

**BYLAWS
OF
LOS PASEOS MAINTENANCE CORPORATION**

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BYLAWS
OF
LOS PASEOS MAINTENANCE CORPORATION

ARTICLE 1.

NAME AND LOCATION

The name of this corporation is Los Paseos Maintenance Corporation (the "Association"). The principal office for the transaction of the business of the Association is located in the County of Orange, California. The principal office is hereby fixed and located within the Covered Property, or as close thereto as practicable in the County. The Board shall have the power and authority to change the principal office from one location to another within the County.

ARTICLE 2.

DEFINITIONS

All terms as used in these Bylaws shall, unless stated otherwise herein, be defined as set forth in that certain Declaration of Covenants, Conditions and Restrictions which defines the Association named herein in the Article thereof entitled "Definitions" and which has been or will be recorded by Baywood Homes-Rancho Santa Margarita, LLC, in the Official Records, and any amendments thereto (the "Declaration"). All of the terms and provisions of the Declaration are hereby incorporated herein by reference.

ARTICLE 3.

ASSOCIATION MEETINGS

Section 3.1 - Annual Meetings. Regular meetings of the Association shall be held not less than once each calendar year at a time and place fixed by the Board pursuant to the provisions of the Bylaws. The first meeting of the Association, which shall be the first annual meeting, shall be held not later than forty-five (45) days after Close of Escrow has occurred on fifty-one percent (51%) of the Residences located in the First Phase provided that the Final Subdivision Public Report covering the First Phase authorizes the sale of at least fifty (50) Residences. However, notwithstanding the foregoing, in no event shall the first annual meeting of the Association be held later than six (6) months after the first Close of Escrow. Each subsequent regular annual meeting of the Association shall be held on or about the anniversary date of the first annual meeting as fixed by resolution of the Board.

Section 3.2 - Meeting Place. All meetings of the Association shall be held within the Covered Property or at a meeting place as close thereto as possible as may be fixed from time to time by resolution of the Board. Unless unusual conditions exist, Association meetings shall not be held outside of the County.

Section 3.3 - Special Meetings. Special meetings of the Association for any purpose shall be called at any time by resolution of the Board or upon receipt by the president, vice president or secretary of a written request for a special meeting signed by Members representing at least five percent (5%) of the total voting power of the Association.

Section 3.4 - Notice of Meetings.

(a) Upon request in writing to the president, vice president, or secretary by any persons representing at least five percent (5%) of the total voting power of the Association, the officer forthwith shall cause notice to be given

to the Members entitled to vote within twenty (20) days after receipt of the request for the special meeting that a meeting will be held at a time fixed by the Board which meeting shall be not less than thirty-five (35) nor more than ninety (90) days after the receipt of the request.

(b) Notwithstanding the foregoing, upon receipt of a petition demanding a meeting for the purpose of voting to override a decision of the Board or the failure of the Board to act in connection with the Section entitled "Enforcement of Bonded Obligations" of the Declaration, such meeting shall be held in any event not less than thirty-five (35) days nor more than forty-five (45) days after receipt by the Board of such petition for the meeting.

(c) Subject to the limitations imposed under the foregoing provisions of this Section, written notice of meetings, annual or special, shall be given not less than ten (10) nor more than ninety (90) days before the date of the meeting to each Member who, on the record date for notice of the meeting, is entitled to vote thereat. Subject to the provisions of subparagraph (g) below, the notice shall state the place, date and time of the meeting and (1) in the case of a special meeting, the general nature of the business to be transacted and shall specify those matters that the Board intends to present for action by the Members and no other business may be transacted, or (2) in the case of the regular meeting, those matters which the Board, at the time the notice is given, intends to present for action by the Members but any proper matter may be presented at the meeting for action. The notice of any meeting at which directors are to be elected shall include the names of all those who are nominees at the time the notice is given to Members.

(d) Written notice of meetings of the Association, annual or special, shall be delivered in the manner prescribed in the Declaration to each Member entitled thereto.

(e) When a meeting of the Association is adjourned to another time or place, unless the Association Management Documents otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. No meeting may be adjourned for more than forty-five (45) days. At the adjourned meeting the Association may transact any business which might have been transacted at the original meeting. If after the adjournment a new record date is fixed for notice or voting, a notice of the adjourned meeting shall be given to each Member who, on the record date for notice of the meeting, is entitled to vote at the meeting.

(f) The transactions of any meeting of the Association, however called and noticed, and wherever held, are as valid as though had at a meeting held after regular call and notice if a quorum is present, either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed within the Association records or made a part of the minutes of the meeting. Attendance of a Member at a meeting shall constitute a waiver of notice except when the Member objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by this Section to be included in the notice but not so included, if the objection is expressly made at the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of the Association need be specified in any written waiver of notice, consent to the holding of the meeting or approval of the minutes thereof, except as provided in subparagraph (g) below.

(g) Notwithstanding the foregoing, any approval of the Members required to remove a director without cause, to fill a vacancy on the Board, to ratify a transaction between the Association and one or more of its directors, to approve amendments to the Articles, or to elect to voluntarily wind-up and dissolve the Association, other than unanimous approval by those entitled to vote, shall be valid only if the general nature of the proposal so approved was stated in the notice of meeting or in any written waiver of notice.

Section 3.5 - Meeting Procedures. Meetings of the Association shall be conducted in accordance with a recognized system of parliamentary procedure or such parliamentary procedures as the Association may adopt. The Board shall permit any Member to speak at any meeting of the Association. A reasonable time limit for all Members to speak before a meeting of the Association shall be established by the Board. Whenever two or more associations have consolidated any of their functions under a joint neighborhood association or similar organization, members of each participating association shall be entitled to attend all meetings of the joint association other than

executive sessions, shall be given reasonable opportunity for participation in those meetings, and shall be entitled to the same access to the joint association's records as they are to the participating association's records.

Section 3.6 - Quorum. The presence (in person or by proxy or any combination thereof) at a meeting of the Association of Members entitled to cast thirty-three and one-third percent (33 1/3%) of the voting power of the Association shall constitute a quorum for any action except as otherwise provided in the Association Management Documents. The Members present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the voting power required to constitute a quorum. If any meeting cannot be held because a quorum is not present, the Members present, either in person or by proxy, may adjourn the meeting to a time not less than five (5) days nor more than thirty (30) days from the time the original meeting was called. The quorum requirements for such adjourned meeting shall be thirty-three and one-third percent (33-1/3%) of the voting power of the Association. If after the adjournment a new record date is fixed for notice or voting, a notice of the adjourned meeting shall be given to each Member who, on the record date for notice of the meeting, is entitled to vote at the meeting. When any meeting of the Association, either annual or special, is adjourned for any reason (including, without limitation, that a quorum was not present) for more than thirty (30) days or if the time and place for the adjourned meeting are not announced at the original meeting, or if a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given in the manner prescribed for the original meeting.

Section 3.7 - Approval of the Members. The voting rights of the Members are more particularly described in the Article entitled "The Association" of the Declaration. Except where a greater portion of the voting power is required by the Association Management Documents, a majority of the votes cast at a duly held meeting at which a quorum is present (which affirmative votes also constitute a majority of the required quorum) shall constitute approval of the Members and prevail at all meetings.

Section 3.8 - Action Without Meeting.

(a) **Voting by Ballot.** Pursuant to Section 7513 of the California Corporations Code, any action which may be taken at a regular or special meeting of the Association, except the election of directors, may be taken without a meeting if the Association distributes a written ballot to every Member entitled to vote on the matter. Such ballot shall set forth the proposed action, provide an opportunity to specify approval or disapproval of any proposal, and provide a reasonable time within which to return the ballot to the Association.

(b) **Approval Requirements.** Approval by written ballot pursuant to this Section shall be valid only when the number of votes cast by ballot within the specified time period equals or exceeds the quorum required to be present at a meeting authorizing the action, and the number of approvals equals or exceeds the number of votes that would be required to approve such action at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot.

(c) **Solicitation Requirements.** Ballots shall be solicited in a manner consistent with the requirements of Sections 7511(b) and 7514 of the California Corporations Code as set forth in the Sections entitled "Notice of Meetings" and "Vote by Proxy or Written Ballot" of this Article of the Bylaws. All such solicitations shall indicate the number of responses needed to meet the quorum requirement and shall state the percentage of approvals necessary to pass the measure submitted. The solicitation must specify the time by which the ballot must be received in order to be counted.

(d) **Nonrevocable.** A written ballot may not be revoked.

Section 3.9 - Proxies.

(a) **Voting by Proxy.** Every Member entitled to vote or execute consents shall have the right to do so either in person, or by an agent or agents authorized by a written proxy executed by such Member or his duly authorized agent and filed with the Secretary of the Association; provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless otherwise provided in the proxy, except that the maximum term of any proxy shall be three (3) years from the date of execution. All proxies must satisfy the requirements of Section 7613 of the California Corporations Code.

(b) Specification of Certain Matters. Any revocable proxy concerning certain matters which require a vote of the Members is not valid as to such matters unless it sets forth the general nature of the matter to be voted on. These certain matters are as follows:

- (i) removal of a director without cause;
- (ii) filling vacancies on the Board created by removal of a director;
- (iii) approval of transactions involving directors;
- (iv) amendment of the Articles or Bylaws repealing, restricting, creating or expanding proxy rights;
- (v) sale, lease, conveyance, exchange, transfer or other disposition of all or substantially all of the assets of the Association;
- (vi) merger of the Association with another corporation;
- (vii) amendment of an agreement of merger;
- (viii) voluntary dissolution of the Association; and
- (ix) distribution of the Association's assets upon dissolution.

Section 3.10 - Form of Proxy or Written Ballot. Any form of proxy or written ballot distributed by any person to the Members shall afford an opportunity on the proxy or written ballot to specify a choice between approval and disapproval of each matter or group of matters which, at the time the proxy or written ballot is distributed, are intended to be acted upon at the meeting for which the proxy is solicited or by such written ballot, except that it shall not be mandatory that a candidate for election to the Board be named in the proxy or written ballot. The proxy or written ballot shall provide, subject to reasonable specified conditions, that where the Member solicited specifies a choice with respect to any such matter the vote shall be cast in accordance therewith. The proxy shall also identify the person or persons authorized to exercise the proxy and the length of time it will be valid.

ARTICLE 4.

ELECTION OF DIRECTORS

Section 4.1 - Number and Qualification. The Board shall consist of three (3) persons until the first annual meeting of the Association unless the Board elects to increase the number of directors to five (5) at an earlier date. Thereafter, the Board shall consist of five (5) directors until changed by an amendment to this Section of these Bylaws. A person may serve as a director without being a Member.

Section 4.2 - Election and Term.

(a) Until the holding of the first annual meeting of the Association the incorporator of the Association may do whatever is necessary and proper to perfect the organization of the Association, including the adoption of these Bylaws and the appointment of the first directors and officers.

(b) All positions on the Board shall be filled at the first annual meeting. Of the directors who are elected, the two (2) directors who received the lowest number of votes shall be elected to serve two (2) year terms and the remaining directors that are elected shall be elected to serve four (4) year terms.

(c) For as long as the Class B membership continues to exist, upon the expiration of such terms, all successor directors shall be elected to serve four (4) year terms. After the Class B Membership has been converted to Class A Membership, the first directors being elected to replace directors whose terms have expired shall serve

a one (1) year term. Upon the expiration of the terms of all directors thereafter, all successor directors shall be elected to serve two (2) year terms.

(d) Election of directors shall be by secret written ballot. All directors, including directors elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

Section 4.3 - Nomination and Election Procedures. Nominations to serve on the Board may be made by any Member present at a meeting in person or by proxy and may also be made by a committee appointed by the Board for that purpose in accordance with Section 7210 of the California Corporations Code as set forth in the Section entitled "Appointment of Committees" of Article 6 of the Bylaws. Nominees shall be given an opportunity to communicate to the Members their qualifications and the reasons for their candidacy and Members shall be given a reasonable opportunity to choose among the nominees.

Section 4.4 - Cumulative Voting. Every Member entitled to vote for any election of directors shall have the right to cumulate his votes and give one candidate a number of votes equal to the number of directors to be elected, multiplied by the number of votes to which he is entitled, or to distribute his votes on the same principle among as many candidates as he shall think fit. The candidates receiving the highest number of votes up to the number of directors to be elected shall be elected.

No Member shall be entitled to cumulate votes for a candidate or candidates unless such candidate's name or candidates' names have been placed in nomination before the voting and the Member either in person or by proxy has given notice at the meeting, prior to the voting, of the Member's intention to cumulate votes. If any one Member has given such notice, all Members may cumulate their votes for candidates in nomination.

Section 4.5 - Removal of Directors. At any meeting of the Association of which notice has been properly given as provided in these Bylaws, the entire Board or any individual director may be removed from office as hereinafter set forth, provided that the same notice of the meeting has also been given to the entire Board or any individual director whose removal is to be considered at the meeting. The entire Board or any individual director may be removed from office without cause by a majority of the votes cast in the voting on any motion or resolution for removal (if such affirmative votes also constitute a majority of the required quorum); provided, however, that if the Association has a voting power of less than fifty (50) votes, then such removal must be approved by an affirmative vote of a majority of all the votes entitled to be cast. However, unless the entire Board is removed, an individual director shall not be removed before the expiration of his term of office 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 and the entire number of directors authorized at the time of the most recent election of directors were then being elected. Upon any such motion or resolution for removal, every Member may cumulate his vote or votes, as the case may be, in the same manner as provided for the election of directors in these Bylaws. If any or all directors are so removed, new directors may be elected at the same meeting.

Section 4.6 - Vacancies. A vacancy or vacancies shall be deemed to exist on the Board in case of the death, resignation or removal of any director. A vacancy shall also be deemed to exist if the authorized number of directors is increased at any meeting of the Association and the additional directors needed to fill such positions to the Board are not elected at such meeting.

Except for a vacancy created by the removal of a director, vacancies on the Board may be filled by approval of the Board or, if the number of directors then in office is less than a quorum, by (1) the unanimous written consent of the directors then in office, (2) the affirmative vote of a majority of the directors then in office at a meeting held pursuant to notice or waivers of notice complying with the notice requirements set forth in Section 7211 of the Corporations Code and the Section entitled "Notice of Meetings" of Article 5 of the Bylaws, or (3) a sole remaining director. The Members may elect a director at any time to fill any vacancy not filled by the directors. Any director may resign effective upon giving written notice to the president, the secretary or the Board unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

No reduction of the number of directors shall have the effect of removing any director before the expiration of his term of office.

Section 4.7 - Special Voting Rights. Notwithstanding the provisions of this Article or any other provision of the Association Management Documents, as long as there is a Class B membership or the majority of the voting power of the Association resides in the Declarant, not less than twenty percent (20%) of the total number of directors shall have been elected by Members other than Declarant and any such director(s) may only be removed by the vote or written assent of a majority of the Members other than Declarant. Any vacancy caused by the death, resignation or removal of any such director shall be filled by a Class A Member appointed by the Board who shall serve until the vacancy can be filled by the vote of a majority of the voting power of the Members other than Declarant at any subsequent annual or special meeting of the Association.

ARTICLE 5.

MEETINGS OF THE BOARD

Section 5.1 - Regular Meetings.

(a) **Organizational Meeting.** Immediately after each annual meeting of the Association, the Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. No notice of such meeting is required.

(b) **Other Regular Meetings.** Other regular meetings of the Board may be held without notice if the time and place of such meetings are fixed by resolution of the Board. In no event shall regular meetings of the Board be held less than once every six (6) months.

Section 5.2 - Special Meetings. Special meetings of the Board for any purpose may be called at any time by written notice signed by the President or by any two (2) directors other than the President.

Section 5.3 - Place of Meetings. All meetings of the Board shall be held at a meeting place fixed by the Board from time to time. Such meeting place shall ordinarily be within the Covered Property unless in the judgment of the Board a larger meeting room is required than exists within the Covered Property in which case the meeting room selected shall be as close as possible to the Covered Property.

Section 5.4 - Notice of Meetings.

(a) **Regular Meeting.** Notice of the time and place of any regular meeting shall be communicated to directors not less than four (4) days before the meeting unless the time and place of such meeting has been fixed by resolution of the Board. A notice of the time and place of a regular meeting shall be posted at a prominent and accessible place or places within the Nonexclusive Use Common Area not less than four (4) days before the meeting. If the Nonexclusive Use Common Area consists only of an easement or is otherwise unsuitable for posting of such notice, the Board shall communicate the notice of the time and place of such meeting by any means it deems appropriate.

(b) **Special Meeting.** Written notice of the time and place of a special meeting and the nature of any special business to be considered thereat shall be either delivered personally to the directors or sent to each director by letter or by telegram, postage or charges prepaid, addressed to him at his address as it is shown in the records of the Association. If such notice is delivered personally to the directors, such delivery must occur not less than seventy-two (72) hours before the scheduled time of the meeting. If such notice is mailed or telegraphed, it shall be deposited in the United States Mail or delivered to the telegraph company at or near the place in which the principal office of the Association is located at least four (4) days (if by mail) or seventy-two (72) hours (if by telegraph) before to the scheduled time of the meeting. Such mailing, telegraphing or delivery as provided herein shall be due, legal and personal notice to each such director. Except as otherwise provided in California Civil Code Section 1363.05, notice of the time and place of a special meeting shall be posted or communicated in the manner prescribed for notice of regular meetings.

(c) **Waiver of Notice.** Notwithstanding the foregoing, notice of a meeting need not be given to any director who signed a waiver of notice or a written consent to holding of the meeting.

(d) Notice to Members. Members shall be given notice of the time and place of Board meetings in accordance with California Civil Code Section 1363.05.

Section 5.5 - Adjournment. A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. If a Board meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time and place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of adjournment.

Section 5.6 - Waiver of Notice. The transaction of any business at any meeting of the Board, however called and noticed to the directors, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and each director who attends does so without protesting, either prior thereto or at its commencement, the lack of notice to such director, and if, either before or after the meeting, each of the directors not present signs a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the records of the Association or made a part of the minutes of the meeting.

Section 5.7 - Quorum. A majority of the number of directors as fixed pursuant to these Bylaws shall be necessary to constitute a quorum for the transaction of business, except to adjourn as hereinbefore provided. Every act or decision made or done by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting, or such greater number as is required by statute or under any of the Association Management Documents.

Section 5.8 - Attendance by Members. Any Member may attend meetings of the Board except when the Board adjourns to executive session to consider litigation, matters that relate to the formation of contracts with third parties, Member discipline, or personnel matters. Any matter discussed in executive session shall be generally noted in the minutes of the Board. In any matter relating to the discipline of a Member, the Board shall meet in executive session if requested by that Member and the Member shall be entitled to attend the executive session. No Member who is not an officer or director shall participate in any deliberation or discussion unless expressly authorized by a majority of a quorum of the Board. The Board may, with the approval of a majority of its members present at a meeting in which a quorum for the transaction of business has been established, adjourn a Board meeting and reconvene in executive session exclusive of all Members who are not directors to discuss and vote upon matters requiring confidentiality. The nature of any and all business to be so considered in executive session shall first be announced in open session. The Board shall permit any Member to speak at any meeting of the Board except for meetings of the Board held in executive session. A reasonable time limit for all Members to speak to the Board shall be established by the Board.

Section 5.9 - Action Without Meeting. Notwithstanding anything to the contrary contained in these Bylaws, any 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 such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such directors. If the Board resolves by unanimous written consent to take action, an explanation of the action taken shall be posted at a prominent place or places within the Nonexclusive Use Common Area within three (3) days after the written consents of all Board members have been obtained. If the Nonexclusive Use Common Area consists only of an easement or is otherwise unsuitable for posting the explanation of the action taken, the Board shall communicate the explanation by any means it deems appropriate.

Section 5.10 - Telephonic Attendance. Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Participation in a meeting pursuant to this Section constitutes presence in person at such meeting.

ARTICLE 6.

POWERS, DUTIES AND LIMITATIONS

Section 6.1 - Powers and Duties. Subject to limitations of the Association Management Documents and of the California Corporations Code as to action to be authorized or approved by the Members, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Association shall be controlled by, the Board. Without prejudice to such general powers but subject to the same limitations, the Board is vested with and shall have the following powers and duties:

(a) **Association Management Documents:** The duty to enforce the provisions of the Association Management Documents and other instruments for the ownership of the Association Property and the management and control of the Covered Property and to carry out the obligations of the Association, including without limitation the right to levy Assessments;

(b) **Real and Personal Property Taxes:** The power to pay any taxes and assessments which are, or could become, a lien on the Association Property or any portion thereof;

(c) **Insurance:** Contract for insurance on behalf of the Association or its Members pursuant to the Article entitled "Insurance" of the Declaration;

(d) **Contracts for Goods and Services:** The power to contract for goods and/or services for the Common Facilities, Association Common Area Improvements, and other interests, for the benefit of the Owners and for the Association;

(e) **Delegation of Powers:** The power to delegate to committees, officers, employees or agents any of its duties and powers under the Association Management Documents; provided, however, no such delegation to a professional management company, the Architectural Committee or otherwise shall relieve the Association of its obligation to perform such delegated duty;

(f) **Budgets and Financial Statements:** The duty to prepare budgets and financial statements for the Association as prescribed in the Bylaws;

(g) **Rules and Regulations:** The power to formulate rules of operation for the Common Area and facilities owned or controlled by the Association, including without limitation, the right to limit the number of guests of Owners and the use of the recreational facilities, if any, on the Nonexclusive Use Common Area by persons not in possession of a Residence but owning a portion of the interest in a Residence required for membership;

(h) **Disciplinary Proceedings:** The duty to initiate and execute disciplinary proceedings against Owners for violations of provisions of the Association Management Documents in accordance with the procedures set forth in the Bylaws;

(i) **Right of Entry:** The power to enter upon any Residence as necessary to discharge its powers and obligations under the Association Management Documents which include (1) the construction, maintenance or emergency repair for the benefit of the Common Area or the Owners, or (2) the enforcement of the parking requirements of the Association, including the power to inspect any garage to assure that the garage is being used primarily for the parking of the maximum number of vehicles for which it was designed. Entry may be made without notice in the event of any emergency repair involving potential danger to life or property or as necessary to repair or maintain the Common Area so as not to deprive other Owners of the proper use thereof, for example, but without limitation, the repair of utility installations or structures that service other Residences. Entry for any other allowable purpose shall be made at any reasonable time, after notice to the Owner of not less than three (3) days. Any entry shall be made with as little inconvenience to the Owners as practicable;

(j) **Election of Officers:** The duty to elect officers of the Board pursuant to the Section entitled "Officers" of the Article entitled "Officers" of the Bylaws;

(k) **Vacancies on the Board:** The power to fill vacancies on the Board except vacancies created by the removal of a director;

(l) **Manage Property:** The duty to maintain and otherwise manage: (1) all easements and real property and all facilities, improvements and landscaping thereon in which the Association holds an interest, subject to the terms of any instrument transferring such interest to the Association, (2) all personal property in which the Association holds an interest, subject to the terms of any instrument transferring such interest to the Association, and (3) all property, real or personal, which the Association is obligated to repair or maintain pursuant to the Association Management Documents, including without limitation, the Article entitled "Repair and Maintenance" of the Declaration;

(m) **Contribution to Reserves:** The duty to accept and administer on behalf of and for the benefit of the Owners any initial working capital fund or contingency reserve fund established by the Declarant, if any, pursuant to an agreement between the Declarant and any of the Federal Agencies;

(n) **Provide Documents and Statements:** The duty to, within ten (10) days of the delivery of written request, provide an Owner with (1) a copy of the Association Management Documents, (2) a copy of the most recent financial statement of the Association, (3) a true statement in writing as to the amount of any unpaid Assessments and information relating to Allowable Charges which as of the date of the statement are or may be made a lien upon the Owner's Residence, and (4) all other items specified in California Civil Code Section 1368(a);

(o) **Grant Rights:** The power to grant permits, licenses and easements on, over and under the Common Area for utilities, roads and other purposes not inconsistent with the intended use and occupancy of the Covered Property and reasonably necessary or useful for the proper maintenance or operation of the Covered Property, provided that such permits, licenses and easements shall not unreasonably interfere with the right of any Owner to the use and enjoyment of his Residence and the Nonexclusive Use Common Area;

(p) **Contracts With Mortgagees:** The duty to negotiate and enter into contracts with Mortgagees and mortgage insurers and guarantors as may be necessary and desirable to facilitate the availability of loans secured by Mortgages within the Covered Property;

(q) **Borrow Money:** The power to borrow money as may be needed in connection with the discharge by the Association of its powers and duties and for the purpose of improving, replacing or restoring the Common Area or adding new Common Area;

(r) **Dedicate Association Property:** The power to dedicate or transfer all or any part of the Association Property to any public agency, authority or utility or other entity;

(s) **Special Tax Assessment District:** The power to establish in cooperation with the appropriate Public Agency a special tax assessment district for the performance of all or a portion of the maintenance and other functions within the responsibility of the Association;

(t) **Corporate Seal:** The power to adopt and use a corporate seal;

(u) **Membership Certificates:** The power to issue appropriate membership certificates evidencing membership in the Association; and

(v) **Tax-Exempt Status:** The duty to conduct the business of the Association in such manner that the Association can qualify and be considered an organization exempt from federal and state income taxes pursuant to Internal Revenue Code Sections 501(c)(4) or 528 and California Revenue and Taxation Code Section 23701t, as amended. The Board shall cause to be timely filed any annual election for tax-exempt status as may be required under federal or state law, and shall undertake to cause the Association to comply with the statutes, rules and regulations which have been or shall be adopted by federal and state agencies pertaining to such exemption.

Section 6.2 - General Limitations and Restrictions. In addition to the limitations and restrictions enumerated elsewhere in the Association Management Documents, including without limitation the Article entitled "Mortgagee Protection" of the Declaration and the Section entitled "Additional Contractual Restrictions" of this Article, the Board

shall be prohibited from taking any of the following actions except with the assent, by vote at a meeting of the Association or by written ballot without a meeting pursuant to California Corporations Code Section 7513, of a simple majority of the Members other than Declarant constituting a quorum consisting of more than fifty (50) percent of the voting power of the Association residing in Members other than Declarant:

(a) Long Term Contracts. Enter into a contract with a third person wherein the third person will furnish goods or services for the Common Area or the Association for a term longer than one (1) year, with the following exceptions:

- (i) a management contract the terms of which have been approved by the FHA and VA;
- (ii) a contract with a public utility company if the rates charged for the 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 and/or liability insurance policies of not to exceed three (3) years duration, provided that the applicable policy permits short rate cancellation by the insured;
- (iv) lease agreements for laundry room fixtures and equipment of not to exceed five (5) years duration provided that the lessor under the agreement is not an entity in which the Declarant has a direct or indirect ownership interest 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 the 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 the Declarant has a direct or indirect ownership interest of ten percent (10%) or more; and
- (vii) a contract for a term not to exceed three (3) years that is terminable by the Association after no longer than one (1) year without cause, penalty or other obligation upon ninety (90) days' written notice of termination to the other party.

(b) Expenditures. Incur aggregate expenditures for capital improvements to the Common Area other than Special Benefits Common Area in any fiscal year in excess of five percent (5%) of the estimated Common Expenses for the fiscal year or to the Special Benefits Common Area in a Special Benefits Area in any fiscal year in excess of five percent (5%) of the estimated Special Benefits Expenses of such Special Benefits Area for the fiscal year.

(c) Sale of Real or Personal Property. Sell any real or personal property of the Association with an aggregate fair market value in excess of five percent (5%) of the total of the estimated Common Expenses and Special Benefits Expenses during any fiscal year.

(d) Compensation. Pay compensation to directors or to officers of the Association for services performed in the conduct of the Association's business; provided, however, the Board may cause a director or officer to be reimbursed for expenses incurred in carrying on the business of the Association. Nothing contained herein shall be construed to preclude any director or officer from serving the Association as agent, counsel, or any capacity other than as such director or officer and receiving compensation therefor.

Section 6.3 - Additional Contractual Restrictions. Any agreement for professional management and any other contract providing for services of the Declarant, developer, sponsor or builder shall not exceed three (3) years in duration and shall be terminable without cause upon ninety (90) days' or less written notice by either party without payment of a termination fee. Any agreement for professional management entered into before control of the Association is transferred to the Members other than Declarant must give the Association the right to terminate it without cause at any time after the transfer of control of the Association to the Members other than Declarant.

Section 6.4 - Record Date.

(a) **For Notice:** The Board may fix, in advance, a date as the record date for the purpose of determining the Members entitled to notice of any meeting of the Association. Such record date shall not be more than sixty (60) days nor less than ten (10) days before the date of the meeting. If no record date is fixed, Members at the close of business on the business day preceding the day on which notice is given or, if notice is waived, at the close of business on the business day preceding the day on which the meeting is held are entitled to notice of a meeting of the Association. A determination of Members entitled to notice of a meeting of the Association shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting.

(b) **To Vote:** The Board may fix, in advance, a date as the record date for the purpose of determining the Members entitled to vote at a meeting of the Association. Such record date shall not be more than sixty (60) days before the date of the meeting. Such record date shall also apply in the case of an adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting. If no record date is fixed, Members on the day of the meeting who are otherwise eligible to vote are entitled to vote at the meeting of the Association or, in the case of an adjourned meeting, Members on the day of the adjourned meeting who are otherwise eligible to vote are entitled to vote at the adjourned meeting of the Association.

(c) **To Cast Ballots:** The Board may fix, in advance, a date as the record date for the purpose of determining the Members entitled to cast written ballots in accordance with the Section entitled "Approval of the Members" of the Article entitled "Meetings of the Association" of these Bylaws. Such record date shall not be more than sixty (60) days before the day on which the first written ballot is mailed or solicited. If no record date is fixed, Members on the day the first written ballot is mailed or solicited who are otherwise eligible to vote are entitled to cast written ballots.

(d) **For Exercise of Rights:** The Board may fix, in advance, a date as the record date for the purpose of determining the Members entitled to exercise any rights in respect of any other lawful action. Such record date shall not be more than sixty (60) days before such other action. If no record date is fixed, Members at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day before the date of such other action, whichever is later, are entitled to exercise such rights.

Section 6.5 - Contracts; How Executed. The Board, except as otherwise provided in these Bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Association, and such authority may be general or confined to specific instances; and unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Association by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 6.6 - Indemnification. To the maximum extent permitted by and in accordance with the requirements and procedures of Section 7237 of the California Corporations Code as interpreted by the judiciary from time to time, the Association shall reimburse, indemnify and hold harmless each present and future director, officer, employee or other "agent" to include, without limitation, a member of any committee of the Association (as such term is defined in said Section 7237) and each person who, at the request of the Association, acts as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture or other enterprise, (hereinafter in this Section referred to as the "Association representative"), from and against all loss, cost, liability and expense which may be imposed upon or reasonably incurred by such Association representative including reasonable settlement payments, in connection with any claim, action, suit or proceeding, or threat thereof, made or instituted, in which such Association representative may be involved or be made a party by reason of being or having been an Association representative or by reason of any action alleged to have been taken or omitted by such Association representative in such capacity. The right of indemnification provided in this Section shall inure to each Association representative whether or not the claim asserted is based on matters which arose in whole or in part before the adoption of this Section, and in the event of the death of the Association representative, shall extend to the legal representatives of such person. The right of indemnification provided in this Section shall not be exclusive of any other rights to which any person, or any other individual, may be entitled as a matter of law, under any agreement or otherwise.

Section 6.7 - Appointment of Committees.

(a) Subject to limitations hereinafter provided in this Section, the Board may delegate the management of the activities of the corporation to any person or persons, management company, or committee however composed provided that the activities and affairs of the Association are conducted and all corporate powers are exercised by or under the direction of the Board as provided in Section 7210 of the California Corporations Code.

(b) Any executive committee, empowered to act with the authority of the Board, must consist of at least two (2) directors. Any such committee, to the extent provided in the resolution of the Board, shall have all the authority of the Board, except with respect to:

- (i) the approval of any action for which the law requires approval of the Members or approval of a majority of all Members;
- (ii) the filling of vacancies on the Board or on any committee which has the authority of the Board;
- (iii) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable;
- (iv) the appointment of other committees of the Board or the members thereof; and
- (v) the approval of any self-dealing transaction with respect to assets held in charitable trust except as provided in Section 5233(d) of the California Corporations Code.

Section 6.8 - Officer and Director Liability. Until Section 1365.7 of the California Civil Code is amended to provide otherwise, a volunteer officer or volunteer director of the Association shall not be personally liable in excess of the coverage of insurance specified in subparagraph (d) below to any person who suffers injury, including, but not limited to, bodily injury, emotional distress, wrongful death, or property damage or loss as a result of the tortious act or omission of the volunteer officer or volunteer director if all of the following criteria are met:

(a) The act or omission was performed within the scope of the officer's or director's Association duties. The scope of the officer's or director's Association duties shall include, but shall not be limited to, both of the following decisions:

- (1) whether to conduct an investigation of the Covered Property for latent deficiencies prior to the expiration of the applicable statute of limitations; and
- (2) whether to commence a civil action against Declarant for defects in design or construction.

(b) The act or omission was performed in good faith.

(c) The act or omission was not willful, wanton, or grossly negligent.

(d) The Association maintained and had in effect at the time the act or omission occurred and at the time a claim is made one or more policies of insurance which include coverage for (i) general liability of the Association, (ii) individual liability of officers and directors of the Association for negligent acts or omissions in that capacity; provided, that both types of coverage are in the following minimum amount:

(1) at least Five Hundred Thousand Dollars (\$500,000) if the Covered Property consists of 100 or fewer Residences; or

(2) at least One Million Dollars (\$1,000,000) if the Covered Property consists of more than 100 Residences.

The payment of actual expenses incurred by a director or officer in the execution of the duties of that position does not affect the director's or officer's status as a volunteer within the meaning of this Section.

An officer or director who at the time of the act or omission was a Declarant, or who received either direct or indirect compensation as an employee from the Declarant or from a financial institution that purchased a Residence at a judicial or nonjudicial foreclosure of a Mortgage, is not a volunteer for the purposes of this Section.

Nothing in this section shall be construed to limit the liability of the Association for its negligent act or omission or for any negligent act or omission of an officer or director of the Association.

This section shall only apply to a volunteer officer or director who is a tenant of a Residence or is an Owner of no more than two Residences.

Section 6.9 - Member Liability. Until Section 1365.9 of the California Civil Code is amended to provide otherwise, any cause of action in tort against any person arising solely by reason of an ownership interest in the Common Area shall be brought against the Association and not against the Owners provided that all of the following insurance requirements are met:

(a) The Association maintained and has in effect for such cause of action one or more policies of insurance which include coverage for general liability of the Association.

(b) The insurance coverage for the general liability of the Association is in the following minimum amounts:

(1) at least Two Million Dollars (\$2,000,000) per occurrence if the Covered Property consists of one hundred (100) or fewer Residences; and

(2) at least Three Million Dollars (\$3,000,000) per occurrence if the Covered Property consists of more than one hundred (100) Residences.

ARTICLE 7.

OFFICERS

Section 7.1 - Officers. The officers shall be a President, a Vice President, a Secretary and a Chief Financial Officer which officers shall be elected by and hold office at the pleasure of the Board. Any two (2) or more of such offices may be held by the same person. All offices may be held by someone who is not a member of the Board.

Section 7.2 - Election. The officers of the Association, except such officers as may be appointed in accordance with the provisions of the Sections entitled "Subordinate Officers" and "Vacancies" of this Article, shall be chosen annually by the Board and each shall hold his office until he resigns or is removed or otherwise be disqualified to serve, or until his successor is elected and qualified.

Section 7.3 - Subordinate Officers. The Board may appoint such other officers as the business of the Association may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board may from time to time determine.

Section 7.4 - Removal and Resignation. Any officer may be removed, either with or without cause, by the vote of a majority of all the directors then in office at any regular or special meeting of the Board at which a quorum is present.

Any officer may resign at any time by giving written notice to the Board or to the President or to the Secretary of the Association. Any such resignation shall take effect as of the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 7.5 - Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled by election or appointment by the Board as prescribed in these Bylaws.

Section 7.6 - President. The President shall be the chief executive officer of the Association and shall, subject to the control of the Board, have general supervision, direction and control of the business and officers of the Association. The President shall preside at all meetings of the Association and of the Board. He shall be an ex officio member of all standing committees, if any, and shall have the general powers and duties of management usually vested in the office of the President of a nonprofit mutual benefit corporation, and shall have the powers and duties as may be prescribed by the Board or these Bylaws.

Section 7.7 - 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 the powers of, and be subject to all the restrictions upon, the office of President. The Vice President shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board or the Bylaws.

Section 7.8 - Secretary. The Secretary shall keep, or cause to be kept, at the principal office or such other place as the Board may order, (1) a book of Minutes of all meetings and proceedings of the Board and its committees and of the Association, with the time and place of the holding of same, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present or represented at Association meetings and the proceedings thereof and (2) a record of the Members giving the names, addresses and telephone numbers and the class of membership held by each.

The Secretary shall give, or cause to be given, notice of all meetings of the Association and of the Board required by the Bylaws or by law to be given, and he shall keep the seal of the Association in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board or by these Bylaws.

Section 7.9 - Chief Financial Officer. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Association. The books and records of account shall at all reasonable times be open to inspection by any director or by any Member.

The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Association with such depositories as may be designated by the Board. He shall render to the President and directors, whenever they request it, an account of all of his transactions as Chief Financial Officer and of the financial condition of the Association, and shall have such other powers and perform such other duties as may be prescribed by the Board or these Bylaws.

ARTICLE 8.

FINANCIAL STATEMENTS AND INFORMATION

Section 8.1 - Budgets, Financial Statements and Documents. Until and unless Section 1365 of the California Civil Code is amended to provide otherwise, the Association shall prepare and distribute to all of its Members the following documents:

(a) **Pro Forma Operating Budget.** The Pro Forma Operating Budget as defined in Section 1365(a) of the California Civil Code and the Section entitled "Pro Forma Operating Budget" of Article I of the Declaration. A copy of the Pro Forma Operating Budget shall be annually distributed to each Member not less than forty-five (45) days nor more than sixty (60) days before the beginning of the Association's fiscal year.

(b) **Review of Financial Statement.** A review of the financial statement of the Association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year in which the gross income to the Association exceeds seventy-five thousand dollars (\$75,000.00). A copy of the review of the financial statement shall be distributed within one hundred twenty (120) days after the close of each fiscal year.

(c) **Distribution of Summary.** In lieu of the distribution of the Pro Forma Operating Budget required by this Section, the Board may elect to distribute a summary of the Pro Forma Operating Budget to all Members with a written notice that the Pro Forma Operating Budget is available at the business office of the Association or at another suitable location within the boundaries of the Covered Property and that copies will be provided upon

request and at the expense of the Association. If any Member requests copies of the Pro Forma Operating Budget to be mailed to the Member, the Association shall provide such copies to such Member by first-class United States mail at the expense of the Association which shall be mailed within five (5) days. The written notice that is distributed to each of the Members shall be in at least 10-point bold type on the front page of the summary of the statements.

(d) Statement. A statement describing the Association's policies and practices in enforcing lien rights or other legal remedies for default in payment of its Assessments against its Members shall be annually delivered to the Members during the 60-day period immediately preceding the beginning of the Association's fiscal year.

(e) Insurance Information. Information regarding the Association's insurance policies, as required under California Civil Code Section 1365(e). To the extent such information is set forth in the declaration page of any such insurance policies, the Association may meet the requirements of Sections 1365(e) by distributing copies of such declaration pages to all Members. The Association shall, as soon as reasonably practical, notify all Members by first class mail if any such insurance policies have lapsed, been cancelled 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 any such insurance policy, the Association shall immediately notify all Members if replacement coverage will not be in effect by the date the existing coverage will lapse.

Section 8.2 - Annual Report. Until and unless Section 8321(a) of the California Corporations Code is amended to provide otherwise, the Association shall prepare and distribute to each Member within one hundred twenty (120) days after the close of the Association's fiscal year:

(a) Documents. A report containing the following:

- (i) a balance sheet as of the end of such fiscal year;
- (ii) an operating (income) statement for such fiscal year;
- (iii) a statement of changes in financial position for such fiscal year;
- (iv) a copy of the review of the annual report described in Section 8.01(b) hereof;
- (v) a statement of the place where the names and addresses of the current Members may be found; and
- (vi) any information regarding insider transactions required to be reported by Section 8322 of the California Corporations Code.

(b) Certificate of Officer. If the report referred to in this Section is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Association that such statement was prepared from the books and records of the Association without independent audit or review.

Section 8.3 - Review of Accounts. The Board shall do all of the following on at least a quarterly basis:

- (a) Review a current reconciliation of the Association's operating accounts;
- (b) Review a current reconciliation of the Association's reserve accounts (as defined in Section 1365.5(f) of the California Civil Code to mean moneys that the Board has identified for use to defray the future repair or replacement of, or additions to, those major components which the Association is obligated to maintain);
- (c) Review the current year's actual reserve revenues and expenses compared to the current year's budget;
- (d) Review the latest account statements prepared by the financial institutions where the Association has its operating and reserve accounts; and

- (e) Review an income and expense statement for the Association's operating and reserve accounts.

Section 8.4 - Withdrawal From Reserves. The signatures of at least two persons, who shall be members of the Board, or one member of the Board and an officer who is not a member of the Board, shall be required for the withdrawal of funds from the Association's reserve accounts.

All other checks, drafts or orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to the Association shall be signed or endorsed by such officer or officers, employee, employees, agent or agents of the Association and in such manner as, from time to time, shall be determined by resolution of the Board.

Section 8.5 - Use of Reserve Funds. The Board shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement or maintenance of, or litigation involving the repair, restoration, replacement or maintenance of, major components which the Association is obligated to repair, restore, replace or maintain, and for which the reserve fund was established. However, 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. The transferred funds shall be restored to the reserve fund within one (1) year of the date of the initial transfer, except that the Board may, upon making a finding supported by documentation that a temporary delay would be in the best interests of the Association, temporarily delay the restoration. The Board shall exercise prudent fiscal management in delaying restoration of funds to the Association's reserve accounts and in restoring the expended funds to the Association's reserve accounts and shall, if necessary, levy a Special Assessment to recover the full amount of any funds expended within the time limits required hereunder. A Special Assessment levied pursuant to this Section shall be subject to the maximum assessment limitations set forth in Section 1366 of the California Civil Code. The Board may, at its discretion, extend the date the payment on the Special Assessment is due. Any extension shall not prevent the Board from pursuing any legal remedy to enforce the collection of an unpaid Special Assessment.

Section 8.6 - Accounting of Funds. When the decision is made to use reserve funds or to temporarily transfer money from the reserve fund to pay for litigation, or to use any funds of the Association to pay for litigation involving the repair, restoration, replacement or maintenance of major components which the Association is obligated to repair, restore, replace or maintain, the Association shall notify the Members of that decision in the next available mailing to all Members pursuant to Section 5016 of the California Corporations Code, and of the availability of an accounting of those expenses. The Association shall make an accounting of expenses related to the litigation on at least a quarterly basis. The accounting shall be made available for inspection by Members at the Association's office.

Section 8.7 - Reserve Account Study. At least once every three (3) years, the Board shall cause to be conducted 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 (defined to mean the estimated funds which the Board has determined are required to be available at a specified point in time to repair, replace or restore those major components which the Association is obligated to maintain). The Board shall review the study annually and shall consider and implement necessary adjustments to the Board's analysis of the Association's reserve account requirements as a result of such review. The study required by this Section shall at a minimum include:

- (a) Identification of the major components which the Association is obligated to repair, replace, restore or maintain which, as of the date of the study, have a remaining useful life of less than thirty (30) years;
- (b) Identification of the probable remaining useful life of the components identified in subparagraph (a) above as of the date of the study;
- (c) An estimate of the cost of repair, replacement, restoration or maintenance of the components identified in subparagraph (a) above during and at the end of their useful life; and

(d) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore or maintain the components identified in subparagraph (a) above during and at the end of their useful life, after subtracting total reserve funds as of the date of the study.

Section 8.8 - Alternative Dispute Resolution. The Board shall annually provide to the Members a summary of the provisions of Section 1354 of the California Civil Code which specifically references such statute. The summary shall include the following language:

"Failure by any member of the association to comply with the prefiling requirements of Section 1354 of the Civil Code may result in the loss of your rights to sue the association or another member of the association regarding enforcement of the governing documents."

The summary shall be provided either at the time the Pro Forma Operating Budget required by California Civil Code Section 1365 is distributed to the Members or in the manner specified in Section 5016 of the California Corporations Code.

ARTICLE 9.

INSPECTION OF RECORDS

Section 9.1 - Availability of Documents.

(a) Subject to Sections 8331 and 8332 of the California Corporations Code, a Member may be entitled to, in accordance with the provisions and requirements of Section 8330 of the California Corporations Code, inspect and copy the record of Members' names, addresses and voting rights or obtain a list of the names, addresses and voting rights of those Members entitled to vote for the election of directors if the purpose for having such information is reasonably related to such person's interest as a Member. In accordance with Section 8331 of the California Corporations Code, the Association may petition the superior court of the County for an order setting aside such demand if the Association, in good faith, and with a substantial basis, believes that the membership list will be used for a purpose not reasonably related to the interests as Members of the person or persons making such demand or provides a reasonable alternative, and, in accordance with Section 8332 of the California Corporations Code, the superior court may limit or restrict such rights of the Member.

(b) Until Section 1363.05(d) of the California Civil Code is amended to provide otherwise, the minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board, other than an executive session, shall be available to Members within thirty (30) days of the meeting. The minutes, proposed minutes, or summary minutes shall be distributed to any Member upon request and upon reimbursement of the Association's costs in making that distribution.

(c) Members shall be notified in writing at the time that the Pro Forma Operating Budget required by Section 1365 of the California Civil Code is distributed or at the time of any general mailing to the entire membership of the Association of their right to have copies of the minutes of meetings of the Board and as to how and where those minutes may be obtained and the cost of obtaining such copies.

(d) Until Section 7160 of the Corporations Code is amended to provide otherwise, the Association shall keep at its principal office the original or a copy of its Articles of Incorporation and Bylaws, as amended to date, which shall be open to inspection by the Member at all reasonable times during office hours.

(e) The membership register and books of account shall be made available for inspection and copying pursuant to this Section of the Bylaws by any Member or by his duly-appointed representative, at any reasonable time and for a purpose reasonably related to his interest as a Member, at the office of the Association or at such other place within the Covered Property as the Board may prescribe.

(f) The Association must have current copies of the Association Management Documents as well as its own books, records and financial statements available for inspection by any prospective purchaser, holders, insurers and guarantors of First Mortgages that are secured by Residences in the Covered Property as well as to the

Members during any reasonable time during normal business hours or under other reasonable circumstances and for a purpose reasonably related to their interest as a prospective purchaser, Member, holder, insurer or guarantor, at the principal office of the Association or such other place within the Covered Property as the Board shall prescribe.

Section 9.2 - Rules For Inspection. The Board shall establish reasonable rules with respect to notice to be given to the custodian of the records by the Member desiring to make the inspection; hours and days of the week when such inspection may be made; and payment of the cost of reproducing copies of documents requested by a Member.

Section 9.3 - Inspection By Directors. Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association and the physical properties owned or controlled by the Association, all as provided in the California Corporations Code. Without limiting the generality of the foregoing, the right of inspection by a director includes the right to make extracts and copies of documents.

ARTICLE 10.

DISCIPLINE OF MEMBERS

Section 10.1 - Association Rules; Penalty Assessments.

(a) **Adoption of Association Rules.** The Board shall have the power to adopt, amend, and repeal Association Rules which shall govern such matters in furtherance of the purposes of the Association, including, without limitation, the violation of use restrictions, the use of the Nonexclusive Use Common Area, trash collection and disposal and maintenance obligations; provided, however, that the Association Rules may not discriminate among Owners and shall not empower the Association to suspend any Owner's right to use any portion of the Nonexclusive Use Common Area to gain access to his Residence or cause a forfeiture or abridgement of an Owner's right to the full use and enjoyment of his Residence on account of the failure of such Owner to comply with the provisions of the Association Management Documents, except by judgment of a court or a decision arising out of arbitration or on account of a foreclosure or sale under a power of sale for failure of the Owner to pay Assessments duly levied by the Association. A copy of the Association Rules as they may from time to time be adopted, amended or repealed or a notice setting forth the adoption, amendment or repeal of specific portions of the Association Rules shall be delivered to each Owner in the same manner established in the Declaration for the delivery of notices. Upon completion of the notice requirements, such Association Rules shall have the same force and effect as if they were set forth in and were part of the Declaration and shall be binding on the Owners and their successors in interest whether or not actually received thereby.

(b) **Penalty Assessment.** The Board shall have the right to impose a monetary penalty as a Penalty Assessment on any Member for a violation of the provisions of any of the Association Management Documents, including any monetary penalty relating to the activities of a guest or invitee of a Member. Such Penalty Assessment may be assessed pursuant to this Section provided that the Board has adopted and distributed to each Member, by personal delivery or first-class mail, a schedule of the monetary penalties that may be assessed for such violations. The Board shall not be required to distribute any additional schedules of monetary penalties unless there are changes from the schedule that was adopted and distributed to the Members as set forth herein. The Board shall meet in executive session if requested by the Member being disciplined and the Member shall be entitled to attend such executive session.

Section 10.2 - Enforcement. The Board shall have the right, after affording the affected Owner an opportunity to have a hearing as hereinafter provided, to take disciplinary action against any Owner for a violation of any provision of the Association Management Documents or to seek reimbursement from any Owner for any damage to Association maintained Common Area for which such Owner may be held responsible. Except for the collection of Allowable Charges, the collection of Penalty Assessments where the Owner is entitled to attend an executive session of the Board held at the request of such Owner, the recordation of a lien against a Residence and the foreclosure of such lien in the case of delinquent Assessments other than Penalty Assessments as provided in the Declaration, and except for the taking of immediate action that may be necessary to alleviate an emergency situation, a decision cannot be made and other disciplinary action cannot be imposed by the Association unless the Owner is given fair and reasonable notice and the opportunity to have a hearing.

(a) Complaint. Upon finding by the Board of a violation of a provision of the Association Management Documents or of any damage to any Association maintained Common Area, the Board shall deliver a complaint to the Owner (hereinafter the "Respondent") who is alleged to have violated any such provision or caused such damage, or whose family, tenants, guests, invitees or agents are alleged to have violated any such provision or caused such damage. The complaint shall be delivered in the manner prescribed for the delivery of notices in the Section entitled "Notices" of the Article entitled "General Provisions" of the Declaration and shall contain the following information:

(i) a brief description of the alleged violation and, in the event the correction of the alleged violation requires actions such as the installation, removal, repair, replacement, reconstruction or maintenance of Improvements, the date by which such violation is to be corrected by the Respondent;

(ii) the disciplinary and/or corrective action and/or penalties, such as the levying of a Penalty Assessment or a Reimbursement Assessment or the suspension of voting and other membership rights, which have been imposed by the Board and become effective in the event the hearing is waived. A suspension of voting or other privileges may be imposed for a period of not more than thirty (30) days unless the infraction (including the nonpayment of Assessments) continues beyond such period of time in which event such suspension may be imposed for as long as the violation continues; and

(iii) notification that, unless a written request for a hearing signed by the Respondent is delivered to the Board within fifteen (15) days after the date of the delivery of such complaint, such Respondent shall be deemed to have accepted the findings of the Board, including without limitation, the date established by the Board for the completion of any corrective work that is required to cure the violation, and has waived his right to a hearing and his right to object to the findings of the Board and the disciplinary and/or corrective actions and/or penalties imposed by the Board.

(b) Request for Hearing. Upon timely delivery of a request for hearing from the Respondent named in the complaint, the Board shall set a date for a hearing before the Board and shall deliver notice of such hearing to the Respondent and to any witnesses designated by the Board or the Respondent who are to be present for the purpose of presenting any relevant evidence. Such hearing shall be held not less than thirty (30) days nor more than sixty (60) days from the date of such written notice to the Respondent. Such hearing shall be conducted according to such reasonable rules and procedures as the Board shall adopt which shall provide the Respondent with the right to present oral and written evidence and to confront and cross-examine any person offering at such hearing evidence adverse to the Respondent.

(c) Decision of Board. The Board shall deliver its decision and the reasons therefor to the Respondent within seven (7) days after the hearing.

(d) Corrective Work. If a violation requiring corrective work continues to exist after the expiration of the time limitation established by the Board for the completion of such corrective work, the Board shall have the right, but not the obligation, to enter such Owner's Residence as necessary to accomplish such corrective work. Entry for such purpose may be made after notice to the Owner of not less than fifteen (15) days unless such Owner has agreed to permit earlier entry for such purposes. Unless Respondent and the Board otherwise agree, such entry upon such Residence to perform such corrective work shall take place only during daylight hours on any day, Monday through Friday, excluding holidays.

(e) Reimbursement. If the Association pays for all or any portion of any corrective work required to correct a violation, such amount shall be reimbursed by Respondent. Notwithstanding the foregoing, as provided in the Declaration, judicial proceedings must be initiated before any item of construction can be altered or demolished.

ARTICLE 11.

AMENDMENT PROVISIONS

Section 11.1 - Powers of Members. These Bylaws may be amended or repealed by the vote or written assent of a majority of the voting power of Members other than the Declarant as such voting power is determined pursuant

to the Section entitled "Voting Rights" of the Article entitled "The Association" of the Declaration. Amendments must also comply with the requirements of the Article entitled "Amendment Provisions" of the Declaration and an amendment to this Section or any other Section of these Bylaws pertaining to voting rights must further have the approval of the voting power of the Declarant as provided in the Section entitled "Special Rights" of the Article entitled "General Provisions" of the Declaration.

Section 11.2 - Record of Amendments. Whenever an amendment or new Bylaw is adopted it shall be placed in the book of Bylaws in the appropriate place. If any Bylaw is repealed, the fact of repeal, with the date of the meeting at which the repeal was enacted or written assent was filed, shall be stated in such book.

ARTICLE 12.

MISCELLANEOUS

Section 12.1 - Singular Includes Plural. Wherever the context of these Bylaws requires same, the singular shall include the plural and the masculine shall include the feminine.

Section 12.2 - Fiscal Year. The fiscal year of the Association shall be the twelve month period of time that commences on the first day of the calendar month in which the original issuance of the Final Subdivision Public Report for the Initial Covered Property occurred and ends on the last calendar day of the twelfth month thereof. However, the fiscal year of the Association is subject to change from time to time as the Board shall determine.

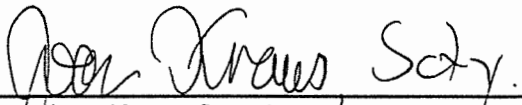
CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

(1) That I am the duly elected and acting secretary of Los Paseos Maintenance Corporation, a California nonprofit mutual benefit corporation; and

(2) That the foregoing Bylaws comprising 20 pages constitute the original Bylaws of such corporation as duly adopted on March 27, 1998.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of such corporation this 27th day of March, 1998.



Joan Kraus, Secretary