

BYLAWS OF PALOMINO LAKES MUTUAL WATER COMPANY

(As Amended March 28, 2007)

ARTICLE 1.

NAME, OFFICES, APPLICABLE LAW, DEFINITIONS AND PURPOSE

1.1 Name and Location.

The name of the corporation is PALOMINO LAKES MUTUAL WATER COMPANY, hereinafter referred to as the "Company." The principal office of the Company shall be located at such place as may be designated by the Board.

1.2 Applicable Law.

California Corporations Code, Sections 7110 to 8910, are applicable to nonprofit mutual benefit corporations. California Corporations Code Sections 14310 to 14318 and California Code of Regulations, Title 10, Chapter 3, Subchapter 2, Article 4, Subarticle 7.1, Mutual Water Companies; Title 17, Public Health; and Title 22, California Waterworks Standards are specifically applicable to this Company.

1.3 Objects and Purposes.

The objects and purposes of the Company shall be to develop, distribute, supply, and deliver water to its members at cost. The Company may also provide water to the common areas under control of the homeowners' association, and to the fire protection system. The Company shall be authorized to do whatever may be deemed necessary to accomplish and promote these objects and purposes, including but not limited to:

- (a) Acquiring, owning, leasing, or developing water and water rights; and,
- (b) Paying all taxes, utilities, charges, and assessments by which it furthers these objects and purposes, and to do any other thing or act in any way connected with the foregoing.

1.4 Compliance with Corporations Code §14312(a)(13).

These Bylaws contain all statements, provisions, prohibitions, and certifications required by Corporations Code §14312(a)(13), (14) and (15). The writings and documents evidencing compliance with all of the provisions of Corporations Code 14312(a) are on file as part of the permanent record of the Company.

Specifically, the provisions of Corporations Code §14312(a)(13), (14) and (15) are set forth in the Bylaws as follows:

Corporations Code §	Subject Matter	Location in Bylaws or Articles of Incorporation
14312(a)(13)(A)	Water to be provided to members and homeowners' association	Bylaws Art. I, §1.3
14312(a)(13)(B)	Rate Structure	Bylaws Art. II, §§2.1.6, 2.3.3
14312(a)(13)(C)	Relationship of securities and lots	Bylaws Art. II, §§2.1.2, 2.1.3
14312(a)(13)(D)	Prohibition on Fractional Shares	Bylaws Art. II, §2.1.3
14312(a)(13)(E)	Securities appurtenant to land served	Bylaws Art. II, §2.1.2
14312(a)(13)(F)	Transfer, voting rights, inspection of books and records	Bylaws Art. II, §§2.1.2, 2.1.5, 2.1.7, Art. III, §3.5, Art. VI, §§6.2.2, 6.2.4, 6.2.6.
14312(a)(13)(G)	Limitation on salaries of officers, directors and employees	Bylaws Art. III, §3.1.2
14312(a)(13)(H)	Annual meetings and notice	Bylaws Art. II, §2.4
14312(a)(13)(I)	Distribution of annual financial statements	Bylaws Art. V, §5.7.4
14312(a)(13)(J)	Cost of fire protection service	Bylaws Art. II, §2.3.3, §2.3.4
14312(a)(13)(K)	One share per lot purchased	Bylaws Art. II, §2.1.6
14312(a)(13)(L)	Mutual water company formed for purposes set forth in §14311; rights not transferable without the land	Articles of Incorporation; Bylaws Art. II, §2.1.2
14312(a)(15)	Documents on file as part of permanent record of mutual water company.	Bylaws Art. I, §1.4, Art. III, §.5.6, Art. VI, §6.2.1

1.5 Definitions.

“Company” shall refer to this organization.

“Palomino Lakes” shall refer to real property located in Palomino Lakes, Sonoma County, California, as described in that certain map entitled Palomino Lakes "A", Record of Survey, Sonoma County, California, recorded August 26, 1961, in Map Book 87 at Pages 19-23, Official Records of said County.

ARTICLE 2.

MEMBERS, VOTING, ASSESSMENTS, MEETINGS

2.1 Membership.

2.1.1 Classes of Members. The Company shall have one (1) class of member. A person, firm, company or corporation owning an individual lot or parcel of real property located in Palomino Lakes, Sonoma County, California, as described in that certain map entitled "Palomino Lakes "A" Record of Survey, Sonoma County, California," recorded August 26, 1961, in Map Book 87 at Pages 19 to 23, Official Records of said County, shall be entitled to become a member of the Company.

2.1.2 Memberships Appurtenant to the Land. Each membership shall be and forever remain appurtenant to the lot to which it relates. All rights of a member appurtenant to any such lot or parcel shall terminate as to the transferor upon transfer of ownership in such lot or parcel and shall thereupon transfer to transferee.

2.1.3 Owner of Membership. Memberships may be held in any legal form of ownership; however, only one person may vote for each membership. Where legal and equitable title to property entitled to membership is held by separate persons or entities, the owner of the equitable title shall be considered the owner of the membership. No fractional memberships shall be issued.

2.1.4 Proof of Membership. No person shall exercise the rights of membership until satisfactory proof has been furnished to the Secretary of the Company that the person qualifies as a member pursuant to these Bylaws. Such proof may consist of a copy of a duly executed and acknowledged grant deed or title insurance policy naming said person as a holder of interest in real property in Palomino Lakes, which deed or policy shall be deemed conclusive evidence in the absence of a conflicting claim based upon a later deed or policy.

2.1.5 Certificates of Membership. Certificates of membership in Palomino Lakes Mutual Water will be held for safekeeping by the Company. Each membership certificate shall include the following:

"EXTENT OF WATER RIGHT: This membership entitles said person or persons as owner or owners of the land covered by this membership and not otherwise, and subject to all the terms and conditions hereof and of the Articles of Incorporation and By-laws of said Company, to share in the total quantity of

water available to said Company for domestic purposes for all of its lands, as described in its Articles of Incorporation and By-laws, and to use such share of water for domestic purposes on the lands herein described; provided, however, that beneficial use shall be the basis, the measure and the limit of the right to the use of such water.

MEMBERSHIP AND USE OF WATER APPURTENANT TO LAND: Said membership and the right to the use of water represented thereby shall be and forever remain appurtenant to the land herein described on the basis of one membership for each lot of land, as stated in the By-laws.

ASSESSMENTS, LIEN ON MEMBERSHIP AND ENFORCEMENT: Membership shares are assessable as provided in the Articles of Incorporation. All assessments levied upon this membership shall be and remain a lien upon said membership and the land to which said membership is appurtenant until the same is fully paid: such lien may be foreclosed, and said assessments shall be enforceable by action or by forfeiture of this membership, or both, or in accordance with section 7341 et seq of the Corporations Code of the state of California, as amended, but such rights and remedies shall not be exclusive.

TRANSFER OF MEMBERSHIP: No membership shall be transferred, separately, or apart, from the land herein described, but shall be transferred only in connection with, and as incidental to, the transfer of said land, and any transfer of the title to said land, whether by grant or by operation of law, shall operate, whether so expressed therein or not, as a transfer to the grantee, or successor in title, of all right to the use of water for domestic purposes on said land, also all rights arising from, or incidental to, the ownership of such membership, as well as the membership itself: and upon the presentation to said Company of satisfactory proof of the transfer of said land, the proper officers thereof shall transfer such membership upon its books to the grantee of, or successor in title to, said land, provided, however, that such transfer shall not be required until and unless all assessments levied upon and constituting a lien upon said membership and land are fully paid. Any transfer or attempted transfer of any membership represented hereby, made, or suffered by the owner thereof, unless a transfer of the land to which it is appurtenant is made, or suffered to, or in favor of the same party, shall be of no force or effect for any purpose, and shall confer no right of any kind whatsoever upon the person or persons to whom said transfer shall have been attempted to be made."

2.1.6 Water Use. Each certificate shall entitle the member to receive water and water services for use in connection with his or her residential lot or parcel described thereon at rates which shall be fixed from time to time by the Board of Directors on the basis of cost plus expenses. Each member shall be entitled to as many certificates as the number of lots or parcels owned by him or her in Palomino Lakes.

2.1.7 Transfer of Membership. Memberships shall transfer only in connection with, and incidental to, transfer of ownership of land within Palomino Lakes, and no membership may be transferred separately or apart therefrom. Upon presentation to the Board of satisfactory proof of transfer of said land, the proper officers thereof shall transfer such membership upon its books to the grantee of, or successor in title to, said land, provided, however, that no transfer of membership shall be made unless and until all assessments levied upon and constituting a lien upon said membership and land are fully paid. Any transfer or attempted transfer of any membership, unless a transfer of the land to which it is appurtenant is made, shall be of no force or effect and confer no right of any kind whatsoever upon the person or persons to whom said transfer shall have been made or attempted to have been made.

2.1.8 Termination of Membership. A membership shall terminate when a member ceases to be a customer of the water system. A membership shall be suspended during any period that the member's right to receive service from the system is suspended or terminated, as provided in Section 2.2.2 or 2.3.7 of this Article 2.

2.2 Voting.

2.2.1 Qualification. The members entitled to notice of any meeting or to vote at any such meeting shall be only the person in whose name membership stands on the records of the Company on the record date for notice determined in accordance with Section 24.4 of this Article 2. Elections need not be by ballot; provided, however, that all elections for directors must be by ballot upon demand made by a member at the meetings and before the voting begins. In any election of directors, the candidates receiving the highest number of votes are elected. Voting shall in all cases be subject to the provisions of Chapter 6 of the California Nonprofit Corporation Law and Section 3.3.2 of these Bylaws. Each member shall be entitled to one vote for each lot owned on each matter submitted to a vote of the members. When more than one (1) person holds an interest in any lot, all such persons shall be members. The vote for such lot shall be exercised as they among themselves determine, but in no event shall more than one (1) vote be cast with respect to any lot. Members shall have the right to vote for the election of directors, on any disposition of substantially all of the assets of the Company, on proposed mergers, and on plans for dissolution. Additionally, members shall have all of the rights afforded members under the California Nonprofit Corporation Law. Members who fail to be in good standing, as set forth in Section 21.4 of this Article 2 shall not be entitled to vote on any matter.

2.2.2 Voting suspension. The voting privileges of any member whose fees, service charges or assessments remain unpaid for ninety (90) days after that member has been notified in writing that such fees, service charges or assessments have been levied and are due and payable shall be automatically suspended without further notification to such member. Voting privileges shall be reinstated only upon full payment of the fees, service charges or assessments payable by such member.

2.3 Assessments.

Fees, service charges and assessments, their purpose, assessment period and manner of enforcement of collection, shall be as set from time to time by resolution of the Board of Directors as provided in the Articles of Incorporation and these Bylaws.

2.3.1 Enforcement. Any member who fails to pay the annual assessment or regular billing, or refuses to pay any special assessment, shall be considered delinquent on the thirtieth day after the bill or assessment was due. The manager shall send a formal notice of this fact to the delinquent demanding payment within ten (10) days. The notice shall also notify the delinquent of the right of a hearing before the Board at a time and place to be fixed by the Board. The decision of the Board at such hearing shall be final.

(1) Should payment not be received within this period and no hearing be requested, or if payment is not received within ten (10) days of the decision of the Board at a hearing, then such failure to pay may result in the forfeiture to the Company of the delinquent memberships pursuant to Corporations Code Section 423 and expulsion from the Company pursuant to Corporations Code Section 7341. The delinquent may thereupon be disconnected from the system, and the manager shall arrange for collection of the delinquent amount in any manner provided below.

(2) In addition to the above remedy, the manager, on behalf of the Company, may cause to be recorded in the Office of the County Recorder of the County of Sonoma, a notice of any delinquent sums due from any member. The notice shall state the amount of such delinquent sums and other authorized charges and interest (including the cost of recording such notice), a sufficient description of the member's real property which has been assessed, and the name of the record owner or owners thereof. All sums assessed shall constitute a lien on each respective parcel owned by the owner which shall be prior and superior to all other liens except (1) all taxes, bonds, assessments, and other levies which by all would be superior thereto, and (2) the lien or charge of any first mortgage of record (meaning recorded mortgage or deed of trust with first priority over other mortgages or deeds of trust) made in good faith and for value.

(3) The manager may, in addition to either or both of the above actions:

(a) File suit in small claims court to recover the amount due; or

(b) Foreclose the lien provided above; or

(c) Turn the account over to a collection agency for collection.

2.3.2 No Membership Fee. No initiation fees, costs or dues shall be assessed against any person as a condition upon his exercise of membership rights except such assessments, levies and charges as are specifically authorized under the Articles of Incorporation, these Bylaws or the Board of Directors. No fee shall be required for any person, association, corporation, or entity to become a member of the Company.

2.3.3 Water Service Charges. The Board shall establish water service charges which will result in the accumulation and maintenance of a fund for the operation, repair, administration, maintenance, and replacement of the water supply, distribution, and fire protection systems. Service charges shall bear a reasonable relationship to the cost of furnishing water and maintaining the systems. Unimproved lots included within the area to be served shall bear a proportionate share of the cost of repair and replacement of the water supply, distribution,

and fire protection systems, as well as a proportionate share of the cost of maintaining the fund. Charges for water use shall be according to metered use. Water service charges shall be due thirty (30) days after the date of the billing.

2.3.4 Assessments. In addition to service fees, all members may be assessed an annual amount set by the board for repair, maintenance, reserves and capital improvements to the systems.

2.3.5 Special Assessments. If at any time the cost of needed repairs and maintenance exceeds the money accumulated in the assessment fund, and the repairs cannot wait until after the annual members' meeting, the Board shall meet to arrange a method of financing such repairs. At this meeting, the Board shall have the power to levy a special assessment on all members equally in an aggregate amount necessary to make up the deficit.

2.3.6 Forfeiture for Non-Payment. Pursuant to Corporations Code Section 423(b), every levy of an assessment shall specify the amount of the assessment or special assessment and to whom and where it is payable; and shall fix a date, not less than thirty (30) nor more than sixty (60) days from the date on which the assessment is payable, on which such assessment becomes delinquent if not paid; and shall fix a date, not less than fifteen (15) nor more than sixty (60) days from the date on which the unpaid assessment becomes delinquent, upon which date the right to receive water or dividends may be denied or forfeited, but those rights shall not be sold or transferred without the land.

2.3.7 Notice. On or before the date an assessment is payable, the secretary of the Company shall give notice of the assessment or special assessment in substantially the following form:

PALOMINO LAKES MUTUAL WATER COMPANY

(Location of Principal Executive Office)

Notice is hereby given that the Board of Directors on

_____, has levied an assessment of

\$ _____ per membership upon the memberships of the Company payable (to whom and where). Any membership upon which this assessment remains unpaid on (date fixed) will be delinquent. Unless payment is made prior to delinquency, the said memberships, or as many of them as may be necessary, will be forfeited to the Company.

(Name of secretary of the Company).

The notice shall be served personally or by First Class Mail to each member addressed to the last address of the member appearing on the books of the Company; or as further provided in Corporations Code Section 423.

2.3.8 Arbitration. Except for collection matters going to small claims court, or any judicial lien foreclosure, any dispute under this Section 2.3 shall be submitted to arbitration and the award of the arbitrator shall be binding upon the parties. If the parties cannot agree upon a single arbitrator, they shall petition the court of jurisdiction to appoint an arbitrator. Arbitration

proceedings shall be held pursuant to California Code of Civil Procedure beginning with Section 1280. The arbitrator may award reasonable attorney's fees and other costs to the prevailing party, as well as the fees of the arbitrator.

2.3.9 Validity. Should any portion of this Article 2 be determined void as a matter of law, the remainder shall continue in full force and effect.

2.4 Meetings of Members.

2.4.1 Annual Meeting. The annual meeting of members shall be set by the Board so as to occur in April or May of each year.

2.4.2 Special Meetings. Special meetings of the members shall be “promptly” scheduled at any time by the Board in response to the vote of a majority of the Board of Directors, or in response to a request by the President, or upon written request of the members representing five percent (5%) of the total voting power of the Company. As used herein, the word “promptly” shall mean within 30 calendar days.

2.4.3 Notice of Meetings. Notice of a members’ meeting may be given either personally or by mail or other means of written communication, addressed to the member at the address appearing on the books of the Company or supplied by such member to the Company for the purpose of notice, or if no such address appears or is given, at the place where the member receives water service. Notice shall be deemed to have been given at the time a written notice is deposited in the United States mail or other delivery service prepaid. Oral notice and personally delivered written notice shall be deemed to have been given at the time it is actually received by the member. Notice of each meeting of the members, annual or special, shall be given by, or at the direction of, the Secretary, at least ten (10) but not more than ninety (90) days before such meeting to all members. Such notice shall specify the place, day and hour of the meeting, and, in the case of a special meeting, the purpose of the meeting.

2.4.4 Record Date. The Board may fix, in advance, a record date for the determination of the members entitled to notice of any meeting of members or entitled to exercise any rights of any lawful action. The record date so fixed shall be not more than sixty (60) nor less than ten (10) days prior to any other action. When a record date is so fixed, only members of record on that date are entitled to notice, to vote, or to exercise the rights for which the record date was fixed. A determination of members of record entitled to notice of a meeting of members shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting. If no record date is fixed by the Board, the record date for determining members entitled to notice of a meeting of members shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held. If no record date is fixed by the Board, members on the day of the meeting who are otherwise eligible to vote are entitled to vote at the meeting of members or, in the case of an adjourned meeting, members on the day of the adjourned meeting who are otherwise eligible to vote are entitled to vote at the adjourned meeting of members. The record date for determining members for any purpose other than set forth in this Section 2.4.4 of this Article 2 shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

2.4.5 Content of Notice. Subject to the provisions of applicable law, any proper matter may be presented at a regular meeting for action, regardless of its inclusion in the notice. In the case of a special meeting, the general nature of the business to be transacted must be stated in the notice, and no other business may be transacted. If action is proposed to be taken at any meeting for approval for 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 states the general nature of the proposal(s):

- (1) removing a director without cause;
- (2) filling vacancies in the Board of Directors by the members;
- (3) amending the Articles of Incorporation or Bylaws;
- (4) approving a contract or transaction in which a director has a material financial interest.

2.4.6 Location of Meetings. Meetings shall be held within Palomino Lakes or at a meeting place within the same county, as close to Palomino Lakes as is practical.

2.4.7 Quorum. The presence either in person or by proxy, at any meeting, of members entitled to cast thirty-three and one-third percent (33 1/3%) of the total voting power of the Company (excluding the number of votes as to which voting rights are suspended at the time of the subject meeting), shall constitute a quorum for any action except as otherwise provided in these Bylaws. The members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough members to leave less than a quorum, provided that twenty-five percent (25%) of the total voting power of the Company remains present in person and/or by proxy, and provided further that any action taken shall be approved by a majority of the members required to constitute a quorum. At any adjourned meeting, the presence, either in person or by proxy, of members entitled to cast thirty-three and one-third percent (33 1/3%) of the total voting power of the Company (excluding the number of votes as to which voting rights are suspended at the time of the adjourned meeting) shall constitute a quorum for any action except as otherwise provided in these Bylaws.

2.4.8 Adjourned Meetings and Notice Thereof. Any members' meeting, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the voters represented either in person or by proxy. No meeting may be adjourned for more than forty-five (45) days. It shall not be necessary to give any notice of the time and place of the adjourned meeting, other than by announcement at the meeting at which the adjournment is taken unless the time and place for the adjourned meeting is not fixed by those in attendance at the original meeting or if for any reason the date or location of the adjourned meeting is later changed., in which case, notice of the time and place of the adjourned meeting shall be given to members in the manner prescribed for annual meetings.

2.4.9 Waiver of Notice. Attendance of a person at a meeting shall constitute a waiver of notice of and presence at such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Attendance at a meeting is not a waiver, however, of any right to object to the consideration of matters required by the California Nonprofit Corporation Law to be included in the notice but not so included, if such objection is expressly made at the meeting.

2.4.10 Consent of Absentees. The transactions of any meeting, however called and noticed, are as valid as though approved at a meeting duly held after regular call and notice, if quorum requirements are satisfied, and if, either before or after the meeting, each person entitled to vote but not present in person or by proxy, signs a written waiver of notice, or a consent of the holding of the meeting, or an approval of the minutes thereof. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Neither the business to be transacted nor the purpose of any regular or special meeting of members need be specified in any written waiver of notice, consent to the holding of the meeting, or approval of the minutes, except as provided in Section 7511 (f) of the California Nonprofit Corporation Law.

2.4.11 Proxies. At all meetings of members, each member may vote in person or by proxy. All proxies shall be in writing and filed with the Secretary before the appointed time of each meeting.

(1) Revocation or Expiration of Proxy. Any proxy duly executed is not revoked and continues in full force and effect until revoked by the member executing it. Such revocation may be effected either by: (a) a writing delivered to the secretary of the Company stating that the proxy is revoked, (b) a subsequent proxy presented at a meeting, or (c) as to any meeting, by attendance at the meeting and voting in person by the person executing the proxy. All proxies shall automatically expire at the conclusion of the annual meeting following the execution of the proxy unless a different expiration is specifically stated in the proxy, or upon conveyance by the member of his lot, or upon receipt of written notice by the Secretary of the Board of the death or judicially declared incompetence of a member prior to the counting of the vote, or upon the expiration of eleven (11) months from the date of the proxy.

(2) Form of Proxy. Any form of proxy distributed by any person to the membership of the Company shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon. The proxy shall provide that, where the member specifies a choice, the vote shall be cast in accordance with that choice. The proxy also shall identify the person or persons authorized to exercise the proxy and the length of time it will be valid. In addition, voting by proxy shall comply with any other applicable requirements of California Corporations Code Sections 7514 and 7613.

2.4.12 Inspectors of Election. In advance of any meeting of members, the Board may appoint inspectors of election to act in accordance with Section 7614 of the California Nonprofit Corporation Law. If inspectors of election are not so appointed or fail to appear or act, inspectors may be appointed at the meeting in accordance with that section.

2.4.13 Conduct of Meeting. The president shall preside as chairman at all meetings of the members. The chairman shall conduct each such meeting in a businesslike and fair manner, and shall not be obligated to follow any technical, formal, or parliamentary rules or principles of procedure unless a majority of members present at a duly convened meeting votes to follow either Sturgis Standard Code of Parliamentary Procedure or Robert's Rules of Order, and in such case, the chairman shall follow the rules of order so selected. The chairman's ruling on procedural matters shall be conclusive and binding on all members, unless at the time of a ruling a request for a vote is made to the members entitled to vote and which are represented in person or by proxy at the meeting, in which case the decision of a majority of such members shall be

conclusive and binding on all members. Without limiting the generality of the foregoing, the chairman shall have all the powers usually vested in the chairman of a meeting of members.

2.4.14 Action without Meeting. Subject to Section 7513 of the California Nonprofit Corporation Law, any action that may be taken at any annual or special meeting of members, except election of directors, may be taken without a meeting if:

- (1) the written ballot of every member is solicited,
- (2) the number of ballots cast within the time period specified equals or exceeds the quorum required to be present at a meeting authorizing the action, and
- (3) the number of approvals equals or exceeds the number of votes that would be required to approve at a meeting.

The record date for determining members entitled to cast written ballots pursuant to this Section when no prior action by the Board has been taken shall be the day on which the first written ballot is mailed or solicited, whichever is first. Any form of written ballot distributed by any person to the membership of the Company shall afford the opportunity to specify a choice between approval and disapproval of each matter or group of matters to be acted upon, except it shall not be mandatory that a candidate for election to the Board be named in the written ballot. The written ballot shall provide that, where the member specifies a choice, the vote shall be cast in accordance with that choice.

2.4.15 Action by Written Consent. Alternatively, any action required or permitted to be taken by the members may be taken without a meeting, if all members shall individually or collectively consent in writing to the action. The written consent or consents shall be filed with the minutes of the proceedings of the members. The action by written consent shall have the same force and effect as the unanimous vote of the members.

ARTICLE 3.

BOARD OF DIRECTORS

3.1 Number of Directors.

The affairs of this Company shall be managed by a Board of Directors. The authorized number of directors shall be three (3) until changed by amendment to the Bylaws duly adopted by the members. Each director shall be a person entitled to vote a membership of the Company.

3.2 Term of Office.

Directors shall be elected at an annual meeting of the members. 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. The term of an elected director shall be one year, and the term of an appointed director shall be the remaining term of that director's predecessor.

3.3 Selection of Directors.

3.3.1 Nomination. Nomination for election to the Board of Directors shall be made by a Nominating Committee. Notice to the members of the meeting 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 Chairman and two (2) or more members of the Company. The Nominating Committee shall be appointed by the Board of Directors not less than sixty (60) days prior to each annual meeting of the members, to serve until the close of such 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.

3.3.2 Election. The persons receiving the largest number of votes shall be elected. All members shall be entitled to cumulate their votes for one (1) or more candidates for the Board, if the candidate's name has been placed in nomination prior to voting, and if a member has given notice prior to the voting of his or her intention to cumulate votes. Voting for directors shall be by secret written ballot.

3.4 Meetings of Directors.

3.4.1 Place of Meeting. Regular or special meetings of the Board of Directors shall be held within the project or at a meeting place within the same county, as close to the project as is practical.

3.4.2 Regular Meetings. Regular meetings of the Board shall be held without call or notice on such dates and at such times as may be fixed by the Board.

3.4.3 Special Meetings. Special meetings of the Board of Directors shall be held when called by written notice signed by the President, Vice President or Secretary of the Company, or by any two (2) directors. The notice shall specify the time and place of the meeting and the nature of any special business to be considered. The notice shall be given to each director by one of the following methods:

- (1) by personal delivery;
- (2) by written notice by first class mail, postage prepaid;
- (3) by telephone communication, either directly to the director or to a person at the director's office or residence who would reasonably be expected to communicate such notice promptly to the director; or
- (4) by e-mail with acknowledgement of receipt requested and received.

All such notices shall be given or sent to the director's address, telephone number, or e-mail address as shown on the records of the Company. Notices sent by first class mail shall be deposited into a United States mailbox at least four (4) days before the time set for the meeting. Notices given by personal delivery, telephone, or e-mail shall be delivered, telephoned, or sent at least forty-eight (48) hours before the time set for the meeting.

3.4.4 Quorum. A majority of the directors then in office (but not less than two (2)) shall constitute a quorum for the transaction of business. Every act performed or decision made

by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors, if any action taken is approved by a majority of the required quorum for that meeting.

3.4.5 Open Meetings. All meetings of the Board shall be open to all members, but members other than directors may not participate in any discussions or deliberation unless expressly so authorized by a majority of a quorum of the Board.

3.4.6 Executive Session. The Board may, with approval of a majority of its members present at a meeting in which a quorum for the transaction of business has been established, or, if all members of the governing body are present, by a majority vote of the members, adjourn a meeting and reconvene in executive session to discuss and vote upon personal matters, litigation in which the Company is or may become involved, and orders of business of a similar nature. The nature of any and all business to be considered in executive session shall first be announced in open session.

3.4.7 Telephone Meetings. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another, and all such directors shall be deemed to be present in person at such meeting.

3.4.8 Waiver of Notice. The transactions 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 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. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting before or at its commencement about the lack of adequate notice.

3.4.9 Adjournment. A majority of the directors present, whether a quorum or not, may adjourn any directors' meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place is fixed at the meeting adjourned and the adjournment is for less than forty-eight (48) hours.

3.4.10 Notice of Adjourned Meeting. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case personal notice of the time and place shall be given before the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

3.4.11 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.

3.5 Rights of Inspection.

Every director shall have the absolute right at any reasonable time to inspect all of the records and physical properties of the Company.

3.6 Duties.

The Board of Directors shall have the power and duty to:

3.6.1 Perform maintenance as authorized by the Board of Directors.

3.6.2 Contract for and maintain insurance as authorized by the Board of Directors.

3.6.3 Discharge by payment, if necessary, any lien against the common area and assess the cost thereof to the member or members responsible for the existence of the lien.

3.6.4 Fix, levy, collect and enforce assessments as authorized by the Board of Directors.

3.6.5 Pay all expenses and obligations incurred by the Company in the conduct of its business including, without limitation, all licenses, taxes, or governmental charges levied or imposed against the property of the Company.

3.6.6 Cause to be kept a complete record of all its acts and affairs and to present a statement thereof to the members at the annual meeting of the members, or at any special meeting when such statement is requested in writing by one-fourth (1/4) of the members; keep adequate and correct books and records of account, minutes of proceedings of its members, Board and committees, and a record of its members giving their names and addresses.

3.6.7 Require that the signatures of at least two Board Members be needed for the withdrawal of monies from the Company's reserve accounts.

3.6.8 Supervise all officers, agents and employees of the Company, and to see that their duties are properly performed.

3.6.9 Enforce the Articles of Incorporation and these Bylaws.

3.6.10 Prepare budgets and financial statements as required by these Bylaws.

3.6.11 Formulate rules of operation of the common areas and facilities owned or controlled by the Company.

3.6.12 Initiate and execute disciplinary proceedings against members of the Company for violations of provisions of the governing instruments in accordance with the procedures set forth in these Bylaws.

3.6.13 Enter upon any privately-owned subdivision interest as necessary in connection with construction, maintenance or emergency repair for the benefit of the common area or the owners in common.

3.6.14 Elect officers as provided in these Bylaws.

3.6.15 Fill vacancies on the Board of Directors except for a vacancy created by the removal of a member of the Board.

3.7 Annual Review.

The Board of Directors shall do the following not less frequently than annually:

3.7.1 Cause a current reconciliation of the Company's operating accounts to be made and review the same.

3.7.2 Cause a current reconciliation of the Company's reserve accounts to be made and review the same.

3.7.3 Review the current year's actual reserve revenues and expenses compared to the current year's budget.

3.7.4 Review the most current account statements prepared by the financial institutions where the Company has its operating and reserve accounts.

3.7.5 Review an income and expense statement for the Company's operating and reserve accounts.

3.8 Powers.

Subject to the limitations of the Articles, of these Bylaws and of the California Nonprofit Corporation Law relating to action required to be approved by the members or by a majority of members, the activities and affairs of the Company shall be conducted and all corporate powers shall be exercised by or under the direction of the Board. The Board of Directors shall have power to:

3.8.1 Employ a manager.

3.8.2 Adopt rules as authorized by the Board of Directors.

3.8.3 Levy and collect assessments and impose fines as authorized by the Board of Directors.

3.8.4 Enforce these Bylaws provided that at least fifteen (15) days' prior notice of any potential discipline or fine and the reasons therefore are given to the member affected, and that an opportunity is provided for the member to be heard, before the imposition of the discipline or fine, said hearing to be before the Board. Any notice required herein shall be given by any method reasonably calculated to provide actual notice. Any notice given by mail shall be given by first class or registered mail sent to the last address of the member as shown on the company's records. Discipline shall be limited to fines or the temporary suspension of voting rights or other appropriate discipline. With the exception of charges imposed against an owner consisting of reasonable late payment penalties for delinquent assessments and/or charges to reimburse the Company for the loss of interest and for costs reasonably incurred (including attorneys fees) in its efforts to collect delinquent assessments, no monetary penalty shall be treated as or characterized as an assessment. The minimum requirements of Section 7341 of the Corporations Code shall be complied with before a decision to impose discipline is reached.

3.8.5 Contract for goods and/or services as authorized by the Board of Directors, subject to the limitations set forth below.

3.8.6 Delegate the management of the activities of the Company to any person or persons, a management company, or committees however composed, officers or employees of the Company or to a manager employed by the Company provided that the activities and affairs of the Company shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board. The Board may not delegate the authority to make expenditures for capital additions or improvements chargeable against the reserve funds; conduct hearings concerning compliance by an owner or his tenant, lessee, guest or invitee with rules and regulations promulgated by the Board, or to make a decision to levy monetary fines, impose special assessments against individual lots, temporarily suspend an owner's rights as a member

of the Company or otherwise impose discipline following any such hearing; to make a decision to levy annual or special assessments; or to make a decision to bring suit, record a claim of lien, or institute foreclosure proceedings for default in payment of assessments. Any such delegation shall be revocable by the Board at any time. The members of the Board, individually or collectively, shall not be liable for any omission or improper exercise by the manager or other delegated person or committee of any such duty, power or function so delegated by written instrument executed by a majority of the Board.

3.8.7 Appoint a trustee to enforce assessment liens by power of sale as provided in the California Civil Code.

3.8.8 Select and remove all the other officers, agents, and employees of the Company; prescribe powers and duties for them as may not be inconsistent with law, with the Articles, or these Bylaws; fix their compensation; and require from them security for faithful service.

3.8.9 Conduct, manage, and control the affairs and activities of the Company and to make such rules and regulations not inconsistent with law, the Articles, or these Bylaws, as they may deem best.

3.8.10 Adopt, make, and use a corporate seal and to prescribe the forms of certificates of membership, and to alter the form of such seal and of such certificates from time to time as they may deem best.

3.8.11 Borrow money and incur indebtedness for the purpose of the Company, and cause to be executed and delivered, in the Corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, and other evidences of debt and securities; and,

3.8.12 In addition to any other power contained herein, the Company may exercise the powers granted to a nonprofit mutual benefit corporation as enumerated in California Corporations Code Section 7140 et seq.

3.9 Prohibited Acts.

The Board of Directors shall not, except with the vote or written consent of a majority of the total voting power of the Company enter into a contract with a third person wherein the third person will furnish goods or services for the common area or the Company for a term longer than one (1) year with the following exceptions:

(1) a management contract, the terms of which have been approved by the Federal Housing Administration or Veterans Administration;

(2) a contract with a public utility company if the rates charged for the materials or services are regulated by the Public Utilities Commission; provided, however, that the term of the contract shall not exceed the shortest term for which the supplier will contract at the regulated rate.

(3) prepaid casualty and/or liability insurance policies of not to exceed three (3) years' duration provided that the policy permits short rate cancellation by the insured;

3.10 Removal

The entire Board may be removed from office by the vote of Company members. An individual director shall not be removed prior to the expiration of his term of office if the votes cast against his removal would be sufficient to elect him if voted cumulatively at an election at which the same total number of votes were cast and the entire number of directors authorized at the time of the most recent election of directors were then being elected. A director who was elected solely by the votes of members may be removed from office prior to the expiration of his term only by the votes of a majority of members. In the event of death or resignation of a director, the vacancy shall be filled by approval of the Board at a duly held meeting, or by the sole remaining director. The successor director shall serve for the unexpired term of his or her predecessor. The members may elect a director at any time to fill any vacancy not filled by the directors. A vacancy created by removal of a director can be filled only by election of the members.

3.11 Resignations and Vacancies.

Any director may resign effective upon giving written notice to the president, the secretary, or the Board, unless the notice specified a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected before such time to take office when the resignation becomes effective. Vacancies in the Board, except those existing as a result of a removal of a director, may be filled by a majority of the remaining directors, although less than a quorum, or by a sole remaining director, and each director so elected shall hold office until the expiration of the term of the replaced director. A vacancy or vacancies in the Board shall be deemed to exist in case of the death, resignation, or removal of any director, or if the authorized number of directors be increased, or if the members fail, at any regular or special meeting of members at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting. The Board may declare vacant the office of a director who has been declared of unsound mind by a final order of court, convicted of a felony, or been found by a final order or judgment of any court to have breached any duty arising under Section 7238 of the California Nonprofit Corporation Law. The members may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of the director's terms of office.

3.12 Compensation.

No director shall receive compensation for any service rendered to the Company. However, any director may be reimbursed for his actual expenses, if reasonable, that are incurred in the performance of his or her duties, as may be determined by the Board.

ARTICLE 4.
INDEMNIFICATION

4.1 Indemnification of Officers and Directors.

The Company shall indemnify any present or former director or officer of the Company to the fullest extent authorized under California Corporations Code section 7237, or any successor statute, and may advance to any such person funds to pay expenses that may be incurred in defending any action or proceeding on receipt of an undertaking by or on behalf of such person to repay such amount unless it is ultimately determined that such person was not entitled to indemnification under this provision.

4.1.1 Indemnification in Actions by Third Parties. The Company shall have power to indemnify any person who was or is a party of or is threatened to be made a party to any proceeding (other than action by or in the right of the Company to procure a judgment in its favor against the person), by reason of the fact that such person is or was an agent of the Company, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interest of the Company and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful.

4.1.2 Plea of Nolo Contendere Does Not Bar Indemnification. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interest of the Company or that the person had reasonable cause to believe that the conduct was unlawful.

4.1.3 Indemnification in Actions by or in the Right of the Company. The Company shall have the power to indemnify any agent of the Company, who was or is a party to any threatened, pending, or completed action against the person, in or by right of the Company, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith, in a manner such person believed to be in the best interest of the Company and with such care, skill and prudence as a person of similar knowledge in a like position would use under similar circumstances.

4.1.4 No Indemnity Where Adjudged Liable to Company. No indemnification shall be made under this Section in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable to the Company in the performance of such person's duty to the Company, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for the expenses which the court shall determine.

4.2 Insurance.

The Company shall have power to purchase and maintain insurance on behalf of any agent of the Company against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such whether or not the Company would have the power to indemnify the agent against such liability under the provisions of Article 6.

4.3 Members' Liability.

The Company shall be liable for the debts of the Company and private property of the members shall be exempt from execution or other liability for any debts of the Company, and no member shall be liable or responsible for any debts or liabilities of the Company.

ARTICLE 5.
OFFICERS

5.1 Enumeration of Officers.

The officers of this Company shall be a President, Vice President, and Secretary/Treasurer who shall at all times be members of the Board of Directors, and such other officers as the Board may from time to time by resolution create. Any number of offices may be held by the same person unless the Articles or these Bylaws provide otherwise.

5.2 Election of Officers.

The officers of the Company, except such officers as may be appointed in accordance with the provisions of Section 5.4 of these Bylaws, shall be elected annually by, and shall serve at the pleasure of, the Board, and shall hold their respective offices until their resignation, removal, or other disqualification from service, or until their respective successors are elected. The election of officers shall take place at the first meeting of the Board of Directors following each annual meeting of the members.

5.3 Term.

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

5.4 Special Appointments.

The Board may appoint such other officers as the affairs of the Company may require, each of whom shall hold office for such period, have such authority, and perform such duties as the Board may, from time to time, determine.

5.5 Resignation and Removal.

Any officer may resign at any time by giving written notice to the Board, the President or the Secretary. Such resignation shall take effect on the date of receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any officer may be removed from office (but not from the Board, if the officer is also a Board member) by the Board or, except in case of an officer chosen by the Board, by any officer upon whom such power of removal may be

conferred by the Board, with or without cause. Any such removal shall be without prejudice to the rights, if any, of the officer under any contract of employment of the officer.

5.6 Vacancies.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause may be filled by appointment by the Board as the vacancies occur and not on an annual basis. The officer appointed to such vacancy shall serve for the remainder of the term of the officer he replaces.

5.7 Duties.

The duties of the officers are as follows:

5.7.1 President. The President shall preside at all meetings of the Board of Directors; shall see that orders and resolutions of the Board are carried out; shall sign all leases, mortgages, deeds and other written instruments and shall sign all promissory notes. The President shall have the general powers and duties of management usually vested in the office of the President of a California nonprofit mutual benefit corporation, and shall have such powers and duties as may be prescribed by the Board or by these Bylaws.

5.7.2 Vice President. The Vice President shall act in the place and stead of the President in the event of his absence, inability or refusal to act, and shall exercise and discharge such other duties as may be required by the Board.

5.7.3 Secretary. The secretary shall keep or cause to be kept a book of minutes of all meetings of members, the Board, and its committees, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, and names of those present at Board and committee meetings, the number of members present or represented at members' meetings, and the proceedings thereof. The Secretary shall give or cause to be given notice of meetings of members and of the Board and any committees thereof required by these Bylaws or by law to be given, and shall record the votes of the Board and of the members; keep appropriate current records showing the members of the Company together with the addresses; shall collect and organize all records of the Company; and shall perform such other duties as required by the Board. The secretary shall keep, or cause to be kept, at the principal office in the State of California the original or a copy of the Company's minutes, and Articles and Bylaws as amended to date, shall keep the seal of the Company in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

5.7.4 Treasurer. The treasurer is the chief financial officer of the Company and shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Company, and shall send or cause to be sent to the members of the Company such financial statements and reports as required by California Corporations Code §§8321-8322 or these Bylaws required to be sent to them.

(1) In addition to the financial statements and reports required by law, the Treasurer shall prepare and distribute to each member on an annual basis:

(a) 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, including the recording and foreclosing of liens against members' subdivision interests, and a statement of the place where the names and addresses of the current members are located shall be distributed to the members at the annual meetings of members.

(b) An annual audit to be performed at the direction of the Board of Directors.

(2) The books of account shall at all times be open to inspection by any director. The treasurer shall deposit all monies and other valuables in the name and to the credit of the Company with such depositories as may be designated by the Board. The treasurer shall disburse the funds of the Company as may be ordered by the Board, shall render to the president and directors, whenever they request it, an account of all his transactions as treasurer and of the financial condition of the Company, shall sign promissory notes of the Company, and shall have other powers and perform such other duties as may be prescribed by the Board.

(3) Any reports or financial statements required to be distributed to the members or to the Board may be transmitted electronically, either by e-mail or by facsimile to the e-mail address or facsimile telephone number on file with the Company, and shall be deemed delivered as of the date so transmitted, provided no error message is received by the sender within 48 hours of the date of transmission. If a member or director does not have an e-mail address or facsimile telephone number on file with the Company, such reports or financial statements shall be distributed by U.S. Mail to the mailing address on file with the Company for such member or director.

5.8 Endorsement of Documents, Contracts.

Subject to the provisions of applicable law, any note, mortgage, evidence of indebtedness, contract, conveyance, or other instrument in writing and any assignment or endorsement thereof executed or entered into between the Company and any other person, when signed by the president, and, when required for promissory notes, by the treasurer, shall be valid and binding on the Company in the absence of actual knowledge on the part of the other person that the signing officers had no authority to execute the same. Any such instruments may be signed by any other person or persons and in such manner as from time to time shall be determined by the Board, but, unless so authorized by the Board, no officer, agent, or employee shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to tender it liable for any purpose or amount.

ARTICLE 6.

COMMITTEES, BOOKS AND RECORDS, AMENDMENTS

6.1 Committees.

The Board of Directors shall appoint committees as deemed appropriate in carrying out its purpose. No committee, regardless of Board resolution, may:

- (1) take any final action on matters which, under the Nonprofit Corporation Law of California, also requires members' approval;
- (2) fill vacancies on the Board of Directors or in any committee;
- (3) amend or repeal Bylaws or adopt new Bylaws;
- (4) amend or repeal any resolution of the Board of Directors;
- (5) appoint any other committees of the Board of Directors or the members of those committees;
- (6) approve any transaction to which the Company is a party and in which one or more directors have a material financial interest.

6.2 Books and Records.

6.2.1 Permanent Records. The membership records, accounting books and records and minutes of proceedings of the members and the Board shall be maintained as permanent records of the Company at such location as shall be specified by the Board from time to time.

6.2.2 Inspection by Members. A member may inspect the membership records of the Company in the manner provided by Section 8330 of the California Nonprofit Corporation Law. The demand for inspection shall state the purpose for which the inspection rights are requested. The accounting books and records and minutes of proceedings of the members and the Board shall be open to inspection upon written demand on the Company of any member at any reasonable time for a purpose reasonably related to such person's interests as a member.

6.2.3 Rules for Inspection. The Board shall establish reasonable rules with respect to:

- (1) Notice to be given to the custodian of the records by the member desiring to make the inspection;
- (2) Hours and days of the week when such an inspection may be made;
- (3) Payment of the cost of reproducing copies of documents requested by a member.

6.2.4 Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Company and the physical properties/owned or controlled by the Company. The right of inspection by a director includes the right to make extracts and copies of documents, at the expense of the Company.

6.2.5 Documents Provided by Board. Upon written request, the Board shall, within ten (10) days of the mailing or delivery of such request, provide the owner of a lot with a copy of the governing documents of the project, a copy of the most recent financial statements and reports distributed pursuant to section 6.8.4 together with a true statement in writing from an authorized representative of the Company as to the amount of any assessments levied upon the lot which are unpaid on the date of the statement, including late charges, interest, and costs of collection which, as of the date of the statement, are or may be made a lien upon the owner's lot. The Board may impose a fee for providing the foregoing which may not exceed the reasonable cost to prepare and reproduce the requested documents.

