

**THIRD RESTATED
BYLAWS
Of
PINE MOUNTAIN LAKE ASSOCIATION**

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PINE MOUNTAIN LAKE ASSOCIATION

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**THIRD RESTATED BYLAWS
OF
PINE MOUNTAIN LAKE ASSOCIATION**

**ARTICLE I
RECITALS AND DEFINITIONS**

Section 1.01. Name of the Association. The name of this corporation is Pine Mountain Lake Association and shall be referred to herein as the "Association."

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

Section 1.03. Specific Purpose. These Third Restated Bylaws amend and restate in their entirety the Second Restated Bylaws approved by the Association's Members on August 20, 1994. The specific and primary purpose of this Association shall be to own, repair, maintain and manage the Common Areas and Common Facilities within that certain common interest real estate development located in the County of Tuolumne, State of California, that is commonly known as Pine Mountain Lake, to enforce the Rules and Regulations adopted by the Board of Directors, from time to time, and the terms and conditions of the Declaration, and to otherwise enhance and promote the use and enjoyment of the Common Areas and Common Facilities by the Association's Members and, subject to the Association Rules, their tenants, guests and invitees.

Section 1.04. Definitions.

(a) Board and Board of Directors. "Board" and "Board of Directors" mean and refer to the Board of Directors of this Association.

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

(c) Declaration. "Declaration" means the Second Restated Declaration of Covenants, Conditions and Restrictions for Pine Mountain Lake, recorded in the Official Records of Tuolumne County on November 2, 1990, as Document No. 19389, as such Declaration may be supplemented, amended or modified by a duly recorded subsequent Declaration, or amendment thereto.

(d) Development. "Development" means all parcels of real property (Common Areas and Lots) included within any recorded Subdivision Map for Pine Mountain Lake, together with all buildings, structures, utilities, common facilities and other improvements now located or hereafter constructed or installed thereon and all appurtenances thereto. The legal description of the real property that comprises the Development is set forth in Exhibit "A" attached to the Declaration.

(e) Good Standing. "Good Standing" is a term that is used to determine those Members who constitute part of the Voting Power of the Association and are therefore eligible to vote in the election of directors or with respect to any other matter or action that requires the consent or approval of the Members. In order to be in Good Standing, a Member must be current in the payment of all assessments levied against the Member's Lot and not be subject to any suspension of voting privileges as a result of any disciplinary proceeding conducted in accordance with the due process and disciplinary hearing procedures of the Declaration and Civil Code sections 1363.810, et seq. Good Standing shall also be a prerequisite for being a candidate for election to the Board of Directors and for continued service on the Board, once elected to office.

(f) Lot. The term "Lot" shall mean any numbered and subdivided Lot designated on any duly recorded final subdivision or parcel map for any portion of the Development.

(g) Majority of a Quorum. "Majority of a Quorum" means the vote of a majority of the votes cast at a meeting of the Members or by written ballot when the number of Members who are in Good Standing and attending the membership meeting or the number of ballots cast by Members in Good Standing during the time prescribed for the return of written ballots equals or exceeds the quorum requirement specified in Section 5.05, below, for valid Member action.

(h) Multi-Family Lots. "Multi-Family Lots" means those Lots designated by Tuolumne County Zoning Ordinance to accommodate two or more residences designed for single-family residential use. Within Pine Mountain Lake Multi-Family Lots have been improved as a condominium project, a townhome planned unit development, a duplex or as half-plexes (i.e., two joined residences, but each on a separate Lot) In the case of each of these types of multi-family projects, each condominium unit, townhome, duplex or half-plex shall be considered as one "Lot" for purposes of membership and voting in the Association and for purposes of assessment by the Association pursuant to Article IV, of the Declaration.

(i) Voting Power. "Voting Power" means those Members who are in Good Standing and thus eligible to vote for the election of directors or with respect to any other matter, issue or proposal properly presented to the Members for approval at the time any determination of the Voting Power of the Members is made.

(j) 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.

Section 1.05. Order of Precedence.

(a) Among the Governing Documents. In the event of any conflict in the Association Governing Documents, the order of precedence shall be: The Declaration; these Bylaws; the Articles of Incorporation, and the Association policies and rules as enacted by Resolution of the Board, as each of the above may be amended from time to time. The Articles of Incorporation and these documents shall hereinafter be referred to as the Governing Documents.

(b) Conflicts With Applicable Laws. In the event any Governing Document conflicts with Federal or State Laws and Regulations, or published California judicial decisions (collectively, "Laws"), such Laws shall prevail, unless the Law(s) in question state otherwise.

Section 1.06. Construction and Definitions. Unless the context requires otherwise or a term is specifically defined herein, the general provisions, rules of construction, and definitions in the California Davis-Stirling Common Interest Development Act and the California Nonprofit Mutual Benefit Law shall govern the construction of these Bylaws. Without limiting the generality of the above, the masculine gender includes the feminine and neuter, and singular number includes the plural and the plural number includes the singular. All captions and titles used in these Bylaws are intended solely for the reader's convenience of reference and shall not affect the interpretation or application of any of the terms or provisions contained herein.

ARTICLE II LOCATION OF PRINCIPAL OFFICE

The principal office of the Association will be located at such place within the Development as the Board may from time to time designate by resolution. Currently the principal office of the Association is located at 19228 Pine Mountain Drive, Groveland, California 95321.

ARTICLE III MEMBERSHIP

Section 3.01. Members of the Association. Every Owner of a Lot within the Development is a Member of the Association. Membership in the Association is appurtenant to, and may not be separated from, ownership of any Lot. As stated in Section 1.04(h), above, in the context of improved Multi-Family Lots, each owner of a unit, townhome, or duplex on the Multi-Family Lot shall be considered as a "Member" pursuant to these Bylaws and as an "Owner" for purposes of the covenants and restrictions set forth in the Declaration.

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

Section 3.03. Multiple Ownership of Lots.

(a) Multiple Ownership Generally. Ownership of a Lot shall give rise to a single membership vote in the Association, regardless of the number of co-owners or the number of persons who hold equity interests in an entity that holds title to a Lot.

(b) Joint Tenants and Tenants-In-Common Owners. If more than one person owns a Lot either as joint tenants or as tenants-in-common, all of said persons shall be deemed to be one Member for voting purposes, although all such Owners shall have equal rights as Members to use and enjoy the Common Areas and Common Facilities in accordance with the Association

Rules. If a majority of the co-Owners are unable to agree on how the membership should be voted, the vote of such membership shall not be considered as either in favor of or opposed to the issue or issues which are the subject of the vote. However, the membership shall be considered for purposes of determining whether the quorum requirements applicable to the vote or meeting have been met. If one or several persons own more than one Lot in the Development such persons shall possess one membership for each Lot that they own.

(c) Trust As Owner. If title to a Lot is held in the name of a trust, the current income beneficiary/beneficiaries shall be considered as the "Member" when the trust is an irrevocable trust and the trust creator or settlor shall be considered as the "Member" when the trust is revocable.

(d) Corporate and Other Entity Owners. When title to a Lot is held in the name of a corporation, a partnership, a limited partnership, a limited liability company or other form of business entity, the "Member" shall be the person designated by the entity-owner as the person who is entitled to exercise the voting rights and other rights and privileges of membership under the Association Governing Documents.

Section 3.04. Furnishing Evidence of Membership. A person shall not be entitled to exercise the rights of a Member until such person has advised the Association's secretary in writing that he or she is qualified to be a Member under Section 3.01, above, and, if requested by the secretary, has provided the secretary with evidence of such qualification in the form of a certified copy of a recorded grant deed or a currently effective policy of title insurance. Exercise of membership rights shall be further subject to the rules regarding record dates for notice, voting and actions by written ballot and eligibility for voting set forth in Section 5.08, below.

ARTICLE IV MEMBERSHIP VOTING

Section 4.01. Single Class of Membership. The Association shall have one class of voting membership comprised of Owners of Lots within the Development.

Section 4.02. Member Voting Rights.

(a) Voting Rights are Appurtenant to Lot Ownership. Memberships in the Association shall be appurtenant to the residential Lots within Pine Mountain Lake and may not be separated from ownership of a Lot.

(i) General Rule: One Vote for Each Lot Owned. On each matter submitted to a vote of the Members, whether at a meeting of the membership called and held pursuant to the provisions of these Bylaws or a vote that is conducted by secret ballot or by written ballot, each Member shall be entitled to cast one vote for each Lot owned by such Member. Single memberships in which two or more persons have an indivisible interest shall be voted as provided in subparagraph (b), below.

(b) Voting Rights When a Lot Has Several Owners. If a Lot is owned by more than one individual, or by a business entity or trust, the membership that is appurtenant to that Lot

shall nevertheless have a single vote in the Association. Any one of the multiple Owners shall be entitled to vote the membership, unless the secretary of the Association is notified in writing of the Owner designated by his or her co-Owners as having the sole right to vote the membership on their behalf. If such notification does not occur and more than one of the multiple Owners votes a membership, the Association secretary or the inspector of election shall be entitled to disqualify the vote of such co-Owners.

Section 4.03. Eligibility to Vote. Only Members in Good Standing, as defined in Section 1.04(e), above, shall be entitled to vote with respect to any matter requiring the consent or approval of the Members. A Member's Good Standing shall be determined as of the record date established in accordance with Section 5.08, below. In accordance with Civil Code section 1363(h), the Association shall be obligated to conduct a hearing in order to suspend a Member's voting privileges on the basis of the nonpayment of assessments, as set forth in Section 14.06 of the Declaration. The Board shall not vote any Association owned or controlled properties in any Association election.

Section 4.04. Manner of Casting Votes.

(a) Voting at Membership Meetings. Except as otherwise provided in Civil Code section 1357.140(b) and Section 5.03(d), below, voting at any Membership meeting shall be restricted on non-substantive matters. By way of example and not by way of limitation, substantive matters include votes to elect or remove Directors, to approve amendments to the Governing Documents, to increase or impose Assessments, or any other matter that, by law, requires a vote of the Members (see generally, the matters listed in Section 5.04(d), below). Non-substantive matters include votes such as closing or limiting debate, votes to adjourn the meeting, votes described in Section 5.03(c), below (to approve conduct of a mailed, secret ballot) or votes on other matters affecting meeting procedures.

(b) Voting by Written Ballot. In addition to voting in person at a meeting, Members' votes may be solicited by written ballot with respect to any issue requiring the approval or consent of the Members, in accordance with Sections 4.05 and 7.05, below.

(c) Proxy Voting. Proxy voting shall not be permitted on any matter put to a vote by the Members although proxies may be solicited for the sole and limited purpose of establishing a quorum at a membership meeting.

(d) Cumulative Voting. Cumulative voting shall not be permitted.

(e) Secret Ballot Voting Requirements (Civil Code section 1363.03). California Civil Code section 1363.03 requires that the following actions requiring the vote or approval of the Members of the Association must be conducted by use of a secret ballot, with the vote conducted in accordance with the requirements of Section 7.05(b), (c), (d), (f), (g) and (h), below:

- (i) any vote of the Members to approve an increase in the Regular Assessment or imposition of a Special Assessment where Member approval is required under Civil Code section 1366(b);
- (ii) any vote for the election or removal of directors;

- (iii) any vote to approve amendments to the Governing Documents; and
- (iv) any vote authorizing the granting of exclusive use of Common Area property pursuant to Civil Code section 1363.07.

Except for the meeting conducted pursuant to Section 7.05(f), below (i.e., a meeting convened to count the secret mailed ballots) a vote or election that is subject to the secret ballot voting requirements may be conducted entirely by mail.

Section 4.05. Action by Written Ballot Without a Meeting.

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

(b) Written Ballots, Generally. Any matter or issue requiring the vote of the Members, including the election of directors, shall be submitted for vote by written ballot without the necessity of calling a meeting of the Members, so long as the requirements for action by written ballot set forth in this Section are met. The determination to seek Member approval for Association actions in this fashion shall be made by a majority vote of the Board, provided, however, that it is the intention of these Bylaws that written ballot voting be used with respect to any matter requiring Member consent or approval in order to afford all Members the most effective and efficient means of actively participating in the business and affairs of the Association. Once the determination is made to seek Member approval by written ballot, the Board shall establish a record date (see Section 5.08(a)(iii) below) and distribute a written ballot to every Member who is entitled to vote on the matter as of the established Record Date for the written ballot vote. This distribution shall be made consistent with the time requirements specified in subparagraph (d) below. Nothing in this subparagraph (b) shall be construed as prohibiting a vote by the Members at a meeting on non-substantive matters as defined in Section 4.04(a) above.

(c) Content of Written Ballots.

(i) Director Elections. Written ballots distributed for the election of directors shall list all candidates for election to the Board as of the date when the written ballots are mailed or delivered to the Members and the written ballots shall comply with the secret ballot voting requirements of California Civil Code section 1363.03 by being prepared in a form that requires that the ballot, itself, not be signed by the voter or otherwise present any identification of the voter by name, Residence, Lot number or address.

(ii) Other Matters. Any written ballot distributed to the Members to vote on any issue other than the election of directors shall set forth the proposed action and provide an opportunity to specify approval or disapproval of the proposal. If a recommendation for approval or disapproval is included in the ballot or solicitation material, one opposing recommendation of comparable length to the original recommendation must also be included if requested by a Member or Members of Record.

(iii) Requirements for Other Balloting Materials. In the case of director elections and other matters that must be voted on using the secret ballot voting rules set forth in Civil Code section 1363.03 (see Section 4.04(e), above) the mailed ballots shall be accompanied by two (2) preaddressed envelopes with instructions on how to return the ballots by a stated deadline in order to be counted. Those instructions shall state, at a minimum, that the ballot itself is not to be signed by the voter, but rather is to be inserted into an envelope that is sealed. That sealed envelope shall then be inserted into a second envelope that is also sealed. In the upper left hand corner of the second envelope, the voter shall be instructed to print and sign his or her name, address, and Residence or Lot number that entitles him or her to vote in the election. This second (outside) envelope shall be addressed to the inspector or inspectors of election and the envelope may be mailed or delivered by hand to a location specified by the inspector or inspectors of election.

(iv) Quorum Only Provision. All written ballots shall provide a space for a Member of Record to abstain from casting a vote on an issue or for any candidate but to allow that ballot to be used only in establishing the quorum requirement for that election.

(d) Balloting Time Requirements.

(i) Director Elections. In the election of directors, the ballots shall be mailed to all Members of Record not more than forty-five (45) days prior to the date set for such election, but no less than twenty (20) days prior to such date. Members of Record must return their written ballots by mail or personal delivery to the address set forth in the solicitation materials for return of the ballots no later than the close of business on the last business day preceding the scheduled annual meeting date. If the ballots are not received by this time, they shall not be counted in the election.

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

(e) Requirements for Valid Member Action by Written Ballot. Membership approval by written ballot shall only be valid if:

(i) The number of votes cast by ballot within the time established for return of the ballots equals or exceeds the quorum (as specified in Section 5.05, below), that would have been required to be present at a membership meeting if such a meeting had been convened to vote on the proposal; and

(ii) The number of affirmative votes equals or exceeds the number of affirmative votes that would have been required to approve the action at such a meeting.

(f) Solicitation Rules. Written ballots shall be solicited in accordance with Section 5.04, below; provided, however, that in accordance with section 7513 of the Corporations Code, the Board of Directors shall be authorized to send written ballots and related solicitation materials by electronic transmission to any Member who has consented to receipt of information in that fashion and responses may also be returned to the Association by electronic transmission (see also sections 20 and 21 of the Corporations Code). The solicitation accompanying the written ballot itself shall state the following:

- (i) A statement describing the issue submitted for the Member's vote;
- (ii) The date and time that a written ballot must be received by the Association (not sent) in order to be counted;
- (iii) The percentage of responses needed to meet the quorum requirements; and
- (iv) The name and address of the Inspector of Elections where the ballots are to be mailed or delivered.

(g) Additional Balloting Procedures. If deemed necessary by the Board, the written ballot shall be conducted in accordance with such additional procedures, not inconsistent with the provisions of this Section, as may be prescribed by the Board.

(h) Notification of Results of Balloting Process. Upon tabulation of the written ballots, the Board shall notify the Members of the outcome of the vote within thirty (30) days following the close of the balloting process and tabulation of the ballots. If the number of written ballots cast with respect to any matter prior to conclusion of the stated balloting period is insufficient to satisfy the minimum quorum requirements for valid Member action, the Board shall so notify the Members. Written ballots that are solicited with respect to any matter identified in Section 4.04(e), above, shall be tabulated at a duly noticed meeting of the Board or the Members that is open to attendance by all Members.

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

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

(k) Distribution of Written Ballots. Written ballots shall be distributed to all Members of Record either personally or by mail or other means of written communication, addressed to the Member at the address of the Member appearing on the books of the Association or given by the Member for purpose of notice.

Section 4.06. Recount Procedures.

(a) Recount Request. Following announcement of balloting results, any Member with a petition signed by not less than one hundred (100) Members of Record may request a recount within ten (10) days following the announcement of results. Such petition shall be

submitted to the Secretary of the Association or in his or her absence, the President or Vice President.

(b) Recount Conducted by Inspector of Elections. The President of the Association shall immediately authorize the recount procedure and notify the General Manager that a recounting of ballots is to be conducted. The date and time of the recount shall be set no later than twenty (20) days after the announcement of the results in question. An Inspector of Elections designated in accordance with Section 7.05(d), below, shall conduct the recount and the recount shall be conducted in a manner that preserves the confidentiality of the vote and accordingly, no information revealing the content of any individual ballot shall be released. .

(c) Recount Report. The Inspector of Elections shall submit a written report of the recount to the Board of Directors. This report shall detail the Unit and Lot number of those ballots accepted for tabulation and those rejected and the reason for rejection along with the recount results.

(d) Recount Review and Final Determination. The Board, the Member requesting the recount, and his or her agent, and the Association legal counsel, if requested, shall review the recount report at a meeting of the Board of Directors or the Members that is open to attendance by the Members (the same procedure as is required for the initial tabulation of ballots as stated in Section 7.05(f), below) to determine the final election results. Following conclusion of the recount, the final election results shall be reported to all Members.

(e) Recount Expenses. All expenses incurred by the recount, not to exceed one thousand dollars (\$1,000), shall be paid by the Member or Members requesting the recount, except in cases where the recount results in a change in the persons elected or in the proposals approved or disapproved. All expenses exceeding one thousand dollars (\$1,000), and all expenses in cases where the recount results in a change in the persons elected or in the proposals approved or disapproved, shall be paid by the Association.

(f) Changes Due to Recount. If, after a recount is conducted, a new director is found to have been elected by virtue of the recount, the new director shall immediately replace the director incorrectly designated as being elected before the recount took place. In addition, any election of officers by the Board of Directors, which took place prior to the recount, shall be invalidated and new elections of officers shall be conducted by the newly constituted Board within five (5) days after the recount.

ARTICLE V MEMBERSHIP MEETINGS

Section 5.01. Place of Meeting. Meetings of the Members shall be held at the offices of the Association within the Development or at such other reasonable place within the County and at such time as may be designated by the Board in the notice of the meeting.

Section 5.02. Annual Meeting. There shall be an annual meeting of the Members in August of each year. The date, time and location of the meeting shall be established by the

Board and set forth in the notice of meeting sent to the Members in accordance with Section 5.04, below.

Section 5.03. Special Meetings.

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

(b) Procedures for Calling Special Meetings Requested by Members. If a special meeting is requested by five percent (5%) or more of the Members, the request shall be submitted by such Members in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by first-class, certified or registered mail or by telegraphic or other facsimile transmission to the president, any vice president, or the secretary of the Association. The officer receiving the request shall cause notice to be promptly given to the Members entitled to vote, in accordance with the provisions of Section 5.04, below, that a meeting will be held, with the date, time and place and the purpose for such meeting, which date shall be not less than thirty-five (35) nor more than ninety (90) days following the receipt of the request.

If notice of the meeting is not given within the twenty (20) days after receipt of the Members' request, the Members requesting the meeting may give the notice. Nothing contained in this subparagraph shall be construed as limiting, fixing, or affecting the time when a meeting of Members may be held when the meeting is called by action of the Board of Directors or the president.

(c) Effect of Approval of Actions at a Special Membership Meeting for Which Voting by Secret Mailed Ballot is Required. In the event that a special meeting of the Members is called in response to a demand for the meeting received from petitioning Members pursuant to subparagraph (a) above, and a Majority of a Quorum of the Members present at the meeting approve an action that must be presented to the Members by use of a secret ballot in accordance with Section 4.04(e), above, the action taken by the Members at the special meeting to approve the proposed action is merely a directive to the Board of Directors to prepare and distribute a secret written ballot to all Members and to comply with the other voting requirements and procedures stated in Section 7.05, below, so as to afford all Members the opportunity to vote on the proposal. It is only following the conduct of that mailed secret ballot vote and approval by the prescribed number or percentage of affirmative Member votes that the underlying action or amendment shall be approved and become effective.

(d) Special Meetings of Members to Vote to Reverse a Rule Change. In the event that five percent (5%) or more of the Members call for a special meeting of the Members pursuant to Civil Code section 1357.140(a) and Section 3.07(c)(iii) of the Declaration for the purpose of voting to reverse a rule change proposed by the Board of Directors, the Members' request for the special meeting must be delivered to the Association within thirty (30) days after the Members are notified of the proposed rule change. Members are deemed to have been notified of a rule change on delivery of notice of the rule change or upon enforcement of the resulting rule, whichever is sooner. In the event that a valid petition for such a special meeting is

timely tendered to the Association, the rule change may be reversed by the affirmative vote of a Majority of a Quorum of the Members who are represented and voting at the special meeting. In lieu of calling a special meeting for the purposes described in this subparagraph (d), the Board of Directors may distribute a written ballot to every Member of the Association in conformity with the requirements of section 7513 of the Corporations Code and Section 4.05, above. The vote of Members on a proposed reversal of a rule change is not subject to the secret ballot voting procedures set forth in Civil Code section 1363.03.

(e) Actions Permitted to be Taken at a Special Meeting. In accordance with Section 4.04(a), above, voting at meetings of the Members shall be limited to non-substantive matters as defined in that Section. All substantive matters requiring action by, or the consent of, the Members under the Governing Documents or by State law shall be acted upon and presented to the Members by use of written ballot voting in accordance with Section 4.05, above.

Section 5.04. Notice of Members' Meetings.

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

(b) Time Requirements for Notice. Except as otherwise provided in subparagraph (b) of Section 5.03, above, the notice of membership meetings shall be given not less than ten (10) nor more than ninety (90) days before the date of the meeting. If notice is given by mail and the notice is not given by first-class, registered or certified mail, the notice shall be given not less than twenty (20) days (nor more than ninety (90) days) before the meeting.

(c) Minimum Requirements Regarding Content of Notice. The notice of any membership meeting shall specify the place, date, and hour of the meeting and:

- (i) In the case of a special meeting, the general nature of the business to be transacted, and no other business may in that case be transacted; or
- (ii) In the case of a regular meeting, those matters which the Board of Directors, at the time of giving the notice, intends to present for action by the Members; but any proper matter may be presented at the meeting for such action so long as a quorum is present.

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

- (i) Removing a director without cause;
- (ii) Filling vacancies on the Board of Directors under those circumstances where a vote of the Members is required pursuant to Section 7.06(d), below;

- (iii) Amending the Articles of Incorporation of the Association, these Bylaws or the Declaration in any manner requiring approval of the Members;
- (iv) Approving a contract or transaction between the Association and one or more of its directors, or between the Association and any corporation, firm or association in which one or more of its directors has a material financial interest;
- (v) Approving any change in the Association's Assessments in a manner requiring membership approval under the Declaration; or
- (vi) Voting upon any election to voluntarily terminate and dissolve the Association.

(e) Manner of Service. Notice of any meeting of Members shall be given either personally or by first-class mail, telegraphic or other means of written communication (including facsimile transmission), charges prepaid, addressed to each Member either at the address of that Member appearing on the books of the Association or the address given by the Member to the Association for the purpose of notice. If no address appears on the Association's books and no other has been given, notice shall be deemed to have been given if either:

- (i) Notice is sent to that Member by first-class mail or telegraphic or other written communication to the Association's principal office; or
- (ii) Notice is published at least once in a newspaper of general circulation in the County. Notice shall be deemed to have been given at the time the notice is delivered to the Member personally or deposited in the mail (postage prepaid) or sent by telegram or other means of written or electronic communication to the Member as specified above.

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

Section 5.05. Quorum Requirements.

(a) Quorum Requirements, Generally. The following quorum requirements must be satisfied in order to take valid action at any meeting of the Members or by written ballot in accordance with Section 4.05, above:

(i) Quorum for Votes on Assessment Increases. In the case of any membership meeting or written ballot called or conducted for the purpose of voting on assessment increases requiring membership approval (see Article IV of the Declaration), the quorum requirement for valid action on the proposal shall be the percentage specified in Civil Code Section 1366 or comparable successor statute. That quorum percentage is currently a majority of the Members.

(ii) Quorum for Valid Action on Other Matters. In the case of a membership meeting or written ballot called or conducted for any other purpose, the quorum shall be thirty-four percent (34%) of the Members eligible to vote and represented in person or by proxy at the meeting or casting a written ballot.

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

(c) Effect of Departure of Members From Meeting. The Members present in person or by proxy at a duly called or duly held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum, so long as any action taken (other than adjournment) is approved by at least a majority of the Members required to constitute a quorum. If a quorum is never established for the meeting, a majority of those Members who are present may vote to adjourn the meeting for lack of a quorum, but no other action may be taken or business transacted.

(d) Application of Quorum Requirements to Votes Conducted by Secret Ballot. In any vote or election that is required to be conducted by use of a secret ballot meeting the requirements of Civil Code section 1363.03 (see Section 4.04(e), above), each ballot received by the inspector of elections shall be treated as a Member present at a meeting for purposes of establishing a quorum.

Section 5.06. Adjourned Meeting.

(a) Adjournment, Generally. Any Members' meeting, annual or special, whether or not a quorum is present, may be adjourned to another time and/or place (but not for more than forty-five (45) days) by the vote of the majority of Members present at the meeting, in person or by proxy. Unless there is an absence of a quorum (in which case no business, other than a vote to adjourn the meeting, may be transacted), the reconvened meeting may take any action which might have been transacted at the original meeting.

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

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

(a) Waivers and Consents, Generally. If decisions are made or action is otherwise taken by the Members at a meeting where a quorum is present, but for which proper notice was not given to all Members for whatever reason, the decisions or actions made at that meeting will be valid if, either before or after the meeting, each person entitled to vote who was not present at the meeting (in person or by proxy) consents to the meeting by signing:

(i) A written waiver of notice;

- (ii) A consent to holding the meeting; or
- (iii) An approval of the minutes.

The waiver of notice or consent need not specify the purpose or general nature of business to be transacted at such meeting unless action was taken or is proposed to be taken at the meeting with respect to any matters specified in Section 5.04(d), above, in which case, the waiver of notice or consent must state the general nature of such matter(s). All such waivers, consents or approvals shall be filed with the Association records or be made part of the minutes of the meeting.

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

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

(a) Record Dates Established by the Board of Directors. For the purpose of determining which Members are entitled to receive notice of any meeting, vote, act by written ballot without a meeting or exercise any rights in respect to any other lawful action, the Board of Directors may fix, in advance, a "record date" and only Members of record on the date so fixed are entitled to notice, to vote, or to take action by written ballot or otherwise, as the case may be, except as otherwise provided in the Articles of Incorporation, by agreement, or in the California Nonprofit Mutual Benefit Corporation Law. Any transfer or any membership on the books of the Association or change in Membership status after the record date shall not change the Members of record as established on the record date. The record dates established by the Board pursuant to this Section must be in accordance with the following requirements:

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

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

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

(iv) Record Date for Other Lawful Action. In the case of determining Members entitled to exercise any rights in respect to other lawful action requiring Member

approval, the record date shall not be more than sixty (60) days prior to the date of such other action.

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

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

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

(iii) Record Date for Action by Written Ballot Without Meeting. The record date for determining those Members entitled to vote by written ballot on proposed Association actions without a meeting, when no prior action by the Board has been taken, shall be the day on which the first written ballot is mailed or solicited. When prior action of the Board has been taken, it shall be the day on which the Board adopts the resolution relating to that action;

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

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

Section 5.09. Saturday Meetings of Members. Due to the demographics of the Association, the Annual meeting, all Special meetings of the Members, and at least one regular Board meeting per quarter shall be held on a Saturday.

ARTICLE VI MEMBERSHIP RIGHTS

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

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

Section 6.02. Tenants and Lessees.

(a) Assignment of Rights, Generally. Each Member shall have the right to assign his or her rights (other than voting rights) as a Member to a tenant residing within the Member's Residence. Such assignment shall only be effective so long as said tenant is residing in said Residence and is in compliance with the Declaration and the Association Rules as the same may exist from time to time. At all times the Owner shall remain responsible for compliance by Owner's lessee or tenant with the provisions of the Governing Documents. Without limiting the foregoing, reference is specifically made to Section 2.03 of the Declaration for additional tenant and lease restrictions.

(b) Effectiveness of Assignment. Assignment of an Owner's right to use the Common Facilities (other than roads) to a tenant or lessee shall not be effective until such time as the Owner-Member has given the secretary or the Association's property manager written notice thereof setting forth the name of the tenant and the members of his or her family who will reside in the Residence with the tenant and therefore be entitled to use and enjoy the Common Areas, Common Facilities and roads within the Development.

(c) Restriction on Lessor's Use of Certain Common Areas and Facilities. During the period of any lease or rental of a Lot, any Owner-Lessor who is not residing in some other residence within the Development shall not be entitled to use the recreational Common Areas or Common Facilities. However the non-resident Owner shall have full rights to access his or her Residence to perform the usual responsibilities of landlord, including ensuring the tenant's compliance with the Governing Documents.

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

Section 6.04. Association Rules and Regulations. The right of any person to use and enjoy the Common Areas and improvements thereon shall at all times be subject to the rules, limitations and restrictions set forth herein, in the Declaration and in the Association's published rules and regulations as promulgated by the Board from time to time. The Board shall have the right to impose monetary penalties or to temporarily suspend the voting rights of a Member for a Member's failure to pay any Assessments when due under the Declaration or to comply with any other rule or regulation imposed upon such Member, his or her tenants or guests, pursuant to the Governing Documents; provided, however, that any such suspension shall only be imposed after such person has been afforded the notice and hearing rights more particularly described in the Declaration.

The Association shall not be empowered to cause an absolute forfeiture or abridgment of the right of a Member to the full use and enjoyment of any Common Areas and improvements thereon due to the failure by such person to comply with provisions of the Governing Documents except by judgment of a court or a decision arising out of arbitration or after a foreclosure or sale

under a power of sale for failure of such person to pay Assessments duly levied by the Association.

The adoption of certain operating rules, as defined in Section 13.06, below, are subject to statutory obligations to first publish the proposed rules or rule changes to the Members, all as more particularly provided in Section 3.07 of the Declaration.

ARTICLE VII BOARD OF DIRECTORS

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

Section 7.02. Number and Qualification of Directors. The Board of Directors shall consist of five (5) persons who shall be Owners of Lots within the Development and whose memberships are in good standing with all Assessments current and are not subject to any suspension of membership rights. Only one (1) Owner per Lot shall be eligible to serve on the Board at any time.

Section 7.03. Term of Office.

(a) Creation of Three Year Staggered Terms. The Directors of this Association shall serve for a term of three (3) years. In order to provide continuity and experience on the Board, directors shall serve on a staggered basis, with two (2) directors being elected in each of the first and second years of the rotation and one (1) director being elected in the third year of the rotation. For purposes of this provision the year 2002 was the first year of the initial three-year rotation cycle.

(b) Limitation on Terms of Office. No director shall serve more than two (2) consecutive full three (3) year terms.

Section 7.04. Candidate Application Procedure and Requirements. A Member in Good Standing as defined in Section 1.04(e), above, hereof may become a candidate for election to the Board for any vacancy. Candidate applications shall be filed, along with a petition of candidacy signed by two percent (2%) of the members, and the payment of a filing fee, if any, with the Secretary no later than ninety (90) calendar days and no earlier than one hundred and twenty (120) calendar days prior to the annual election. Candidate applications shall include typical employment application information, the intent and reason for seeking election to the Board and

a Resume of qualifications. In accordance with Civil Code section 1363.03(a)(3), any individual who is a Member in Good Standing shall have the right to place his or her name in nomination for election to the Board of Directors, so long as the Member also satisfies the other requirements of this Section.

Section 7.05. Election of Directors; Ballot Tabulation and Retention Requirements. Unless otherwise approved by the unanimous vote of the Members in Good Standing, the following rules shall apply to the conduct of director elections and the conduct of other Member votes that must be conducted by use of a double envelope, mailed secret ballot (see Section 4.04 (e), above, for a list of actions that must be voted upon in accordance with these procedures).

(a) Conduct of Election of Directors by Use of Mailed, Secret Ballot Voting. In accordance with Civil Code section 1363.03(e), the annual election of directors (as well as certain other matters requiring Member approval that are identified in Section 4.04(e), above) must be conducted using a double envelope secret ballot voting process that is described in this Section 7.05.

(b) Use of Secret Ballots and Ballot Completion and Mailing Requirements. With respect to director elections and other matters requiring the consent or approval of the Members for which secret ballot voting is required, the ballots, together with two (2) pre-addressed envelopes with instructions on how to complete and return ballots shall be mailed by first-class mail or delivered by the Association to every Member not less than thirty (30) days prior to the date that is established by the Board as the deadline for the return of ballots in order to be counted in the election of directors or other Member vote that is subject to this Section 7.05. In the case of director elections, the ballots shall be accompanied by statements of qualifications prepared by the candidates, which may not exceed two pages in length.

In order to preserve the confidentiality of each voting Member, the voter may not be identified by name, address, or Lot number on the ballot. The unsigned ballot shall be inserted into an envelope that is sealed and this sealed envelope is, itself, inserted into a second envelope that is sealed. In the upper left hand corner of the second envelope, a space or lines shall be presented where the voter can print and sign his or her name, address and Lot number. The second envelope shall be addressed to the inspector(s) of election who shall tally the votes. The envelope containing the ballot may be mailed or delivered by hand to the location specified by the inspector(s) of election (that location shall be stated in the balloting materials that are mailed to the Members). Any Member may request a receipt from the inspector(s) of election to confirm delivery of his or her ballot. Once a secret ballot is received by the inspector(s) of election, it shall be irrevocable. The inspector(s) of election or his or her designee may verify the Member's information and signature on the outer envelope prior to the meeting at which ballots are tabulated.

(c) Determination of Director Election Results/Succession to Office. So long as the quorum for valid Member action has been met, the candidates receiving the highest number of votes, up to the number of vacancies to be filled in the election, shall be elected as directors and shall take office immediately following their election. In the event there is a tie vote between those candidates who receive the lowest number of votes necessary to qualify the candidate for election to a seat on the Board, the tie shall be broken by random drawing.

(d) Supervision of Election Process; Appointment of Inspector(s) of Election. In order to insure secrecy of ballots and fairness in the conduct of director elections, the Board of Directors shall select an independent third party or parties to serve as the inspector(s) of election. The number of inspector(s) of election shall be one (1) or three (3). The designated inspector(s) of election shall have the authority to appoint and oversee additional persons to verify signatures and to count and tabulate votes so long as such persons are independent third parties. For purposes of this subparagraph, an independent third party includes, but is not limited to, a volunteer poll worker with the County registrar of voters, a licensee of the California Board of Accountancy, or a notary public. An independent third party may be a Member of the Association but cannot be a member of the Board of Directors or a candidate for election to the Board or related to a member of the Board of Directors or a candidate for election to the Board of Directors. An independent third party may not be a person, business entity, or subdivision of a business entity who is currently employed or under contract to the Association for any compensable services unless expressly authorized by Association Rules relating to the conduct of elections which have been adopted by the Association in accordance with Section 3.07(c) of the Declaration and Civil Code section 1357.130. It is the current practice of the Association to engage the services of employees of the Association's accounting firm to serve as inspectors of election. The person or persons appointed to serve as inspector(s) of election shall have the full powers of an inspector of elections appointed by the Board pursuant to Corporations Code section 7614. Without limiting the foregoing, the inspector(s) of election shall do all of the following:

- (i) Determine the number of memberships entitled to vote and the Voting Power of each.
- (ii) Determine the existence of a quorum for conduct of the election (each ballot received by the inspector of elections from Members in Good Standing shall be treated as a Member present at a meeting for purposes of establishing a quorum). Even if a ballot is rejected by the inspectors of election for voting purposes due to some irregularity or ambiguity relating to the manner in which the Member has marked the ballot to express his or her voting intentions, the ballot may be counted for quorum purposes if the inspectors, in their discretion, have determined that the ballot was received, completed, and cast by a Member in Good Standing, or his or her proxy.
- (iii) The inspector of elections shall be the designated recipient of ballots. Sealed ballots shall at all times be in the custody of the inspector or inspectors of election or at a location designated by the inspector or inspectors until after the tabulation of the vote and expiration of the time for challenging the election pursuant to Corporations Code section 7527, at which time custody of the ballots shall be transferred to the Association to be stored in a secure place for no less than one year after the date of the election.
- (iv) Hear and determine all challenges and questions in any way arising out of or in connection with the right to vote.

- (v) Count and tabulate all votes.
- (vi) Determine when the polls close.
- (vii) Determine the tabulated results of the election.
- (viii) Perform any acts as may be proper to the conduct of the election with fairness to all Members and in accordance with this Section 7.05, the Association Rules pertaining to the conduct of elections, and section 1363.03 of the Civil Code.

An inspector of election shall perform his or her duties impartially, in good faith, to the best of his or her ability, and as expeditiously as is practical. If there are three (3) inspectors of election, the decision or act of a majority of the inspectors shall be effective in all respects as the decision or act of all. Any report made by the inspector(s) of election is prima facie evidence of the facts stated in the report.

(e) Limitations on Association Election Activities. The Association shall be prohibited from using Association funds for campaign purposes, although this prohibition shall not apply to communications disseminated pursuant to an Association Rule that is intended to comply with the requirement imposed by Civil Code section 1363.03(a)(1) that all candidates have equal access to Association media to communicate points of view that are reasonably related to the election. As used in this subparagraph (e) "campaign purposes" means the use of Association funds to advocate the election or defeat of any candidate or the inclusion of a candidate's photograph or the prominent presentation of a candidate's name in any communication from the Association on the Board within thirty (30) days of the election (excepting references to the candidates in the ballot and balloting materials).

(f) Requirements for the Counting and Tabulation of Ballots. In accordance with Civil Code section 1363.03(f), the designated inspector(s) of election or his or her designee must count and tabulate the votes in public at a properly noticed open meeting of the Board of Directors or the Members. This tabulation can take place at the annual membership meeting or at a duly convened Board or membership meeting conducted promptly thereafter which is open to attendance by the Members. Any candidate or other Member of the Association may witness the counting and tabulation of the votes. No person, including a Member of the Association, shall open or otherwise review any ballot prior to the time and place at which the ballots are counted and tabulated by the inspectors of election. Nevertheless, to facilitate the timely conduct of the election, the inspector(s) of election, or his or her designee, may verify the Member's information and signature on the outer envelope of the secret ballot prior to the meeting at which ballots are tabulated. Once a secret ballot is received by the inspector(s) of election it shall be irrevocable.

(g) Announcement of the Results of the Election. The tabulated results of the election shall be promptly reported by the inspector(s) of election to the Board of Directors of the Association and shall be recorded in the minutes of the next meeting of the Board and shall be available for review by Members of the Association. Within fifteen (15) days of the election, the

Board shall publicize the tabulated results of the election in a communication directed to all Members.

(h) Retention of Ballots. After tabulation, the ballots shall remain in the custody of the inspectors of election until such time as the period for challenging the election pursuant to Corporations Code section 7527 has expired, whereupon the inspectors shall deliver the ballots to the Association to be stored in a secure place for no less than one (1) year after the date of the election. In the event of a recount or other challenge to the election process, the Association shall, upon written request, make the ballots available for inspection and review by Association Members or their authorized representatives. In order to ensure that ballots are not tampered with or removed, entirely, the inspector(s) of elections shall be entitled to be in attendance at any such inspection. In the event that a recount of the ballots is required, the recount shall be conducted in a manner that shall preserve the confidentiality of each Member's vote.

Section 7.06. Vacancies on Board of Directors.

(a) Vacancies, Generally. A vacancy or vacancies in the Board of Directors shall be deemed to exist on the occurrence of any of the following:

- (i) The death, resignation or removal of a director pursuant to subparagraphs (c) and (d) hereof;
- (ii) An increase of the authorized number of directors; or
- (iii) The failure of the Members to elect the number of directors required to be elected through the election process.

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

(c) Authority of Board to Remove Directors. Subject to the requirements set forth in this subparagraph (c), the Board of Directors shall have the power and authority to remove a director and declare his or her office vacant if he or she: (i) has been declared of unsound mind by a final order of court; (ii) has been convicted of a felony; (iii) fails to attend three (3) consecutive regular meetings of the Board of Directors which have been duly noticed in accordance with California Law and these Bylaws; or (iv) the director fails to remain in Good Standing with the Association. In exercising its discretion to remove a director for his or her failure to attend duly noticed meetings; the Board may consider in mitigation medical hardship, business travel, financial hardships, or other factors, being mindful, however to the benefits that accrue to the Members, as a whole, from the active and regular participation of the full Board of Directors.

In the event that the basis for removal of an incumbent director is the director's failure to remain current in the payment of assessment obligations to the Association, the Board shall take no action to declare the delinquent director's seat to be vacated unless and until (i) the director

has received the Pre-Lien Delinquency Notice prescribed in Section 4.10(b)(i) of the Declaration and (ii) a period of at least thirty (30) days has elapsed following delivery of that Notice to the director without payment in full of all delinquent assessments and other duly levied fees, interest, and reasonable costs of collection.

(d) Authority of Members to Remove Directors. Except as otherwise provided in (c) above, a director may only be removed from office prior to expiration of his or her term by written ballot conducted in accordance with Section 7.05, above. Any Membership action to recall or remove a director shall be conducted in accordance with the following procedure:

(i) A petition signed by at least five percent (5%) of the Membership must be submitted to the Association. Such petition shall be delivered personally or sent by first-class, certified or registered mail or by telegraphic or other facsimile transmission to the president, the vice president, or the secretary of the Association. The petition must set forth the reason the petitioners are seeking the removal or recall.

(ii) The director whose removal is being sought shall have the right to rebut the allegations contained in the petition orally, in writing or both. If in writing, such rebuttal shall be mailed by the Association to all Members of Record, together with the recall ballot.

(iii) The quorum required for a valid Membership vote to remove or recall a director is thirty-four percent (34%) of the Members of Record. If this quorum requirement is not satisfied or if the vote results in a tie, the removal or recall action will have failed.

(e) Filling of Vacancies. Following the effective date of a vacancy on the Board of Directors, the remaining directors, by majority vote, shall appoint a successor director. A director who resigns from office is not eligible to vote on his successor or the successor to any other director resigning contemporaneously.

(i) Vacancies Created by Removal or Recall of a Director. In the case of a vacancy created by the removal or recall of a director, the vacancy shall be filled by a vote by written ballot in accordance with Article IV hereof. A director so elected, shall hold office for the balance of the term represented by the vacancy.

(ii) Appointments. A director appointed by the Board to fill a vacancy shall hold office until the next annual election of directors in which the time requirements for nomination under Section 7.04, above, can reasonably be met. Thereafter, if there is a period of one year or more remaining in the term of office, the vacancy shall be filled by written ballot in accordance with Article IV hereof. The candidate receiving the largest vote count in any Director election shall choose the vacant director position the he wishes to fill. The candidate receiving the next largest vote count shall have the choice of the remaining positions. This procedure shall continue in descending order until all the vacant positions are filled. If there are no candidates wishing to fill the unexpired term, the remaining directors shall appoint a director to fill the balance of the term.

(iii) Director Vacancies Within 120 Days of a Director Election. No Director vacancy shall be filled within one hundred-twenty (120) days of a regularly scheduled annual election of Directors.

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

Section 7.07. Ethics. The policy of the Association is not to transact business with any individual or entity in which a director, officer or employee of the Association holds or stands to gain a material financial interest, with the following exceptions:

(a) Substantial Savings Offered. The Board of Directors, on a vote sufficient without counting the vote of any interested director, in good faith and after reasonable investigation of other alternatives, determines that such individual or entity offers the Association a substantial savings compared to other reasonably available sources.

(b) Only Available Source. Such individual or entity is the only reasonably available source offering the services or product being procured.

(c) Written Justification. To transact business with such individual or entity, the General Manager shall make a written finding factually supporting the use of one of the exceptions in subparagraphs (a) or (b) of this Section 7.07, and present such justification to the Board of Directors for their approval.

(d) Reduction in Number of Directors. A director shall not participate in any discussion or action by the Board concerning any matter in which the director stands to gain a material financial benefit that is separate and distinct from any benefit that would or may accrue to a substantial percentage of the Membership merely as a result of their status as Members.

Section 7.08. Material Financial Interest Defined. A material financial interest is defined as:

(a) Direct or Indirect Investment. A direct or indirect investment in a business entity, real property or a loan worth more than one thousand dollars (\$1,000).

(b) Income Source. Any source of income aggregating two hundred fifty dollars (\$250) or more in value provided to, received by or promised to the director within twelve months prior to that time when the decision is made.

(c) Involvement in Entity. Any business entity in which the director, officer or employee is a director, officer, partner, trustee, employee or holds any management position. An industry, trade or profession, or membership in a trade association does not alone constitute a material financial interest.

(d) Impairment of Judgment. Financial effects are material if they might reasonably be expected to interfere with a director's performance of his duties in an impartial manner free from bias.

(e) Indirect Investment or Interest. An indirect investment or interest means any investment or interest owned by the spouse or dependent child of the director, by an agent on behalf of the director or by a business entity or trust in which the director, the director's agents,

spouse or dependent children own directly, indirectly or beneficially, a ten percent or greater interest.

Section 7.09. Disclosure. Within thirty (30) days following each Annual Meeting, or upon appointment to the Board, every director and officer then holding office shall be obligated to disclose to the Board as a whole, any material financial interest as defined in Section 7.08, above, if any such interest would reasonably be expected to come within the purview of Sections 7.07 through 7.09 hereof. All directors and officers shall be obligated to update this disclosure and to keep it current at all times.

(a) Scope of Disclosure. The disclosures shall not only cover pending transactions, but also those investments, businesses or relationships which may reasonably be expected to be covered by Sections 7.07 through 7.09 of these Bylaws during a director's or officer's term of office.

(b) Filed with General Manager. The disclosures shall be filed in the General Manager's confidential file thereby enabling him to implement the restrictions stated herein.

(c) General Manager's Disclosure. The General Manager shall also file a similar confidential disclosure with the President of the Board.

Section 7.10. Determination of Violations of Sections 7.07 Through 7.09. The Board shall rule on determination of violations of these restrictions. If a director is determined to be in violation, the Board may pursue enforcement remedies pursuant to Corporations Code section 7233 and/or adopt a formal resolution censuring the director for the director's conduct. If the Board adopts such a resolution, it shall be posted on the Association's website along with the Board minutes.

ARTICLE VIII MEETINGS OF THE BOARD OF DIRECTORS

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

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

(b) Circumstances When Meetings Can be Conducted by Conference Telephone or Other Electronic Means. Under those circumstances that qualify as grounds for conducting an emergency meeting (see Section 8.05(e), below) or conducting a meeting in executive session (see Section 8.06(e), below), but not otherwise, a regular or special meeting of the Board may be held by conference telephone, electronic video screen communications, or other communications

equipment. Participation in a meeting through the use of conference telephone pursuant to this Section constitutes presence in person at the meeting as long as all members participating in the meeting are able to hear one another. Participation in a meeting through the use of electronic video screen communication or other communications equipment (other than a conference telephone) constitutes presence in person at the meeting so long as each director participating in the meeting can communicate with all of the other directors concurrently and each director is given the means of participating in all matters coming before the Board. Actions taken by the Board by means of a telephone conference or other permitted electronic means shall be posted in a prominent place within the Common Area in the same manner as actions taken by written consent pursuant to Section 8.10, below. In accordance with Civil Code section 1363.05(b), a telephone conference meeting of the Board shall be conducted in a manner that protects the rights of Members to attend the meeting (or the portion of a telephone conference meeting that is open to attendance by the Members pursuant to Section 8.06(a), below), and that meeting or portion of the meeting shall be audible to the Members in at least one physical location that is specified in the notice of the teleconference Board meeting and at least one director shall be present at that location.

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

Section 8.03. Other Regular Meetings.

(a) Scheduling and Notice. The Board shall establish a time and place for all regular meetings of the Board at least thirty (30) days in advance. Notice of such meeting shall be posted on the Association website, in the Association Office and on all Association bulletin boards within the Development at least twenty (20) days in advance of any such meeting. The notice shall also be published on the Association's website.

(b) Frequency. Regular meetings of the Board shall be held at least quarterly but may be held more frequently as required.

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

Section 8.05. Notice of Board Meetings.

(a) Minimum Time Requirements for Giving Notice to Directors. In the case of any special meeting of the Board, and if the Board has not fixed the time and location for regular meetings and provided each director with the schedule for the conduct of regular meetings, notice shall be communicated to each Board member not less than four (4) days prior to the date of the meeting; provided, however, that if the meeting qualifies as an emergency meeting (Section 8.05 (d), below) or is a special meeting that can be called in executive session (Section 8.06(e), below) the time for providing notice is forty-eight (48) hours prior to the meeting, unless notice is given by first-class mail in which case the four (4) day notice requirement remains in effect. Notice of a meeting of the Board need not be given to any director who has signed a

waiver of notice or a written consent to the conduct of the meeting or an approval of the minutes of the meeting (whether before or after the meeting) or who attends the meeting without protesting, prior thereto or at the commencement of the meeting, the lack of notice to that director. All such notices shall be given or sent to the director's address, telephone number or email address as shown on the records of the Association. Notwithstanding the foregoing, notice of a meeting need not be given to any director who has signed a written waiver of notice or a written consent to holding the meeting or an approval of the minutes thereof as more particularly provided in Section 8.08, below. A waiver or consent may be given by means of an electronic transmission so long as it is signed by the director.

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

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

(d) Members' Right to Receive Notice of Board Meetings. All Members of the Association shall be given notice of the date, time and place of all Board meetings (as defined in Section 8.06(a), below), except for "emergency meetings" or regular Board meetings where notification has been given in accordance with Section 8.03, above, at least four (4) days prior to the date of the meeting. This notice to the Members shall be given by posting the notice in a prominent place or places within the Common Area and by mail to any Member who has requested notification of Board meetings by mail (with the notice sent to the address requested by the Member). Notice may also be given by mail or delivery of the notice to each Lot within the Development, or by newsletter or similar means of communication. For purposes of this Section 8.05, an "emergency meeting" of the Board means a meeting called by the president or by any two members of the Board under circumstances that could not have been reasonably foreseen which require immediate attention and possible action by the Board and which of necessity make it impracticable to provide prior notice to the Members as required by the Open Meeting Act (see Section 8.06, below), or with the consent of the Member, by electronic means.

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

(e) Definition of an Emergency Meeting. For purposes of the Member notification requirements set forth in subparagraph (d), above, an "emergency meeting" of the Board means a meeting called by the president or by any two (2) members of the Board under circumstances that could not have been reasonably foreseen which require immediate attention and possible

action by the Board and which of necessity make it impracticable to provide prior notice to the Members as required by the Open Meeting Act (see Section 8.06, below).

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

(a) Meetings Generally Open to Members; Definition of What Constitutes a "Meeting." With the exception of executive sessions of the Board (see subparagraph (e), below) any Member of the Association may attend meetings of the Board of Directors; provided, however, that non-director Members may only participate in deliberations or discussions of the Board when expressly authorized by a vote of a majority of the directors present at the meeting at which a quorum has been established or by the Board member chairing the meeting. For purposes of the Open Meeting Act, the term "meeting" includes (i) any congregation of a majority of the members of the Board at the same time and place to hear, discuss, or deliberate upon any item of business that is within the authority of the Board, except those matters that may be discussed in executive session in accordance with subparagraph (e), below; and (ii) a teleconference in which a majority of the members of the Board, in different locations, are connected by electronic means, through audio or video or both. The phrase "item of business" means any action within the authority of the Board, except those actions that the Board has validly delegated to any other person or persons, managing agent, officer of the association, or committee of the Board comprising less than a majority of the directors. Accordingly, if any number of directors congregate for the purpose of generally discussing or receiving advice or instruction on matters of general interest to the Members and/or the Development or matters related to laws or regulations governing common interest developments or nonprofit mutual benefit corporations, and the topics of discussion are not pending or scheduled as intended or possible action items for the Association, the congregation is not a "meeting" that is subject to the open meeting requirements of this Section 8.06.

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

(c) Meeting Agendas; General Restriction of Action to Items on the Agenda. As required by Civil Code section 1363.05(f) any notice of Board meetings that is required by law to be distributed or made available to the Members must include an agenda for the meeting. Except as provided in subparagraphs (i) through (v) of this subparagraph (c) or subparagraph (d), below, the Board of Directors may not discuss or take action on any item at a non-emergency meeting of the Board unless the item was placed on the agenda that was included in the notice given to the Members. Members who are not on the Board may, however, speak on issues that are not on the agenda. Notwithstanding the general rule that Board actions must be restricted to items shown on the meeting agenda, a member of the Board of Directors, a managing agent or other agent of the Board, or a member of the staff of the Board of Directors may do any of the following:

(i) Directors, managing agents and other agents or staff members of the Board may briefly respond to statements made or question posed by a person speaking at an open Board meeting;

(ii) Directors, managing agents and other agents or staff members of the Board may ask a question for clarification, make a brief announcement, or make a brief report on the director's own activities, whether in response to a question posed by a Member or based on the director's own initiative;

(iii) The Board or any director may provide reference to, or provide other resources for factual information to, the Board's managing agent or other agents or staff;

(iv) The Board or any director may request the managing agent of the Association or other agents or staff to report back to the Board at a subsequent meeting concerning any matter, or take action to direct the managing agent, other agents or staff to place a matter of business on a future agenda;

(v) The Board or any director may direct the Association's managing agent or other agents or staff to perform administrative tasks that are necessary to carry out the requirements of Civil Code section 1363.05.

(d) Authority to Take Action On Certain Items Not on the Published Agenda. Notwithstanding the general rule that Board actions must be restricted to items shown on the Board meeting agenda, the Board of Directors may take action on any item of business not appearing on the posted meeting agenda under any of the following conditions:

(i) Upon a determination made by a majority of the Board of Directors present at the meeting that an emergency situation exists. An emergency situation exists if there are circumstances that could not have been reasonably foreseen by the Board, that require immediate attention and possible action by the Board, and that, of necessity, make it impracticable to provide notice.

(ii) Upon a determination made by the Board by a vote of two-thirds of the directors who are present at the meeting, or, if less than two-thirds of total number of directors is present at the meeting, by a unanimous vote of the Board members present, that there is a need to take immediate action and that the need for action came to the attention of the Board after the agenda for the meeting was posted and distributed to the Members; or

(iii) The item appeared on an agenda that was posted and distributed pursuant to the Members for a prior meeting of the Board of Directors that occurred not more than thirty (30) calendar days before the date that action is taken on the item and, at the prior meeting, action on the item was continued to the meeting at which the action is taken.

Before discussing any item pursuant to this subparagraph (d), the Board of Directors shall openly identify the item to the Members in attendance at the meeting.

(e) Executive Sessions.

(i) Permissible Executive Sessions: An executive session meeting is a meeting that is conducted by the Board of Directors that is not open to attendance by all Members and which is convened to consider and potentially to act upon one or more of the following matters only: (i) litigation in which the Association is or may become a party; (ii) matters relating to the formation of contracts with third parties; (iii) Member discipline; (iv) personnel matters, or (v) to meet with a Member, upon the Member's request, regarding the Member's payment of Assessments, as specified in Section 1367.1(c)(3) of the Civil Code.

(ii) How Called. The Board can adjourn for purposes of meeting in an executive session, on the affirmative vote of a majority of the directors present at a meeting that is open to attendance by the Members at which a quorum has been established or an executive session can be called independent from any open meeting of the Board. In accordance with Civil Code section 1363.05(f), if an executive session is scheduled apart from a noticed regular or special meeting, Members shall receive notice to the executive session meeting at least two (2) days prior to the meeting and the notice shall include an agenda that generally notes the matters to be acted upon or discussed in executive session.

(iii) Executive Sessions to Address Member Disciplinary Matters. The Board must meet in executive session if requested by a Member who may be subject to a fine, penalty, or other form of discipline and the Member who is the subject of the disciplinary proceeding shall be entitled to attend the executive session.

(iv) Executive Sessions Called to Meet With a Delinquent Member. In the event that a Member who has received a Notice of Delinquent Assessment from the Association pursuant to Civil Code section 1367.1(a) requests a meeting before the Board in executive session to discuss a payment plan, the Board shall meet with the Member within forty-five (45) days following receipt of the Member's request.

(v) Reporting of Executive Session Meetings in the Minutes. Any matter discussed in executive session shall be generally noted in the minutes of the immediately following Board meeting that is open to the entire membership.

(f) Board Meeting Minutes. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes, of any meeting of the Board of Directors, other than minutes of an executive session, shall be available to the Members within thirty (30) days of the meeting. The minutes, proposed minutes, or summary minutes shall be distributed to any Member upon request and upon reimbursement of the Association's costs in making that distribution. Meetings of the Board may be recorded in order to aid in the transcription of the meeting minutes, however, because the written minutes are the official record of the Board's proceedings, any recordings or video tapes of Board meetings may be destroyed by the Board upon approval of the content of the written minutes by a subsequent Board action unless the Board, in its discretion or on advice of counsel, determines that the recording or video should be preserved for a longer period of time for other purposes. Members of the Association shall be notified in writing at the time that the pro forma budget 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 approved minutes of meetings of the Board, and how and where those minutes may be obtained.

Section 8.07. Quorum Requirements. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 8.09, below. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors, subject to the provisions of the California Nonprofit Mutual Benefit Corporation Law, especially those provisions relating to:

- (i) Approval of contracts or transactions in which a director has a direct or indirect material financial interest;
- (ii) Appointment of committees; and
- (iii) Indemnification of directors.

A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors below a quorum, if any action taken is approved by at least a majority of the required quorum for that meeting, or such greater number as is required by these Bylaws, the Articles or by law.

Section 8.08. Waiver of Notice. The transaction of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice, if:

- (a) A quorum is present; and
- (b) Either before or after the meeting, each of the directors not present, individually or collectively, signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes.

The waiver of notice or consent need not specify the purpose of the meeting. All waivers, consents, and approvals shall be filed with the Association records or made a part of the minutes of the meeting and shall have the same force and effect as a unanimous vote of the Board. The requirement of notice of a meeting shall also be deemed to have been waived by any director who attends the meeting without protesting the lack of proper notice either before or at the inception of the meeting.

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

Section 8.10. Action Without a Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if (i) all members of the Board, individually or collectively, consent in writing to that action; and (ii) the action is one that qualifies as one that is appropriate for action taken in executive session in accordance with

Section 8.06(e), above. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors.

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

This ability to take action without a meeting shall be restricted to Emergency and Executive Session matters.

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

Section 8.12. Protocol at Board Meetings. At each meeting of the Board, the President, or if he or she is absent therefrom, the Vice President, or if he or she is absent therefrom, a director chosen by a majority of the directors present, shall act as Chairperson and preside over such meeting. The Secretary, or if he or she is absent, the person (who shall be an Assistant Secretary, if any and if present) whom the Chairperson of such meeting shall appoint, shall act as Secretary of such meeting and keep the minutes thereof.

ARTICLE IX DUTIES AND POWERS OF THE BOARD

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

- (a) Exercise all powers vested in the Board under the Governing Documents and under the laws of the State of California;
- (b) Appoint and remove all officers of the Association, the General Manager of the Association, and other managerial employees; prescribe any powers and duties for such persons that are consistent with law, the Articles of Incorporation and the Bylaws; and fix their compensation;
- (c) Contract with a person or management company to act as General Manager and, at the Board's option, Chief Operating Officer of the Association;
- (d) Ratify or disapprove the General Manager's proposed appointment or removal of subordinate managers for each cost center and fix the compensation for each of these positions;

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

(f) Adopt and establish rules and regulations subject to the provisions of the Declaration, governing the use of the Common Area, the Common Facilities and roads within the Development, and the personal conduct of the Members and their guests thereon, and take such steps as it deems necessary for the enforcement of such rules and regulations, including the imposition of monetary penalties and/or the suspension of voting rights and the right to use any Common Area or Common Facilities; provided notice and a hearing are provided as more particularly set forth in Section 14.06 of the Declaration. Rules and regulations adopted by the Board may contain reasonable variations and distinctions as between Owners, tenants, guests and invitees;

(g) Delegate to the General Manager the enforcement of all applicable provisions of the Governing Documents relating to the control, management, and use of the Lots within the Development and the Common Area, Common Facilities and the roads within the Development;

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

(i) Contract for and pay for maintenance, landscaping, utilities, materials, supplies, labor and services that may be required from time to time in relation to the Development;

(j) Pay all taxes, special assessments and other assessments and charges which are or would become a lien on any portion of the Common Area;

(k) Contract for and pay for construction or reconstruction of any portion or portions of the Development which have been damaged or destroyed and which are to be rebuilt;

(l) Subject to the requirements and limitations of California law and the Governing Documents, delegate its duties and powers hereunder to the officers of the Association or to committees established by the Board;

(m) Levy assessments on the Members of the Association and their Lots in accordance with Article IV of the Declaration, and establish reasonable use charges for any or all of the Common Facilities (other than private roads) as the Board may deem necessary or desirable from time to time for the purpose of equitably allocating among the users the cost of maintenance and operation thereof;

(n) Perform all acts required of the Board under the Declaration;

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

(p) Appoint committees as it deems necessary from time to time in connection with the affairs of the Association in accordance with Article X below;

(q) In accordance with these Bylaws, fill vacancies on the Board of Directors or in any committee, except for a vacancy created by the removal of a Board member;

(r) Open bank accounts and borrow money on behalf of the Association. The Board shall designate the signatories to such depositaries and loan documents;

(s) Bring and defend actions on behalf of more than one Member or the Association to protect the interests of the Members or the Association, as such, so long as the action is pertinent to the operations of the Association, and assess the Members for the cost of such litigation. Any disciplinary action against a Member shall be subject to the hearing and procedural requirements set forth in Section 14.06 of the Declaration; and

(t) Enter Lots as necessary, subject to the notice requirements of the Declaration, in connection with construction, maintenance or emergency repairs for the benefit of the Common Area, Common Facilities or the Owners in common.

Section 9.02. Limitations on Powers.

(a) Required Board Approval for Certain Significant Contracts or Transactions. No contract or transaction (including, without limitation, any employment contract or contract to purchase services, equipment or materials) which obligates the Association to expend funds in excess of two percent (2%) of the Association's budgeted gross expenses, excluding depreciation and capital expenditures, for the year in which the contract or transaction is presented to the Board for approval may be adopted unless approved by a majority plus one of all the directors. The Board shall not intentionally subdivide a single transaction into a series of separate contracts in order to avoid the limitations imposed by this Section 9.02. Furthermore, in determining the total amount of the contract or transaction obligation, early termination provisions and costs shall be considered unless the right of early termination can be exercised without cause and without payment of any charge, expense or penalty by the Association to any other party to the contract or transaction.

(b) Prohibition on Voting Rights for Lots Owned by the Association. In order to avoid conflicts of interest or the appearance of such conflicts, the Board of Directors shall not vote the membership that is appurtenant to any Association owned or controlled properties in any Association election.

Section 9.03. Actions Requiring An Open Meeting.

(a) Limitations. The Board of Directors shall not irrevocably commit the Association or Association resources to any of the following described actions until it has complied with the requirements of subparagraphs (d) and (e) of this Section 9.03:

(i) Elimination of any portion of a major Association Common Facility, including both improved and open space Common Area;

(ii) Any modification to a major Association Common Facility, which will exceed a total cost of two hundred thousand dollars (\$200,000) including improved or open space Common Area;

(iii) Creation of a major Association Common Facility;

(iv) The sale, lease, trade, development or encumbrance of Association owned real property, excluding those properties foreclosed by any means permitted by law;

(v) Subject to the provisions of Section 4.02 of the Declaration, imposition of a regular assessment that is more than twenty percent (20%) greater than the Association's preceding fiscal year's assessment;

(vi) Imposition of a special assessment which in the aggregate exceeds five percent (5%) of the budgeted gross expenses for that fiscal year except that such limitation shall not apply to satisfy the emergency situations as described in Civil Code section 1366(b) or any superseding statute. "Gross expenditures" for the purpose of this Section shall exclude any depreciation or capital expenses;

(vii) Borrowing money, incurring indebtedness and executing promissory notes, leases, or other evidence of debt for the Association that pledges the right of the Association to exercise its assessment powers or the revenue of any amenity in connection with obtaining funds to repay a debt of the Association;

(viii) Action which would increase Association indebtedness above three percent (3%) of the preceding year's audited total assets for the purchase or improvement of real or personal property; and

(ix) Any indebtedness above five percent (5%) of the preceding year's audited total assets.

(b) Major Association Common Facility Defined. "Major Association Common Facility," as used in this Section 9.03, shall mean: any country club, golf course, tennis court, swimming pool, lake, marina, stable or equestrian facility, lodge or recreational building or campground, owned and/or operated by the Association. Further, "Major Common Association Facility" shall mean, as used in this Section, units 14 and 16 as they are now composed.

(c) Action necessary or desirable to maintain, protect, or preserve an existing Major Association Common Facility or Association-owned real property, or the use of Association funds or resources for the purpose of preliminary research, planning, and studies are specifically excluded from the operation of this Section if the total cost of such preliminary research, planning and studies does not exceed in the aggregate fifty thousand dollars (\$50,000). A Board resolution authorizing any expenditure for the preliminary research, planning and studies must first be approved by the Board prior to the authorization of such cost or the expenditure of such funds.

(d) Member Meetings. The Board shall hold at least two (2) open meetings of Members at Pine Mountain Lake for the purpose of informing the Membership of the proposed

action and to receive the comments of the Members concerning the proposed action that is within the purview of subparagraph (a) of this Section 9.03. Both of these meetings shall be held on a Saturday. Notice of the meetings shall be published in the issue of the Pine Mountain Lake News published prior to the first meeting, posted on the Association website, or at the option of the Board, by written notice posted and mailed to all Members at least thirty (30) days prior to the meeting.

(e) Member Approval. If, following the Member meetings prescribed in subparagraph (d) above, the Board proposes to continue with the action, the issue shall be put to a vote of the Members in accordance with Article IV of these Bylaws.

ARTICLE X COMMITTEES

Section 10.01. Committees Appointed by the Board. In addition to the Environmental Control Committee appointed and constituted pursuant to the Declaration, the Board may, by resolution adopted by a majority of the directors then in office, designate one or more committees, each consisting of two (2) or more Members in good standing (who may also be directors), to serve at the pleasure of the Board. However, non-voting members of advisory committees, i.e. committees appointed solely to make recommendations to the Board, are not required to be Members of the Association. Committees shall have such authority and responsibilities as may be specifically delegated by resolution of the Board, except that no committee, regardless of Board resolution, may:

- (a) Take any final action on any matter which under the Nonprofit Corporation Law or the Davis-Stirling Common Interest Development Act also requires approval of the Members;
- (b) Fill vacancies on the Board of Directors or on any committee which has been delegated any authority of the Board;
- (c) Amend or repeal Bylaws or adopt new Bylaws;
- (d) Amend or repeal any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
- (e) Appoint any other committees of the Board of Directors or the members of those committees; and
- (f) Approve any transaction governed by Section 7.07, above ("Director Ethics").

Section 10.02. Limitation on Appointments. The General Manager, subordinate managers for each cost center, and any other employee of the Association, shall not be eligible for appointment as members to any committee, but may be appointed to serve as non-voting advisors to any committee.

Section 10.03. Meetings and Actions of Committees. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article VIII of these Bylaws, concerning meetings of directors, with such changes in the context of those Bylaws as are necessary to substitute the committee and its Members for the Board of Directors and its Members, except that the time for regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee. Special meetings of committees may also be called by resolution of the Board of Directors. Notice of special meetings of committees shall also be given to any and all alternate Members, who shall have the right to attend all meetings of the committee. Minutes shall be kept of each meeting of any committee and shall be filed with the Association records. The Board of Directors may adopt rules not inconsistent with the provisions of these Bylaws for the government of any committee. Committees shall not be required to keep audiotapes of their proceedings.

Section 10.04. Committee Selection. The Board shall select and appoint Members to a committee based on the qualifications submitted by the applicants. The Board shall make its selection of a chairman for that committee from that list. Each committee member shall serve subject to the Board's power to remove that Member and appoint a successor.

Section 10.05. Committee Member Term of Appointment. Each committee member shall serve for a term of one (1) year from the time of appointment to that committee and may be reappointed by the Board. This period may be shortened if the specific purpose of that committee has been fulfilled or the committee charter has been rescinded or the committee member resigns or is removed from that committee by the Board.

ARTICLE XI DUTIES AND RESPONSIBILITIES OF THE ASSOCIATION'S OFFICERS AND GENERAL MANAGER

Section 11.01. Officers. The officers of the Association shall be a President, a Vice President, a Secretary and a Chief Financial Officer (who shall be known as Treasurer). The Association may also have, at the discretion of the Board, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 11.03, below. Any person may hold two or more offices, except that neither the Secretary nor the Chief Financial Officer may serve concurrently as president.

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

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

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

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

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

Section 11.07. President.

(a) Chief Executive Officer. The President shall be designated as the Chief Executive Officer of the Association.

(b) Agenda. The President and the Secretary shall compile the agenda for each Board meeting. Any items submitted by Board members shall be included in the agenda if requested in a timely manner and are matters that may properly be considered by the Board.

(c) Limitations. Other than as specified in these Bylaws, the President shall not have any special powers or authority beyond those of other Board members.

Section 11.08. 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 President. He or she shall have such other powers and perform such other duties as from time to time may be prescribed by the Board or the Bylaws.

Section 11.09. Secretary. The Secretary shall:

(a) Keep or cause to be kept at the principal office or such other place as the Board may order, a book of minutes of all meetings of directors and Members;

(b) Keep, or cause to be kept, appropriate current records showing the Members of the Association, together with their addresses;

(c) Give, or cause to be given, notice of all meetings of the Board and the Members required by the Bylaws or by law to be given;

- (d) Keep the seal of the Association in safe custody; and
- (e) Perform such other duties and responsibilities as may be prescribed by the Board or by the Bylaws.

At a minimum, the minutes shall note the date, time and location of the meeting, the persons in attendance, a general description of the matters discussed and an accurate record of the actions taken or duly approved by the Board or the members, as the case may be.

Section 11.10. Chief Financial Officer. The Chief Financial Officer, who shall be known as the Treasurer, shall:

- (a) Keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Association, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and other matters customarily included in financial statements;
- (b) Deposit all monies and other valuables in the name and to the credit of the Association with such depositories as may be designated by the Board;
- (c) Disburse the funds of the Association as may be ordered by the Board;
- (d) Render to the president and directors whenever they request it, an account of all of his or her transactions as Treasurer and of the financial condition of the Association; and
- (e) Exercise such other powers and perform such other duties as may be prescribed by the Board or the Bylaws.

If required by the Board, the Treasurer shall give the Association, at the Association's expense, a bond in the amount and with the surety or sureties specified by the Board for faithful performance of the duties of his or her office and for restoration to the Association of all its books, papers, vouchers, money, and other property of every kind in his or her possession or under his or her control on his or her death, resignation, retirement, or removal from office.

Section 11.11. General Manager. The Board shall employ the services of a General Manager (or, at the Board's discretion, an employee of a professional management company) to manage the affairs of the Association and, to the extent not inconsistent with the laws of the State of California, and upon such conditions as are otherwise deemed advisable by the Board, the Board may delegate to the manager any of its day-to-day management and maintenance duties and powers under these Bylaws and the Declaration, provided that the General Manager shall at all times remain subject to the general control of the Board. The General Manager shall not be a director of the Association.

- (a) Duties. The Board shall define the specific areas of responsibility delegated to the General Manager.

(b) Direction. The Board shall exercise its general control of the General Manager as a total entity. Board members shall not act individually in attempts to supervise the General Manager or direct the manner of his performance.

(c) Evaluation. The Board shall, consistent with the General Manager's contract, if any, at the start of each fiscal year establish realistic goals and objectives for the General Manager to accomplish. The General Manager's overall performance shall be measured against the specific delegations of duties and powers and the accomplishment of these goals and objectives.

ARTICLE XII MEMBER ASSESSMENT OBLIGATIONS AND ASSOCIATION FINANCES

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

Section 12.02. Checks. All checks or demands for money and notes of the Association shall be signed by the President and Treasurer, or by such other officer or officers or such other person or persons as the Board of Directors may from time to time designate. Notwithstanding the foregoing, any transfer of funds from Association reserve accounts shall require Board action at a Board meeting open to the Members.

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

Section 12.04. Other Accounts. The Board shall maintain any other accounts it shall deem necessary to carry out its purposes, including and in accordance with Civil Code section 1365.5(f), or its successor statute, reserve accounts for

(a) Replacement of capital improvements as more particularly set forth in Article IV of the Declaration; or

(b) Funds received and not yet expended or disposed from either a compensatory damage award or settlement for injury to real or personal property as a result of any construction or design defects.

All Association books of account shall be maintained in accordance with generally accepted accounting principles.

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

(a) Budget. A pro forma operating budget for each fiscal year consisting of at least the following information shall be distributed to Members not less than thirty (30) nor more than ninety (90) days prior to the beginning of the fiscal year containing, but not limited to the following:

(i) Estimated revenue and expenses on an accrual basis. This information shall be presented in a manner, which separately identifies the anticipated revenues and expense for each cost center within the Association's operations ("cost centers"). The differential between revenues and expenses for each cost center (as determined above) shall then be expressed in the budget as a percentage so that Members can readily understand the anticipated net expense of providing each major facility and service, which the Association is obligated to provide or operate under its Governing Documents;

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

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

(B) As of the end of the fiscal year for which the reserve study is prepared:

(1) The current estimate of the amount of cash reserves necessary for Association Capital Projects;

(2) The current amount of accumulated cash reserves actually set aside for Association Capital Projects; and

(3) If applicable, the amount of funds received from either a compensatory damage award or settlement to the Association from any person or entity for injuries to real or personal property arising out of construction or design defects and the expenditure or disposition of funds, including the amounts expended for the direct and indirect costs of repair of construction or design defects. Such amounts shall be reported as a separate line item under accumulated cash reserves, under subparagraph (2) above. In any year in which the Association is obligated to issue a review of their financial statement in accordance with subparagraph (b) below, in lieu of complying with this subparagraph (3), the Association may include a statement containing all of the information required by this subparagraph in such review.

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

(D) The current deficiency, if any, in reserve funding expressed on a per Lot basis. The figure shall be calculated by subtracting the amount determined as the current amount of accumulated cash reserves actually set aside for the repair, replacement, restoration or

maintenance of Association Capital Projects from the amount determined as the current estimate of the amount of cash reserves necessary for Association Capital Projects and then dividing the result by the number of Lots in the Development.

(iii) a statement as to all of the following:

(A) whether the Board of Directors of the Association has determined to defer or not to undertake repairs or replacement of any major component of the Development (for which the Association is responsible) with a remaining life of thirty (30) years or less, including a justification for the deferral or decision not to undertake the repairs or replacement;

(B) whether the Board of Directors, consistent with the reserve funding plan adopted pursuant to Civil Code section 1365.5(e), has determined or anticipates that the levy of one (1) or more Special Assessments will be required to repair, replace or restore any major component or to provide adequate reserves therefore. If so, the statement shall also disclose the estimated amount, commencement date and duration of the Assessment;

(C) the mechanism or mechanisms by which the Board of Directors will fund reserves to repair or replace major components of the Development for which the Association is responsible, including Assessments, borrowing, use of other assets, deferral of selected replacement or repairs, or alternative mechanisms; and

(D) whether the Association has any outstanding loans with an original term of more than one (1) year, including information as to the payee, the interest rate, the amount outstanding, the amount of the annual payment, and when the loan is scheduled to be retired.

(iv) a general statement setting forth the procedures used by the Board of Directors in calculating and establishing reserves to defray the future costs of repair, replacement or additions to major components of the Development which the Association is obligated to maintain. This report shall include, but need not be limited to, reserve calculations made using the formula described in Civil Code section 1365.2.5(b)(4), and may not assume a rate of return on cash reserves in excess of two percent (2%) above the rediscount rate published by the Federal Reserve Bank of San Francisco at the time the calculation is made.

(v) A summary of the reserve funding plan adopted by the Board of Directors pursuant to California Civil Code section 1365.5(e)(4). That summary shall include a notice to the Members that the full reserve study plan is available from the Association upon request by any Member.

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

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

- (i) A balance sheet as of the end of the fiscal year;
- (ii) An operating (income) statement for the fiscal year;
- (iii) A statement of cash flows for the fiscal year;
- (iv) A statement advising Members of the place where the names and addresses of the current Members are located; and
- (v) Any information required to be reported under Corporations Code section 8322 requiring the disclosure of certain transactions which fifty thousand dollars (\$50,000) per year between the Association and any director or officer of the Association and indemnifications and advances to officers or directors aggregating in excess of ten thousand dollars (\$10,000) per year.

An audit of the financial statement of the Association shall be prepared in accordance with Generally Accepted Auditing Standards by a licensee of the State Board of Accountancy for any fiscal year.

(c) Review of Accounts. In accordance with Civil Code section 1365.5(a), on no less than a quarterly basis, the Board of Directors shall:

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

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

result of that review. The reserve study required hereunder shall include the minimum requirements specified in Civil Code section 1365.5(e) or comparable successor statute.

Among other requirements, Civil Code section 1365.5(e)(5) requires the Board to prepare a reserve funding plan that indicates how the Association plans to fund the annual contributions that are necessary to defray the cost to repair, replace, restore, or maintain the major components of the Development that are the obligation of the Association that have a remaining useful life of thirty (30) years or less, not including those components that the Board has determined will not be replaced or repaired. The plan shall include a schedule of the date and amount of any change in the Regular or Special Assessments that would be needed to sufficiently fund the reserve funding plan. This reserve funding plan must be adopted by the Board of Directors at an open meeting before the membership of the Association. If the Board determines that an Assessment increase is necessary to fund the reserve funding plan, any increase shall be approved in a separate action of the Board that is consistent with the procedure described in Civil Code section 1366 and Section 4.08 of the Declaration (to the extent Member approval of the increase is required). A summary of the Association's reserve funding plan must be distributed annually and the summary must include a notice that the full reserve funding plan is available to any Member upon request. The Association shall provide a copy of the reserve funding plan to any Member upon request.

Section 12.07. Statutory Assessment and Reserve Funding Disclosure Summary. The disclosures required by the Association pursuant to this Article XII shall also be presented to the Members in summary form using the form that is set forth in Civil Code section 1365.2.5. The form required by the Civil Code may be supplemented so long as the minimum information set out in the statutory form is provided. For the purpose of the report and summary of the Association's assessment and reserve disclosure, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. Nevertheless, this disclosure, which is mandated by law, shall not be construed to require the Board of Directors to fund reserves in accordance with the calculation that is required to be disclosed pursuant to Civil Code section 1365.2.5(b)(4).

ARTICLE XIII OTHER REQUIRED DISCLOSURE TO MEMBERS

In addition to the documents that the Association is required to distribute to the Members pursuant to Article XII, above, various statutes applicable to common interest developments and owner associations require that the following disclosures and information be provided to the Members of the Association on an annual or other periodic basis or in response for a request for the information by a Member:

Section 13.01. Annual Notice Regarding Assessments and Foreclosure. As required by Civil Code section 1365.1, the Association shall distribute to all Members during the sixty (60) day period immediately preceding the beginning of the Association's fiscal year, the notice regarding Association assessment authority, foreclosure and other collection remedies that is set

forth in subparagraph (b) of Civil Code section 1365.1. This notice shall be printed in at least 12-point type.

Section 13.02. Notification to Members Regarding Insurance Coverage Maintained by the Association.

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

(b) Content of Annual Insurance Summary. The insurance summary required by subparagraph (a), above, shall include:

- (i) The name of the insurer;
- (ii) The type of insurance;
- (iii) The policy limits of the insurance; and
- (iv) The amount of the deductibles, if any.

In addition, the summary shall include the following statement in at least 10-point boldface type: "This summary of the Association's policies of insurance provides only certain information, as required by Civil Code section 1365(e), and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association Member may, upon request and provision of reasonable notice to the Association, review the Association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the policies of insurance specified in this summary, the Association's policies of insurance may not cover your property, including personal property or, real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered by the Association's insurance, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association Members should consult with their individual insurance broker or agent for appropriate additional coverage." To the extent that any of the information that is required to be included in an annual insurance summary is specified in the insurance policy declaration page, the Association may meet its obligation to disclose that information by providing its Members with a copy of the declaration page.

(c) Notification of Cancellation or Material Change in Policies. In addition to distributing the insurance summaries described in subparagraph (a) of this Section 13.02, if any of the policies described in the summary lapse or are canceled and are not immediately renewed, restored or replaced, or if there is a significant change in the policies, such as a reduction in coverage or limits or an increase in the deductible, then the Association shall, as soon as reasonably practical, notify its Members of the lapse, cancellation or significant change. This notice shall be sent by first-class mail. If the Association receives any notice of non-renewal of a policy described in subparagraph (a) of this Section 13.02, the Association shall immediately

notify its Members if replacement coverage will not be in effect by the date the existing coverage will lapse.

Section 13.03. Alternative Dispute Resolution (ADR) Disclosure. On an annual basis, the Board of Directors shall provide each Member a summary of the provisions of Civil Code sections 1369.510 through 1369.590, which specifically references those Civil Code sections and which includes this statement:

“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.”

This ADR disclosure and summary shall be provided either at the time the budget required by Section 12.05, above, is distributed to the Members or in the manner specified in Corporations Code section 5016. The summary shall also include a description of the Association’s internal dispute resolution process, as required by Civil Code section 1363.850.

Section 13.04. Statement of Outstanding Charges. Within ten (10) days following receipt of a written request by an Owner, the Association shall provide the Owner with a written statement setting forth the following information as of the date of the statement:

- (a) The amount of the Association's current Regular Assessment and Special Assessments (if any), and fees;
- (b) The amount and nature of any assessments levied upon the Owner's Lot which are unpaid on the date of the statement;
- (c) True and correct information regarding late charges, interest, and costs of collection which, as of the date of the statement are or may be made a lien on the Owner's Lot which may be made a lien upon that Lot in accordance with Civil Code section 1367.1; and
- (d) Any change in the Association's current Regular and/or Special Assessments and fees which have been approved by the Association's Board of Directors, but have not become due and payable as of the date of the statement.

The Association may impose a fee for providing the information stated in this Section 13.04, not to exceed the reasonable costs incurred to prepare and reproduce the requested items. The items required to be made available pursuant to this Section may be maintained in electronic form and requesting parties shall have the option of receiving them by electronic transmission or in machine readable storage media if the Association maintains those items in electronic form.

Section 13.05. Disclosure of Schedule of Fines or Other Monetary Penalties. In accordance with Civil Code section 1363(d), if the Association adopts a schedule of fines for commonly recurring infractions of the Governing Documents, or any other policy imposing a monetary penalty or a fee on any Member for violation of any Governing Document or the Association Rules, including any monetary penalty relating to the activities of a guest or invitee

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

Section 13.06. Notification Regarding Certain Rule Changes. Civil Code section 1357.100(b) defines a community association “rule change” to mean any adoption, amendment, or repeal of an operating rule by the Board of Directors of the Association. Subparagraph (a) of that section of the Civil Code defines an “operating rule” as a regulation adopted by the board of directors of a community association that applies generally to the management and operation of the common interest development or the conduct of the business and affairs of the association. Certain actions by the board of directors of a community association are excluded from the definition of an “operating rule” by Civil Code section 1357.120(b). If the Board of Directors is considering a “rule change” with respect to any of the five types of “operating rules” set forth below, Civil Code section 1357.130(a) requires the Board of Directors to provide written notice of the proposed rule change to the Members at least thirty (30) days prior to the date when the Board is scheduled to take action on the proposed rule change. This notice must include the text of the proposed rule change and a description of the purpose and effect of the proposed rule change. This notice is not required if the Board of Directors 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.

Once a rule change has been approved by the Board, notice of the rule change must be delivered to every Member of the Association within fifteen (15) days after the rule change is adopted. This second notice must 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 (if it is given an expiration date).

The notice requirements summarized in the preceding two (2) paragraphs apply to any of the following operating rules of the Association:

- (a) An operating rule that pertains to use of the Common Areas of the Development;
- (b) An operating rule that pertains to architectural control standards or design guidelines under Article V of the Declaration;
- (c) An operating rule that pertains to Member discipline, including any schedule of monetary penalties for violation of the Governing Documents and any procedure for the imposition of penalties;
- (d) Adoption by the Association of standards applicable to delinquent assessment payment plans; and
- (e) Procedures adopted by the Association for the resolution of assessment disputes.

The Member notification requirements for the preceding five categories of operating rules are intended to afford Members the right to demand that the Board conduct a special meeting or a written ballot vote to rescind the proposed rule change in accordance with Civil Code section 1357.140 (which section sets forth procedures for a Member-initiated plebiscite to

challenge the proposed rule change). Regardless of whether the Members are successful in reversing a rule change pursuant to the procedures set forth in Civil Code section 1357.140, the Board of Directors must, within fifteen (15) days following the close of the voting, notify the Members of the results of the Member vote. All notices required by this Section 13.06 may be delivered to the Members by any means permitted by Civil Code section 1350.7.

Section 13.07. Avoidance of Duplication in Reporting Requirements. To the extent one document distributed to the Members pursuant to Article XII or XIII, this Article provides the information required in more than one of the foregoing Sections of this Article, any such requirements listed above may be satisfied by sending the Members the same document.

ARTICLE XIV MISCELLANEOUS

Section 14.01. Inspection of Books and Records.

(a) Member Inspection Rights.

(i) Scope of Inspection Rights of Members. All accounting books and records, minutes of proceedings of the Members, the Board and committees of the Board, the membership list of the Association, and other documents that are defined as "association records" or "enhanced association records" shall at all times, during reasonable business hours, be subject to the inspection of any Member in accordance with the requirements and restrictions set forth in Civil Code section 1365.2.

The Member who desires to inspect those documents must submit a written request for inspection to the Association and that request must state a reason for the requested inspection that reasonably related to the Member's interests in the Association. The accounting books and records and the minutes of proceedings of the Association, and any information contained in those records may not be used or sold for a commercial purposes or used for any other purpose that is not reasonably related to a Member's interests as a Member.

Prohibited uses of the Association's membership list are set forth in Corporations Code section 8338 (see also Civil Code sections 1365.2(e)) and the Association shall have the right, pursuant to Corporations Code section 8330 to offer a Member who is seeking access to the membership list an alternative method of achieving the Member's stated purpose without providing access to or a copy of the list, itself, so long as the Association presents its alternative method within ten (10) days following receipt of the Member's request.

(ii) Association's Right to Withhold Information. The Association has the right to withhold or redact information from the accounting books and records and the minutes of proceedings for any of the following reasons: (A) the release of the information is reasonably likely to lead to identity theft (i.e., the unauthorized use of another person's personal identifying information to obtain credit, goods, services, money or property); (B) the release of the information is reasonably likely to lead to fraud in connection with the Association; or (C) the

information is privileged by law. However, except as provided by the attorney-client privilege, the Association may not withhold or redact information concerning the compensation paid to employees, vendors or contractors. Compensation information for individual employees shall be presented only by job classification or title, and not by use of the employee's name, social security number or other personal information.

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

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

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

(vi) Electronic Delivery of Information. 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. Under such circumstances, the cost of duplication for purposes of subsection (v), above, shall be limited to the direct cost of producing the copy of a record in that electronic format. The Association may deliver specifically identified records by electronic transmission or machine-readable storage media as long as those records can be transmitted in a redacted format that prevents the records from being altered.

(b) Director Inspection Rights. Every director shall have an absolute right at any reasonable time to inspect all books, records, documents and minutes of the Association and the physical properties owned by the Association. The right of inspection by a director includes the right to make extracts and copies of documents. All Directors should consider their fiduciary obligations to act in good faith and in a manner the director believes to be in the best interests of the Association in determining what use and/or dissemination is to be made of information obtained in the director's exercise of his or her inspection rights.

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

Section 14.02. Disclosure of Senior Manager's Qualifications. As a precondition of employment, any candidate for a senior management position shall grant the Board the right to disclose a resume of qualifications to the Association for that candidate. For the purpose of this section, a "Senior Manager" shall mean the General Manager, the Controller and any cost center manager.

Section 14.03. Corporate Seal. The Association shall have a seal in circular form having within its circumference the words "Pine Mountain Lake Association, Incorporated April 16, 1969, State of California."

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

Section 14.05. Amendment or Repeal of Bylaws.

(a) Member Approval Requirements for the Adoption of Amendments. Except as otherwise provided in subparagraph (b), below, these Bylaws may be amended or revoked in any respect by the vote or assent of the holders of not less than a simple majority of a Quorum of the Voting Power of the Members. Notwithstanding the foregoing, the percentage of the Voting Power necessary to amend a specific clause or provision of these Bylaws shall not be less than the percentage of affirmative votes prescribed for action to be taken under that clause. Any vote to amend these Bylaws shall be conducted in accordance with the procedures pertaining to the use of secret ballots that are set forth in Section 7.05, subparagraphs (b) through (h), above.

(b) Amendments of the Bylaws on Board Action Alone. The Board of Directors, by unanimous vote, shall have the power and authority to approve amendments to these Bylaws, without necessity of further Member approval, under the following limited circumstances:

(i) The amendment or amendments are restricted solely to (A) changes in the Bylaws that are required in order to conform the text of the Bylaws to changes in underlying statutory law that are mandatory in nature ("mandatory changes") or (B) changes that are limited to references in these Bylaws to one or more California statutes, when the change is needed because the referenced section has been given a new number in the applicable California Code. For purposes of this requirement, a statutory change is a mandatory change when the new statute or the amendment to an existing statute is one that, by its terms, must be observed by all California community associations and their members, rather than being a change that a community association and its members have the discretion to adopt or follow (by making an appropriate amendment to the Bylaws) or to decline to follow.

(i) The Board of Directors has received a written opinion from the Association's legal counsel confirming that the text of the proposed Bylaw changes or

amendments are, in fact, limited to mandatory changes, as defined in subparagraph (i), above, or to changes that are required to update references to California Code sections where the section number(s) has/have been changed.

(ii) The Board has followed the written notice procedures applicable to the adoption of proposed Operating Rules, as set forth in Civil Code section 1357,130, including, without limitation providing all Members with the text of the proposed Bylaw amendment(s), together with a copy of the opinion of the Association's legal counsel at least thirty (30) days prior to the date of the Board meeting at which the proposed change or amendment is on the agenda for approval; and

(iii) The Board's action to approve the amendment is taken at a meeting that is open to attendance by the Members pursuant to Section 8.06(a), above. In the event that any revisions are made to the text of the amendment at the time of its approval (i.e., following distribution of the proposed text of the amendment), a copy of the amendment, as approved, shall again be distributed to the Members. If the changes to the text of the amendment, as previously distributed to the Members, is minor, this requirement can be satisfied by delivery of written notice to the Members of the changes in text that have been made as a result of the receipt of Member comments.

(c) Effective Date of Amendments. Any amendment to these Bylaws shall become effective immediately upon approval by the Members or the Board in accordance with subparagraphs (a) and (b), above. The Secretary of the Association shall certify adoption of any duly approved amendment to the Bylaws and a copy of said certificate and the amendment shall be included in the Association's corporate records.

Section 14.06. Notice Requirements and Permissible Methods of Document Delivery.

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

(b) Documents and Notices That May Be Delivered in a Manner Permitted by Civil Code section 1350.7. Unless a provision of these Bylaws, the Declaration or applicable laws require a particular method of providing notice or a particular means for delivery of a document or report, the notice, document or report can be delivered to a Member or to the Members by any means permitted by Civil Code section 1350.7 which provides as follows:

A document or notice from the Association may 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 Member's address as last shown on the books of the Association or otherwise provided by the Member to the Association. Delivery is deemed to be complete on deposit into the United States mail;
- (iii) By electronic mail, facsimile, or other electronic means, if the recipient/Member has agreed to that method of delivery. The agreement obtained by the Association shall be consistent with the conditions for obtaining consent to the receipt of electronic transmissions set forth in Corporations Code section 20 which states that the recipient/Member must first provide the Association with an unrevoked consent and the means of transmission can create a record that is capable of retention, retrieval and review and which can be rendered into a clearly legible tangible form. 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) A method of delivery provided in a recorded provision of the Association's Governing Documents; and
- (vi) Any other method of delivery, provided that the recipient Member has agreed to that method of delivery.

Any document described above that the Association is required to deliver to its Members may be included in or delivered with a billing statement, newsletter, or other document that is delivered by one of the methods described in subparagraphs (i) through (vi), above.

Subparagraph (a) of Civil Code section 1350.7 expressly provides that the delivery options listed above can be utilized with respect to the Association's obligations to deliver the following reports, notices, or information to its Members:

- (i) the Association's annual Assessment and Reserve Funding Disclosure (Civil Code section 1365.2.5); the Association's Annual Budget or Budget Summary (Civil Code section 1365(a));
- (ii) the Association's Assessment Collection Policy (Civil Code section 1365(e) and 1367.1(a));
- (iii) the Annual Notice Regarding Assessments and Foreclosure Remedies (Civil Code section 1365.1);

- (iv) the Annual Insurance Summary disclosing the Association's insurance coverages (Civil Code section 1365(f);
- (v) the Notice of Members' Rights to Receive to Receive Board Minutes (Civil Code section 1363.05(e));
- (vi) the notice of Alternative Dispute Resolution Procedures (Civil Code section 1369.590);
- (vii) the Notice of Internal Dispute Resolution Procedures (Civil Code section 1363,850);
- (viii) the annual Notice Regarding Architectural Review Procedures (Civil Code section 1378(c));
- (ix) the Secondary Address Notification Request (Civil Code section 1367.1(k));
- (x) the Association's Schedule of Monetary Penalties (Civil Code section 1363(g));
- (xi) the Association's Reserve Funding Plan (Civil Code section 1365(b));
- (xii) the Annual Review of the Association's Financial Statement (Civil Code section 1365(c));
- (xiii) the annual update of the Association's Reserve Study (Civil Code section 1365(a)); and
- (xiv) the distribution of any Notice of a Rule Change or Rule Amendment (Civil Code section 1357.130).

(c) Permissible Methods of Delivering Election Ballots and Materials. Civil Code section 1363.03 sets forth secret ballot voting procedures that must be utilized when Members of the Association are solicited to vote on the matters set forth in Section 4.04(e), above. With respect to those election matters, the Association is obligated to provide the Members with ballots and two preaddressed envelopes with instructions on how to return the ballots in time to be counted. The ballots, envelopes and related instruction materials must be sent by first-class mail or personal delivery to every Member not less than thirty (30) days prior to the deadline for voting. Within fifteen (15) days following the election and the tabulation of ballots, the Board shall publicize the tabulated results of the election in a communication directed to all Members.

(d) Other Disclosure Methods and Delivery Requirements Mandated by Law. Other provisions of applicable law require the following commonly recurring forms of notice to be provided to the Members in the manner specified below:

- (i) Notices of meetings of the Members must be a written notice which shall be given personally, by electronic transmission (if authorized in advance

by the recipient Member) or by mail or other means of written communication addressed to a Member at the address appearing on the books of the Association (Corporations Code section 7511(b));

- (ii) Notices of open meetings of the Board of Directors shall be given by posting the notice in a prominent place or places within the Common Areas of the Development and by mail to any Owner who has requested notification of Board meetings by mail, at the address requested by the Owner. Notice of Board meetings may also be given, by mail or delivery of the notice to each residence in the Development or by newsletter or similar means of communication. Notices of Board meetings must include an agenda (Civil Code section 1363.05(f));
- (iii) Notices of any increase in the Regular Assessment or notices of any Special Assessment must be provided by first-class mail (Civil Code section 1366(d));
- (iv) Notices sent to Members who are delinquent in the payment of their Assessment obligations must include the information stated in Civil Code section 1367.1 and must be sent to the Owner of record in writing and by certified mail (Civil Code section 1367.1(a)). If the assessment collection process proceeds further and a Notice of Delinquent Assessment is recorded pursuant to Section 4.10(b) of the Declaration (thereby creating a lien against the delinquent Owner's property), the recorded copy of that Notice must be mailed by certified mail to every person whose name is shown as an Owner of the Lot in the Association's records and this Notice must be mailed within ten (10) days following its Recordation; and
- (v) In the event that a delinquent Owner does not respond to receipt of the Association's Notice of Delinquent Assessment by payment in full of the amounts claimed as being due and owing and the collection process proceeds to the recordation of a Notice of Default, then within ten (10) days after the Notice of Default is recorded in the official records of the County Recorder a copy of that Notice (with the recording date shown thereon) must be sent by registered or certified mail with postage prepaid to each person whose name and address are shown on a duly recorded request for notice and to each trustor or mortgagor at his, her or its last known address.

Section 14.07. Indemnification.

(a) Indemnification by Association of Directors, Officers, Committee Members and Volunteers. To the fullest extent permitted by law, the Association shall indemnify its directors, officers, committee members and volunteers, including persons formerly occupying any such positions, against all expenses, judgments, fines, settlements and other amounts actually and reasonably incurred by them in connection with any "proceeding" as that term is used in this Section and including an action by or in the right of the Association, by reason of the fact that

such person is or was a director, officer, committee member or volunteer. The term "Expenses," as used in this Section, shall have the same meaning as in Corporations Code section 7237(a).

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

(c) Advancement of Expenses. To the fullest extent permitted by law and except as is otherwise determined by the Board in a specific instance, expenses incurred by directors, officers, committee members or volunteers seeking indemnification under subparagraphs (a) and (b) of this Section 14.07 in defending any proceeding covered by those sections shall be advanced by the Association before final disposition of the proceeding, on receipt by the Association of an undertaking by or on behalf of that person that the advance will be repaid unless it is ultimately determined that the person is entitled to be indemnified by the Association for those expenses.

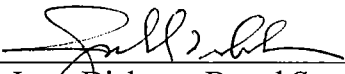
(d) Insurance. The Association shall have the power to purchase and maintain insurance on behalf of its directors, officers, committee members and volunteers against other liability asserted against or incurred by any director, officer, committee member or volunteer in such capacity or arising out of the director's, officer's, committee member's or volunteer's status as such.

CERTIFICATE OF SECRETARY

The undersigned, secretary of Pine Mountain Lake Association, a California nonprofit mutual benefit corporation, hereby certifies that the above and foregoing Third Restated Bylaws, consisting of fifty-five (55) pages, were duly adopted by secret written ballot of the Members of the Association on August 18, 2012, and that they now constitute the Bylaws of the Association.

DATED: August 18, 2012.

PINE MOUNTAIN LAKE ASSOCIATION, a
California nonprofit mutual benefit corporation

By: 
Jerry Dickson, Board Secretary