director is to be elected shall be decided by random drawing or other method of chance as determined by the Board of Directors. There shall be no limitation on the number of consecutive terms to which a director can be re-elected.

(b) Special Rule for Election of Director by Class A Members. 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 with Declarant, or so long as there are Class B Memberships in the Association, not less than twenty percent (20%) of the Board shall be elected solely by the votes of Owners of Lots other than Declarant (i.e. the Class A Members). In the event that the provisions of this subparagraph are not satisfied in any particular election of Directors, those Directors elected to office by virtue, in whole or in part, of the receipt of Declarant's votes, and who received the least number of total votes shall resign to the extent necessary to create a sufficient number of vacancies on the Board to satisfy the twenty percent (20%) requirement noted above. Within thirty (30) days thereafter, a special meeting of the Class A Members shall be held for the purpose of electing persons to fill the vacancies on the Board of Directors thus created.

5.4 Removal of Directors .

(a) Removal, Generally. Except as provided in Section 5.4(b), and (c), below, any Director may be removed from the Board, with or without cause, by the vote of an Simple Majority of the Members at a meeting or by written ballot. No reduction of the authorized number of Directors shall have the effect of removing any Director prior to the expiration of his or her term of office.

(b) 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.

(c) 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 percent (51%) of such Class A Members.

5.5 Vacancies. A vacancy shall exist on the Board of Directors in the event of the disqualification, death, resignation, or removal of any Director, or if the authorized number of Directors is increased, or if the Members fail to elect the full authorized number of Directors. A reduction in the authorized number of Directors shall not cause removal of a Director prior to the expiration of his or her term. The Board of Directors, by a majority vote of the Directors who meet all of the qualifications for Directors as set forth in Section 5.2, above, may declare vacant the office of any Director who fails or ceases to meet any required qualification that was in effect at the beginning of that Director's current term of office.

5.6 Filling Vacancies. Any vacancy occurring on the Board of Directors, except a vacancy created by the removal of a Director or due to an increase in the authorized number of Directors, may be filled by approval of the Board of Directors, or if the number of Directors then in office is less than a quorum, by the vote of a majority of the remaining Directors at a meeting of the Board, or by unanimous written consent of the Directors then in office, or by a sole remaining Director. A Director so chosen shall serve the remainder of the term of office of the Director whom he or she replaces. The Members may elect a Director at any time to fill any vacancy not filled by the Directors. If the Board of Directors accepts the resignation of a Director tendered to take effect at a future time, the Board or, if the Board fails to act, the Members may elect a successor to take office when the resignation becomes effective. A vacancy occurring on the Board of Directors due to the removal of a Director or due to an increase in the number of authorized Directors shall be filled by the vote of the Members pursuant to Article 6, below.

5.7 Compensation. No Director shall receive compensation for any service he or she may render to the Association as a Director. However, upon approval by the Board, any Director may be reimbursed for his or her expenses actually incurred in the performance of his or her duties.

ARTICLE 6 NOMINATION AND ELECTION OF DIRECTORS

6.1 Nomination.

(a) Nomination Prior to the Meeting. Any person meeting the qualifications specified in Section 5.2 may place his or her name in nomination for election to the Board of Directors by giving written notice to the President or Secretary of the Association at any time before notice of the meeting at which the election of Directors is to be conducted is given to the Members.

(b) Nomination at the Meeting. Nominations of candidates for election to the Board of Directors may be made from the floor at any meeting of the Members where one or more Directors are to be elected.

(c) Qualification to Nominate. All nominations shall be made from among persons meeting the qualifications specified in Section 5.2.

(d) Notice of Nominees. The names of all persons who have been nominated as candidates for election to the Board of Directors pursuant to Section 6.1(a) by the time the notice of the meeting at which the election is to be conducted is prepared shall be set forth in such notice.

6.2 Election. At each election of Directors, the Members in Good Standing or their proxies may cast, in respect to each position on the Board to be filled, the number of votes allocated to each Member as provided in Section 3.2, above. The persons receiving the greatest number of votes shall be elected.

ARTICLE 7 MEETINGS OF DIRECTORS

7.1 Organizational Meetings. Immediately following each annual meeting of Members, the Board of Directors shall hold a meeting for the purpose of organization, election of officers, and transaction of other business, as appropriate.

7.2 Regular Meetings. Regular meetings of the Board of Directors shall be held at least quarterly without notice to the Directors, at a place within the Development, or at a convenient place located as close as reasonably practicable to the Development, and on a day and at a time as fixed from time to time by resolution of the Board, or upon proper notice which conforms to the provisions of Section 7.5 of these Bylaws, at another place, day, and time as set forth in such notice.

7.3 Special Meetings. Special meetings of the Board of Directors shall be held when called by the President of the Association or by any two (2) Directors.

7.4 Emergency Meetings. The President or any two (2) Directors may call an emergency meeting of the Board. An "emergency meeting" is defined as a meeting held to address 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 the notice to Members required by Section 7.6.

7.5 Notice to Directors. Except as otherwise provided in Section 7.2 of these Bylaws, notice of each meeting of the Board shall be communicated to the Directors by first class mail not less than four days prior to the meeting or by (i) personal delivery, (ii) telephone, including a voice messaging system or other system or technology designed to record and communicate messages, (iii) telegraph, (iv) facsimile, or (v) electronic mail or other electronic means, not less than 48 hours prior to the meeting. In the event of an emergency meeting as provided in Section 7.4, strict adherence to the notice requirements of this section shall not be required provided that a reasonable effort to give notice to each Director shall be made taking into consideration the nature and circumstances of the emergency. Notice of a meeting need not be given to any Director who signed a waiver of notice or a written consent to holding the meeting, or an approval of the minutes thereof, whether before or after the meeting, nor must notice be given to any Director who attends a meeting without protesting, prior thereto or at its commencement, the lack of notice to that Director.

7.6 Notice to Members. Except for emergency meetings as provided for in Section 7.4 and executive sessions as provided for in Section 7.8, Members shall be given notice of the day, time, and place of each meeting of the Board of Directors, whether regular or special, at least four days' prior to such meeting. Notice shall be given to all Members by posting the notice in a prominent place or places within the Common Area and by mail to any Owner who has requested notification of Board meetings by mail, at the address requested by the Owner. Notice may also be given by (i) mailing or delivery to each Residence,

or (ii) by newsletter, or (iii) by other means of communication reasonably designed to provide prior actual notice of such meeting.

7.7 Open Meeting. Regular and special meetings of the Board of Directors shall be open to all Members of the Association, except when the Board meets in executive session pursuant to Section 7.8. A reasonable time limit for all Members to speak to the Board shall be established by the Board.

7.8 Executive Session. The Board of Directors may meet in executive session to confer with legal counsel or to discuss and vote upon personnel matters, Member discipline, litigation in which the Association is or may become involved, and matters that relate to the formation of contracts between the Association and others. In any matter relating to the discipline of a Member, the Board shall meet in executive session if requested to do so by that Member, and that Member and any other person whose participation is, in the judgment of the Board, necessary or appropriate shall be entitled to attend the executive session. All Board of Director meetings held pursuant to a Member's request in accordance with California Civil Code Section 1367.1 shall be held in executive session.

7.9 Telephone Participation. Directors may participate in regular or special Board meetings through the use of conference telephone, electronic video screen communications, or other communications equipment to the extent permitted by law, including, without limitation, California Corporations Code Section 7211(a)(6) provided that, if notice to the Members of the meeting is required pursuant to Section 7.6, at least one Director must be physically present at the noticed location of the Board meeting.

7.10 Quorum. A majority of the number of Directors then in office, but not less than two Directors, shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a duly-held meeting at which a quorum is present shall be regarded as the act of the Board. Business may continue to be conducted if any action taken is approved by at least a majority of the Directors required to constitute a quorum notwithstanding the withdrawal of enough directors to leave less than a quorum.

7.11 Minutes of Meetings of Directors.

(a) Time for Publication of Minutes. Within thirty days after the date of any meeting of the Board, the Board shall make available to the Members either (i) the minutes of that meeting as adopted by the Board, (ii) those minutes as proposed for adoption which shall be marked to indicate draft status, or (iii) a summary of the minutes. Any matter discussed in an executive session shall be generally noted in the minutes of the Board and minutes of executive sessions shall not otherwise be required.

(b) Copies of Minutes. Copies of the minutes, proposed minutes, or summary of minutes shall be provided to any Member of the Association upon request and upon reimbursement of the Association's costs in providing such copies. The Board may, but shall not be required to, post the minutes of its meetings on an internet site.

(c) Notice of Right to Obtain Copies of Minutes. Members of the Association shall be notified annually in writing either at the time that the pro forma budget required under California Civil Code Section 1365 is distributed or at the time of any other general mailing to the entire membership of the Association of their right to obtain copies of the minutes of meetings of the Board and how and where those minutes may be obtained.

7.12 Action Without a Meeting. An action required or permitted to be taken by the Board may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to that action. The written consent or consents shall be filed with the minutes of the proceedings of the Board. The action by written consent shall have the same force and effect as a unanimous vote of the

Directors. If the Board resolves to take any action by unanimous written consent, an explanation of the action taken shall be posted at a prominent place or places within the Common Area within three (3) days after the written consents of all Board members is obtained. If the Board deems the Common Area as unsuitable for posting the explanation of the action taken, the Board shall communicate the explanation to the Members by any means it deems appropriate.

ARTICLE 8 POWERS OF THE BOARD OF DIRECTORS

8.1 Powers, Generally. In addition to such other powers as may be expressly set forth in Article 2 of the Declaration, and elsewhere in the Governing Documents or provided by law, the Board of Directors shall have the powers set forth in below in Sections 8.1 through 8.16.

8.2 Rules and Regulations. The Board shall have the power to adopt, publish, amend, repeal, and enforce Rules and regulations governing the administration, management, operation, use, and occupancy of the Development, including, without limitation, the use of the Common Area and facilities, the personal conduct of the Members and their tenants and guests within the Development, and any other matter which is within the jurisdiction of the Association. The procedure for the adoption and modification of Rules by the Board with respect to the matters specified in Section 8.2(i) shall be as follows:

(a) Notice of Proposed Rule Change. The Board shall provide written notice of a proposed new Rule, a change to an existing Rule or the repeal of an existing Rule, concerning matters specified in Section 8.2(i) (a "Rule Change"), to the Members at least 30 days before adopting the same. The notice shall include the text of the proposed Rule Change and a description of the purpose and effect of the same. Notice is not required under this subsection 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.

(b) Decision on Rule Change. A decision on a proposed Rule Change shall be made at a meeting of the Board, after consideration of any comments made by Members.

(c) Notice of Rule Change. As soon as possible after making a Rule Change, but not more than 15 days after making the Rule Change, the Board shall deliver notice of the Rule Change to all Members. Members are deemed to have been notified of a Rule Change on delivery of notice of the Rule Change, or on enforcement of the resulting Rule, whichever is sooner. If the Rule Change was an emergency Rule Change made under Section 8.2(d), 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.

(d) Emergency Rule Change. If the Board determines that an immediate Rule Change is required to address an imminent threat to public health or safety, or an imminent risk of substantial economic loss to the Association, it may make an emergency Rule Change. In such case, the notice specified in Section 8.2(a) shall not be required. An emergency Rule Change is effective for 120 days, unless the Rule Change provides for a shorter effective period. A Rule Change made pursuant to this subsection may not be readopted pursuant to this subsection.

(e) Delivery of Notice of Rule Change. Delivery of notices required by this section is governed by Section 12.5.

(f) Meeting for Reversal of Rule Change. Members may call for a special meeting of the Members in accordance with Section 4.2 to reverse a Rule Change adopted by the Board, provided that the same is delivered within 30 days after the Members are notified of the Rule Change.

(g) Reversal of Rule Change. The Rule Change adopted by the Board may be reversed by the affirmative vote of at least two-thirds (2/3) of the Total Voting Power. In lieu of calling the meeting described in this section, the Board may utilize a written ballot in accordance with Section 4.12. As soon as possible after the close of voting, but not more than 15 days after the close of voting, the Board shall provide notice of the results of the Member vote held pursuant to this section to every Member. This section does not apply to an emergency Rule Change made under Section 8.2(d).

(h) Readoption of Reversed Rule. A Rule Change reversed by the Members pursuant to Section 8.2(g) may not be readopted for a period of one year after the date of the meeting reversing the Rule Change. Nothing in this section precludes the Board from adopting a different Rule on the same subject as the Rule Change that has been reversed.

(i) Applicable Rules. Sections 8.2(a) through (h) shall only apply to a Rule that relates to one or more of the following subjects:

(i) Use of the Common Area.

(ii) Use of a Lot, including any aesthetic or architectural standards that govern alteration of any improvements to a Lot.

(iii) Member discipline, including any schedule of monetary penalties for violation of the Governing Documents and any procedure for the imposition of penalties.

(iv) Any standards for delinquent Assessment payment plans.

(v) Any procedures adopted by the Association for resolution of Assessment disputes.

(j) Inapplicability of Rule Change Procedure. The requirements of Section 8.2(a) through (h) shall not apply to any other actions of the Board, including without limiting the following:

(i) A decision regarding maintenance of the Common Area.

(ii) A decision on a specific matter that is not intended to apply generally.

(iii) A decision setting the amount of a Regular or Special Assessment.

(iv) A Rule Change that is required by law, if the Board of Directors has no discretion as to the substantive effect of the Rule Change.

(v) Issuance of a document that merely repeats existing law or the Governing Documents;

8.3 Contracts. Subject to the limitations on contracts described in Section 8.17 below, the Board shall have the power to authorize any officer or officers to enter into any contract in the name of, or on behalf of, the Association. Unless expressly authorized by resolution of the Board, no officer shall have any power or authority to bind the Association or to render the Association liable for any purpose or on any account.

8.4 Determination of Good Standing. The Board shall have the power to determine, after notice to the Member and an opportunity for a hearing by the Board, that a Member is not a Member in Good Standing during any period in which the Member is in default in the payment of any assessment, fine, or other charge levied by the Board or is in violation of any provision of the Governing Documents. However, a Member shall not be denied any privileges of membership except upon an explicit finding by the Board

of Directors, after notice and an opportunity for a hearing, that a Member is not a Member in Good Standing for specified reasons. A Member found by the Board to be not a Member in Good Standing shall be deemed to continue in that status until the Board shall make a determination, either upon the Board's own initiative or upon the request of the Member, that such Member is, once again, a Member in Good Standing of the Association;

8.5 Sanctions; Hearings; Continuing Violations. The Board shall have the power to impose any or all of the sanctions, and conduct hearings, as indicated below:

(a) Imposition of Fines. The Board shall have the power to establish and impose fines, which shall be Enforcement Assessments as provided in Section 6.8 of the Declaration, for the infraction of any provision of the Governing Documents in accordance with a schedule of fines adopted by the Board and distributed to all Members. The fines shall be in such amount as the Board of Directors, in its discretion, shall determine and may be imposed on a per day basis for the period that the violation continues in the case of a continuing violation as discussed below.

(b) Suspension of Rights. The Board shall have the power to suspend the voting or other membership rights and privileges of a Member, including the right to use the recreational facilities (i) during any period in which such Member shall be in default in the payment of any Assessment, fine or other charge levied by the Association, and (ii) for any infraction of the Governing Documents.

(c) Hearings. Except as provided in Section 10.7 of the Declaration and Section 8.5(e) below, before any action is taken or discipline is imposed upon a Member, the Board shall hold a meeting to consider the matter.

(d) Notice of Hearings. At least ten days prior to any Board meeting where the imposition of discipline upon a Member is to be considered, the Board shall provide written notice of the meeting to the Member by either personal delivery or first-class mail. The notice shall contain at least (i) the date, time and place of the meeting, (ii) the nature of the alleged violation for which the Member may be disciplined, and (iii) a statement that the Member has a right to attend the meeting and may address the Board at the meeting.

(e) Hearings in Emergency Situations. When corrective action is taken in emergency situations as specified in Section 10.7 of the Declaration:

(i) The Board may act on its own initiative to schedule a hearing.

(ii) If the Board has not scheduled a hearing and the disciplined Member desires a hearing, the Member's written request therefor shall be delivered to the Association no later than ten days following the date when the notice of the Board's disciplinary action is transmitted to the Member. The hearing shall be held within 30 days following the receipt by the Board of the Member's request for a hearing.

(iii) If a hearing is scheduled or requested, any discipline already imposed shall be held in abeyance and shall become effective only if affirmed at the hearing.

(iv) Notification of all hearings shall be made in accordance with Section 8.5(d).

(f) Continuing Violations. In the case of a continuing violation, the Board may deem such continuing violation to constitute two or more separate and distinct violations of the same Governing Document provision and may impose separate and successive sanctions for each such violation. However, the Board shall not impose a separate sanction for violation of the same provision more frequently than once per day.

(g) Notice of Discipline. If the Board imposes discipline upon a Member, the Board shall provide the Member with written notification of the disciplinary action, by either personal delivery or first-class mail, within 15 days following the action.

8.6 Manager. The Board shall have the power to engage the services of a manager or management company as either an employee or an independent contractor, and engage such other employees or independent contractors as the Board may deem necessary, and to prescribe their duties;

8.7 Professional Advisors. The Board shall have the power to consult with, seek the advice of, and reasonably rely on the advice of attorneys, accountants, and other professionals in carrying out its authority and responsibility under the Governing Documents and the law, and to pay for such professional services;

8.8 Investment of Reserve Funds. The Board shall have the power to invest Association reserve funds in prudent investments subject to the provisions of Section 9.5 of these Bylaws;

8.9 Entry for Repairs. The Board shall have the power to enter any Lot, whenever such entry is necessary, in the Board's sole discretion, in connection with the performance of any maintenance, repair, construction, or replacement for which the Association is responsible or which it is authorized to perform, including without limitation the authorization provided in Section 7.6 of the Declaration. Although under no obligation to do so, the Board, in its complete and sole discretion, may enter or may authorize the Association's agents to enter any Lot to effect emergency repairs where such repairs are necessary for safety reasons or to prevent or discontinue damage to the entered Lot, any other Lot or the Common Area. Such entry shall be made with as little inconvenience to the Residents as practicable and only upon reasonable advance written notice of not less than twenty-four (24) hours, except in emergency situations;

8.10 Property Taxes. The Board shall have the power to pay all real property taxes and assessments levied upon any property within the Development to the extent not separately assessed to the Owners. Such taxes and assessments may be contested or compromised by the Association provided that any such taxes are paid or that a bond insuring the payment is posted;

8.11 Education. The Board shall have the power to join educational and trade organizations, attend seminars and events, and subscribe to publications which provide information regarding common interest developments, their management, the duties and obligations of the Board of Directors, and the general operational aspects of the Association.

8.12 Association Property. The Board shall have the power to subject to the provisions of the Declaration, including any required approval of Members, acquire, own, hold, convey, transfer, dedicate, or otherwise dispose of real or personal property consistent with the purposes and powers of the Association and the management, administration, and operation of the Development or the business and affairs of the Association, and grant and convey easements, licenses, and rights of way in, over, upon, or under the Common Area;

8.13 Indemnification of Agents. The Board shall have the power to indemnify and hold harmless, to the maximum extent permitted by California law, each person who is or at any time was a director, officer, employee, or agent of the Association or member of any committee appointed by the Board from and against any and all claims, liabilities, expenses, judgments, fines, settlements, and other amounts, as those terms are defined by California law, actually and reasonably incurred by any such person, and to which any such person shall become subject by reason of his or her being a director, officer, employee, or agent of the Association or member of any committee appointed by the Board;

8.14 Bank Accounts. The Board shall have the power to open bank accounts and designate signatories upon such bank accounts, subject to any restrictions set forth in the Governing Documents;

8.15 Borrowing. The Board shall have the power to borrow money in the name of the Association as provided in Sections 2.10 and 2.11 of the Declaration; and

8.16 Other Powers and Duties. The Board shall have the power to exercise for the Association all powers, duties, and authority vested in or delegated to the Association and not reserved to the Members by other provisions of the Governing Documents, and undertake any action on behalf of the Association as the Board shall deem necessary or proper in furtherance of the purposes and powers of the Association and/or the interests of the Association and its Members.

8.17 Limitation of Powers. The Board of Directors shall not take any of the following actions without the consent of a majority of a simple majority of the Class A Members of the Association, other the Total Voting Power of the Association pursuant to a meeting held pursuant to Article 4, above, or by written assent pursuant to Section 4.11, above:

(a) Contracts for a Term Longer than One Year. The Board shall not have the power to enter into a contract with a third party for the furnishing of goods or services to the Common Area or the Association for a term longer than one 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 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;

(iii) prepaid casualty or liability insurance policies not to exceed three (3) years, provided the policies provide for short rate cancellation by the insured;

(iv) lease agreements for laundry room fixtures and equipment not to exceed five (5) years' duration provided that the lessor under the agreement is not an entity in which Declarant has a direct or indirect ownership of ten percent (10%) or more;

(v) agreements for cable television services and equipment or satellite dish television services and equipment of not to exceed five (5) years' duration, provided that the supplier is not an entity in which Declarant has a direct or indirect ownership interest of ten percent (10%) or more;

(vi) agreements for sale or lease of burglar alarm and fire alarm equipment, installation and services of not to exceed five (5) years' duration; provided that the supplier or suppliers are not entities in which Declarant has a direct or indirect ownership interest of ten percent (10%) or more; or

(vii) a contract for a term not to exceed three (3) years that is terminable by the Association after not longer than one year without cause, penalty or other obligation upon ninety (90) days written notice of termination to the other party.

(b) Capital Improvements. The Board shall not have the power to 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.

(c) Sale of Property. The Board shall not have the power to 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.

(d) Compensation. The Board shall not have the power to 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.

(e) Vacancies on the Board. The Board shall not have the power to fill any vacancy on the Board of Directors created by the Member's removal of a Director pursuant to Section 5.4, above.

(f) Entry into Lots. The Board shall not have the power to 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 7.6 of the Declaration, and Section 8.5(e), above.

ARTICLE 9 DUTIES OF THE BOARD OF DIRECTORS

9.1 Records and Minutes. The Board of Directors shall cause to be kept a complete record of all its acts and the corporate affairs, including an accurate and current record of the Members setting forth their names and addresses, adequate and correct books and records of account, and minutes of the proceedings of the Members, the Board, and Committees of the Board, and to present a statement thereof to the Members at the annual meeting of the Members.

9.2 Pro Forma Budget. The Board of Directors shall prepare and distribute to the Members annually, not less than 45 days nor more than 60 days prior to the beginning of each fiscal year, a pro forma operating budget which shall include all of the following:

(a) Estimate of Revenue and Expenses. The pro forma operating budget shall include an estimate of the Association's revenue and expenses for such fiscal year on an accrual basis;

(b) Summary of Reserves. The pro forma operating budget shall include a summary of the Association's reserves based upon the most recent review or study conducted pursuant to California Civil Code Section 1365.5, based only on assets held in cash or cash equivalents, which summary shall be printed in bold type and shall include all of the following:

(i) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component the Association is obligated to maintain, restore, repair, or replace;

(ii) A current estimate, as of the end of the fiscal year for which the study is prepared, of the amount of cash reserves necessary to maintain, restore, repair, or replace such major components;

(iii) The current amount, as of the end of the fiscal year for which the study is prepared, of accumulated cash reserves actually set aside to maintain, restore, repair, or replace such major components;

(iv) The percentage of the amount of cash reserves necessary [per Subparagraph (ii)] that is represented by the amount of cash reserves actually set aside [per Subparagraph (iii)];

(v) A statement regarding the mechanism or mechanisms by which the Board of Directors will fund reserves to repair or replace major components, including assessments, borrowing, use of other assets, deferral of selected replacement or repairs, or alternative mechanisms. The statement shall

also include whether the Board of Directors has determined or anticipates that the levy of one or more special assessments will be required to restore, repair, or replace any of the major components or to provide adequate reserves therefor. If such assessments will be required, the statement shall also set out the estimated amount, commencement date, and duration of the assessment.

(vi) A general statement setting forth the procedures used for the calculation and establishment of reserves to defray the future cost of repair, replacement, or additions to those major components that the Association is obligated to maintain, restore, repair, or replace.

(c) Distribution of Pro Forma Summary. In lieu of the distribution of the pro forma operating budget, the Board may distribute a summary of such budget to all Members together with a written notice that the budget is available at the office of the Association or at another suitable location within the boundaries of the Development and that copies will be provided to a Member upon a Member's request and at the expense of the Association. If any Member so requests, the Association shall provide a copy of the pro forma operating budget to such Member by United States mail first-class postage prepaid, and such copy shall be mailed within five (5) days of such request. The written notice that is distributed to each Association Member as set forth herein shall be set forth in at least 10-point bold type on the front page of the summary of the budget.

9.3 Reserve Study. The Board of Directors shall cause to be conducted, at least once every three years, a reasonably competent and diligent visual inspection of the accessible areas of the major components which the Association is obligated to repair, replace, restore or maintain as part of a study of the reserve account requirements of the Development if the current replacement value of such major components is equal to or greater than one-half of the gross budget of the Association for the fiscal year, excluding the Association's reserve account for that year. The Board shall review the reserve study annually 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 by this section shall include the minimum requirements specified in California Civil Code Sections 1365.2.5 and 1365.5 or comparable successor statute.

9.4 Reserve Funds. The Board of Directors shall not expend funds designated as reserve funds for any purpose other than the maintenance, restoration, repair, or replacement of, or litigation involving the maintenance, restoration, repair, or replacement of, major components which the Association is obligated to maintain, restore, repair, or replace and for which the reserve fund was established; provided, however, that the Board may authorize a temporary transfer of money from a reserve fund to the Association's general operating fund to meet short term cash flow requirements or other expenses, provided the Board has made a written finding, recorded in the Board's minutes, explaining the reasons that the transfer is needed and describing when and how the money will be repaid to the reserve fund, and provided, further, that any such transferred funds shall be restored to the reserve fund within one year of the date of the initial transfer, except as otherwise expressly provided by law. The Board shall exercise prudent fiscal management in maintaining the integrity of the reserve account;

9.5 Investment of Reserve Funds. The Board of Directors shall manage and invest Association reserve funds in a prudent manner designed to achieve the primary objective of preserving principal while realizing a reasonable return and to assure the availability of funds as they are needed based upon the most recent reserve fund study obtained by the Board as provided in these Bylaws and by law;

9.6 Review of Accounts. The Board of Directors shall review the Association's operating and reserve accounts at least in accordance with the following minimum requirements:

(a) Operating Accounts. The Board of Directors shall review a current reconciliation of the Association's operating accounts on at least a quarterly basis;

(b) Reserve Accounts. The Board of Directors shall review a current reconciliation of the Association's reserve accounts on at least a quarterly basis;

(c) Compare Reserve to Budget. The Board of Directors shall review, on at least a quarterly basis, the current year's actual reserve revenues and expenses compared to the current year's budget;

(d) Account Statements. The Board of Directors shall review the latest account statements prepared by the financial institutions where the Association keeps its operating and reserve accounts;

(e) Income and Expense Statements. The Board of Directors shall review an income and expense statement for the Association's operating and reserve accounts on at least a quarterly basis; and

(f) Definition of "Reserve Accounts". As used in this Section 9.6, the term "reserve accounts" shall mean monies that the Board has identified in its annual budget for use to defray the future costs of repair or replacement of, or additions to, those major components which the Association is obligated to maintain, restore, repair, or replace.

9.7 Annual Financial Statements.

(a) Annual Report. The Board of Directors shall cause an annual report to be prepared not later than 120 days after the close of the Association's fiscal year. Such annual report shall contain in appropriate detail (i) a balance sheet as of the end of the fiscal year, (ii) an income statement for such fiscal year, (iii) a statement of changes in financial position for such fiscal year, (iv) a statement of the place where the names and addresses of the current Members are located, and (v) any information required by California Corporations Code Section 8322. The annual report shall be accompanied by any report of independent accountants, or, if there is no such report, by a certificate of an authorized officer of the Association that the statements were prepared without audit from the books and records of the Association. The latest annual report shall be sent to any Member promptly upon his or her written request.

(b) Review of Financial Statements. The Board of Directors shall for any fiscal year in which the gross income to the Association exceeds \$75,000.00, distribute to all Members of the Association within 120 days after the close of such fiscal year a review of the financial statements of the Association prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy;

9.8 Notification Regarding Insurance Coverage. In accordance with California Civil Code Section 1365, not less than 30 days nor more than 90 days immediately preceding the beginning of the Association's fiscal year, the Board of Directors shall prepare and distribute to all Members a summary of the Association's property, general liability, and earthquake and flood and fidelity insurance policies, if any. The summary shall include the name of the insurer, the type of insurance, the policy limits of the insurance, and the amount of deductibles, if any. The Association's disclosure obligations may be satisfied by distributing to the Members a copy of the insurance policy declaration page, so long as that page presents the information specified in the preceding sentence. As soon as reasonably practicable, the Association shall notify the Members by first-class mail if any of the policies described above have lapsed, been canceled, and are not immediately renewed, restored, or replaced, or if there is a significant change, such as a reduction in coverage or limits or an increase in the deductible for any of those policies. If the Association receives any notice of nonrenewal of a policy described above, the Association shall immediately notify the Members if replacement coverage will not be in effect by the date the existing coverage will lapse. The summary distributed pursuant to this section shall contain the statement required by California Civil Code Section 1365(e)(4), the current version of which is set forth on attached Exhibit "A". The statement shall be printed in at least 10-point boldface type.

9.9 Annual Notifications to Members.

(a) Lien Rights and Remedies. The Board of Directors shall distribute to the Members annually statement describing the Association's policies and practices in enforcing lien rights and other legal remedies for default in payment of assessments as required by California Civil Code Section 1365(d).

(b) Alternative Dispute Resolution. The Board of Directors shall distribute to the Members annually a summary of the statutory provisions relating to employing alternative dispute resolution procedures in certain matters related to enforcement of the governing documents which specifically references California Civil Code Section 1369.510 et seq. and which includes the language required by California Civil Code Sections 1363.850 and 1369.590. The current version of the 1369.590 summary and the Association's initial dispute resolution procedures are set forth on attached Exhibit "B". The summary shall be provided either at the time the budget required by Section 9.2 of these Bylaws is distributed or in the manner specified in California Corporations Code Section 5016.

(c) Fines, Penalties and Sanctions. The Board of Directors shall distribute to the Members annually a copy of the procedures applicable to imposition of a fine or other monetary penalty, suspension of a Member's rights and privileges, or other sanctions, pursuant to California Civil Code Section 1363(g).

(d) Insurance. The Board of Directors shall distribute to the Members annually a notice and statement concerning the insurance carried by the Association as required by Section 9.8 of these Bylaws and California Civil Code Section 1365(e).

(e) Pro Forma Operating Budget. The Board of Directors shall distribute to the Members annually a pro forma operating budget as required by Section 9.2 of these Bylaws and California Civil Code Section 1365(a).

(f) Copies of Minutes. The Board of Directors shall distribute to the Members annually a statement explaining the Members' right to obtain copies of minutes of meetings of the Board as required by Section 7.11 of these Bylaws and by California Civil Code Section 1363.05(e);

(g) Assessments and Foreclosure. The Board of Directors shall distribute to the Members annually the notice regarding assessments and foreclosure required by California Civil Code Section 1365.1, the current version of which is set forth on attached Exhibit "C". The notice shall be printed in at least 12-point type and shall be distributed during the 60-day period immediately preceding the beginning of the Association's fiscal year.

9.10 Notice of Assessments. As more fully provided in the Declaration, the Board of Directors shall: (i) send written notice to each Owner in advance of each fiscal year of the regular assessment levied against his or her Lot for that fiscal year; and (ii) collect assessments levied by the Association by foreclosing the lien against any property for which assessments are not paid as required in the Declaration and/or by bringing an action at law against the Owner personally obligated to pay the same. The Board of Directors shall establish and inform owners of a mailing address for overnight payments, and shall timely call such meetings as necessary to comply with any meeting requested by a Member pursuant to Civil Code Section 1367.1. To the extent one document provides the information required in more than one of the above listed items, any such requirements listed above may be satisfied by reviewing the same document.

9.11 Certificate of Payment of Assessments. The Board of Directors shall issue, or cause an appropriate officer to issue, upon demand by any proper person, a certificate setting forth whether or not any assessment has been paid. A reasonable charge may be made by the Board for the issuance of such

certificates. If a certificate states an assessment has been paid, such certificate shall be conclusive evidence of such payment;

9.12 Insurance. To the extent they are available at a reasonable premium cost, the Board of Directors shall obtain and maintain in force the policies of insurance described in Article 10 of the Declaration.

9.13 Enforcement of Governing Documents. The Board of Directors shall enforce the provisions of the Governing Documents, as more particularly set forth in the Declaration, and perform all acts required of the Board under the Governing Documents or required by law.

ARTICLE 10 OFFICERS AND THEIR DUTIES

10.1 Enumeration of Officers. The officers of the Association shall be a President, a Vice-President, a Secretary, and a Chief Financial Officer (who may from time to time be referred to as the Treasurer), who shall at all times be members of the Board of Directors, and such other officers as the Board of Directors may, from time to time, by resolution appoint.

10.2 Election of Officers. The Board of Directors shall elect the officers. The election of officers shall take place immediately following the election of the Board of Directors, or at the first meeting of the Board of Directors following each annual meeting of the Members.

10.3 Term. The officers of this Association shall be elected annually by the Board, and each shall hold office for one (1) year, unless he or she shall sooner resign, be removed by the Board, or otherwise be disqualified to serve.

10.4 Special Appointments. The Board may elect 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 the Board may, from time to time, determine.

10.5 Resignation and Removal. Any officer may be removed from office, with or without cause, by the Board. Any officer may resign at any time by giving written notice to the Board, the President, or the Secretary. Such resignation shall take effect on the date of 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.

10.6 Vacancies. A vacancy in any office may be filled by appointment by the Board. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he/she replaces, subject to the Board's right to remove an officer.

10.7 Multiple Offices. The offices of Secretary and Treasurer may be held by the same person. No person shall simultaneously hold more than one of any of the other offices, except in the case of special offices created pursuant to Section 10.4 of these Bylaws.

10.8 President. The President shall be the chief executive officer of the Association and shall, subject to control of the Board of Directors, have general supervision, direction, and control of the affairs and the other officers and the employees and agents of the Association. The President shall preside at all meetings of the Members and at all meetings of the Board of Directors, shall have the general powers and duties of management usually vested in the office of the President of an Association, and shall have such other powers and duties as may be prescribed by the Board of Directors and the Bylaws, subject, however, to any limitations contained in the Declaration.

10.9 Vice-President. 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 of the powers of, and be subject to all of the restrictions upon, the President. The Vice-President shall have such other powers and perform such other duties as, from time to time, may be prescribed by the Board of Directors.

10.10 Secretary. The Secretary shall keep or cause to be kept, at the principal office or such other place as the Board of Directors may prescribe, a book of minutes of all meetings of Directors, Members, and Committees of the Board setting forth the time and place of holding of such meetings; whether regular or special, and if special, how authorized; the notice thereof given; the names of those present at meetings of the Board or of Committees of the Board; the number of memberships and votes present or represented at Members meetings; and all the proceedings thereof. The Secretary shall give, or cause to be given, notice of all meetings of the Members and of the Board of Directors required by the Bylaws or by law to be given and shall maintain a proper record of the giving of such notice, and shall keep the books, records, and documents of the Association in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws.

10.11 Treasurer. The Treasurer shall be responsible for the receipt and deposit in appropriate accounts of all monies of the Association and shall cause disbursement of such funds as directed by resolution of the Board of Directors; may sign all checks and promissory notes of the Association; shall cause to be kept proper books of account; shall cause an annual review of the Association's books and financial statements to be made by a public accountant at the completion of any fiscal year for which such review is required by law or as determined by the Board; shall assist the Board in preparation of an annual budget and a statement of income and expenditures to be presented to the Members of the Association as provided by law; and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors.

ARTICLE 11 COMMITTEES

11.1 Committees of the Board. Any "Committee of the Board" (that is, a committee consisting only of Directors, as referred to in California Corporations Code Section 7212) shall consist of at least two (2) Directors and shall have such powers and duties as the Board shall determine, subject to the limitations of California Corporations Code Section 7212.

11.2 Standing Committees. The Board may appoint standing committees consisting of at least one (1) person who is not a Director. Directors may be members of committees created pursuant to this section provided that fewer than a majority of Directors then in office serve on any one such committee. Such committees shall not be required to keep minutes but shall report on their activities to the Board from time to time as directed by the Board and shall operate under the supervision of and at the direction of the Board. No standing committee shall have the authority to enter into contracts or otherwise act on behalf of the Association. The Board of Directors shall have the right at any time, in its complete discretion, to disband any standing committee or remove any member thereof.

11.3 Compensation of Committee Members. No committee member shall receive compensation for any service he or she may render to the Association as a committee member. However, upon approval by the Board, any committee member may be reimbursed for his or her expenses actually incurred in the performance of his or her duties.

ARTICLE 12 BOOKS, RECORDS AND FUNDS

12.1 Inspection of Records. The Association shall make available Association Records and Enhanced Association Records for inspection and copying by a Member of the Association, or the Member's designated representative. The Association may bill the requesting Member for the direct and actual cost of

copying requested documents. The Association shall inform the Member of the amount of the copying costs before copying the requested documents. A Member of the Association may designate another person to inspect and copy the specified Association Records on the member's behalf. The Member shall make this designation in writing. The Association shall make the specified Association Records available for inspection and copying in the Association's business office within the Development.

12.2 Procedures for Inspection of Records if No Association Office Within Development. If the Association does not have a business office within the Development, the Association shall make the specified Association Records available for inspection and copying at a place that the requesting Member and the Association agree upon. If the Association and the requesting Member cannot agree upon a place for inspection and copying, or if the requesting Member submits a written request directly to the Association for copies of specifically identified records, the Association may satisfy the requirement to make the Association records available for inspection and copying by mailing copies of the specifically identified records to the Member by first-class mail.

12.3 Cost of Copying. The Association may bill the requesting Member for the direct and actual cost of copying and mailing requested documents. The Association shall inform the Member of the amount of the copying and mailing costs, and the Member shall agree to pay those costs, before copying and sending the requested documents. In addition to the direct and actual costs of copying and mailing, the association may bill the requesting member an amount not in excess of ten dollars (\$10) per hour, and not to exceed two hundred dollars (\$200) total per written request, for the time actually and reasonably involved in redacting the Enhanced Association Records. The Association shall inform the member of the estimated costs, and the Member shall agree to pay those costs, before retrieving the requested documents.

12.4 Association's Right to Withhold or Redact Information. The Association may withhold or redact information from the Association Records for any of the following reasons.

(a) Identity Theft. The release of the information is reasonably likely to lead to identity theft. For the purposes of this section, "identity theft" means the unauthorized use of another person's personal identifying information to obtain credit, goods, services, money, or property.

(b) Fraud or Misrepresentation With Respect to the Association. The release of the information is reasonably likely to lead to fraud in connection with the association.

(c) Legally Privileged Information. The information is privileged under law. Examples include documents subject to attorney-client privilege or relating to litigation in which the Association is or may become involved, and confidential settlement agreements.

(d) Individual Member Privacy. The release of the information is reasonably likely to compromise the privacy of an individual member of the association.

(e) Individual Member Information. The information contains any of the following records of a-la-carte goods or services provided to individual Members for which the Association received monetary consideration other than Assessments, records of disciplinary actions, collection activities, or payment plans of Members other than the Member requesting the records, any person's personal identification information, including, without limitation, social security number, tax identification number, driver's license number, credit card account numbers, bank account number, and bank routing number, agendas, minutes, and other information from executive sessions of the Board of Directors, personnel records other than the payroll records, interior architectural plans, including security features, for individual Residences.

(f) Compensation. 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 set forth by job classification or title, not by the employee's name, social security number, or other personal information.

(g) Basis for Redaction. If requested by the requesting Member, the Association shall, upon denying or redacting Association Records, provide a written explanation specifying the legal basis for withholding or redacting the requested records.

12.5 Use of Association Records.

(a) Use of Association Records, Generally. The Association Records, and any information from them, may not be sold, used for a commercial purpose, or used for any other purpose not reasonably related to a Member's interest as a Member. The Association may bring an action against any person who violates this section for injunctive relief and for actual damages to the Association caused by the violation. This section may not be construed to limit the right of an Association to damages for misuse of information obtained from the Association records pursuant to this section or to limit the right of the Association to injunctive relief to stop the misuse of this information. The Association shall be entitled to recover reasonable costs and expenses, including reasonable attorney's fees, in a successful action to enforce its rights under this section.

(b) Special Requirements for Membership Lists. An Association Records request by a Member for the Association's Membership lists, including name, property address, and mailing address shall be accompanied by a written statement by the Member describing the purpose for which the list is requested, which purpose shall be reasonably related to the requester's interest as a Member. If the Association reasonably believes that the information in the list will be used for another purpose, it may deny the Member access to the list.

12.6 Action for Inspection or Copying. A Member may bring an action to enforce the Member's right to inspect and copy the Association Records. If a court finds that the Association unreasonably withheld access to the Association Records, the court shall award the Member reasonable costs and expenses, including reasonable attorney's fees, and may assess a civil penalty of up to five hundred dollars (\$500) for the denial of each separate written request. A cause of action under this section may be brought in small claims court if the amount of the demand does not exceed the jurisdiction of that court. A prevailing Association may recover any costs if the court finds the action to be frivolous, unreasonable, or without foundation. Requesting parties shall have the option of receiving specifically identified records by electronic transmission or machine-readable storage media as long as those records can be transmitted in a redacted format that does not allow the records to be altered. The cost of duplication shall be limited to the direct cost of producing the copy of a record in that electronic format.

12.7 Time Period for Retention and Producing Records.

(a) Association Records Retention Requirements. The Association Records shall be made available for the current fiscal year and for each of the previous two fiscal years. Minutes of Member and Board meetings shall be permanently made available. If a committee has decision making authority, minutes of the meetings of that committee shall be made available commencing January 1, 2007, and shall thereafter be permanently made available.

(a) Production of Requested Records. Association Records prepared during the current fiscal year, within ten (10) business days following the Association's receipt of the request. Association Records prepared during the previous two (2) fiscal years, within thirty (30) calendar days following the Association's receipt of the request. Any record or statement available pursuant to California Civil Code Section 1365 or 1368, within the time-frame specified therein. Minutes of Member and Board meetings, within the time-frame specified in California Civil Code Section 1363.05(d). Minutes of meetings of committees with

decision-making authority for meetings commencing on or after January 1, 2007, within fifteen (15) calendar days following approval. Membership list, within the time-frame specified in Section 8330 of the Corporations Code.

12.8 Liability for Identity Theft. The Association, its Officer, Director, employee, agent or volunteer of an association shall not be liable for damages to a Member as the result of identity theft or other breach of privacy because of the failure to withhold or redact that Member's information under this Article 12, unless the failure to withhold or redact the information was intentional, willful, or negligent.

12.9 Checks, Drafts, and Evidences of Indebtedness. All checks, drafts, or other orders for payment of money and all notes or other evidences of indebtedness, issued in the name of the Association shall be signed by (i) any two Directors, (ii) any two officers of the Association, (iii) any officer of the Association and any Director, or (iv) in any other manner specified by the Board of Directors; provided, however, that the signatures of at least two persons who shall be members of the Board of Directors or one member of the Board of Directors and one officer who is not a member of the Board of Directors shall be required for the withdrawal of funds from the Association's reserve account.

12.10 Funds and Deposits. Any funds of the Association shall be deposited to the credit of the Association in such banks or other depositories as the Board of Directors shall, from time to time, determine.

12.11 Fiscal Year. The fiscal year of the Association shall run from January 1 through December 31 of each year unless otherwise determined by resolution of the Board of Directors.

12.12 Delivery of Documents to Members.

(a) Document Distribution. All notices and documents distributed by the Association to Members shall be delivered by one or more of the following methods:

- (i) Personal delivery.
- (ii) First-class mail, postage prepaid, addressed to a member at the address last shown on the books of the Association or otherwise provided by the member. Delivery is deemed to be complete on deposit into the United States mail.
- (iii) E-mail, facsimile, or other electronic means, if the Member has agreed to that method of delivery. If a document is delivered by electronic means, delivery is complete at the time of transmission.
- (iv) By publication in a periodical that is circulated primarily to Members of the Association.
- (v) If the Association broadcasts television programming for the purpose of distributing information on Association business to its members, by inclusion in the programming.
- (vi) A method of delivery provided in a Recorded provision of the Governing Documents.
- (vii) Any other method of delivery, provided that the Member has agreed to that method of delivery.

(b) Delivery With Other Association Materials. A document may be included in or delivered with a billing statement, newsletter, or other document that is delivered by one of the methods provided in Section 12.5(a).

(c) Delivery Procedures in Unrecorded Governing Documents. For the purposes of this Section 12.5, an unrecorded provision of the Governing Documents providing for a particular method of delivery does not constitute agreement by a Member to that method of delivery.

ARTICLE 13 AMENDMENTS

13.1 Amendment Before Close of First Sale. Before the close of the first sale in the Development 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 Department of Real Estate. The amending or revoking instrument shall make appropriate reference to these Bylaws and their amendments.

13.2 Amendment After Close of First Sale. After the close of the first sale of a Lot within the Development 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 an Absolute Majority, including the holders of not less than a majority of the Total Voting Power 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) an Absolute Majority of the Association; and (ii) the vote of a majority of the Total Voting Power held by Members other than Declarant. Notwithstanding the foregoing, the percentage of the Total 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.

13.3 Amendment By Board of Directors. The Board of Directors may, without the approval of the Members, amend any part of these Bylaws to the limited extent necessary to comply with a change in applicable federal, state or local legislation.

ARTICLE 14 MISCELLANEOUS

In the case of any conflict between the Articles of Incorporation and these Bylaws, the Articles of Incorporation shall control. In the case of any conflict between the Declaration and these Bylaws, the Declaration shall control.

CERTIFICATE OF ADOPTION

The undersigned, incorporator of the corporation known as Southwood Garden Townhomes Association, hereby certifies that the above and foregoing Bylaws, together with attached Exhibit "A", Exhibit "B", and Exhibit "C", were duly adopted by action of the incorporator on _____, 2006, and that they now constitute the Bylaws of the Association.

SOUTHWOOD GARDEN TOWNHOMES ASSOCIATION,
a California nonprofit mutual benefit corporation

By: _____
Warren Hughes, Incorporator

EXHIBIT "A"

STATEMENT REGARDING INSURANCE COVERAGE

This summary of the association's policies of insurance provides only certain information, as required by subdivision (e) of Section 1365 of the 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, 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 dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, 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.

EXHIBIT "B"

ALTERNATIVE DISPUTE RESOLUTION DISCLOSURE

The Association supports the use of alternative dispute resolution procedures and follows the dispute resolution procedures described in California Civil Code Section 1369.510 et seq. Failure of a member of the Association to comply with the alternative dispute resolution requirements of Section 1369.520 of the Civil Code may result in the loss of your right to sue the Association or another Member of the Association regarding enforcement of the Governing Documents or the applicable law.

THE ASSOCIATION'S DISPUTE RESOLUTION PROCEDURES

The Association's dispute resolution procedure for disputes between the Association and a Member involving the Davis-Stirling Common Interest Development Act (California Civil Code Section 1350 et seq.), the Nonprofit Mutual Benefit Corporation Law (California Corporation Code Section 7110 et seq.), or under the Governing Documents is as follows:

- (a) Either party to a applicable dispute may invoke the following procedure:
 - (1) The party may request the other party to meet and confer in an effort to resolve the dispute. The request shall be in writing.
 - (2) A member of an association may refuse a request to meet and confer. The association may not refuse a request to meet and confer.
 - (3) The Association's Board of Directors shall designate a member of the Board to meet and confer.
 - (4) The parties shall meet promptly at a mutually convenient time and place, explain their positions to each other, and confer in good faith in an effort to resolve the dispute.
 - (5) A resolution of the dispute agreed to by the parties shall be memorialized in writing and signed by the parties, including the Board designee on behalf of the Association.
- (b). An agreement reached under this section binds the parties and is judicially enforceable if both of the following conditions are satisfied:
 - (1) The agreement is not in conflict with law or the Governing Documents.
 - (2) The agreement is either consistent with the authority granted by the Board of Directors to its designee or the agreement is ratified by the Board of Directors.
- (c) A Member of the Association may not be charged a fee to participate in the process.

EXHIBIT "C"

NOTICE REGARDING ASSESSMENTS AND FORECLOSURE

NOTICE ASSESSMENTS AND FORECLOSURE

This notice outlines some of the rights and responsibilities of owners of property in common interest developments and the associations that manage them. Please refer to the sections of the Civil Code indicated for further information. A portion of the information in this notice applies only to liens recorded on or after January 1, 2003. You may wish to consult a lawyer if you dispute an assessment.

ASSESSMENTS AND FORECLOSURE

Assessments become delinquent 15 days after they are due, unless the governing documents provide for a longer time. The failure to pay association assessments may result in the loss of an owner's property through foreclosure. Foreclosure may occur either as a result of a court action, known as judicial foreclosure or without court action, often referred to as nonjudicial foreclosure. For liens recorded on and after January 1, 2006, an association may not use judicial or nonjudicial foreclosure to enforce that lien if the amount of the delinquent assessments or dues, exclusive of any accelerated assessments, late charges, fees, attorney's fees, interest, and costs of collection, is less than one thousand eight hundred dollars (\$1,800). For delinquent assessments or dues in excess of one thousand eight hundred dollars (\$1,800) or more than 12 months delinquent, an association may use judicial or nonjudicial foreclosure subject to the conditions set forth in Section 1367.4 of the Civil Code. When using judicial or nonjudicial foreclosure, the association records a lien on the owner's property. The owner's property may be sold to satisfy the lien if the amounts secured by the lien are not paid. (Sections 1366, 1367.1, and 1367.4 of the Civil Code)

In a judicial or nonjudicial foreclosure, the association may recover assessments, reasonable costs of collection, reasonable attorney's fees, late charges, and interest. The association may not use nonjudicial foreclosure to collect fines or penalties, except for costs to repair common areas damaged by a member or a member's guests, if the governing documents provide for this. (Sections 1366 and 1367.1 of the Civil Code)

The association must comply with the requirements of Section 1367.1 of the Civil Code when collecting delinquent assessments. If the association fails to follow these requirements, it may not record a lien on the owner's property until it has satisfied those requirements. Any additional costs that result from satisfying the requirements are the responsibility of the association. (Section 1367.1 of the Civil Code)

At least 30 days prior to recording a lien on an owner's separate interest, the association must provide the owner of record with certain documents by certified mail, including a description of its collection and lien enforcement procedures and the method of calculating the amount. It must also provide an itemized statement of the charges owed by the owner. An owner has a right to review the association's records to verify the debt. (Section 1367.1 of the Civil Code)

If a lien is recorded against an owner's property in error, the person who recorded the lien is required to record a lien release within 21 days, and to provide an owner certain documents in this regard. (Section 1367.1 of the Civil Code)

The collection practices of the association may be governed by state and federal laws regarding fair debt collection. Penalties can be imposed for debt collection practices that violate these laws.

PAYMENTS

When an owner makes a payment, he or she may request a receipt, and the association is required to provide it. On the receipt, the association must indicate the date of payment and the person who received it. The association must inform owners of a mailing address for overnight payments. (Section 1367.1 of the Civil Code)

An owner may dispute an assessment debt by submitting a written request for dispute resolution to the association as set forth in Article 5 (commencing with Section 1368.810) of Chapter 4 of Title 6 of Division 2 of the Civil Code. In addition, an association may not initiate a foreclosure without participating in alternative dispute resolution with a neutral third party as set forth in Article 2 (commencing with Section 1369.510) of Chapter 7 of Title 6 of Division 2 of the Civil Code, if so requested by the owner. Binding arbitration shall not be available if the association intends to initiate a judicial foreclosure.

An owner is not liable for charges, interest, and costs of collection, if it is established that the assessment was paid properly on time. (Section 1367.1 of the Civil Code)

MEETINGS AND PAYMENT PLANS

An owner of a separate interest that is not a timeshare may request the association to consider a payment plan to satisfy a delinquent assessment. The association must inform owners of the standards for payment plans, if any exist. (Section 1367.1 of the Civil Code)

The board of directors must meet with an owner who makes a proper written request for a meeting to discuss a payment plan when the owner has received a notice of a delinquent assessment. These payment plans must conform with the payment plan standards of the association, if they exist. (Section 1367.1 of the Civil Code)