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BYLAWS OF

SUNSET HEIGHTS COMMUNITY ASSOCIATION, INC.

October __, 2004

ARTICLE I. NAME AND LOCATION

Section 1.1. The name of this corporation is Sunset Heights Community Association, Inc., (the "Association"). The Association shall govern, through its board of directors ("Board of Directors," "Board," or "Directors") and its management company, if any, property commonly known as Sunset Heights, consisting of a subdivision divided into five (5) lots, improved or to be improved, with primary residential structures (the lots and any improvements thereon shall individually and collectively be referred to as "Lots") and other attendant buildings, together with certain customary appurtenances and facilities (the "Subdivision"). The principal office for the transaction of the business of the Association ("Principal Executive Office") is located at 939 Andreaeven, Escondido, CA 92029. The Board of Directors of the Association may change the Principal Executive Office from one location to another within the County of San Diego. A Declaration of Conditions, Covenants, and Restrictions, and any amendments thereto (the "Declaration"), will be recorded against the Subdivision in accordance with California law.

ARTICLE II. DEFINITIONS

Section 2.1. Any definitions set forth in the Declaration and not specifically defined herein, and any other provisions contained in the Declaration, are incorporated by reference into these Bylaws ("Bylaws").

ARTICLE III. MEMBERSHIP

Section 3.1. Eligibility. The owners of each Lot, including Declarant (the "Owners"), shall constitute the Association. Each Owner shall be a member of the Association ("Member"). Membership in the Association ("Membership") shall be appurtenant to Lot ownership, and each Owner shall automatically become a Member upon the close of escrow for the purchase of such Owner's Lot. Ownership of a Lot shall be the sole qualification for Membership. Membership shall not be denied to any Owner because of race, sex, color, religion, creed, marital status, sexual orientation, national origin, AIDS, ancestry, or conditions of physical or mental disability.

Section 3.2. Shared Membership Rights. Membership rights may be shared between and exercised jointly by the members of a household, provided that there shall be only one Membership per Lot and only one vote per Membership.

Section 3.3. Transfer of Membership. Membership shall be appurtenant to the Lot giving rise to such Membership and shall not be assigned, transferred, pledged, conveyed, or alienated in any way, except upon the transfer of title to said Lot, and then only to the transferee of title to said Lot. Any attempt to make a prohibited transfer shall be void. Any transfer of title to a Lot shall operate automatically to transfer Membership in the Association appurtenant to the New Owner of the Lot.

A. Required Disclosures to New Members. A selling Member shall provide the following to prospective purchasers of the Membership:

(1) A copy of the Association's "Governing Documents," including, but not limited to, the Association's Articles of Incorporation, Bylaws, and Declaration;

(2) A copy of the Association's most recent financial statement;

(3) A statement from an authorized representative of the Association as to the amount of the Association's current Assessments (as set forth in Article X herein) and fees, the amount of any unpaid Assessments owed by the departing Member, and the amounts of any pending increases in Assessments;

(4) A copy or a summary of any notice previously delivered to the selling Member by the Board that sets forth any alleged violation of the Governing Documents that remains unresolved at the time of delivery of the documents set forth in this Section 3.3A; and

(5) A copy of the preliminary list of defects, if any, that has been delivered to any builder, developer, or general contractor in an effort to commence an action for damages for defect in design or construction against such builder, developer, or general contractor. The preliminary list of defects must also include a statement that a final determination has not been made regarding whether the preliminary list of defects is accurate and complete.

Section 3.4. Improvements to Lots. A Member shall make improvements to Lots only with the written approval of the Board.

ARTICLE IV. MEETINGS OF MEMBERS

Section 4.1. Place of Meetings. Meetings of the Membership shall be held at the principal office or place of business of the Association or at such other suitable place convenient to the Membership as may be designated by the Board of Directors.

Section 4.2. Annual Meetings. The annual meetings of the Association shall be held on the date set by the Board of Directors. At the annual meeting there shall be elected a Board of Directors by written ballot of the Members in accordance with the requirements of Section 4.8 of this Article IV and Section 5.5 of Article V of these Bylaws. The Members may also transact such other business of the Association as may properly come before them.

Section 4.3. Special Meetings. It shall be the duty of the President to call a special meeting of the Members as directed by resolution of the Board of Directors or upon a petition signed by five percent (5%) of the Members having been presented to the Secretary. The notice of any special meeting shall state the time and place of such meeting and the purpose thereof. No business shall be transacted at a special meeting except as stated in the notice unless by consent of four-fifths (4/5) of the Members present.

Within twenty (20) days after receipt of a resolution or request demanding a special meeting, the Secretary shall give written notice thereof to all of the Members as herein provided, which shall specify the date, time, and place of the meeting and the matters to be considered at

such meeting. Except in cases of emergency, the meeting shall be set for a date not fewer than fifteen (15) days nor more than thirty (30) days after the receipt of the request.

Section 4.4. Notice of Meetings.

A. It shall be the duty of the Secretary to deliver a notice of each annual or special meeting, stating the purpose thereof, as well as the time and place where it is to be held, to each Member of record, at his or her address as it appears on the membership book of the Association, or if no such address appears, at his or her last known place of address, at least ten (10) days but not more than ninety (90) days prior to such meeting. Service may also be accomplished by the delivery of any such notice to the Member at his or her residence or last known address. The notice 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 the annual meeting and general membership meeting, those matters which the Board of Directors, at the time of giving the notice, intends to present for action by the Members.

B. Notice of Certain Agenda Items. If action is proposed to be taken at any meeting for approval of any of the following items, the notice shall also state the general nature of the proposal. Member action on the following proposal(s) is invalid unless the notice or written waiver of notice states the general nature of the proposal(s):

- (1) Removing a Director without cause;
- (2) Filling vacancies on the Board of Directors by the Members;
- (3) Amending the Governing Documents, including the Association's Articles of Incorporation or Bylaws;
- (4) Approving a contract or transaction in which a Director has a material financial interest; or
- (5) Approving a plan of distribution of assets, other than cash, in liquidation.

Section 4.5. Quorum. The presence, either in person or participating by written ballot pursuant to Section 4.10 below, of one third (1/3) of the Members of record of the Association shall be requisite for, and shall constitute a quorum for, the transaction of business at all meetings of Members.

Section 4.6. Loss of Quorum. The Members present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the Members required to constitute a quorum or, if required by this division, by the Articles of Incorporation or the Bylaws, the vote of the greater number or voting class.

Section 4.7. Adjournment of Meetings. In the absence of a quorum, any meeting of Members may be adjourned from time to time by the vote of a majority of the votes represented either in person or by written ballot pursuant to Section 4.10 below, but no other business may be transacted, except as provided in Section 4.6.

If a time and place for the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason a new date is fixed for the adjourned meeting after adjournment, notice of the time and place of the adjourned meeting shall be given to Members in the manner prescribed for regular meetings; provided, however, that any adjournment for lack of a quorum shall be to a date not less than five (5) but not more than thirty (30) days from the original date.

Section 4.8. Voting. If a Member stands of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, husband and wife as community property, tenants by the entirety, persons entitled to vote under a voting agreement or otherwise, or if two or more persons have the same fiduciary relationship respecting the same Membership, unless the Secretary of the Association is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

- A. If only one votes, such act binds all; or
- B. If more than one votes, the act of the majority so voting binds all.

Section 4.9. Proxy Voting. Voting may be carried out either in person or by proxy.

Section 4.10. Action by Written Ballot Without a Meeting. Any action which may be taken at any regular or special meeting of Members may be taken without a meeting if the Association distributes a written ballot to every Member entitled to vote on the matter. The ballot shall set forth the proposed action, provide an opportunity to specify approval or disapproval of each proposal, provide that where the person solicited specifies a choice with respect to any such proposal the vote shall be cast in accordance therewith, and provide a reasonable time within which to return the ballot to the Association. Ballots shall be mailed or delivered in the manner required for giving notice in Section 4.4A above.

All written ballots shall also indicate the number of responses needed to meet the quorum requirement and, except for ballots soliciting votes for the election of Directors, shall state the percentage of approvals necessary to pass the measure submitted. The ballots must specify the time by which they must be received by the Association in order to be counted.

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

A written ballot may not be revoked after its receipt by the Association or its deposit in the mail, whichever occurs first.

Section 4.11. Conduct of Meetings. Meetings shall be governed by Roberts' Rules of Order, as such rules may be revised from time to time, insofar as such rules are not inconsistent with or in conflict with these Bylaws, with the Articles of Incorporation or any other Governing Documents, or with any provision of law.

Section 4.12. Waiver of Notice or Consent by Absent Members.

A. Written Waiver or Consent. The transactions of any meeting of Members, however called or noticed, and wherever held, shall be valid as though taken at a meeting duly held after regular call and notice, if a quorum be present, and if, either before or after the meeting, each person entitled to vote, who was not present, signs a written waiver of notice or a consent to a holding of the meeting, or an approval of the minutes. All such waivers, consents, or approvals shall be filed with the Association records or made a part of the minutes of the meeting.

B. Eligibility to Vote in Annual Election of Directors. Notwithstanding any contrary provision of this Section 4.12, the provisions of Section 4.13 shall apply in determining eligibility to vote in the annual election of the Board of Directors and the procedures set forth in of Section 5.5 shall apply to determining the process of the annual election of the Board of Directors.

C. Waiver by Attendance. Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects at the beginning of such meeting to the transaction of any business due to the inadequacy or illegality of the notice. Also, attendance at a meeting is not a waiver of any rights to object to the consideration of matters not included in the notice of the meeting, if that objection is expressly made at the meeting.

Section 4.13. Record Date for Member Notice, Voting, and Giving Consents.

A. To Be Determined by Board of Directors. For the purposes of determining which Members are entitled to receive notice of any meeting, the Board of Directors may fix, in advance, a "record date," which shall not be for more than ninety (90) nor fewer than ten (10) days before the date of any such meeting. The Board of Directors shall also fix, in advance, a date as the record date for the purpose of determining the Members entitled to vote at a meeting of Members or to exercise any rights in respect of any other lawful action. Such record date shall not be more than sixty (60) days prior to the date of any such meeting or such other action as specified above. Only Members of record on the date so fixed are entitled to vote, or to give consents, as the case may be, notwithstanding any transfer of any Membership on the books of the Association after the record date, except as otherwise provided in the Articles of Incorporation, by agreement, or in the California Nonprofit Corporation Law.

B. Failure of Board to Determine Date.

(1) Record Date for Notices or Voting. Unless fixed by the Board of Directors, the record date for determining those Members entitled to receive notice of, or to vote at, 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.

(2) Record Date for Written Consent to Action Without Meeting. Unless fixed by the Board, the record date for determining those Members entitled to vote by ballot on corporate action without a meeting, when no prior action by the Board has been taken, shall be the day on which the first written consent is given. 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.

(3) "Record Date" Means As of Close of Business. For purposes of this Section 4.13, a person holding Membership as of the close of business on the record date shall be deemed the Member of record.

Section 4.14. Inspectors of Election. In advance of any meeting of Members, the Board may appoint inspectors of election to act at the meeting and any adjournment thereof. If inspectors of election are not so appointed, or if any persons so appointed fail to appear or refuse to act, the Chairman of any such meeting of Members may and, on the request of any Member, shall appoint inspectors of election (or persons to replace those who fail or refuse to become inspectors of election for any reason) at the meeting. The number of inspectors shall be either one (1) or three (3). If appointed at a meeting on the request of one or more Members, the majority of Members represented in person shall determine whether one (1) or three (3) inspectors are to be appointed. In the case of any action by written ballot, the Board may similarly appoint inspectors of election to act with powers and duties as set forth in this Section 4.14. The inspectors of election shall determine the number of Memberships outstanding and the voting power of each, the number represented at the meeting, and the existence of a quorum; receive votes, ballots, or consents; hear and determine all challenges and questions in any way arising in connection with the right to vote; count and tabulate all votes or consents; determine when the polls shall close; determine the results; and do such acts as may be proper to conduct the election or vote with fairness to all Members. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability, and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, act, or certificate of a majority is effective in all respects as the decision, act, or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

Section 4.15. Order of Business. The order of business at the annual meeting of the Members shall be as follows:

- A. Roll Call.
- B. Proof of notice of meeting or waiver of notice.
- C. Presentation of Agenda.
- D. Reading of minutes of preceding meeting and approval of said minutes.
- E. Reports of Officers.
- F. Reports of Committees.
- G. Election of Inspectors of Election
- H. Election of Directors.
- I. Unfinished Business.
- J. New Business.

In the case of special meetings, items A through D shall be applicable and thereafter the agenda shall consist of the items specified in the notice of the meeting.

ARTICLE V. DIRECTORS

Section 5.1. Number and Qualification. The Association shall be governed by no less than three (3) nor more than five (5) members of the Board of Directors. All of the members of the

Board must be Members of the Association in good standing. To be in "good standing," a Member must be in compliance with these Bylaws, the Association's Rules and Regulations, the Declaration, and other applicable Governing Documents, ordinances, and statutes.

Section 5.2. Powers and Duties. The Board of Directors shall have all the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not by law or by these Bylaws to be directed or done by the Members. The powers of the Board of Directors shall include, but not be limited to:

- A. Causing to be kept a current record of Membership of the Association;
- B. Establishing Assessments as provided for in the Governing Documents, based on an operating budget formally adopted by the Board; such budget to provide for all costs, including maintenance, insurance, taxes, interest and principal payments, plus a reasonable amount for contingencies and capital reserve set aside;
- C. Adopting and amending the Association's Rules and Regulations, including provisions of the Governing Documents, in compliance with applicable ordinances and statutes;
- D. Borrowing money and incurring indebtedness for the purposes of the Association and to cause to be executed and delivered therefor, in the Association's name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, or other evidences of debt and securities therefor;
- E. Initiating and executing disciplinary proceedings against Members of the Association for violations of provisions of the Governing Documents in accordance with procedures set forth in the Governing Documents;
- F. Enforcing applicable provisions of the Articles, Bylaws, Declaration and other Governing Documents relating to the ownership, management, and control of the Association;
- G. Paying taxes and assessments which are, or could become, a lien on the common area or a portion thereof;
- H. Contracting for casualty, liability, and other insurance on behalf of the Association. The Board of Directors shall contract for general liability insurance on behalf of the Association; the minimum amount of which must comply with the requirements of *California Civil Code § 1365.9*.
- I. Contracting for goods and/or services for the common areas, facilities and interests for the Association, subject to the limitations set forth below;
- J. Delegating its powers to committees, Officers, or employees of the Association as expressly authorized by these Bylaws;
- K. Preparing budgets and financial statements for the Association as prescribed in the Governing Documents;

L. Entering upon any Lot as necessary in connection with construction, maintenance, or emergency repair for the benefit of the Association, subject to the requirements of applicable ordinances and statutes;

M. Electing Officers of the Board;

N. Filling vacancies on the Board except for a vacancy created by the removal of a Director;

O. Selecting and removing any of the Officers, agents, and employees of the Association, prescribe such powers and duties for them as may not be inconsistent with the law and the Governing Documents, and fixing their compensation and requiring from them security for faithful services; and

P. Exercising all other powers and duties as set forth in the Governing Documents.

Section 5.3. Prohibitions. The Board shall be prohibited from taking any of the following actions, except with the assent, by vote at a meeting of the Association or by written ballot without a meeting pursuant to *California Corporations Code* § 7513, of a simple majority of the Members constituting a quorum consisting of more than fifty percent (50%) of the voting power of the Association residing in Members:

A. Filling a vacancy on the Board created by the removal of a member of the Board by a vote of the Membership;

B. Entering into a contract with a third person wherein the third person will furnish goods or services for the common area or the Association for a term longer than one year unless one of the exceptions noted in the *California Code of Regulations* § 2792.21(b)(1) applies;

C. Incurring aggregate expenditures for capital improvements to the common area in any fiscal year in excess of five percent (5%) of the budgeted gross expenses of the Association for that fiscal year;

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

E. Paying compensation to members of the Board of Directors or to the Officers of the Association for services performed in the conduct of the Association's business provided; however, that the Board of Directors shall cause a Member or officer to be reimbursed for expenses incurred in carrying on the business of the Association.

Section 5.4. Self-Dealing Transactions. Except as provided below, the Board shall not approve a self-dealing transaction. A self-dealing transaction is one to which the Association is a party and in which one or more of the members of the Board has a material financial interest, or a transaction between the Association and any entity in which one or more of its Directors has a material financial interest. The Board may approve a self-dealing transaction if a majority of the Board finds that the circumstances of any of the following exist:

A. The fact of the common directorship or financial interest is disclosed or known to the Board of Directors and noted in the minutes, and the Board authorizes, approves, or ratifies

the contract or transaction in good faith by a vote sufficient for the purpose without counting the vote or votes of such Director or Directors having a material financial interest.

B. The fact of the common directorship or financial interest is disclosed or known to the Members, and they approve or ratify the contract or transaction in good faith by a majority vote or written consent of Members entitled to vote.

C. The contract or transaction is just and reasonable as to the Association at the time it is authorized or approved.

Section 5.5. Election Process.

A. Nominating Committee. Nominations for election to the Board of Directors shall be made by a committee appointed by the Board pursuant to this Section 5.5 ("Nominating Committee"). Notice to the Members of the annual meeting during which the election is to occur shall include the names of all those who are nominees at the time the notice is sent. Nominations may also be made from the floor at the annual meeting. The Nominating Committee shall consist of a Chair, who shall be a member of the Board of Directors, and two (2) or more Members of the Association. The Nominating Committee shall be appointed by the Board of Directors not less than thirty (30) days prior to each annual meeting of the Members, to serve until the close of that annual meeting. The Nominating Committee shall make as many nominations for election to the Board of Directors as it shall in its discretion determine, but not less than the number of vacancies that are to be filled. All candidates shall have reasonable opportunity to communicate their qualifications to Members and to solicit votes.

B. Annual Meeting of the Membership.

(1) After a quorum is established for conducting business at the annual meeting and the meeting is called to order by the President, each Member shall sign his or her name on the official ballot register. The President shall read the list of Members in good standing and said Member upon hearing his or her name shall approach the Secretary to receive his or her ballot and to sign the register acknowledging receipt of the ballot.

(2) After marking his or her ballot, the Member shall put his or her marked ballot in a ballot box designated to receive all the votes.

(3) Once the voting has been completed, all the ballots are to be removed and counted before the entire Membership as set forth below. The regular business of the annual meeting may continue during the voting process.

(4) Upon completion of the voting, the following process shall be followed:

1. The Secretary shall remove the votes from the box;
2. Another Member shall announce to the public the votes as drawn from the ballot box;
3. Another Member shall write down the votes on a tally sheet with the names of the candidates;

4. Another Member shall make sure that the marks on the ballots match the names announced and noted on the tally sheet; and
5. Another Member shall receive the ballot and shall assure that they remain in a secure place.

The Secretary shall be in charge of the votes and tally sheet.

(5) After the election, the ballots, the list of persons that received a vote, and the results on the tally sheet shall be deposited in an envelope and the signatures of the Members assisting with the election process shall be stamped on the front of the envelope.

(6) In case of a tie-vote during an election held at the annual meeting of Members, the balloting procedure outlined above shall be repeated.

Section 5.6. Term of Office. The term of office of the Directors shall be two (2) years. A majority of the Directors shall be elected in even numbered years and the remaining Directors in odd numbered years. Each Director, including a Director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

Section 5.7. Vacancies. Vacancies in the Board of Directors caused by any reason other than removal of a Director by a vote of the Membership shall be filled by vote of the majority of the remaining Directors, even though they may constitute less than a quorum; and each person so elected shall be a Director until a successor is elected by the Members at the next annual meeting to serve out the unexpired portion of the term.

Section 5.8. Removal and Resignation of Directors. At any regular or special meeting duly called, any Director may be removed for cause by the affirmative vote of the majority of the entire regular Membership of record, and a successor may then and there be elected to fill the vacancy thus created. Any Director whose removal has been proposed by the Members shall be given an opportunity to be heard at the meeting. The term of any Director who becomes more than thirty (30) days delinquent in payment of his or her Assessments or who fails to attend four (4) consecutive regular meetings of the Board of Directors shall be automatically terminated, and the remaining Directors shall appoint his or her successor as provided in Section 5.7 above.

Any Director may resign at any given time by giving written notice to the other Directors of the Association. Any such resignation shall take effect at a time which must be specified in such notice, and unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5.9. Fees and Compensation. Directors shall serve without compensation, except that they shall be allowed reasonable advancement or reimbursement for expenses incurred in the performance of their regular duties as Directors. Directors may not be compensated for rendering services to the Association in any capacity other than Director unless such other compensation is reasonable and is allowable under the provisions of Section 5.4 of this Article.

Section 5.10. Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons. An interested person is (1) any person compensated by the Association for services rendered to it

within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a Director as Director; and (2) any brother, sister, ancestor, descendant, spouse, brother-in law, sister-in-law, mother-in-law, or father-in-law of any such person. However, any violation of the provisions of this Section 5.10 shall not affect the validity or enforceability of any transaction entered into by the Association.

Section 5.11. Annual Meeting. A regular annual meeting of the Board of Directors shall be held within ten (10) days of the meeting at which Directors are elected, at such place as shall be fixed by the Directors, and no notice shall be necessary to the newly elected Directors in order legally to constitute such meeting, providing a majority of the whole Board shall be present and providing that the date, time, and location of the meeting is announced at the annual meeting of Members. The purpose of the regular annual meeting of Directors shall be organization, the election of Officers, and the transaction of other business. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes of a regular annual meeting of the Board of Directors shall be available to the Members of the Association within thirty (30) days of the meeting.

Section 5.12. Regular Meetings. Meetings of the Board of Directors shall be held at its principal office. At least three (3) such regular meetings shall be held during each fiscal year. Emergency meetings may be held within or not more than five (5) miles from the principal office, as shall be determined by a majority of the Directors. Notice of regular meetings of the Board of Directors shall be posted at a prominent place or places within the common area, and by mail to any Member who requests notification of regular meetings of the Board of Directors at the address requested by the Member, at least four (4) days prior to the day named for such meeting and shall be communicated to each Director in person, by mail, or by telephone at least four (4) days prior to the day named for such meeting. Notice of a meeting need not be given to any Director who has signed a waiver of notice or a written consent to hold the meeting. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes of a regular annual meeting of the Board of Directors shall be available to the Members of the Association within thirty (30) days of the meeting.

Section 5.13. Special Meetings. A special meeting of the Board of Directors may be called by written notice signed by the President or by any two (2) members of the Board other than the President. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. Notice of special meetings of the Board of Directors shall be posted at a prominent place or places within the common area and by mail to any Member who requests notification of regular meetings of the Board of Directors at the address requested by the Member at least four (4) days prior to the day named for such meeting and shall be communicated to each Director in person, by mail, or by telephone at least four (4) days prior to the day named for such meeting. Notice of a meeting need not be given to any Director who has signed a waiver of notice or a written consent to hold the meeting. The minutes, minutes proposed for adoption that are marked to indicate draft status, or a summary of the minutes of a regular annual meeting of the Board of Directors shall be available to the Members of the Association within thirty (30) days of the meeting.

Section 5.14. Open Meetings. Except as provided in Section 5.15 below, regular and special meetings of the Board shall be open to Members of the Association. However, Members who are not on the Board and any non-member may not participate in any deliberation or discussion unless expressly so authorized by the vote of the majority of a quorum of the Board.

Section 5.15. Executive Sessions. The Board may hold executive sessions to discuss issues related to personnel; matters relating to the formation of contracts with third parties, including loans; pending or threatened litigation; Member discipline; or to meet with a Member, upon the Member's request, regarding the Member's payment of Assessments; as specified in the *California Civil Code §§ 1367, 1367.1*. Any matter discussed in an executive session shall be generally noted in the minutes of the immediately following meeting that is open to the entire Membership of the Association.

Section 5.16. Waiver of Notice. Before or at any meeting of the Board of Directors, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. Attendance by a Director at any meeting of the Board shall be a waiver by him or her of the time and place thereof. If all the Directors are present at any meeting of the Board, no notice shall be required and any business may be transacted at such meeting.

Section 5.17. Quorum. At all meetings of the Board of Directors, a majority of the Directors in office shall constitute a quorum for the transaction of business, and the acts of the majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. Except as otherwise provided in these Bylaws, the Articles of Incorporation of this Association, or by law, no business shall be considered by the Board at any meeting at which a quorum is not present, and the only motion which the President of the Board shall entertain at such meeting is a motion to adjourn. However, a majority of the Directors present at such meeting may adjourn from time to time until the time fixed for the next regular meeting of the Board. When a meeting is adjourned for lack of a quorum, it shall not be necessary to give any notice of the time and place of the adjourned meeting or of the business to be transacted at such meeting, other than by announcement at the meeting at which the adjournment is taken.

The Directors present at a duly called and held meeting at which a quorum is initially present may continue to do business notwithstanding the loss of a quorum at the meeting due to a withdrawal of Directors from the meeting, provided that any action thereafter taken must be approved by at least a majority of the required quorum for such meeting or such greater percentage as may be required by law, the Articles of Incorporation or Bylaws of the Association.

Section 5.18. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board, individually or collectively, consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

Section 5.19. Meetings with Members. As required by *California Civil Code § 798.53*, the Board of Directors shall meet and consult with Members, upon written request, within thirty (30) days of the request, either individually, collectively, or with representatives of a group of Members who have signed a request to be so represented on the following matters:

- A. Amendments to the Association's Rules and Regulations;
- B. Standards for maintenance of physical improvements in the Subdivision; or
- C. Addition, alteration, or deletion of service, equipment, or physical improvements in the Subdivision.

ARTICLE VI. COMMITTEES

Section 6.1. Committees of Directors. The Board of Directors 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 Directors and, in the Board's discretion, other Members, to serve at the pleasure of the Board. Any committee, to the extent provided in the resolution of the Board, shall have all authority of the Board, except that no committee, regardless of Board resolution, may:

A. Take any final action on matters which, under these Bylaws or the California Nonprofit Corporation Law, also require Members' approval;

B. Fill vacancies on the Board of Directors or in any committee which has the authority of the Board of Directors;

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 these committees;

F. Expend Association funds which have not been previously budgeted or authorized by the Board;

G. Approve any transaction (1) to which the Association is a party and one (1) or more Directors have a material financial interest; or (2) between the Association and one (1) or more of its Directors or between the Association or any person in which one or more of its Directors have a material financial interest; and

H. Fix compensation of the Directors for serving on the Board of Directors or any committee.

Section 6.2. Meetings and Action of Committees. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article V 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, 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 any 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 for the government of any committee not inconsistent with the provisions of these Bylaws.

Section 6.3 Architectural and Landscaping Committee. The Architectural and Landscaping Committee shall be a permanent committee of the Board and have the powers and duties set forth in Section 8.13 of the Declaration.

ARTICLE VII. OFFICERS

Section 7.1. Designation. The principal officers of the Association shall be a President, a Vice President, a Secretary, and a Treasurer, all of whom shall be elected by and from the Board of Directors ("Officers"). The Directors may appoint an assistant treasurer, and an assistant secretary, and such other Officers as in their judgment may be necessary. The offices of Treasurer and Secretary may be filled by the same person.

Section 7.2. Election of Officers. The Officers of the Association shall be elected annually by the Board of Directors at the annual meeting of each new Board and shall hold office at the pleasure of the Board.

Section 7.3. Removal of Officers. Upon an affirmative vote of a majority of the members of the Board of Directors, any officer may be removed, either with or without cause, and his or her successor elected at any regular meeting of the Board of Directors, or at any special meeting of the Board called for such purpose.

Section 7.4. President. The President shall be the chief executive officer of the Association. He or she shall preside at all meetings of the Members and of the Board of Directors. He or she shall have all of the general powers and duties which are usually vested in the office of President of an Association.

Section 7.5. Vice President. The Vice President shall take the place of the President and perform his or her duties whenever the President shall be absent or unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other member of the Board to do so on an interim basis. The Vice President shall also perform other such duties as shall from time to time be imposed upon him or her by the Board of Directors.

Section 7.6. Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the members of the Association; he or she shall have the custody of the seal of the Association; he or she shall have charge of the membership transfer books and of such other books and papers as the Board of Directors may direct; and he or she shall, in general, perform all the duties incident to the office of Secretary.

Section 7.7. Treasurer. The Treasurer shall have the responsibility for Association funds and securities and shall be responsible for keeping full and accurate accounts of all receipts and disbursements in books belonging to the Association. He or she shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit, of the Association in such depositories as may from time to time be designated by the Board of Directors.

Section 7.8. Resignation of Officers. Any officer may resign at any time by giving written notice to the Board of Directors. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the 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 7.9. Vacancies in Offices. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled only in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE VIII. RECORDS AND REPORTS

Section 8.1. Inspection Rights. Any Member of the Association may:

A. Inspect and copy the records of all the Members' names, addresses and voting rights, at reasonable times, upon five (5) business days' prior written demand upon the Association, which demand shall state the purpose for which the inspection rights are requested.

B. Obtain from the Secretary of the Association, upon written demand and tender of a reasonable charge, a list of the names, addresses, and voting rights of those Members entitled to vote for the election of Directors, as of the most recent record date for which that list has been compiled, or as of a date specified by the Member subsequent to the date of demand. The membership list shall be made available on or before the later of ten (10) days after the demand is received or after the date specified in the demand letter as the date on which the list is to be compiled.

C. The Association may, within ten (10) business days after receiving a demand under Section 8.1A or B, deliver to the person or persons making the demand a written offer of an alternative method of achieving the purpose identified in said demand without providing access to or a copy of the membership list. An alternative which reasonably and in a timely manner accomplishes the proper purpose set forth in a demand under Section 8.1 A or B shall be deemed a reasonable alternative, unless within a reasonable time after acceptance of the offer the Association fails to do those things which it offered to do. Any rejection of the offer shall be in writing and shall indicate the reasons the alternative proposed by the Association does not meet the proper purpose of the demand made pursuant to this Section 8.1A and B.

Any inspection and copying under this Section 8.1 may be made in person or by an agent or attorney of the Member and the right of inspection includes the right to copy and make extracts.

The individual files of Members and/or employees of the Association shall be reviewed by members of the Board of Directors only after a majority vote of the Board of Directors.

Association business and/or personnel files of individual Members and/or employees may be reviewed by the members of the Board of Directors solely at a duly called Board meeting, after an appropriate motion and majority vote of the Board in favor of such a review of the individual Member's and/or employee's file. Said individual Member and/or employee file may be viewed solely in furtherance of purposes of the Association. The review of any individual files shall be recorded in the minutes of the meeting.

Section 8.2. Maintenance and Inspection of Articles of Incorporation and Bylaws. The Association shall keep at its principal executive office the original or a copy of the Articles and Bylaws as amended to date, which shall be open to inspection by the Members at all reasonable times during office hours.

Section 8.3. Maintenance and Inspection of Other Corporate Records. The accounting books, records, and minutes of proceedings of the Members and the Board of Directors and any committee(s) of the Board of Directors shall be kept at such place or places designated by the Board of Directors, or, in the absence of such designation, at the Principal Executive Office of the Association. The minutes shall be kept in written or typed form, and the accounting books and records shall be kept either in written or typed form or in any other form capable of being

converted into written, typed, or printed form. The minutes and accounting books and records shall be open to inspection on the written demand of any Member, and at reasonable times during usual business hours, for a purpose reasonably related to the Member's interests as a Member. The inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts.

Section 8.4. Inspection by Directors. Every Director shall have the absolute right at any reasonable time to inspect all books, records, and documents of every kind and the physical properties of the Association and each of its subsidiary corporations. This inspection by a Director may be made in person or by an agent or attorney, and the right of inspection includes the right to copy and make extracts of documents.

Section 8.5. Annual Report. The Association shall provide to the Members within one hundred twenty (120) days of the close of its fiscal year, an annual report containing the following information in reasonable detail:

- A. A balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year;
- B. A statement of the place where the names and addresses of the current Members are located;
- C. The report shall be accompanied by any report issued by independent accountants regarding such report, or, if there is no such report, the certificate of an authorized officer of the Association that such statements were prepared without audit from the books and records of the Association; and
- D. Any information required by *California Corporations Code* § 8322.

ARTICLE IX. FISCAL MANAGEMENT

Section 9.1. Fiscal Year. The fiscal year of the Association shall begin on January 1 of each year and end on December 31.

Section 9.2. Budgets and Financial Statements. The Association shall regularly prepare and distribute financial statements and related information to its Members in accordance with the following:

A. A budget for each fiscal year shall be distributed not less than forty-five (45) days nor more than sixty (60) days prior to the beginning of the fiscal year. This budget shall contain at least the following:

- (1) The estimated revenues and expenses on an accrual basis;
- (2) A summary of the Association's reserves based upon the most recent review or study conducted pursuant to *California Civil Code* § 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.

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

(i) The current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the major components.

(ii) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components.

(iii) If applicable, the amount of funds received from either a compensatory damage award or settlement by the Association from any person or entity for injuries to property, real or personal, arising out of any 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. These amounts shall be reported at the end of the fiscal year for which the study is prepared as separate line items under cash reserves pursuant to clause (ii) of Section 9.2A(2)(b).

(c) The percentage that the amount determined for purposes of clause (ii) of Section 9.2 A(2)(b) is of the amount determined for purposes of clause (i) of Section 9.2 A(2)(b);

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

(4) A general statement addressing the procedures used for the calculation and establishment of those reserves to defray the future repair, replacement, or additions to those major components that the Association is obligated to maintain.

B. For any fiscal year in which the gross income to the Association exceeds seventy-five thousand dollars (\$75,000), a copy of a review of the financial statement prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy shall be distributed within one hundred twenty (120) days after the close of the fiscal year.

C. In lieu of the distribution of the pro forma operating budget required by subsection (A) above, the Board of Directors may elect to distribute a summary of the pro forma operating budget to all the Members with a written notice that the pro forma operating budget is available at the business office of the Association or at another suitable location within the boundaries of the Subdivision and that copies will be provided upon request and at the expense of the Association. If any Member requests that a copy of the pro forma operating budget required by subsection (A) above be mailed or delivered to the Member, the Association shall provide the copy to the Member by personal delivery or first-class United States mail at the expense of the Association and delivered within five (5) days. The written notice that is distributed to each of the Members shall be in at least 10 (ten) -point bold type on the front page of the summary of the budget.

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

E. A summary of the Association's property, general liability, and earthquake and flood insurance policies, which shall be distributed within sixty (60) days preceding the beginning of the Association's fiscal year, that includes all of the following information about each policy:

- (1) The name of the insurer.
- (2) The type of insurance.
- (3) The policy limits of the insurance.
- (4) The amount of deductibles, if any.

The Association shall, as soon as reasonably practicable, notify its Members by first-class mail if any of the policies described in Section 9.2 E have lapsed, been canceled, and are not immediately renewed, restored, or replaced, or if there is a significant change, such as a reduction in coverage or limits or an increase in the deductible, as to any of those policies. If the Association receives any notice of nonrenewal of a policy, the Association shall immediately notify its Members if replacement coverage will not be in effect by the date the existing coverage will lapse.

To the extent that any of the information required to be disclosed pursuant to this Section 9.2(E) is specified in the insurance policy declaration page, the Association may meet its obligation to disclose that information by making copies of that page and distributing it to all of its Members.

The summary distributed pursuant to this Section 9.2 E shall contain, in at least 10 (ten) -point boldface type, the following statement:

"This summary of the Association's policies of insurance provides only certain information, as required by *California Civil Code § 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, review the Association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the policies of insurance specified in this summary, the Association's policies of insurance may not cover your property, including personal property, or real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association Members should consult with their individual insurance broker or agent for appropriate additional coverage."

Section 9.3. Review of Fiscal Affairs. The Board of Directors shall, on a quarterly basis, review the following:

- A. A current reconciliation of the Association's operating accounts;
- B. A current reconciliation of the Association's reserve accounts;
- C. The current year's actual reserve revenues and expenses compared to the current year's budget;
- D. An income and expense statement for the Association's operating and reserve accounts.

The Board of Directors shall also, on a regular basis, review the latest account statements for the Association's operating and reserve accounts.

Section 9.4. Execution of Association Documents. With the prior authorization of the Board of Directors, all notes and contracts, including the Governing Documents, shall be executed on behalf of the Association by either the President or the Vice President, and all checks shall be executed on behalf of the Association by two (2) people as designated by the Board, one (1) of which shall be either the President, the Vice President, or the Treasurer.

ARTICLE X. ASSESSMENTS

Section 10.1. Commencement of Assessments. Regular Assessments against any Membership interest shall commence on the date of the first transfer of that Membership.

Section 10.2. Total Monthly Regular Assessments. The total of all Members' Monthly Regular Assessments ("Regular Assessments") shall be equal to one-twelfth (1/12) of the following items:

- A. The annual cost of all operating expenses of the Subdivision and services furnished;
- B. The annual cost of necessary management and administration of the Subdivision;
- C. The annual amount of all taxes and assessments levied against the Subdivision or other property of the Association for which the Association is required to pay, allocated to each Lot in the manner required by law;
- D. The annual cost of fire and extended coverage insurance on the property and such other insurance as the Association may obtain or as may be required by any mortgagee on the property;
- E. The annual cost of furnishing water, electricity, heat, gas, garbage, and trash collection, and other utilities, if furnished by the Association;
- F. The annual deposits made by the Association into all reserves set up by the Board of Directors, including the general operating reserve and the reserve for replacements;
- G. The estimated annual cost of repairs, maintenance, and replacements of the Association property to be made by the Association;

H. The annual amount of principal, interest, mortgage insurance premiums, and other required payments on any mortgages on the property; and

I. Any other expenses of the Association approved by the Board of Directors including operating deficits, if any, for prior periods.

The Board of Directors shall establish the amount of the Regular Assessments annually but may do so at more frequent intervals, should circumstances so require. The Board of Directors may not increase the Regular Assessment except upon ninety (90) days' written notice to the Members, and as provided for in Section 10.3 of the Bylaws.

Section 10.3. Increase in Regular Assessments. The Board of Directors may not impose, except as provided in this Section 10.3, a Regular Assessment that is more than twenty percent (20%) greater than the Regular Assessment for the Association's preceding fiscal year without the approval of a majority vote of the Members at a meeting where more than fifty percent (50%) of the Members are present or have voted by written ballot.

The provisions of this Section 10.3 do not limit Regular Assessment increases for the following emergency purposes:

A. An extraordinary expense required by order of a court;

B. An extraordinary expense necessary to repair or maintain the Association or any part thereof for which the Association is responsible, where a threat to personal safety on the property is discovered; or

C. An extraordinary expense necessary to maintain or repair the Association or any part thereof for which the Association is responsible that could not have been reasonably foreseen by the Board in preparing and distributing the budget. Prior to imposition of an Assessment pursuant to this Section 10.3 C the Board shall pass a resolution containing written findings as to the necessity of the expense involved and why the expense was not or could not have been reasonably foreseen in the budgeting process. A copy of the resolution shall be distributed to all Members with the notice of the assessment.

Section 10.4. Special Assessments. In addition to the Regular Assessment authorized above, the Association may levy, in any fiscal year, a special assessment ("Special Assessment") applicable to that year for the purpose of defraying in whole or in part, the common expenses of the Association for any fiscal year (including, but not limited to, unanticipated delinquencies, costs of construction, unexpected repairs or replacement or reconstruction of capital improvements in or on the common area, including fixtures and personal property related thereto). Any Special Assessment other than an "Individual Special Assessment" (as defined in Section 10.6 below) shall be levied against each of the Members in the same proportion as Regular Assessments and may be enforced in the same manner as Regular Assessments.

Section 10.5. Limitation on Special Assessments. In any fiscal year, the Board of Directors may not, without the vote or written assent of a majority of the voting Members of the Association, levy Special Assessments to defray the costs of any action or undertaking on behalf of the Association which in the aggregate exceed five percent (5%) of the budgeted gross expenses of the Association for that fiscal year. Special Assessments which in the aggregate are five percent (5%) or less than five percent (5%) of the budgeted gross expenses of the Association for that fiscal year may be levied by the Board of Directors without vote or assent of the

Members. The provisions of this Section 10.5 do not limit Assessment increases for the emergency purposes set forth in Section 10.3 of this instrument.

Section 10.6. Individual Special Assessments. The Association may levy an individual special assessment ("Individual Special Assessment") against a Member in order to obtain reimbursement of funds expended by the Association, provided that such an Individual Special Assessment may only be levied to reimburse the Association for costs incurred in bringing the Member and his or her Membership and Lot into compliance with provisions of the Governing Documents, including the Bylaws, the Association's Rules and Regulations, and the Declaration of the Association, and including the cost of any repairs for which the Member is responsible according to the provisions of the Bylaws.

Section 10.7. Delinquent Assessments. Regular Assessments, Special Assessments, and Individual Special Assessments, (collectively and individually referred to as "Assessments") shall be delinquent fifteen (15) days after they become due; provided, however that if the declaration of Assessment provides a longer time period before a specific Assessment is deemed delinquent, the longer time period shall apply. If an Assessment is delinquent the Association may recover all of the following:

A. Reasonable costs incurred in collecting the delinquent Assessment, including reasonable attorney's fees;

B. A late charge not to exceed ten percent (10%) of the delinquent Assessment or ten dollars (\$10), whichever is greater, unless the declaration of Assessment specifies a late charge in a smaller amount, in which case any late charge imposed shall not exceed the amount specified in such declaration; and

C. Interest on all sums imposed in accordance with this Section 10.7, including the delinquent Assessment, reasonable fees and reasonable attorney's fees, costs of collection, and late charges, at an annual interest rate of twelve percent (12%), commencing thirty (30) days after the Assessment comes due, unless the declaration of Assessment specifies the recovery of interest at a rate of a lesser amount, in which case the lesser rate of interest shall apply.

If any installment of a Regular Assessment is not paid within fifteen (15) days after its due date, the Board of Directors may proceed to collect the deficiency and declare a default pursuant to the foreclosure provisions of *California Civil Code § 2924 et. seq.*, in addition to any other remedies provided in the Declaration, the Bylaws, or by law.

Section 10.8. Procedure for Perfection of Lien of Assessment. The Board of Directors may impose a lien of assessment ("Lien of Assessment") only under the following circumstances (a) in the event any Assessment (other than an Individual Special Assessment) is not paid within fifteen (15) days after the day upon which it becomes due.

A. If a Lien of Assessment shall be imposed, the Board of Directors shall deliver a "Notice of Delinquent Assessment" to the Member assessed and shall cause a copy of said Notice of Delinquent Assessment to be recorded in the Official Records of the County of San Diego; provided, however, that the Notice of Delinquent Assessment shall not be recorded until the Board of Directors complies with the provisions set forth in Section 10.8 B. Said Notice of Delinquent Assessment shall set forth the fee and penalty procedures of the Association, state the amount of the Assessment then due and unpaid, any late charges and their method of calculation, any attorney's fees, the collection practices used, a legal description of the Lot against which such

Assessment or other sums have been levied, the name of the record owner of the Lot, the name and address of the trustee authorized by the Association to enforce the lien by sale, and the name and address of the trustee authorized by the Association to enforce the lien by nonjudicial foreclosure (in the event the Association so elects). The Notice of Delinquent Assessment shall be signed by a representative designated by the Board, or if no one is so designated, by the President of the Association. A copy of the Notice of Delinquent Assessment shall be mailed in the manner set forth in *California Civil Code* § 2924(b) to all Members no later than ten (10) calendar days after recordation. When such a Notice has been recorded, the Assessment described therein shall constitute a lien upon the Lot and Membership identified therein, which lien shall be prior in right to all other liens thereafter arising, except all taxes, assessments, or other levies which by law would be prior thereto. Such Assessment shall be in favor of the Association and shall be for the benefit of all Members.

B. At least thirty (30) days prior to recording a Lien of Assessment against a Member pursuant to Section 10.8 A, the Association shall notify the Member in writing by certified mail of the following:

(1) A general description of the collection and lien enforcement procedures of the Association and the method of calculation of the amount, a statement that the Member has the right to inspect the Association's records, pursuant to *California Corporations Code* § 8330, and the following statement in 14-point boldface type, if printed, or in capital letters, if typed:

"IMPORTANT NOTICE: IF YOUR SEPARATE INTEREST IS PLACED IN FORECLOSURE BECAUSE YOU ARE BEHIND IN YOUR ASSESSMENTS, IT MAY BE SOLD WITHOUT COURT ACTION."

(2) An itemized statement of the charges owed by the Member, including terms on the statement which indicate the amount of any delinquent Assessments, the fees and reasonable costs of collection, reasonable attorney's fees, and late charges and interest, if any.

(3) A statement that the Member shall not be liable to pay the charges, interest, and costs of collection if it is determined the Assessment was paid on time to the Association.

C. Any payments made by the Member toward the debt set forth in the notice described in Section 10.8 B above, shall first be applied to any Assessment owed, and only after the Assessments owed are paid in full shall the payments be applied to the fees and costs of collection, attorney's fees, late charges, or interest.

D. Disputes of the debt noticed pursuant to Section 10.8 B above may be disputed in the following manner:

(1) A Member may dispute the debt noticed pursuant to Section 10.8 B by submitting to the Board of Directors a written explanation of the reasons for his or her dispute. The Board shall respond in writing to the Member within fifteen (15) days of the date of the postmark of the explanation, if the explanation is mailed within fifteen (15) days of the postmark of the notice.

(2) A Member, other than an owner of any interest that is described in *California Business and Professions Code § 11003.5*, may submit a written request to meet with the Board of Directors to discuss a payment plan for the debt noticed pursuant to Section 10.8 B. The Association shall provide the Members the standards for payment plans, if any exist. The Board shall meet with the Member in executive session within forty-five (45) days of the postmark of the request, if the request is mailed within fifteen (15) days of the date of the postmark of the notice, unless there is no regularly scheduled meeting of the Board of Directors within that period, in which case the Board of Directors may designate a committee of one or more members of the Board of Directors to meet with the Member.

E. Thirty (30) days or more following the issuance of the notice pursuant to Section 10.8 B, if the Assessment remains unpaid, the Notice of Delinquent Assessment described in Section 10.8 B shall be sent to the Member and recorded pursuant to Section 10.8 A.

Section 10.9. Enforcement of Lien of Assessment. After the expiration of thirty (30) days following the recording of a Lien of Assessment, the Lien of Assessment may be enforced in any manner permitted by law, including sale by the court, sale by the trustee designated in the "Notice of Delinquent Assessment," or by a trustee substituted pursuant to the *California Civil Code § 2934a*. Any such sale shall be conducted in accordance with the provisions of *California Civil Code §§ 2924, 2924b, and 2924c*, applicable to the exercise of powers of sale in mortgages and deeds of trust. The Lien of Assessment may also be enforced by the Association, its attorney, or any other person in any other manner permitted by law, including judicial foreclosure. The Association, acting on behalf of the Members, shall have the power to bid for the interest at a foreclosure or trustee's sale and to acquire or take by deed in lieu of foreclosure, and hold, lease, mortgage and convey the same. The Association's lien rights pursuant to this Article X shall be in addition to other rights and remedies of the Association pursuant to the Governing Documents and California law, including the right to terminate Membership.

Section 10.10. Notice Assessments and Foreclosure. The Association shall distribute the written notice set forth in this Section 10.10 to each Member during the sixty (60) -day period immediately preceding the beginning of the Association's fiscal year. The notice required by this Section 10.10 shall be printed in at least 12-point type. If the Association is distributing the notice required by this Section 10.10 to a Member whose interest is described in *California Business and Professions Code § 11003.5*, the Association may delete from such notice the portion regarding meetings and payment plans.

The notice required by this Section 10.10 shall read as follows:

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

B. Assessments and Nonjudicial Foreclosure. The failure to pay association assessments may result in the loss of an owner's property without court action, often referred to as nonjudicial foreclosure. When using nonjudicial foreclosure, the Association records a lien on the owner's property. The owner's property may be sold to satisfy the lien if the lien is not paid. Assessments become delinquent fifteen (15) days after they are due, unless

the Governing Documents of the Association provide for a longer time. (Sections 1366 and 1367.1 of the Civil Code)

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

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

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

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

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

An owner may dispute an assessment debt by giving the Board of the Association a written explanation, and the Board must respond within fifteen (15) days if certain conditions are met. An owner may pay Assessments that are in dispute in full under protest, and then request alternative dispute resolution. (Section 1366.3 and 1367.1 of the Civil Code)

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

D. Meetings and Payment Plans. An owner of a separate interest that is not a time-share may request the Association to consider a payment plan to satisfy a delinquent assessment. The Association must inform owners of the standards for payment plans, if any exist.

The Board of Directors must meet with a Member who makes a proper written request for a meeting to discuss a payment plan when the owner has received a notice of a delinquent assessment. These payment plans must conform to the payment plan standards of the Association, if they exist. (Section 1367.1 of the Civil Code)" *California Civil Code § 1365.1(b)*

Section 10.11. Expiration and Satisfaction of Lien. Upon the payment of amounts secured by a lien the Association shall within twenty-one (21) days of such payment cause a "Notice of Release of Lien" to be recorded in the office of the county recorder in which the Notice of Delinquent Assessment is recorded stating the satisfaction and release of such lien and provide the Member a copy of the Notice of Release of Lien.

ARTICLE XI. INDEMNIFICATION

Section 11.1. The Association shall indemnify its Directors, Officers, employees, and agents, including persons formerly occupying any such position, to the fullest extent permitted by law, against all expenses, judgments, fines and other amounts actually and reasonably incurred by them in their capacity as Directors, Officers, employees, and agents in connection with any threatened, pending, or completed action or proceedings, whether it is civil, criminal, administrative, or investigative.

In all cases where indemnification is sought, the Association shall be subject to the following restrictions and requirements:

A. Where the action or proceeding is brought on behalf of the Association or involves self-dealing transactions, as defined in Section 5.4 of these Bylaws, the Association shall not indemnify against amounts paid in settlement or judgment amounts, but shall, upon the express authorization of the Board, indemnify the Director, Officer, employee, or agent against expenses incurred in defense of an action arising from his or her relationship to the Association. To indemnify in such cases the Board must find the person met the statutorily prescribed standard of care by acting (1) in good faith, (2) in the best interests of the Association, and (3) with the care of an ordinarily prudent person.

B. Where the person seeking indemnification under Section 11.1 A has been held liable to the Association, or has settled his or her liability to the Association, the Association shall not indemnify against expenses without the approval of the court or the Attorney General.

C. The Board shall determine whether the person seeking indemnification has acted in accordance with the standard of care set forth in this Section 11.1 A by a majority vote of a quorum consisting of disinterested Directors. The termination of any proceeding in a manner adverse to the defendant seeking indemnification shall not create a presumption that such person failed to meet the standard to care.

D. Where the person seeking indemnification has been successful on the merits in defense of any action or proceeding brought on behalf of the Association or in defense of any claim or issue involved in such action or proceeding, the Association shall indemnify against all expenses actually or reasonably incurred.

E. The Association shall not advance any money to the person seeking indemnification for the purpose of defending against any action or proceeding without the receipt

of an undertaking by such person to repay all advances unless it is ultimately determined that he or she is entitled to indemnification.

ARTICLE XII. CONDEMNATION

Section 12.1. In the event of any taking of the Subdivision, or any part thereof, by eminent domain, the Association shall be entitled to receive the award of such taking. The Association shall use the proceeds of the taking in the following order:

A. Payment of any amounts required by any mortgagee under the terms of the agreements between the mortgagee(s) and the Association;

B. Establishment of an account in the name of the Association, funded in the amount necessary to repair or rebuild any facilities which have been taken or adversely affected by the taking;

C. Purchase of Memberships from any Association Member whose Lot was taken or partially taken such that the Lot can no longer be occupied. If insufficient funds are available from the condemnation award to fully purchase all of the Memberships so affected, then the proceeds shall be allocated on a proportional basis to each Member so affected.

ARTICLE XIII. CONSTRUCTION AND DEFINITIONS

Section 13.1. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the California Nonprofit Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of the above, the masculine gender includes the feminine and neuter, the feminine gender includes the masculine and neuter, the singular number includes the plural, the plural includes the singular, and the term "person" includes both the Association and a natural person.

ARTICLE XIV. NOTICES.

Section 14.1. All notices required or permitted under the Governing Documents must be in writing and may be served upon the Association or Member by any means permitted by law. The service of any other notice on Member, including but not limited to, a notice of Assessment increase and a notice of amendments to the Association's Rules and Regulations may be duly and validly served if the notice is mailed to the Member at his or her address in the Subdivision by First Class United States mail, postage prepaid. Any such notice served upon Member in this manner shall be deemed served forty-eight (48) hours after its mailing. All notices to the Association shall be mailed to the Association's address by First Class United States mail, postage prepaid.

ARTICLE XV. NONCOMPLIANCE AND ENFORCEMENT

Section 15.1. In the event of default or any action to enforce these Bylaws, the non-prevailing party in any such action shall be responsible for all costs and expenses incurred as a result of such action, including reasonable attorneys' fees incurred by the prevailing party, all of which may be included as part of the judgment rendered in any such action.

Section 15.2. Unless otherwise indicated in any other provisions of the Governing Documents, including these Bylaws, enforcement of such Governing Documents shall be governed by

"Procedures and Policies for Enforcement of Association Governing Documents, Including the Rules," attached hereto as Exhibit "A."

ARTICLE XVI. AMENDMENTS

Section 16.1. These Bylaws and the Articles of Incorporation may be amended by the affirmative vote of two-thirds (2/3) of the entire membership of record at any regular or special meeting or by written ballot in conformity with *California Corporations Code § 7513*.

Amendments may be proposed by the Board of Directors or by petition signed by at least twenty percent (20%) of the Members. A description of any proposed amendment shall accompany the notice of any regular or special meeting at which such proposed amendment is to be voted upon.

Section 16.2. Where a provision in these Bylaws makes reference to a California statute, or where a Bylaw provision is required by a California statute, any amendment to such statute shall be deemed to automatically amend the affected Bylaw provision, and the Association shall comply with the requirements of such amended law in place of any requirements set forth in these Bylaws.

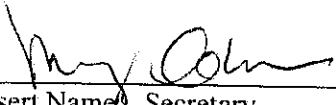
CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

(1) That I am the duly elected and acting Secretary of Sunset Heights Community Association, Inc., a California nonprofit mutual benefit corporation; and

(2) That the foregoing Bylaws, comprising of twenty-eight (28) pages, constitute the Bylaws of such Association as duly voted upon and adopted by the membership of the Association on Oct 30 2007

IN WITNESS THEREOF, I have hereunto subscribed my name, this 24 day of November, 2008


{Insert Name}, Secretary

